Portland General Electric Company - 1974

Vol II.

Highlights of 1974

	1974	1973
Operating revenues	$146,001,158	$124,832,7[illegible]
Net income	$ 32,918,143	$ 26,61[illegible]
Average common shares outstanding	12,125,000	10,500,[illegible]
Earnings per share	$2.17	$2.[illegible]
Total common shares outstanding	13,500,000	10,500,[illegible]
Earnings per share	$1.95	$2.[illegible]
Dividends paid per common share	$1.51	$1.4[illegible]
Operating payroll	$15,703,236	$ 13,982,2[illegible]
Construction and other payroll	14,493,277	12,117,[illegible]
Total payroll	$ 30,196,513	$ 26,099,59[illegible]
Taxes—Operating:		
Taxes other than income taxes	$ 14,322,526	$ 12,745,6[illegible]
Taxes on income	(830,348)	2,219,0[illegible]
Total taxes	$ 13,492,178	$ 14,964,7[illegible]
Utility plant construction for year	$153,581,028	$152,198,050
Kilowatt-hours sold (in thousands)	11,402,064	11,560,313
Customers (at December 31):		
Residential	347,671	338,18[illegible]
Commercial and industrial	44,342	41,70[illegible]
Miscellaneous	1,398	1,05[illegible]
Total customers	393,411	380,949
Average kilowatt-hour use per residential customer	13,733	14,144

Notice of Annual Meeting

The annual meeting of stockholders will be held at the Portland General Electric Company Service Center, 3700 S.E. 17th Avenue, Portland, Oregon, April 30, 1975 at 2:00 p.m. Advance Standard Time.

Quarter	1974 First	1974 Second	1974 Third	1974 Fourth
Operating revenues	$42,046,136	$34,436,208	$31,526,945	$37,991,[illegible]
Income taxes	$ 59,663	$ 1,314,807	$ (1,256,266)	([illegible])
Earnings available for common stock	$13,026,860	$ 8,578,706	$ 3,620,836	$ 1,11[illegible]
Common stock (1):				
Total shares outstanding	12,000,000	12,000,000	12,000,000	13,500,[illegible]
Earnings per share	$1.086	$.715	$.302	$.0[illegible]
Price range	19⅞-17¾	19¼-14⅞	15⅞-13	14[illegible]
Dividends paid per share	$ .37	$ .38	$ .38	$ .38
Preferred stock—dividends paid per share (2) (3):				
9.76% series	$ 2.44	$2.44	$2.44	$2.44
7.95% series	$ 1.98¾	$1.98¾	$1.98¾	$1.9[illegible]
7.88% series	$ 1.97	$1.97	$1.97	$1.97
8.20% series	$ 2.05	$2.05	$2.05	$2.05

Quarter	1973 First	1973 Second	1973 Third	1973 Fourth
Operating revenues	$33,594,657	$29,623,454	$27,390,629	$34,223,[illegible]
Income taxes	$ 1,070,370	$ 488,978	$ 238,349	$ 421,35[illegible]
Earnings available for common stock	$ 9,968,860	$ 5,073,920	$ 2,391,412	$ 3,934,[illegible]
Common stock (1):				
Total shares outstanding	10,500,000	10,500,000	10,500,000	10,500,000
Earnings per share	$.949	$.483	$.228	$.37[illegible]
Price range	22⅛-20½	21⅞-20	20⅝-18¼	19[illegible]
Dividends paid per share	$ .35½	$ .37	$ .37	$ .37
Preferred stock—dividends paid per share (2) (3):				
9.76% series	$2.44	$2.44	$2.44	[illegible]
7.95% series	$1.98¾	$1.98¾	$1.98¾	[illegible]
7.88% series	$ —	$ —	$1.91	$1.9[illegible]
8.20% series	$ —	$ —	$ —	$1.[illegible]

(1) The New York Stock Exchange is the principal exchange on which the Company's common stock is traded.
(2) The Company's outstanding series of Preferred Stock are not listed on an exchange and the range of bid and ask quotations is not readily available.
(3) On January 23, 1975, the Company issued 300,000 shares of 11.50% Series Cumulative Preferred Stock which will be listed on the New York Stock Exchange.

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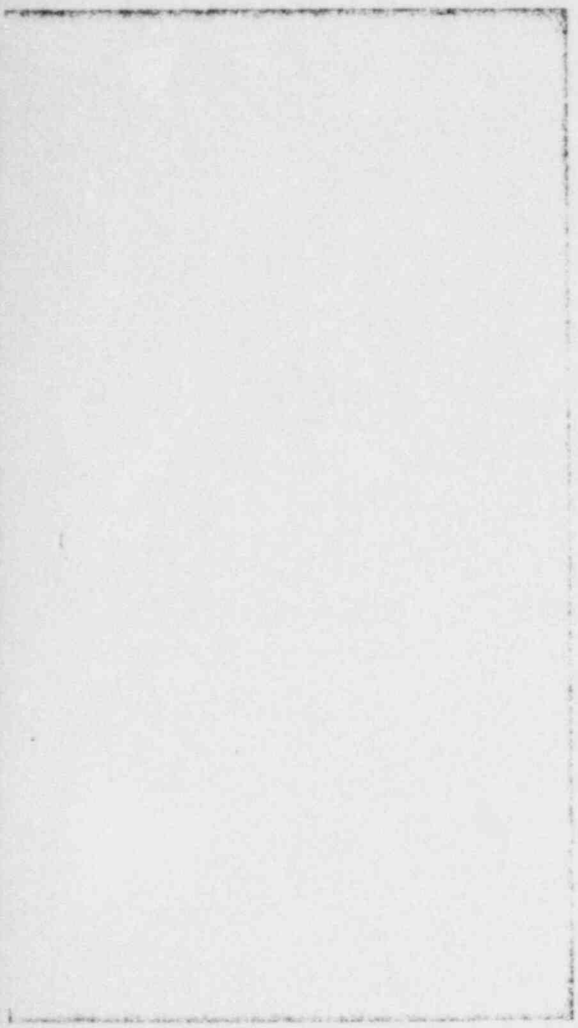
Trojan nuclear plant was 86 per cent complete as of year end. In the center foreground is the Visitors Information Center. Across the reflecting lake is the giant 499-foot high cooling tower, at the right. The domed structure, at the left, is the containment building which houses the nuclear reactor. The plant is due to go on line in late 1975 or early 1976.

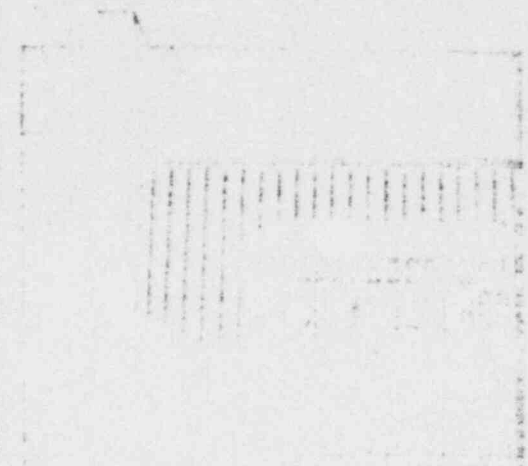
To the Stockholders:

Our report to you this year emphasizes the fact that in many ways 1974 was a very good year for PGE. By the traditional measures of financial success this is certainly true. Earnings per common share were $2.17, an increase of 6% over 1973. This is a significant improvement in view of the fact that average common shares outstanding increased from 10.5 million to over 12.1 million during the year.

Operating revenues were slightly over $146 million, an increase of 17% over last year. Net income before provision for preferred dividends was almost $33 million, an increase of about 24% over 1973.

More than 10,000 new residential customers began receiving PGE service in





Newly completed Salent substation is attractively designed, color-coordinated and landscaped to be a "plus" in the area.

1974 and most of our customers continue to conserve electricity. Even the weather cooperated by producing a mild winter thus reducing our exposure to high cost petroleum-generated power. It also appears now that the snowpack in the Columbia river storage area will be more than enough to fill the region's hydroelectric storage reservoirs so that adequate hydro power will be available through the fall and winter of 1975.

During a time of uncertainty in the financial markets, the Company successfully sold securities which produced $116 million. This included 1.5 million shares of common stock in March, 1.5 million shares of common stock in September, $40 million first mortgage bonds in November and 300,000 shares of preferred stock in January of 1975.

We are particularly pleased with the acceptance of our securities by people who know the Company best: those in our service area, in Oregon, and on the West Coast. Our research indicates that about 30 per cent of the $40 million in first mortgage bonds and an equal proportion of the 300,000 preferred shares sold in January 1975 were purchased by investors in the Pacific Northwest. After the sale of 3 million new shares of common stock, about 62 per cent is held by shareholders in the three Pacific Coast states.

The Company received a rate increase of 9.7 per cent which was 95 per cent of what we requested. We anticipate the need for additional rate increases to support the investment needed to provide the plant, equipment and systems to render reliable electric service to our customers.

During the year we completed installation of the 439-megawatt Beaver combustion turbine plant, part of which was financed by long-term leases. We also concluded negotiations for acquisition of a site near Arlington, Oregon (Pebble Springs) which will accommodate two 1260-megawatt nuclear generating plants. We are in the final stages of acquiring a site near Boardman, Oregon (the Carty reservoir site), on which we plan to locate a 500-megawatt coal-fired plant and up to four 1200-megawatt-class nuclear plants. A 20-year contract for low sulfur Rocky Mountain coal is under negotiation to assure an adequate fuel supply.

Our construction program is large and we are investigating alternatives to the traditional financing methods of mortgage debt and equity. These include possible third party financing of all or a portion of the proposed Carty coal or Pebble Springs nuclear plants. We are also analyzing sale-lease back of our planned new headquarters complex.

The exercise of skill and ingenuity to reduce costs, without sacrificing quality of service, is one of our major efforts. A 26 per cent reduction in the construction budget was possible because of a carefully revised load forecast which permitted postponement of completion da[illegible] of some planned generating plants an[illegible] extension of normal system additions over a longer period of time.

Transportation costs have been cut by using all vehicles and power equipment longer. As customer density in our service area has increased, changes in distribution system equipment plus increased productivity have resulted in savings.

In the area of customer service, installation of a direct entry system combined with rerouting and consolidation of meter reading route[illegible] has effected savings as well as resulted in better customer relations. Despite the fact that nearly 70 per cent of PGE's costs are associated with generation, we are continuing to make every effort to hold costs down in all areas of the system.

Specific action was taken in 1974 when a review of our load forecast indicated a moderate reduction in growth rate—from eight to nine per cent annually to about seven percent annually. This permitted us to reschedule the two Pebble Springs nuclear plants from 1980-82 to 1982-85, and the Carty coal plant from 1979 to 1980. The Pebble Springs and Carty sites, assuming appropriate regulatory approvals are received, assure the Company of adequate plant locations to meet our generating requirements through the 1980s. Our long-range plan is to tailor our construction program to fit the anticipated electric energy requirements of our service area and to fit the financial capability of the Company. The primary means of accomplishing this goal is to maintain enough flexibility in both our construction and financing programs to permit us to adapt to changing conditions.

The next few years will be challenging for our Company and the entire energy industry but we believe the challenges can be met successfully.

Sincerely,

Frank M. Warren

Frank M. Warren
President

February 14, 1975

Frank M. Warren, President, and Robert H. Short (right), Executive Vice President.

Total kilowatt-hour sales in 1974 were slightly below those for 1973: 11.4 billion kwh compared to 11.6 billion kwh. However, after adjusting for sales for resale, 1974 energy sales to ultimate customers were almost identical to 1973. 10.8 billion kwh this year compared with 10.7 billion kwh last year.

Most of the lack of growth was due to conservation and warmer than normal weather. While use per customer declined in response to appeals for conservation starting in August 1973 total load held about even due to the continuing addition of new customers. Since September 1974 total load and use per customer experienced an upturn. Loads are currently projected to grow at about seven per cent per year, a reduction from eight per cent to nine per cent experienced prior to the fall of 1973.

"Operating revenues up 17%."

Total operating revenue was up 17 per cent to $146 million and net income increased 23.7 per cent to $32.9 million. After provision for preferred dividends, income available for common stock was $26.3 million, up 23.3 per cent over 1973. Earnings per common share for the year were $2.17 which is an increase of 6.4 per cent over the $2.04 earned in 1973. The number of average shares outstanding increased from 10.5 million for 1973 to 12.125 million for 1974.

The common stock quarterly dividend was increased to 38¢ per share from 37¢ effective April 15, 1974. On February 11, 1975 the Company's Board of Directors declared a dividend of 39½¢ per share payable April 15, 1975.

This is the 15th consecutive annual increase in dividends and raises the indicated annual dividend from $1.52 per share to $1.58 per share.

Dividends paid to the Company's preferred shareholders were $6,577,000. At December 31, 1974 the Company had 4,496 preferred stockholders. During the year, the number of common shareowners increased from 43,768 to 53,189.

The Company's Automatic Dividend Reinvestment Service and the Employe Stock Purchase Plan continue to be well received. At year end, 3,469 stockholders had reinvested $1,317,000 through the dividend reinvestment service. At December 31, 1974, 422 employes are participating in the Employe Stock Purchase Plan and have invested more than $751,000 since its inception in 1972.

"Common dividends offer tax break."

The Company estimates that 80 per cent of the common dividend paid in 1974 represents a return of capital. This figure is subject to final determination by the Internal Revenue Service. The nontaxable portion of such dividend may also qualify as nontaxable return of capital in states such as Oregon, which presently follow the Internal Revenue Service method for purposes of determining taxable income. Stockholders should consult tax advisors.

"Financing done in several ways."

The Company financed its 1974

construction program of $153.6 million with internally generated funds, leasing short-term borrowings and the sale of securities. In March 1974, 1,500,000 shares of common stock were sold, and an additional 1,500,000 shares were sold in September 1974. In November 1974, $40 million of 10.5 per cent first mortgage bonds were sold to mature in 1980. At year end short-term bank loans were $52 million. The Company has arranged separate financing for its nuclear fuel and at year end $27 million had been financed. A description of the financing agreements is contained in the notes to financial statements.

In October 1974 PGE finalized a 25-year lease arrangement for the Beaver combustion turbines with an effective interest rate of 6.56 per cent. The lease covers the generating equipment which cost approximately $29 million—land, oil storage tanks, switching facilities, etc., are not included. The Company may buy the equipment at the expiration of the lease term at the then fair market value.

In 1975 the Company's construction program is estimated to be $140 million, not including the proposed new headquarters complex which is expected to be financed by a sale-lease back arrangement.

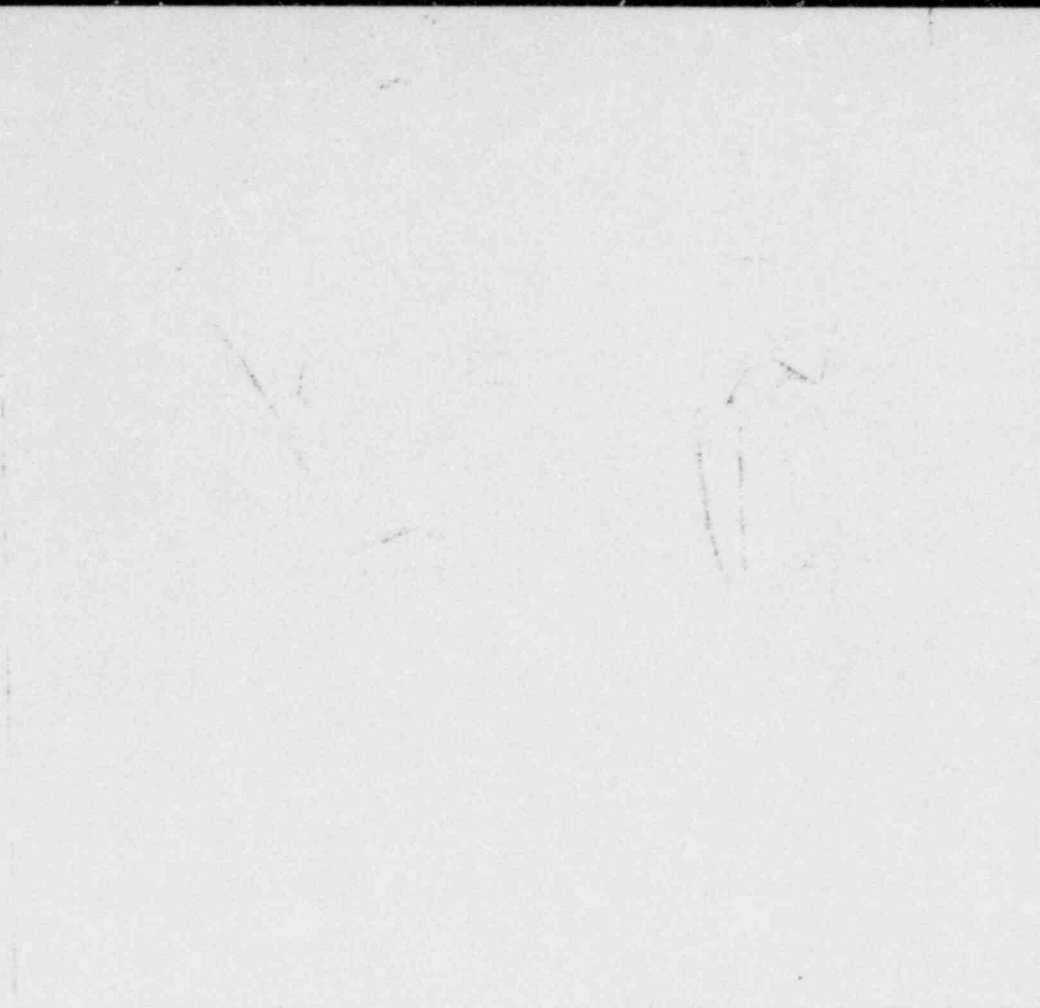
The Company's financing plan for 1975 includes the January 1975 sale of 300,000 shares of 11.50 per cent, 5% sinking fund, $100 par value preferred stock.

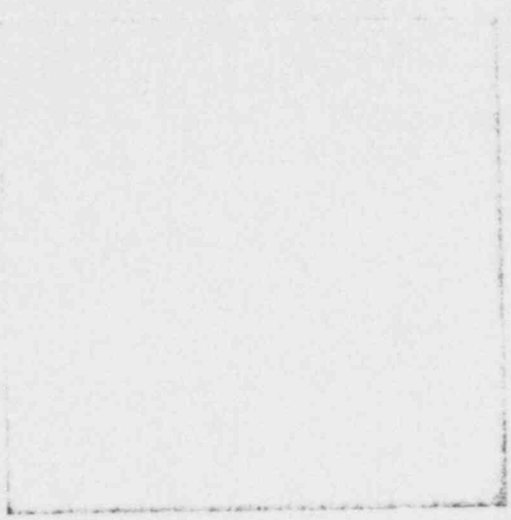
In addition, two issues of first mortgage bonds are planned, each in the $30-$35 million range, and up to two million shares of common stock are expected to be sold. The bonds are planned for sale in April 1975 and in the fall of 1975. The common stock sale is expected to be concluded during the late spring or early summer of 1975.

PGE has entered into an agreement with the Port of St. Helens, Oregon, to provide up to $60 million 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.

In November 1973 the Port issued $27 million of 6⅜ per cent short-term pollution control bonds to banks on a private placement basis. In November 1974 the $27 million was extended to May 15, 1975 at 8¼ per cent.

Pending a ruling from the Internal Revenue Service, the Port and the Company expect to conclude agreements covering the sale of two $30 million issues of long-term tax-exempt pollution control bonds in 1975, a portion of which will be used to refund the existing $27 million short-term bonds.





H. H. Phillips, Vice President, [illegible] Secretary; and E. F. [illegible] Vice President, Regulation and Research.

"Rate relief granted—more required"

The Public Utility Commissioner of Oregon issued an order which granted the Company a 9.7 per cent rate increase effective December 23, 1974. This order allowed an 8.8 per cent return on rate base and 13.5 per cent return on common equity. The Company's request for a rate increase included an application for authority to recover possible excess power costs during the fall and winter months of 1974-75.

On September 3, 1974, the Commissioner issued an order permitting the Company to recover power costs in excess of 4.8 mills per kwh during the 1974-75 winter. The power cost adjustment was applied by adding 2 mills per kwh to all bills beginning September 5, 1974. The order stated that the adjustment was to continue until all excess power costs were recovered.

Excess power costs through December 1974 were less than anticipated as a result of favorable weather conditions, water conditions, and energy purchases. As a result the 2 mill adjustment was reduced to 1 mill effective January 7, 1975. Because of continued warmer-than-average weather during most of January 1975 the remaining 1 mill charge was suspended effective with billings that were mailed February 5, 1975.

The Company expects to need rate increases in the range of 15 per cent to 25 per cent in 1975 and approximately 10 per cent in 1976. The amount and timing of such rate increases are dependent on changes in the money market, construction costs and level of power consumption. Even with these increases the Company's average rates will be below those in most areas of the country and this relative position is expected to remain.

The weather was good to us in 1974 providing above-average rainfall and snowpack, plus warmer than normal winter temperatures. The result was more available low-cost hydroelectric power and less demand. This reduced the necessity of higher cost combustion turbine operation.

"Bonneville agreement a big factor in up to $30 million power cost saving in 1974-1975"

The Company's 1.5 million kilowatts of hydroelectric resources, either owned or under long-term contract, was further supplemented by an Exchange Agreement with Bonneville Power Administration under which the Company agreed to take 1.5 billion kwh during off-peak hours in the period August 1, 1974 through April 1975.

Located on the Columbia river 20 miles [illegible] from Trojan, the on-site Beaver [illegible] storage for 1.1 million barrels of fuel. The Company [illegible] storage capacity of 1.5 million [illegible] approximately 1.2 million barrels of fuel [illegible] operation.

The exchange status of this energy will be determined as of August 1, 1976. At that time if Bonneville's reservoirs have been substantially filled, the Company will pay for the energy in cash. If they are not substantially filled, the Company must return the energy in equal monthly amounts until April 30, 1977, except that to the extent the Trojan plant is not then operable at full capacity there will be a pro rata reduction in the Company's obligation to return the energy in kind, with the amount of the reduction being paid for in cash at the rate of 9 mills per kwh.
The effect of the Exchange Agreement and improved operating conditions was to reduce the Company's exposure to excess power costs during the years 1974 and 1975 by approximately $30,000,000.

"Beaver combustion turbine installation on line. On time."
With generating capacity approximately equalling that of Bonneville dam, the 439,000-kw Beaver industrial type combustion turbine plant was available to generate power on August 1, 1974 precisely as scheduled. The units are designed to burn a wide range of fuels, including crude oil, a variety of petroleum distillates or natural gas. Total cost of facilities will be $60 million, of which $29 million represents the cost of generating equipment which is being leased from financing institutions.
The turbines are expected to be used primarily for peaking requirements or to meet emergency energy needs. They can be fired up and ready to go in 20 minutes —or in extreme emergencies that time can be cut in half.

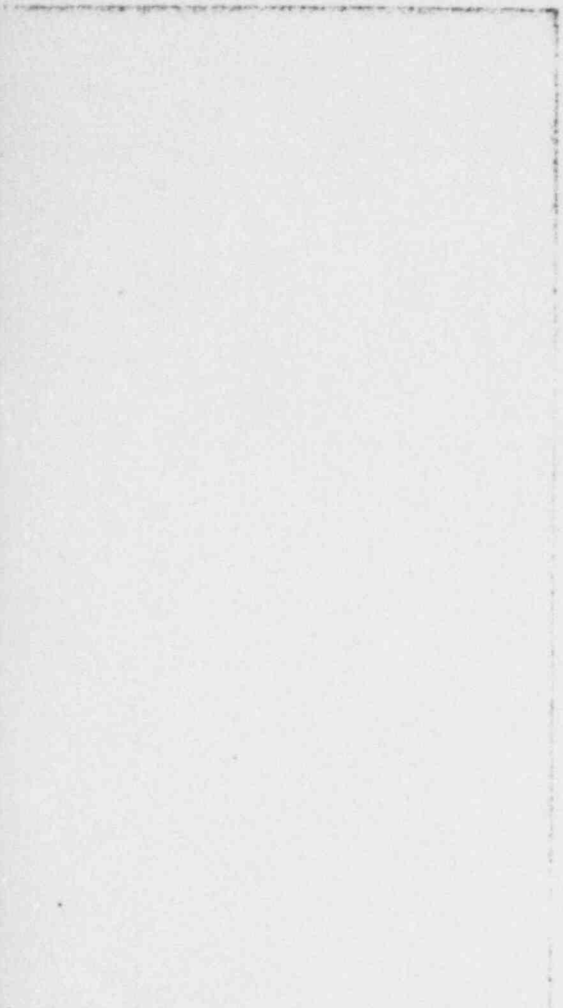
"Combined cycle addition being planned for Beaver."
An additional 160,000 kw without a cent more fuel cost is the benefit of the combined cycle addition to the Beaver plant. Scheduled for completion in 1977 at an estimated cost of $50 million, these units capture the high temperature stack gases and reuse them to generate additional electricity in conventional turbines.
The Beaver complex is situated on 125 acres of Company owned land and includes a dock that will accommodate barges or ocean-going tankers, a rail line, and fuel storage facilities.

Modern techniques enabled PGE to set poles for transmission line over rugged terrain from the Beaver plant to BPA's Allston substation.

Donald J. Broehl, Manager, Nuclear Projects and Joseph L. Williams (right), Vice President, Engineering-Construction.

The completion of the Trojan nuclear plant is being expedited as much as possible, with additional manpower, supervision and equipment being supplied wherever practical. This stage of construction is much like reaching the finishing stage of a house… there are a myriad of exacting and time-consuming [illegible] to complete. Operation is scheduled [illegible] late 1975 or early 1976.

More than 160,000 visitors toured the Visitors Information Center at the site. A spot survey showed that 88 per cent viewed the exhibits favorably, 5 per cent unfavorably and 7 per cent were undecided.



"Increased cost due to interest during construction, labor and engineering and design changes."

The estimated $375 million cost of Trojan is up about 9 per cent over last year. The increase reflects the extended period of construction, and the higher cost of money, labor and engineering.

"License for 40-year Trojan operation expected in next few months. No further public hearings required."

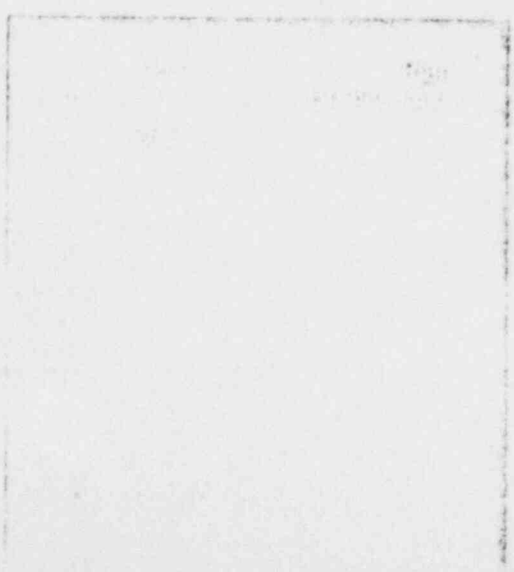
It appears that the green light is on for Trojan licensing. On February 4, 1974, an Atomic Safety and Licensing Board made findings and issued an order authorizing the Director of Regulation of the Nuclear Regulatory Commission (NRC), after making requisite findings, to issue an operating license for 40 years. The Company expects that the license as requested will be granted prior to presently anticipated fuel loading date.

"Pebble Springs site becomes number one choice for next nuclear plant."

Because the U. S. Navy has not been able to find a suitable and acceptable alternate site for its air training facility at Boardman, the Company is now planning to build the next two nuclear plants of the 1,200,000-kilowatt class at the Pebble Springs site, which is three miles southeast of Arlington in north central Oregon. All nuclear work has been shifted to that location with completion of Unit #1 scheduled for 1982 and Unit #2 in 198[illegible]. Thirty per cent of the design work on the first unit is already completed. All necessary land has been acquired.

The preliminary estimate of the total cost for the first nuclear plant is in the range of $1,000,000,000 to $1,100,000,000 exclusive of transmission facilities. The project is expected to be jointly owned by the Company and other Northwest utilities under arrangements similar to those made in connection with the Trojan plant, with the Company's ownership share presently expected to be 65 per cent.

Family of long-eared owls perch high in trees in vicinity of Pebble Springs nuclear site in eastern Oregon. The Company monitors wildlife activity.



The Company anticipates a limited work authorization from the NRC in the second quarter of 1975 and a site certificate from the State Nuclear and Thermal Energy Council by mid-summer of 1975.

The Company has contracted for sufficient uranium for the initial nuclear core at Pebble Springs Unit #1, which will cover the first two years of operation. It has also contracted for enrichment services and fabrication for this and additional cores but not for reprocessing. No uranium has yet been procured for Pebble Springs Unit #2, although the Company has contracts for enrichment services and fabrication.

The Company has received coal prospecting permits from the State of Alaska embracing about 46,000 acres located about 100 miles north of Anchorage and began core drilling during the month of December 1974, but bad weather caused discontinuance until spring. If such drilling indicates there is a significant amount of economically recoverable coal, the Company would probably perfect arrangements and commence surface mining activity, but there is no assurance that economically recoverable coal will be developed. The tentative plan calls for rail transportation from the surface mines to Seward, some 200 miles south, and water transportation to Oregon. Also as the technology advances, coal gasification is another possible dimension.

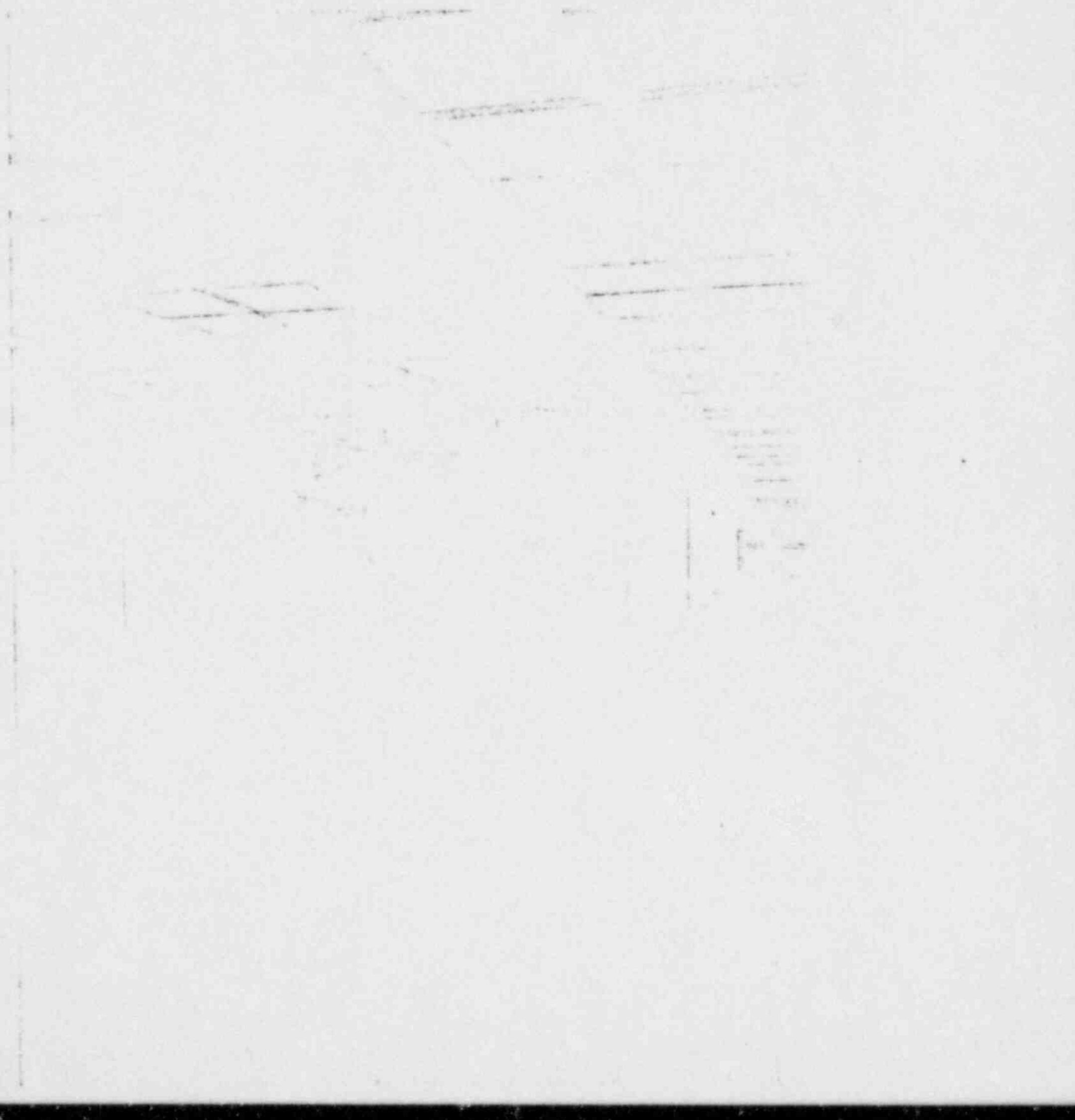
Map shows location of 46,000 acres north of Anchorage for which the Company has received coal prospecting permits. Coal will travel by rail and water transport from the surface mine operation.

Primitive beauty of Alaska abounds in area of PGE's exploratory drilling for coal reserves (left, center). If productive, coal from mining operation might be used in many ways in the future.

Exploratory drilling (left below) for Alaska coal reserves began in the fall of 1974. The around-the-clock operation took place in sub-zero temperatures. PGE [illegible] project in 1975.

A. J. Porter, Senior Vice President, Power Supply, and G. E. [illegible] (right), Vice President, Power Operations.

C. W. Brissenden, Vice President and General Division Manager, and [illegible] S. Johnson (right), Senior Vice President, Operations.



New Western Division Center complex is considered to be one of the most modern and efficiently designed utility line operation centers in the nation. The facility went operational this past summer.

The Company expects to receive site certification in late February 1975 from the Oregon Nuclear and Thermal Energy Council for a 500 000-kilowatt coal-fired generating plant at the Carty site near Boardman in north-central Oregon. Scheduled for completion in 1980, at an estimated cost of $340 million, the plant will diversify generating resources and will help meet projected load growth.

Coal-fired plants cost slightly less than nuclear plants and can be constructed and put on line more quickly but operating costs are considerably higher.

The Company is currently negotiating a long-term contract for a supply of low-sulfur coal which will meet present Environmental Protection Agency standards. The plant is estimated to require 50 million tons of coal over its estimated life of 30 years. Adequate supplies of coal will be assured before commitment to the project.

A 1500-acre cooling pond will be constructed to serve plant needs. This is large enough to serve an additional coal plant of similar size and can be expanded to accommodate future nuclear plant cooling needs.

"Approval of nuclear siting at Carty also sought from State."

Site applications for future construction of two nuclear plants at the Carty site also are pending before the Nuclear and Thermal Energy Council. Authorization for construction will be contingent on the U.S. Navy's agreement to move its air training facility from the area. Negotiations are continuing, as it appears at this time that the Carty site at Boardman will accommodate up to four nuclear plants and two coal plants, and would make possible increased irrigation potential of semi-arid land. However due to the uncertainty of Navy relocation it has been necessary to postpone planned nuclear construction at Boardman until later in the Company's schedule, probably the late 1980's.

"Partnerships in other generating projects promise additional needed future energy."

A 20 per cent interest in the ownership and construction of two 700,000-kilowatt coal-fired generating units at Colstrip, Montana, scheduled for completion in 1979 and 1980 should provide substantial additional energy in the years ahead. However, The Montana Power Company, which is developing these projects, is encountering environmental delays which are as yet unresolved.

The Company also is a 10 per cent partner in the Washington Public Power Supply System's 1,240,000-kilowatt nuclear plant at Satsop, Washington, which is now planned for 1982 completion.

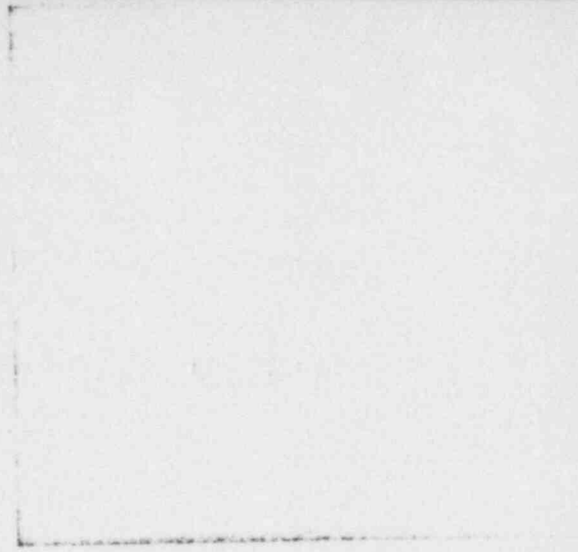
"Middle Snake hydro projects would provide power and recreation."

As the oil and gas supplies dwindle and the cost of energy keeps going up, the proposed Pleasant Valley-Mountain Sheep hydroelectric project on the Middle Snake river merits approval. As one of the four investor-owned utilities sponsoring the project in partnership with the Washington Public Power Supply System, the Company strongly believes that the 2,770,000-kilowatt capability of this non-polluting project is important to the people of the region. It can provide low-cost power and more recreation for more people, still leaving a 400-mile stretch of free flowing water.

"Western Division Center combines efficiency with good looks."

Completed in the fall of 1974, the Western Division Center has been cited by a Boston consultant as "the most modern and efficiently designed utility line operation center in the nation. We can't imagine of there being one that is better."

The actual area occupied by the facility, located in the Beaverton area, is 23 acres, which includes 72,000 square feet of buildings, loading and storage yards, parking areas and a helistop. Centralizing much of the work in the growing western area of the PGE service territory, the facility presently accommodates 16 crews and 160 people, with expansion capabilities to 30 crews and 250 people. Community activities are centered around a 400-seat auditorium, private meeting rooms, and a demonstration kitchen. The facility has enabled the Company to improve both service and efficiency.



Auditorium in the new Western Division Center can seat up to 400 people. The multi-purpose space can be divided in half with a large partition for an employee lunchroom and a meeting room, which can be used concurrently. Meeting room contains a stage and demonstration kitchen.

Modern office space at Western Division has been designed for use by 30 crews and up to 250 personnel. With more overall division operations under one roof, economies in operation have been realized and better customer service provided.

"Newberg District Center to serve 25,000 customers."

After 36 years in its old crowded building, with the storeroom five blocks away and the pole yard a mile away, the Newberg operation has consolidated and gone modern. The 12.7 acres accommodates 24,000 square feet of office, shop and r[illegible]d storage space, plus parking, yard storage and room for expansion.

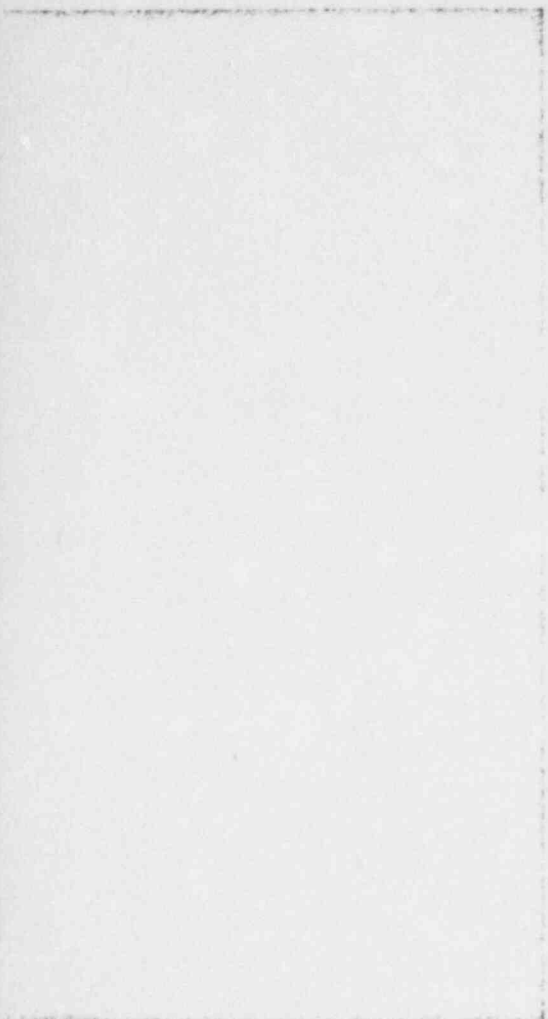
Customer service activities, including a 100-seat meeting room, are provided, as well as facilities for commercial and line functions. The center is about one mile east of downtown Newberg.

Conservation—showing customers how to use electricity wisely and efficiently and to save it whenever possible—is the continued thrust of marketing and service personnel as well as Company advertising. The combination of intense conservation effort, an economic slowdown, particularly in the housing, lumber and allied fields, and possibly some lessening of demand due to higher rates, resulted in a flattening out of kilowatt-hour demand in 1974. Total sales (including sales for resale) were down in 1974 as compared to the previous year, but sales to ultimate customers were up slightly.

The Company maintained the Customer Conservation Centers in principal offices and continued to set a conservation example by reducing use at Company facilities in excess of the target goal of 15 per cent.

"Electric heat installations soaring."

New residential connects were down to 10,364 in 1974 reflecting the dip in the new housing market, but the [illegible] demand for electric heat in single family homes is great despite higher [illegible]. In December 1974, 48.5 per cent of these new connects included electric [illegible] compared to the low point of 35.5 per cent in February 1973. It is estimated that the overall load growth rate for the next five years will be about 7 per cent annually.



The Company's proposed three-block headquarters complex is shown in this model. Designed to meet space requirements for the next 50 years, the facility will include a 17-story office tower, a six-story service building, and a public activity block. Underground parking will be provided for 400 cars.

A new District Center was completed and occupied this year to serve customers in the Newberg area. Total floor area of all building structures in the modern Center is 24,000 square-feet.

"Voters rejected Public Power in Portland by 3 to 1 margin."

A group of public power advocates gathered enough signatures to place a measure on the November 1974 ballot which would enable city takeover of the Pacific Power & Light properties in Portland. Your Company joined Pacific in a concentrated effort to defeat the measure by pointing out that Bonneville stated that there was no firm power assured for a municipal utility in Portland. Therefore costs for electricity would be higher, rather than lower. The measure was soundly defeated 101,000 NO, to 33,000 YES. Pacific serves one-third of Portland. PGE serves two-thirds.

At the same election a 10-year Portland streetlighting levy for a total of $35.8 million was passed by a margin of 2 to 1.

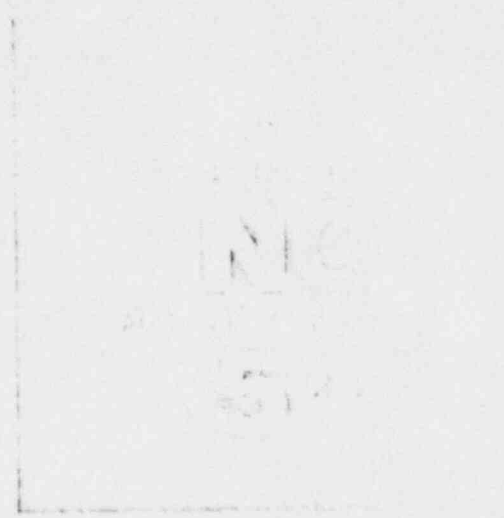
"Company continues aggressive program of equal employment opportunity."

Again in 1974 the Company has pursued an Affirmative Action Program to reach population parity in minority employment and job categories as well as to provide more opportunities for women in job classifications that have historically been male oriented.

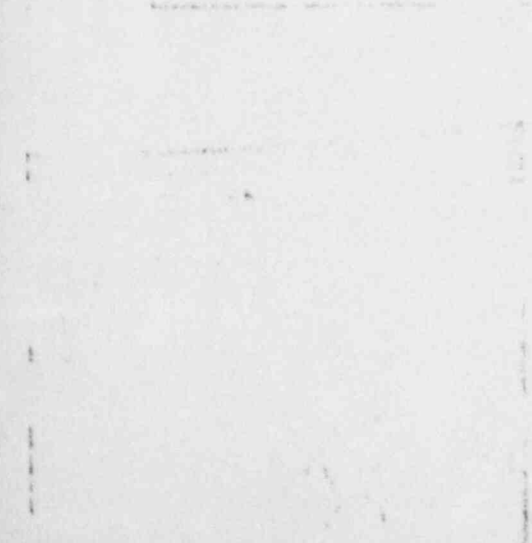
The work-study program initiated with several schools is continuing with reasonable success. It does help minority students complete their education and offers them work experience at the same time to help focus academic goals.

Estes Snedecor Jr., Vice President, [illegible] and [illegible] Relations [illegible]

Timothy Lake, PGE's 1500-acre storage reservoir, rests serenely in the midst of Oregon's scenic Mt. Hood National Forest.



The voters of Portland decisively rejected a public power measure which would have authorized the City to buy Pacific Power & Light Company's Portland properties.



Along with its extensive construction program the Company is intensely interested in research of new viable power sources and improved technology. We don't have our head in the sand. In 1974 PGE invested $880,000 in research efforts. The budget for 1975 is $1.2 million. Of this amount, about $770,000 will go to the Electric Power Research Institute (EPRI) for research and development of methods and technology related to improving electric power production, distribution and transmission.

A portion of this EPRI funding is for research on nuclear power plant safety, reliability and operations. Other research projects are related to solar power, geothermal, fossil fuels, energy conversion devices and energy systems.

An additional $219,000 is for a joint agreement between EPRI and Breeder Reactor Corporation for research on the Liquid Metal Fast Breeder Reactor.

The remaining 20 per cent of the Company's research budget is for use in local research projects. Approximately 10 of these are tentatively scheduled. Heading the list is $90,000 for research into the feasibility of incorporating a catalytic converter into an existing Turbopower and Marine Combustion Turbine Generator System.

Other local research projects include participation in the Illuminating Engineering National Research program, research on fish behavior, a near-shore oceanography project to determine the relationship between heat discharge and the environment, and discharge stack d[illegible]n research for the Beaver combined-cycle units.

Developing [illegible] cryogenic transmission [illegible] cooled with liquid nitrogen which [illegible] carrying of large blocks of power with lower [illegible] losses is a $2.5 million research [illegible] underway. It is co-sponsored by EPRI and [illegible]

GENERAL

Balance Sheets

December 31, 1974 and 1973

		1974	1973
		(Thousands [illegible])	
Electric Utility Plant:	In service, at original cost (Note 9)	$539,[illegible]	[illegible]
	Less—Reserve for depreciation (Note 1)	97,9[illegible]	8[illegible]
		43[illegible]	[illegible]
	Construction work in progress, including $217,273,000 for the Trojan Nuclear Plant at December 31, 1974 (Note 9)	264,847	213,[illegible]
	Nuclear fuel	29,3[illegible]	16,[illegible]
		785,312	[illegible]
Other Property and Investments:	Nonutility property, substantially at cost, less reserve	2,202	[illegible]
	Sales contracts receivable and other	3,004	3,[illegible]
		5,20[illegible]	[illegible]
Current Assets:	Cash (Note 10)	11,70[illegible]	1[illegible]
	Receivables:		
	Customers' accounts	9,251	[illegible]
	Other accounts and notes	2,2[illegible]	2,[illegible]
	Reserve for uncollectible accounts	(30[illegible])	[illegible]
	Materials and supplies, at average cost:		
	Fuel oil	1[illegible]	[illegible]
	Other	[illegible]	[illegible]
	Property taxes applicable to subsequent periods	[illegible]	[illegible]
	Prepayments	[illegible]	[illegible]
		[illegible]	[illegible]
Deferred Charges:	Preliminary engineering and survey costs on proposed generating plants	[illegible]	[illegible]
	[illegible]	[illegible]	[illegible]
	Other deferred charges	[illegible]	[illegible]
		7,[illegible]	[illegible]
		$[illegible]	[illegible]

[illegible]

[illegible]

		1974	[illegible]
		(Thousands of [illegible])	
Capitalization (see accompanying statements):	Common stock equity	$241,805	[illegible]
	Cumulative preferred stock	[illegible]	[illegible]
	Long-term debt	335,344	[illegible]
	Total capitalization	657,309	593,[illegible]
Current Liabilities:	Long-term debt maturing within one year	27,199	[illegible]
	Current sinking fund requirements on long-term debt	2,306	[illegible]
	Short-term notes payable (Note 10)	95,721	[illegible]
	Accounts and wages payable	29,[illegible]	[illegible]
	Dividends payable	6,774	[illegible]
	Accrued general taxes	10,[illegible]	[illegible]
	Accrued income taxes (Note 2)	406	[illegible]
	Accrued interest	5,3[illegible]	[illegible]
		177,[illegible]	112,[illegible]
Other:	Deferred income taxes—accelerated amortization (Note 4)	7,[illegible]	[illegible]
	Deferred investment tax credit (Note 3)	4,[illegible]	[illegible]
	[illegible] contingencies (Note 11)	[illegible]	[illegible]
	Deferred revenue—excess power costs (net of income taxes)	[illegible]	[illegible]
	Miscellaneous	[illegible]	[illegible]
	Commitments and contingent liabilities (Note 15)	[illegible]	[illegible]
		[illegible]	[illegible]
		[illegible]	[illegible]

The accompanying notes are an integral part of these statements.

[illegible]

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,[illegible]00,000 and 10,500,000 shares outstanding (Note 12)	$ 50,025		$ 39,37[illegible]	
	Other paid-in capital (Note 1[illegible])	109,1[illegible]0		72,[illegible]	
	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	[illegible]
Cumulative Preferred Stock, $100 Par Value Per Share, 2,000,000 Shares Authorized (Note 12):	Series outstanding (redeemable at the Company's option):				
	9.7[illegible]%, 100,000 Shares, redeemable to November 1, 19[illegible]0 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, 19[illegible] at $10[illegible] and at reduced amounts thereafter	20,000		20,0[illegible]	
	8.[illegible]%, 200,000 Shares, redeemable to July 1, 1978 at $10[illegible] and at reduced amounts thereafter	[illegible]		[illegible]	
	Total cumulative preferred stock	[illegible]	1[illegible]	[illegible]	
Long-Term Debt:	First mortgage bonds:				
	[illegible] Series due July 1, 197[illegible]	2[illegible]		2[illegible]	
	3[illegible] Series due November 1, 197[illegible]	[illegible]		[illegible]	
	3[illegible] Second Series due Nov. 1, 1977	2,7[illegible]		2,78[illegible]	
	3[illegible] Series due November 1, 1984	8,1[illegible]3		[illegible]	
	4[illegible] Series due September 1, 1986	1[illegible]		1[illegible]	
	4[illegible] Series due June 1, 1987	7,[illegible]		[illegible]	
	5[illegible] Series due June 1, 1990	1[illegible]		1[illegible]	
	5[illegible] Series due November 1, 1991	10,800		10,000	
	4[illegible] Series due February 1, 1993	13,872		14,0[illegible]	
	4¾% Series due June 1, 1993	16,6[illegible]		16,875	
	4[illegible] Series due April 1, 1994	16,875		17,100	
	4.70% Series due March 1, 1995	13,300		13,475	
	5[illegible] Series due June 1, 1996	11,5[illegible]		11,70[illegible]	
	[illegible].60% Series due October 1, 1997	22,7[illegible]		2[illegible]	
	8[illegible] Series due April 1, 1977	20,000		20,000	
	9[illegible] Series due November 1, 2000	20,000		[illegible]	
	8% Series due November 1, 2001	20,000		20,000	
	7¾% Series due November 1, 2002	20,000		20,000	
	7.95% Series due April 1, 2003	35,000		35,000	
	8[illegible] Series due October 1, 2003	17,000		17,000	
	10[illegible] Series due December 1, 1980	40,000		—	
	5½% Sinking fund debentures, due 1983	10,500		10,875	
	Real estate purchase contracts	606		[illegible]41	
		365,2[illegible]4		328,7[illegible]	
	Unamortized premium on long-term debt	17		[illegible]	
	Unamortized discount on long-term debt	(312)		[illegible]	
		364,929		[illegible]	
	Less—Amounts included in current liabilities [illegible]:				
	Long-term debt maturing within one year	(27,193)			
	Current sinking fund requirements	(2,2[illegible])		[illegible]	
	Total long-term debt	[illegible]	[illegible]	[illegible]	
	Total capitalization	$[illegible]57,[illegible]	100.0%	$[illegible]	

The accompanying notes are an integral part of these statements.

Statements of Income

For the Years Ended December 31		1974	1973	1972	1971	1970
		(Thousands of Dollars)				
Operating Revenues		$140,501	$124,833	$112,443	[illegible]	[illegible]
Operating Expenses and Taxes:	Operation:					
	Purchased and interchanged power—net	37,355	30,798	24,840	[illegible]	[illegible]
	Production	[illegible]	5,941	[illegible]	[illegible]	[illegible]
	Transmission and distribution	7,914	6,742	5,968	5,550	[illegible]
	Administrative and other	14,800	12,762	12,437	11,781	[illegible]
	Maintenance and repairs (Note 1)	6,397	5,749	4,969	4,638	[illegible]
	Depreciation annuity and interest on 5% sinking fund method (Note 1)	12,600	11,250	9,952	[illegible]	[illegible]
	Taxes other than income taxes (Note 15)	14,322	12,746	11,864	10,840	[illegible]
	Taxes on income (Notes 2, 3, 4 and 8):					
	State	(90)	281	722	961	[illegible]
	Federal	(732)	1,938	5,408	6,749	[illegible]
	Disposition of utility plant	10	(855)	(125)	—	[illegible]
	Total operating expenses and taxes	98,735	87,389	78,531	74,0[illegible]	[illegible]
	Utility operating income	45,203	37,444	33,912	[illegible]	[illegible]
Other Income:	Allowance for funds used during construction (Note 8)	17,004	11,000	4,610	1,7[illegible]	[illegible]
	Other income and deductions—net	285	310	3[illegible]8	[illegible]	[illegible]
	Gross income	6[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Interest Charges:	Interest on long-term debt	20,774	15,5[illegible]	15,132	[illegible]	[illegible]
	Interest on short-term notes payable	9,4[illegible]	3,279	643	[illegible]	[illegible]
	Other interest and amortization	2[illegible]	3[illegible]	311	[illegible]	[illegible]
	Total interest charges	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Net Income		32,918	26,61[illegible]	2[illegible]	[illegible]	[illegible]
Preferred Dividend Requirement		6,577	5,247	2,196	[illegible]	[illegible]
Income Available for Common Stock		$ [illegible]	$ [illegible]	$ [illegible]	$ [illegible]	[illegible]
Average Common Shares Outstanding		[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Earnings Per Common Share		[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Dividends Declared Per Common Share		$1.52	$1.48	$1.4[illegible]	[illegible]	[illegible]

Management's Discussion and Analysis of Statements of Income follows notes to Financial Statements

Statements of [illegible] Earnings

For the Years Ended December 31		1974	1973	1972	1971	1970
		(Thousands of Dollars)				
Balance at Beginning of Period		$ 77,452	$71,930	$6[illegible]	[illegible]	[illegible]
Add—Net Income		32,918	26,616	[illegible]	[illegible]	[illegible]
		110,370	98,5[illegible]	[illegible]	[illegible]	[illegible]
Deduct:	Dividends declared:					
	On common stock	18,810	15,540	13,815	12,0[illegible]	[illegible]
	On preferred stock	6,577	5,247	2,190	[illegible]	[illegible]
	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	[illegible]	[illegible]
		25,744	21,144	16,[illegible]	[illegible]	[illegible]
Balance at End of Period (Note 13)		$ 84,626	$77,452	$71,9[illegible]	[illegible]	[illegible]

The accompanying notes are an integral part of these statements

Statement of Sources of Funds

[illegible]

For the Years Ended December 31

		1974	1973	1972	1971
		(Thousands of Dollars)			
Funds Generated Internally:	Income available for common stock	$ 26,341	$ 21,369	$ 20,373	$17,307
	Depreciation (including amounts charged to other accounts) (Note 1)	12,915	12,095	10,681	9,8[illegible]
	Investment tax credit adjustments (Note 3)	2,004	1,350	1,063	—
	Income taxes deferred in prior years (Note 4)	(541)	(541)	(541)	(541)
	Allowance for funds used during construction	(17,004)	(11,020)	(4,610)	[illegible]
		23,715	23,183	26,966	24,[illegible]
	Less: Dividends declared on common stock	18,810	15,540	13,845	12,075
	Total funds generated internally	4,905	7,643	13,121	[illegible]
Funds Provided from Outside Sources:	Long-term debt	40,000	52,000	20,000	[illegible]
	Preferred stock	—	40,000	30,000	[illegible]
	Common stock	47,818	—	20,075	[illegible]
	[illegible]	142,[illegible]	110,[illegible]	73,725	[illegible]
	Refinancing of short-term notes payable with long-term financing	(86,[illegible]5)	(61,370)	(50,000)	[illegible]
	Total funds from outside sources	12[illegible]	124,[illegible]	[illegible]	[illegible]
Other Funds Provided (Used):	Retirement of long-term debt	(3,152)	(3,269)	(4,010)	(2,[illegible])
	Change in net current assets excluding long-term debt due within one year and short-term notes payable	(12,101)	11,508	827	1,5[illegible]6
	Reimbursement by lessor of 1973 construction expenditures	22,800	—	—	—
	Allowance for funds used during construction	17,004	11,020	4,610	1,[illegible]
	Other—net	1,3[illegible]5	(2,418)	(1,097)	[illegible]
	Total other funds provided (used)	25,70[illegible]	19,8[illegible]	(265)	1,0[illegible]
Funds Invested in Electric Utility Plant		$153,581	$152,195	$110,431	[illegible]

The accompanying notes are an integral part of these statements.

Notes to Financial Statements

Notes [illegible] 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.[illegible] 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 [illegible] plant accounts with the cost of renewals and replacements of property units [illegible] depreciation reserve with the cost, less net salvage, of property units retired [illegible] than land.

Note 2.
Federal and State Income Taxes.

[illegible] (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 [illegible].

Note 3.
Investment Tax Credits.

[illegible] tax expense by $[illegible] in 1970 and $420,000 in 1971 after giving effect to the following adjustments: during 1964, the Company deferred [illegible] ($368,000) of the investment tax credit realized in 1964 arising from the [illegible] of the Company's portion of the 500,000-volt Pacific Northwest-Southwest [illegible] the deferred investment tax credit was taken into income over [illegible] commencing January 1, 1965; this deferment 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, [illegible] tax expense would have been decreased by $1,083,000 in 1972, by $[illegible] in 1973 and by $2,004,000 in 1974. As a result of the accounting change, [illegible] income tax expense was decreased by $37,000 in 1972, by $80,000 in 1973 and $160,000 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 $23,000 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 [illegible] as the net cost for the period of construction of borrowed funds used for [illegible] purposes and a reasonable rate on other funds when so used. ADC is capitalized [illegible] [illegible] for income tax purposes. The Company is currently using a 7 [illegible] rate, which [illegible] 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 [illegible] 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 [illegible] a 25-year period. Such unfunded prior service costs at December 31, 1973 [illegible] actuarial valuation date), which are not recorded in the accounts, are [illegible] $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
	(Thousands of Dollars)			
Charged to:				
Operations	$ 738	$ 749	$ [illegible]	$ [illegible]
Other than operating expenses	523	700	[illegible]	[illegible]
Total cost	$ 1,261	$ [illegible]	$ [illegible]	$ [illegible]

Note 8.

For the Company's accounting policies relating to income taxes see [illegible]. 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
	(Thousands of Dollars)			
State Income Taxes:				
Charged to Operating Expenses and Taxes:				
Currently payable	$ (91)	$ 2[illegible]	$ 7[illegible]	$ [illegible]
Deferred to future years	(5)	[illegible]	[illegible]	[illegible]
	$ (9[illegible])	$ 281	$ 77[illegible]	$ [illegible]
Charged to Other Income and Deductions—Net	$ 34	$ 25	$ 1[illegible]	$ [illegible]
Federal Income Taxes:				
Charged to Operating Expenses and Taxes:				
Currently payable	$ [illegible]	$ 1,121	$ [illegible]	$ [illegible]
Deferred to prior years	[illegible]	[illegible]	[illegible]	[illegible]
Investment tax credit adjustments	[illegible]	1,[illegible]	[illegible]	[illegible]
	(7[illegible])	1,9[illegible]	5,4[illegible]	[illegible]
Charged to Other Income and Deductions—Net	215	67	10	[illegible]
Total	$ (613)	$ 2,0[illegible]	$ [illegible]	$ [illegible]
Computed Federal income taxes applying statutory rate (48%) to income before income taxes	$15,523	$13,885	$13,[illegible]	$12,[illegible]
Reductions in taxes resulting from:				
Excess tax over book depreciation	4,032	3,600	3,278	2,704
Costs capitalized on books and expensed for tax	1,[illegible]	1,[illegible]	[illegible]	[illegible]
Allowance for funds used during construction	[illegible]	6,[illegible]	[illegible]	[illegible]
Investment tax credit	156	[illegible]	[illegible]	[illegible]
Income taxes deferred in prior years	533	533	[illegible]	[illegible]
State income taxes	(19)	156	[illegible]	[illegible]
[illegible]	(277)	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Other items—net	345	[illegible]	[illegible]	[illegible]
	16,[illegible]	11,[illegible]	[illegible]	[illegible]
Federal income taxes	$ (613)	$ 2,[illegible]	$ [illegible]	$ [illegible]
Company's effective rate	(1.5%)	6.9[illegible]	[illegible]	[illegible]

The Company does not anticipate that the cash outlay for income taxes will substantially [illegible] the amounts [illegible] income tax [illegible] for the next three years.

Note 9. [illegible] supplemented, securing the first mortgage bonds issued by the Company, [illegible] a direct first mortgage lien on substantially all property and franchises, other than [illegible] property owned by the Company.

Note 10. Short-term borrowings consisted of the following:

December 31	1974	[illegible]
	(Thousands of Dollars)	
Bank loans (a)	$52,100	[illegible]
Commercial paper (b)	—	[illegible]
Pollution control bonds (c)	27,000	[illegible]
[illegible]	[illegible]	
[illegible] funds held in trust	(2,45[illegible])	[illegible]
Nuclear core notes (d)	27,275	13,[illegible]
Total short-term borrowings (e)	$95,791	$[illegible]

(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 ½ of 1% per annum on the unused commitment.

The Company has a new credit agreement with banks, effective August [illegible] and maturing August 31, 1976, which provides that the Company may borrow, [illegible] 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 ½ of 1% per annum [illegible] and a service fee [illegible] multiplying $1[illegible] at the end of each quarter by the average daily [illegible] commercial [illegible] 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 [illegible] the credit [illegible] such balances. The compensating balances were calculated as follows:

December 31	1974	[illegible]
	(Thousands of Dollars)	
[illegible]	[illegible]	
Less float*	[illegible]	
	$[illegible]	[illegible]

* Float is the difference between the balances recorded on the Company's books and the [illegible] 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 $[illegible] for financing the pollution control facilities at the Trojan Nuclear Plant. The Company will [illegible] 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[illegible]% 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 6[illegible]% 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 short-term refunding pollution control bonds. On December 10, 1974 the [illegible] Court of the State of Oregon refused to review the decision of an intermediate [illegible] [illegible] bank for the taxable status of the interest thereon.

(d) Nuclear core notes. The Company has entered into an agreement, [illegible] terminated each year, to finance Trojan Plant nuclear cores up to a maximum of $[illegible]. Under the agreement [illegible] issues its short-term notes [illegible] bank [illegible] irrevocable letters of credit. The agreement provides for the [illegible] the nuclear core notes outstanding as the nuclear cores are consumed. The interest [illegible] 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 [illegible] 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 [illegible] 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 [illegible] outstanding short-term borrowings was 8.6[illegible] at December 31, 1973 and [illegible] December 31, 1974. The maximum amount of such borrowings outstanding [illegible] $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 [illegible] calculated by using the rates of such borrowings but excluding the fees [illegible] above and the [illegible].

Provisions for Possible [illegible] Income Taxes and Other [illegible] provided from income in years prior to [illegible] by the Commission [illegible] Commission [illegible] [illegible] to be used for [illegible] income taxes or for [illegible] Company's customers may derive benefit.

The following changes occurred in the Common Stock, Cumulative Preferred Stock and [illegible]:

	Common Stock Number of Shares	Common Stock $3.75 Par Value	Preferred Number of Shares	Preferred [illegible]	[illegible]
Outstanding, December 31, 1969	[illegible]	$[illegible]	—	[illegible]	[illegible]
Sales of stock	[illegible]	[illegible]	100,000	[illegible]	[illegible]
Outstanding, December 31, 1970	[illegible]	31,875	100,000	[illegible]	[illegible]
Sales of stock	1,000,000	3,750	—	[illegible]	[illegible]
Outstanding, December 31, 1971	[illegible]	35,625	100,000	[illegible]	[illegible]
Sales of stock	1,000,000	3,750	300,000	[illegible]	[illegible]
Outstanding, December 31, 1972	[illegible]	[illegible]	400,000	[illegible]	[illegible]
Sales of stock	—	[illegible]	[illegible]	[illegible]	[illegible]
Outstanding, December 31, 1973	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sales of stock	[illegible]	[illegible]	—	[illegible]	[illegible]
Outstanding, December 31, 1974	[illegible]	$[illegible]	[illegible]	[illegible]	[illegible]

On January 23, 1975 the Company issued 300,000 shares of 11.50[illegible] Series Cumulative Preferred Stock for net proceeds of $29,020,000.

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 are required for redemption through sinking funds and maturities during the years 1975 through 1979:

	Aggregate Requirements	Sinking Fund Requirements: Bonds Reacquired as of December 31, 1974	Net Remaining Sinking Fund Requirements	[illegible]
	(Thousands of Dollars)			
1975	$3,465	$1,002	$2,380	[illegible]
1976	3,378	611	2,767*	
1977	3,628	75	3,553*	[illegible]
1978	3,598	—	3,[illegible]	
1979	4,249	—	4,[illegible]	

*Sinking funds in amounts of $250,000 in 1976, $725,000 in 1977, $1,050,000 in 1978 and $1,70[illegible] in 1979 may be satisfied by pledging available additions equal to 166⅔% 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, related to construction, totaled approximately $251,[illegible]00,000 at December 31, 1974 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 but would require payment of termination charges.

(b) The Company has entered into long-term power purchase contracts [illegible] River. Power purchase prices are based on a proportionate share of the operating and debt service costs of each project whether or not operable. The [illegible]

Kilowatts attributable to the Company (name plate rating) . . . . . [illegible]

Estimated current annual operating and debt service costs . . . . . $1[illegible]

(c) All of the Company's hydroelectric plants are licensed by the FPC [illegible] plus [illegible] the projects may be taken over by the United States [illegible] licenses. The licenses provide that after an initial [illegible] period earnings in excess of a specified return are to be set aside in [illegible] reserves which will reduce the "net investment" in the projects. The [illegible] on the [illegible] Hydroelectric Plant—Project No. 135 expired [illegible] Company made application for a new license for that Project. The United States has not acted [illegible] 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. [illegible] 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 [illegible] the [illegible] expiration of the former license will not have a [illegible] effect on the financial position of the Company.

The remaining major licenses expire from 2001 to 20[illegible]. The license for the Bull Run Hydroelectric Plant—License 477—expired in November [illegible] 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 [illegible] subject to state license upon not less than two years' notice [illegible] but not exceeding the then "net investment," or otherwise may acquire the project by condemnation proceedings.

(e) The minimum [illegible] commitments of the Company under [illegible] leases at December 31, 1974 are as follows:

	Basic	Non-capitalized Financing Leases	Sub-[illegible] (Credit)	[illegible]
	(Thousands of Dollars)			
1975	$ 1,103	$ 4,368	$ [illegible]	$ [illegible]
1976	1,040	4,3[illegible]	[illegible]	[illegible]
1977	918	4,363	(12)	[illegible]
1978	854	4,363	—	5,2[illegible]
1979	688	4,363	—	[illegible]
1980-1984	3,442	21,512	—	[illegible]
1985-1989	1,973	21,812	—	[illegible]
1990-1994	1,606	21,713	—	[illegible]
Remainder	7,031	18,442	—	[illegible]
Total	$18,[illegible]	$105,[illegible]	$[illegible]	$[illegible]

During 1973 the Company entered into 25-year leases of combustion turbines [illegible] at two of its generating plants. In August 1974 the Company entered into 2[illegible]-year leases of combustion turbines located at its Beaver plant site. The total lease commitments for the combustion turbines represent $104,1[illegible],000 of the [illegible] shown above as noncapitalized financing leases. The present value [illegible] computed upon the [illegible] interest rates (1973 leases) and [illegible] leases) implicit in the leases was approximately $24,344,000 at December [illegible] and $[illegible] at December 31, 1974. In the event of certain contingencies [illegible] Company [illegible] price of $80,[illegible],000 in 1975 and at decreasing amounts thereafter. Such [illegible] would reduce the $104,198,000 of lease commitments to the extent of [illegible] then remaining. At the expiration of each lease the Company has option [illegible] the lease for [illegible] at the then fair rental value or (b) purchase [illegible] [illegible] the negotiation of [illegible] are not material.

[illegible] financing leases had been capitalized during the years [illegible] 1973 and 1974, the effect on the Company's average net income would [illegible] less than [illegible] during such years. If all present noncapitalized financing [illegible] capitalized, the Company does not anticipate that the impact on net [illegible] years would exceed 3% of average net income.

Note 16. Supplementary Income Information

For the Year Ended December 31	1974	1973	1972	1971	1970
	(Thousands of Dollars)				
Taxes other than income taxes charged [illegible]					
[illegible]					
Property	$10,[illegible]	$ [illegible]	$ [illegible]	$ [illegible]	[illegible]
Payroll	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
City tax and license fees	2,4[illegible]	2,191	1,8[illegible]	[illegible]	[illegible]
Other	279	223	227	[illegible]	[illegible]
Total	$14,322	$12,[illegible]	$11,[illegible]	$10,[illegible]	[illegible]
Rentals charged to operation expense accounts:*					
Basic rentals	$ 991	$ 960	$ 922	$ [illegible]	$ [illegible]
Contingent rentals**	166	141	172	[illegible]	[illegible]
Noncapitalized financing leases	2,869	455	14	[illegible]	[illegible]
Total	$ 4,026	$ 1,[illegible]	$ 1,108	$ [illegible]	$ [illegible]

*See Note 15 [illegible] for details concerning the Company's long-term lease commitments.
**Based on kwh of [illegible] 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 [illegible]

The amounts of depreciation and amortization of intangible assets, [illegible] and research and development costs were not material.

To the Board of Directors and Stockholders of Portland General Electric [illegible]:

We have examined the balance sheets and statements of capitalization of [illegible] General Electric Company (an Oregon corporation) as of December 31, 1974 [illegible] 1973, and the related statements of income, retained earnings and sources of [illegible] invested in electric utility plant for the five years ended December 31, 1974. [illegible] examination was made in accordance with generally accepted auditing [illegible] and accordingly included such tests of the accounting records and such [illegible] auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present [illegible] position of Portland General Electric Company as of December 31, [illegible] and the results of its operations and sources of funds invested in [illegible] for the five years ended December 31, 1974, in conformity with [illegible] accounting principles applied, except for the change, with which we [illegible] method of accounting for investment tax credits as described in Note 3, [illegible] consistent basis during the periods.

Portland, Oregon,
February 14, 1975.

Arthur Andersen & Co.

Numerical Notes refer to Notes to Financial Statements

(a) Operating Revenues:

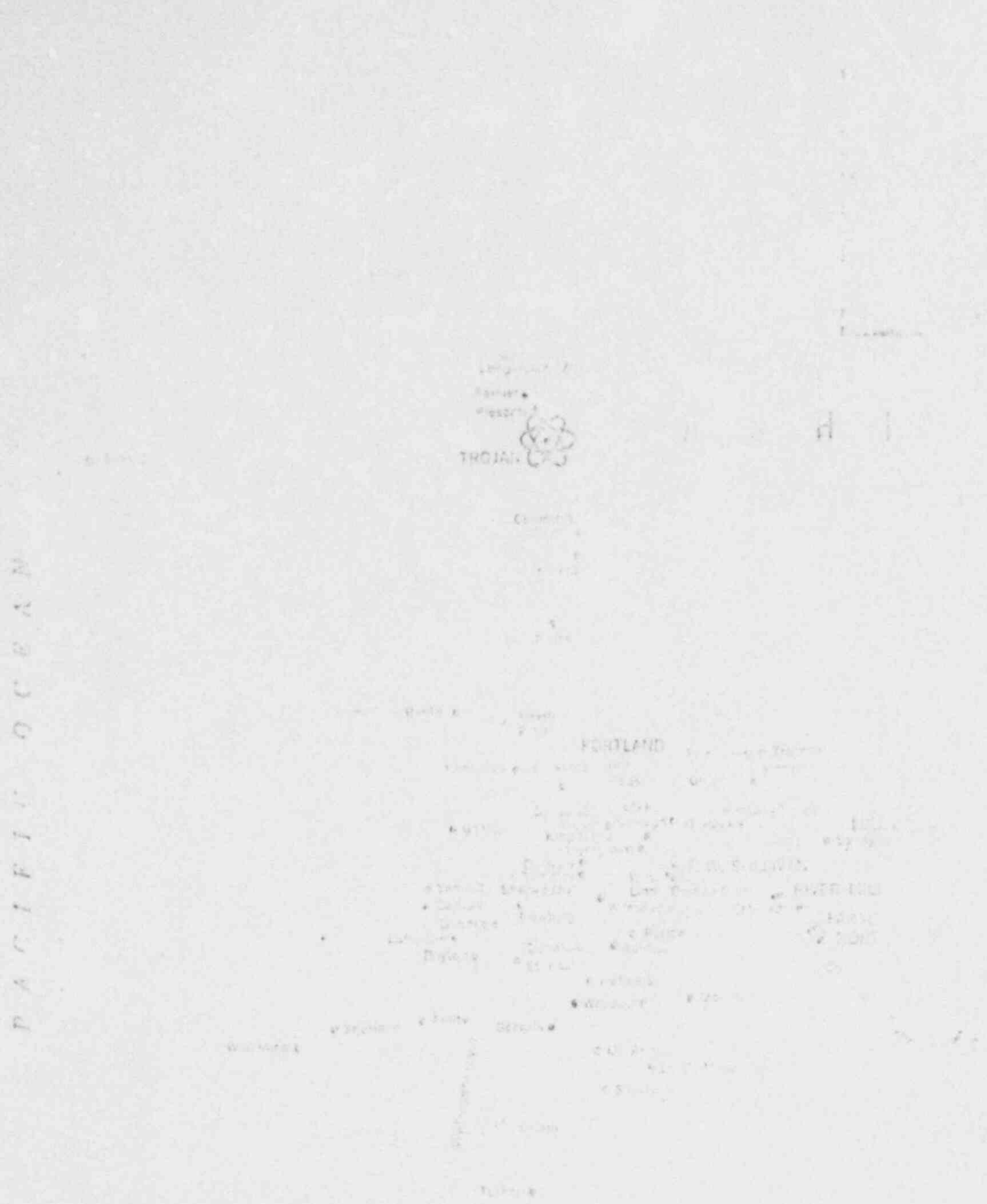
Total operating revenues increased $7,524,000 during 1972, $12,390,000 during 1973 and $21,186,000 during 1974. The 1972 increase was primarily due to an increase in total kilowatt-hour sales in 1972 over 1971. Energy conservation [illegible] resulted in lower than anticipated sales to ultimate customers in 1973 and 1974. To the extent that the reduction occurred during the winter months of 1973-1974 [illegible] reduced the necessity to operate the Company's combustion turbines, the result [illegible] The 1973 and 1974 increases are [illegible] to the [illegible] a rate increase of [illegible] In September 1974 the Company was permitted to add 2.0 mills per [illegible] In order to [illegible] 4.8 mills per [illegible] months of 1974 [illegible] granted the Company in late December 1974 had no effect on 1974 [illegible]

(b) [illegible]

These costs increased [illegible] during 1972, [illegible] during 1973 and [illegible] during 1974. The increase in 1972 [illegible] 1974 results from [illegible] Administration ("Bonneville") was contractually obligated to supply [illegible] Company's firm power requirements in excess of its other power resources [illegible] 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 [illegible] combustion turbine generating capacity. These combustion turbines [illegible] under long-term leases and the lease payments are included as production [illegible] Although the combustion turbines have been operated for relatively minor [illegible] such operation together with the lease payments have increased the Company's production expenses.

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.
Taxes Other Than Income Taxes:	These taxes have increased in all periods primarily because of additions to electric utility plant and increased operating revenues.
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 [illegible] full interperiod income tax allocation. The [illegible] most significant [illegible] between book and [illegible] [illegible] (ADC) [illegible] tax purposes. During 1972, 1973 and [illegible] ADC [illegible] taxes on income. [illegible] January 1, 1972, in the accounting principles with respect to the method of [illegible] for investment tax credit.
[illegible]	ADC [illegible] 1972, $6,260,000 during 1973 and $5,814,000 [illegible]
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 $1,030,000 during 1972, $5,506,000 during 1973 and $6,552,000 during 1974 and resulted in increased preferred dividend requirements of $1,220,000, $3,001,000 and [illegible] during such years. A part of these increases has been capitalized. See (i) above.

Located in the heart of Oregon's population center, PGE provides service in a 3,150 square-mile area [illegible] of 4[illegible] square miles. The Company serves more than 40% of Oregon's electric customers.



Transfer Agents for Common Stock

United States National Bank of Oregon
321 S.W. 6th Avenue, Portland, Oregon 97204

The Chase Manhattan Bank (National Association)
1 Chase Manhattan Plaza, New York, N.Y. 1001[illegible]

Transfer Agents for Preferred Stock

Marine Midland Bank—New York
Corporate Trust Department
[illegible]

[illegible]

Registrars for Common Stock

[illegible]
[illegible] Portland, Oregon 97[illegible]

[illegible]
Corporate Trust Department
485 Lexington Ave., New York, N.Y. 10017

Registrars for Preferred Stock

(11.50% Series Only):

Marine Midland Bank—New York
Corporate Trust Department
485 Lexington Ave., New York, N.Y. [illegible]

Bank of America NT & SA
[illegible]
55 [illegible]
San Francisco, California [illegible]

[illegible]

Portland General Electric Company
Main Office
121 S.W. Alder Street
Portland, Oregon 97204
(503) 228-7181

Ten-Year Summary

	1974	1973	1972	1971	1970	1969	1968	1967	1966	1965
Balance Sheet Items—End of Year (Thousands of Dollars)										
Electric utility plant	$823,268	$757,680	$613,897	$502,858	$456,488	$424,696	$402,391	$385,227	$358,480	$333,269
Reserve for depreciation	$ 97,936	$ 89,344	$ 85,404	$ 72,305	$ 65,900	$ 60,548	$ 54,987	$ 51,221	$ 46,828	$ 41,752
Capitalization ratios										
Common stock equity	36.8%	31.6%	36.5%	36.7%	34.3%	36.4%	35.2%	34.0%	35.7%	[illegible]
Cumulative preferred stock	12.2%	13.5%	8.0%	2.3%	2.6%	—	—	—	—	—
Long-term debt	51.0%	54.9%	55.5%	61.0%	63.1%	63.6%	64.8%	66.0%	64.3%	63.9%
Income Statement (Thousands of Dollars)										
Operating revenues (1)	$146,001	$124,833	$112,443	$104,919	$ 88,290	$ 84,538	$ 75,834	$ 68,478	$ 64,260	$ 59,505
Operating expenses and taxes										
Operation and maintenance expenses	74,177	61,892	50,600	46,341	40,611	38,321	34,709	29,282	28,022	27,800
Depreciation (2)	12,080	11,290	9,902	9,231	8,175	7,560	6,858	6,479	[illegible]	[illegible]
Taxes applicable to operating expenses	13,491	14,965	18,094	18,519	13,629	13,801	11,452	12,141	[illegible]	[illegible]
Disposition of utility plant	10	(858)	(125)	—	—	—	—	—	—	—
Total operating expenses and taxes	99,738	87,389	78,531	74,091	62,415	59,682	53,069	47,770	[illegible]	[illegible]
Utility operating income	47,263	37,444	33,912	30,828	25,875	24,856	22,765	20,708	19,861	17,827
Allowance for funds used during construction	17,004	11,000	4,610	1,739	792	433	918	1,111	349	122
Other income and deductions (net)	255	310	308	99	332	447	358	(8)	88	(8)
Gross income	63,522	43,844	38,860	32,719	26,999	25,736	24,031	21,791	20,298	17,650
Interest charges										
Interest on long-term debt	20,734	18,591	15,132	13,667	11,377	9,903	10,016	8,814	8,227	7,860
Interest on short-term notes payable	9,488	3,279	848	658	1,779	1,638	657	737	[illegible]	228
[illegible] amortization	382	358	311	108	102	56	54	45	[illegible]	20
Total interest charges	30,604	22,228	16,291	14,433	13,258	11,597	10,727	9,616	8,467	8,144
Net income	32,918	26,616	22,569	18,283	13,741	14,139	13,304	12,095	11,208	9,506
Appropriation from [illegible] reserve (3)	—	—	—	—	—	—	—	—	—	1,015
Preferred dividend requirement	6,577	5,247	2,196	926	152	—	—	—	—	—
Earnings available for common stock	$ 26,341	$ 21,369	$ 20,273	$ 17,357	$ 13,589	$ 14,139	$ 13,304	$ 12,095	$ 11,208	$ 10,521
Average common shares outstanding	12,125,000	10,560,000	9,616,667	8,658,667	8,350,000	7,900,000	7,800,000	7,800,000	7,800,000	7,800,000
Earnings per average common share	$2.17	$2.04	$2.11	$2.00	$1.63	$1.79	$1.60	$1.53	$1.44	$1.37
Dividends paid per common share	$1.51	$1.38½	$1.41	$1.29	$1.23	$1.19½	$1.10½	$1.04½	$ .92	$ .85
Operating Statistics										
Residential average rate per kwh (in cents)	1.56	1.24	1.24	1.23	1.12	1.12	1.12	1.12	1.13	1.13
Average annual revenue per residential customer	$213.67	$190.22	$177.14	$174.49	$150.87	$150.78	$140.03	$134.24	$131.97	$127.45
Average annual residential use per customer (kwh)	13,733	14,144	14,334	14,198	13,426	13,473	12,502	11,989	11,714	11,279
Total number of customers at the end of year	347,571	338,168	323,729	318,127	304,504	295,003	284,802	273,309	[illegible]	255,424
Total customers [illegible]—at end of year	333,411	350,949	305,415	298,279	343,520	333,141	321,877	309,129	[illegible]	[illegible]
M kwh sold (1)	11,402,064	11,557,313	12,162,332	10,261,912	9,704,234	9,604,045	8,034,647	7,004,837	6,375,245	5,875,582
Net system hourly peak in kw	2,321,000	2,492,000	2,437,000	2,056,000	1,839,000	1,846,000	1,925,000	1,561,000	1,349,000	1,375,000
Number of employees at December 31	2,008	1,881	1,767	1,704	1,604	1,502	1,449	1,433	1,432	1,421
(1) Includes sales to other utilities:										
Amount—in thousands of dollars	$ 3,158	$ 3,093	$ 3,590	$ 2,779	$ 1,809	$ 2,486				
M kwh	592,723	829,302	1,763,514	1,391,425	905,818	1,251,021				

(2) The Company's provision for depreciation of [illegible] utility plant is [illegible] on a [illegible] basis, and [illegible].

(3) Represents an appropriation from the Reserve for Possible Additional Income Taxes and Other Contingencies as authorized by the Public Utility Commissioner of Oregon.

[illegible] Summary

Officers

Board of Directors

[illegible]alance Sheet Items—End of Year
[illegible]ctric utility plant . . . .
[illegible]serve for depreciation . . . .
[illegible]italization ratios:
Common stock equity . . . .
Cumulative preferred stock . . . . .
Long-term debt . . . .

[illegible]come Statement (Thousands of D[illegible]
[illegible]erating revenues (1) . . . .
[illegible]rating expenses and taxes:
Operation and maintenance expe[illegible]
Depreciation (2) . . . .
Taxes charged to operating exper[illegible]
Disposition of utility plant . . . .
Total operating expenses
Utility operating income . .
[illegible]wance for funds used during co[illegible]
[illegible]er income and deductions (net)
Gross income . . . .
[illegible]erest charges:
[illegible]erest on long-term debt . . . . .
[illegible]erest on short-term notes paya[illegible]
Other interest and amortization . .
Total interest charges . . .
Net income . . . .
[illegible]propriation from special reserve
[illegible]ferred dividend requirement . . .
Income available for com[illegible]
[illegible]erage common shares outstandi[illegible]
[illegible]nings per average common shar[illegible]
[illegible]idends paid per common share . .

[illegible]erating Statistics
[illegible]idential average rate per kwh (i[illegible]
[illegible]rage annual revenue per reside[illegible]
[illegible]rage annual residential use per[illegible]
[illegible] residential customers at the e[illegible]
[illegible] customers—all classes—at en[illegible]
[illegible] kwh sold (1) . . . .
[illegible] system hourly peak in kw . . . . .
[illegible]mber of employes at December

(1) Includes sales to other utilities:
[illegible]—in thousands of dollars . . .
[illegible]wh . . . .

[illegible] Company's provision for
[illegible]tion of electric utility plant [illegible]
[illegible]ually on a 5% sinking fund ba[illegible]
[illegible]udes interest on depreciatio[illegible]

Frank M. Warren
President

Robert H. Short
Executive Vice President

Hilbert S. Johnson
Senior Vice President

Arthur J. Porter
Senior Vice President

C. W. Brissenden*
Vice President

G. E. Bredemeier*
Vice President

H. H. Phillips
Vice President,
Corporate Counsel and Secretary

Estes Snedecor, Jr.
Vice President

F. D. Wieden
Vice President

Edgar F. Wildlong
Vice President

J. L. Williams
Vice President

W. E. Gordon*
Assistant Vice President

Douglas E. Heider*
Assistant Vice President

D. R. Miller*
Assistant Vice President

Harry L. Clark**
Controller and Assistant Treasurer

James L. Staines***
Controller and Assistant Treasurer

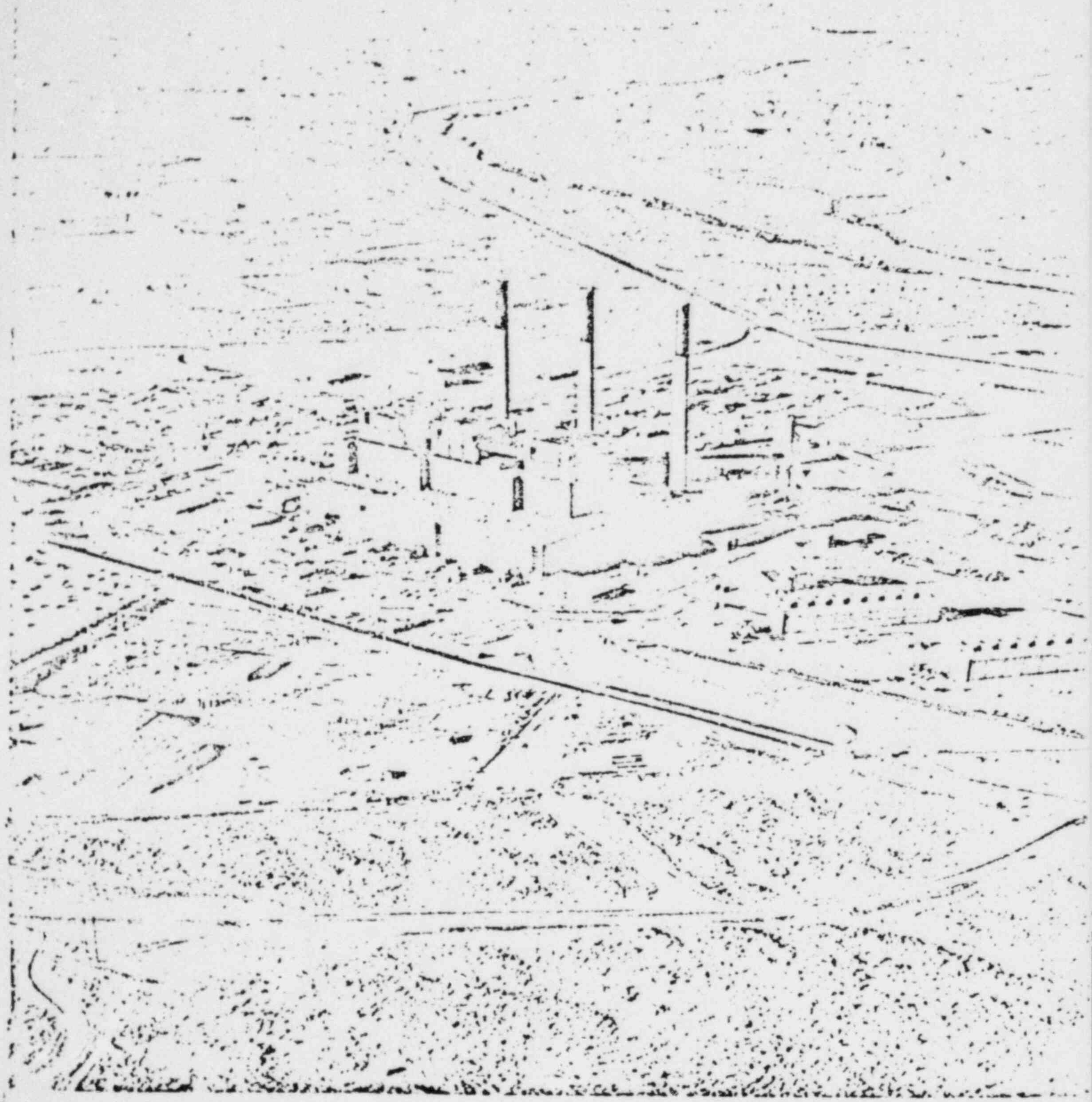
James N. Woodcock***
Treasurer

James K. Buell
Assistant Secretary

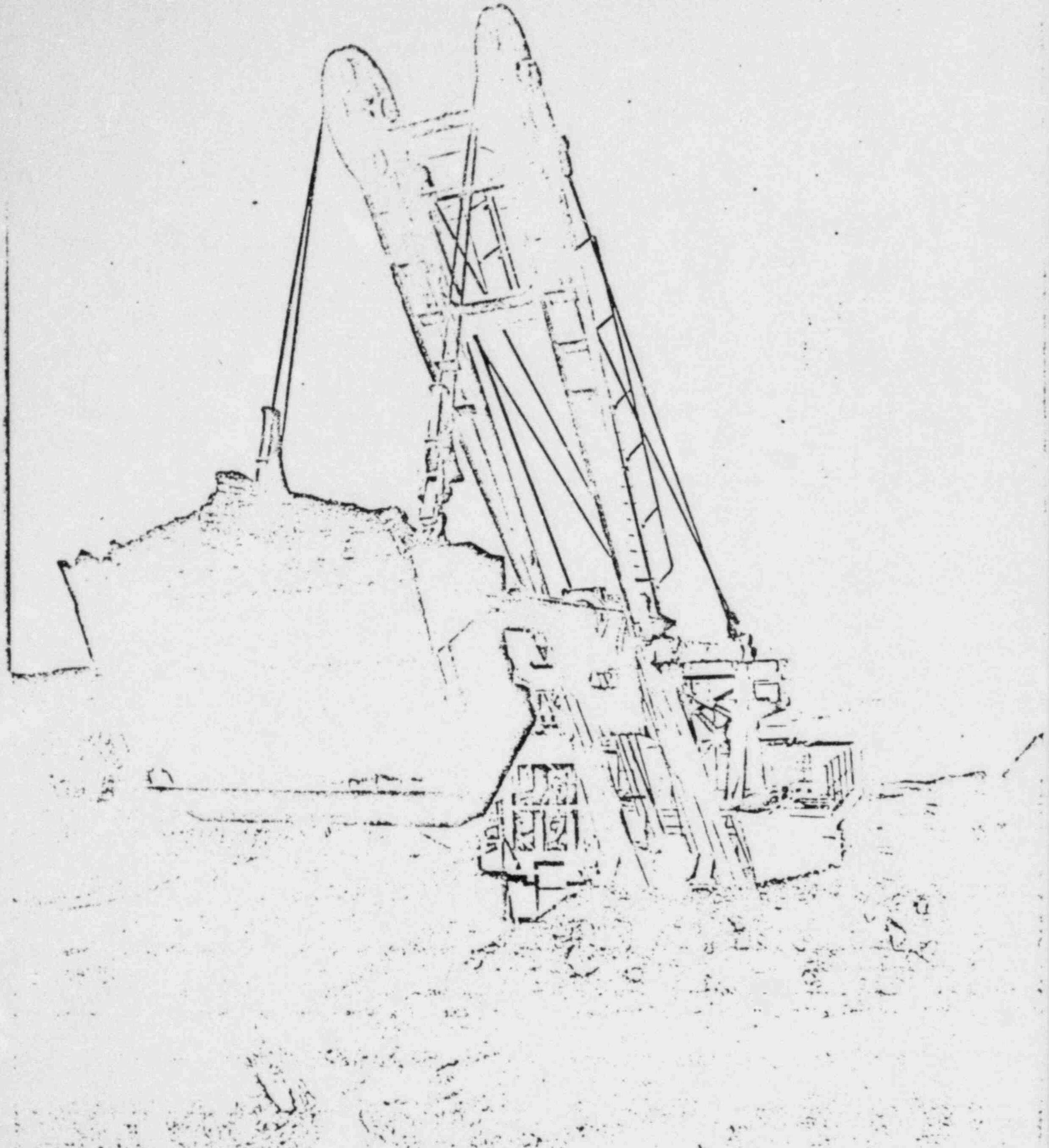
Warren Hastings
Assistant Secretary and
Associate Corporate Counsel

*Effective January [illegible], 1975
**Retired January 31, 1975
***Effective February 1, 1975

	Director Since
Warren W. Braley Partner, Braley & Graham, Portland—automobile dealer	195[illegible]
Franklin G. Drake President, Donald M. Drake Co., Portland—general contractor	196[illegible]
Ernest H. Miller President, Mortgage Bancorporation, Salem—real estate loans and investments	196[illegible]
Wade Newbegin President, R. M. Wade & Co., Portland—farm equipment distributor	194[illegible]
Robert W. Roth President, Jantzen Inc., Portland—sportswear manufacturer	197[illegible]
Robert H. Short Executive Vice President, Portland General Electric Company, Portland—electric utility	197[illegible]
Eberly Thompson President, Thompson Investment Co., Portland—personal investments	[illegible]
W. T. Triplett, Jr. President and Chief Executive, Baker Inc., Portland—department and food stores	19[illegible]
James J. Walton Civil Engineer, Salem	19[illegible]
Earl Wantland President, Tektronix Inc., Beaverton—electronic equipment manufacturer	19[illegible]
Frank M. Warren President, Portland General Electric Company, Portland—electric utility	19[illegible]
William W. Wessinger Chairman of the Board, Blitz-Weinhard Co., Portland—brewery	19[illegible]
Robert J. Wilhelm President, Wilhelm Trucking Co., Portland—trucking and warehousing	197[illegible]
Ralph E. Williams Personal Investments, Portland—investment counsel	19[illegible]



Pacific Power & Light Company · Annual Report 1974



Coal for the Jim Bridger power plant near Rock Springs, Wyoming, is being scooped from the top half of a 28-foot thick seam at the rate of 110 tons every 2½ minutes. The first of three 500,000-kilowatt generating units of the new plant, shown on the cover, began commercial operation in December. It is two-thirds owned by Pacific Power, one-third by Idaho Power Company.

PACIFIC POWER & LIGHT COMPANY

1974 ANNUAL REPORT

Pacific Power & Light Company is an operating public utility which provides electric service in more than 240 communities in Oregon, Wyoming, Washington, California, Montana and Idaho. It also provides water and steam heat service in certain communities. The Company has an 80% interest in Telephone Utilities, Inc., whose 23 operating subsidiaries provide telephone service in Washington, Oregon, Montana, Idaho and Nevada. Through another subsidiary, the Company has a 50% interest in Decker Coal Company, which is engaged in mining and selling coal from holdings located in Montana.

The 1975 Annual Meeting of Stockholders will be held in Portland, Oregon, on June 11. Notice of the meeting and proxy statements will be mailed to shareholders in May.

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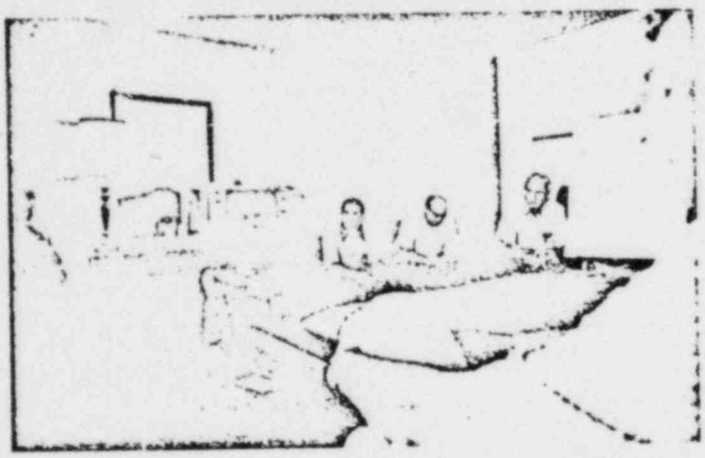
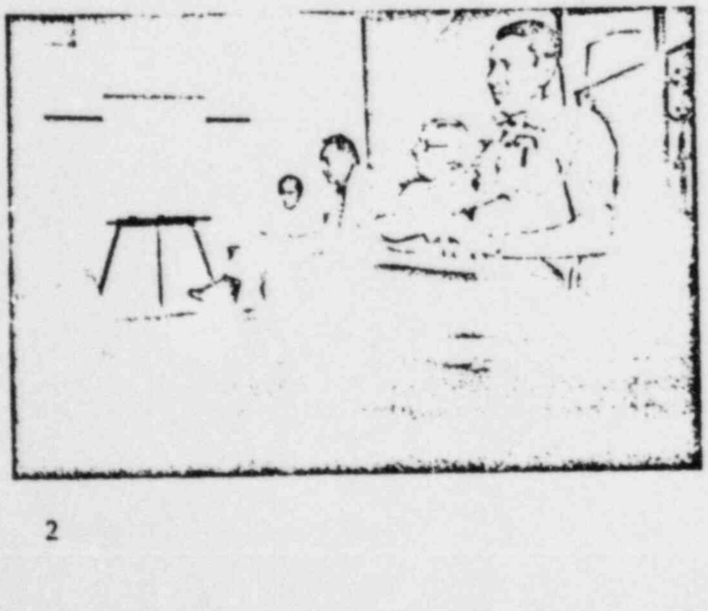




To Our Stockholders:

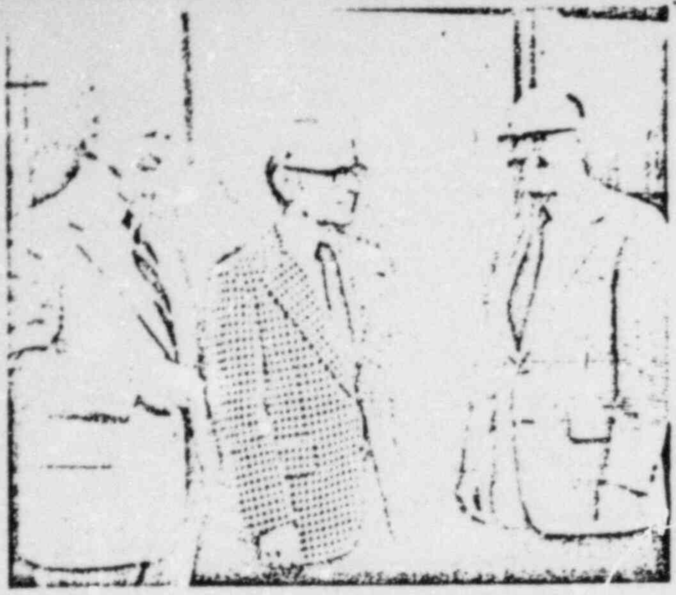
The divergent and sometimes conflicting events of 1974 made the year difficult for virtually every business and every individual in our society. These events were particularly troublesome for the electric utility industry as it struggled to meet its service responsibilities against the pressures of inflation, fuel shortages, a continuing wave of environmental demands, and a downturn in economic activities.

Although your Company was buffeted by these forces, we emerged from the year encouraged by the strong financial condition of the Company, the continued high performance of employees and their ability to respond to change, the increasing value and usefulness of the Company's large coal holdings, the resilience of the broadly diversified service territory, a demonstrated responsiveness on the part of state regulatory agencies to the increased revenue needs of the Company, and the relatively favorable acceptance of the Company's securities in the financial markets.

Early in the year we vigorously sought electric rate relief in Oregon, Washington, California, Montana and Idaho. The States of Oregon, Idaho and Washington granted about 95% of the requested amounts late in 1974, thereby contributing to a reversal in the downward trend in earnings recorded during the first nine months.

A planned construction and financing program, the largest in the Company's history, was trimmed back as the year progressed, reflecting the second year in a row of relatively level kilowatt-hour customer requirements. This afforded the opportunity to stretch out new plant construction to match revised load growth projections and help reduce financing. Even so, the Company's sale of $180-million of securities during the year was the highest in its history.

Operating expenses were held under tight control by careful management in the field and in the general office departments. As we entered 1975 some new administrative and operating guidelines were estab-



President John Y. Lansing (left), Asst. Vice President Richard D. Jones, who is assigned to field operations, and Chairman Don C. Frisbee are outside of the Portland, Oregon, District Office.

lished to assure continued, strong emphasis on cost control. Construction budgets are under continuous review.

The Company's commercial coal venture, in partnership with Peter Kiewit Sons', Inc., through our 50% ownership of Decker Coal Company, was expanded both in volume and profits and contributed 17¢ per share to earnings as compared to 7¢ in 1973. Telephone operations, through our 80% ownership in Telephone Utilities, Inc., also showed operating improvements and higher earnings.

General office and field management personnel assembled at Coburg, Oregon, in August for two days of give-and-take sessions aimed at identifying the roles for each of us in meeting the challenges facing the Company. Knowledgeable people associated with the industry, along with Company specialists, helped to place in perspective how the problems of inflation, capital scarcity, high money costs, low stock prices, shortages of domestic oil and natural gas supplies, spiraling construction costs, expanding environmental requirements have brought radical change to the economics of the utility industry. Small group sessions focused on the need for rate increases and redesign, on the continuing role of energy conservation, and on the challenges of developing regulatory and customer understanding as to why the Company will be requiring higher rates, and why it is in the near and long-term interests of the region's power supply to support higher electric rates.

Sessions of this kind, which are illustrated in the pictures to the left of this review, plus many other forms of internal communication, have served to increase the responsiveness of the organization and the support of employees in meeting today's changed and changing conditions. This responsiveness and cooperation is particularly important to a company such as ours, which serves many small communities where our people know and converse with a great many of our customers on an informal, neighborly and civic basis. This kind of communication link is one of the important strengths of the Company, and its continuing effectiveness is a tribute to the quality of the organization's employees.

With high money costs and many other inflationary pressures persisting, it was necessary to apply for higher rates in Oregon in January, 1975. This will be followed soon by similar applications in Washington and other states. In the meantime, the Company is still awaiting the results of its 1974 applications for higher rates in California and Montana.

We are pleased to present the highlights of the year 1974 in greater detail on the pages that follow. All of us are particularly appreciative of the support and confidence of the shareholders and other investors.

Sincerely,

Don Frisbee

Chairman of the Board

John Y. Lansing

President

March 15, 1975

Revenues, Expenses and Income

Although revenues from the Company's regular electric customers were ahead by 8% for 1974, total electric operating revenues of $216,789,000 were down 1.6% because of a decline in sales to other utilities.

The gain in the regular business revenues was attributable largely to increases in electric rates effective in Oregon during the last four months of the year and in Washington and Idaho beginning in November. There also was an increase of 16,389 in the number of customers, which totaled 540,876 at year's end.

On the basis of 1974 operations, the electric rate increases approved in the three states are expected to produce approximately $33,000,000 of additional revenues annually. Certain customers and the City of Portland have sought court review of the Company's Oregon rate order, charging generally that the increase was not properly spread among various customer groups. These cases are pending. Rate applications filed in Montana and California in 1974 are still pending and seek a total of approximately $4,000,000 annually. On January 31, 1975, the Company filed in Oregon for further rate relief, asking an estimated $18,000,000 annually, and intends to file shortly in other states.

Sales to utilities for resale amounted to $15,209,000, down $18,358,000 due to expiration of temporary sales contracts and the Company's need for the power to service customers.

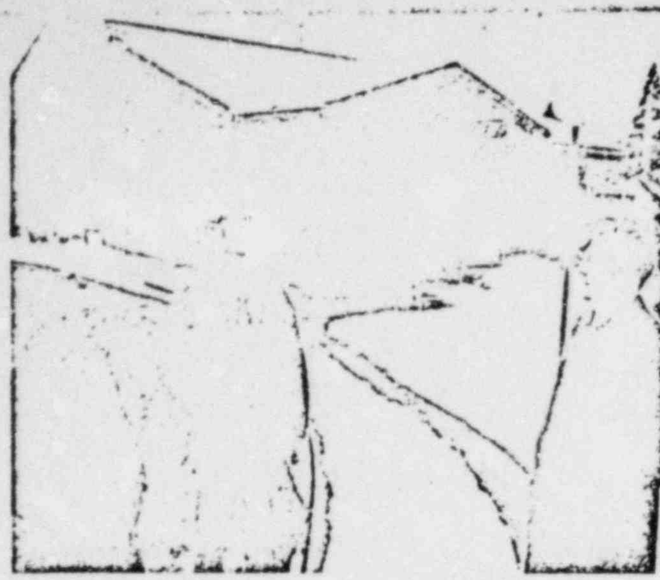
Other revenues include $2,124,000 from steam heat services and $2,438,000 from 11 water systems. Total operating revenues on the Statement of Consolidated Income also record $25,628,000 from telephone operations.

Other Income (Deductions) — Net amounted to $22,200,000 for the year 1974, an increase of $11,784,000 over 1973. Included in Other Income is $16,799,000 representing the "Allowance for Funds Used During Construction." This was an increase of $8,912,000 and reflects a continued high level of construction activities. Other Income also includes $7,132,000 of equity in earnings of joint ventures, up $3,425,000. These earnings represent primarily the Company's one-half interest in Decker Coal Company. Income for 1974 also includes a nonrecurring item in the amount of $1,976,000 net of taxes, which resulted from the transfer to Idaho Power Company of an undivided one-third interest in the coal reserves that supply the Jim Bridger project.

Operating expenses amounted to $164,130,000 for the year, up 5%. Two major components of these expenses, power purchased and fuel, showed little change from 1973 because of the lower energy requirements in 1974 as well as the very favorable water conditions for hydroelectric operations during the year. Other operation expenses, totaling $50,860,000 and up 16% from 1973, more than offset the efforts by everyone in the Company to reduce costs. Maintenance expenses amounted to $18,870,000, an increase of 41%, reflecting the impact of the high rates of inflation on costs as well as the Company's growing reliance on steam-electric generating facilities which require comparatively larger maintenance expenditures than the system's hydro-generating facilities. Federal and state income taxes declined $10,212,000, primarily as a result of construction-related expenditures that reduced taxable income.

Interest charges were $50,920,000, up $14,203,000 because of additional bonds outstanding, short-term borrowings for interim financing of construction and the inclusion of interest charges of Telephone Utilities for the entire year 1974 whereas such charges were included for only a portion of 1973.

After provision for dividend requirements on the preferred stock, the balance of net income applicable



California community of Mt. Shasta, with 3,500 population, is typical of the size of most PP&L service areas in the West, where growth is steady and free of many urban issues. Southwestern Division Manager E. E. Smith (right) and R. D. Collins, Yreka District Manager, and C. D. Seeley, Mt. Shasta Local Manager, are in front of Mt. Shasta office.

to the common stock amounted to $45,722,000, up $587,000 from 1973. Based on the average number of common shares outstanding for the year, which was 2,617,000 greater, earnings per share amounted to $2.03. This represents a 24¢ decline in earnings per share of common, which is attributable, as discussed earlier, to the generally higher costs for all aspects of the business, the impact of high interest rates on borrowed capital needed to finance the Company's construction, and the delays encountered in increasing service rates.

There were quarterly dividends of 40¢ per common share paid in January, April, July and October, and on December 11, 1974, a payment of 40¢ was authorized for stockholders of record December 26, 1974, payable January 10, 1975, maintaining the $1.60 annual rate. On the basis of a tentative determination subject to review by the Internal Revenue Service, tax counsel has advised that 90% of all dividends paid on common stock in 1974 is excludable from gross income for federal income tax purposes, and all dividends paid on the preferred stock are fully taxable. It is expected that a major portion of the dividend on the common to be paid in 1975 also will be excludable from gross income but the percentage of such exclusion cannot be determined until later in the year.

Construction Program Options Permit Stretch-Out of Work

Due to the scale of the generating and transmission work, the Company's capital expenditures for construction in 1974 were the greatest ever. As the year progressed opportunities arose to reschedule certain projects and approximately $10-million of work was shifted into future years, with the result that construction expenditures were held to $241-million. With two years of relatively little growth in power demand during 1973 and 1974, a further stretch-out of some projects was incorporated in the 1975 capital budget of $242-million. Because of the shorter construction lead time on coal-fired plants as compared to nuclear, the Company continues to have the advantage of some flexibility in adjusting plant schedules to conform to changing load growth trends.

Progress of the work in 1974 included:

—Completion of the first 500,000-kilowatt steam-electric unit at the Jim Bridger complex, which Pacific Power and Idaho Power Company are building near Rock Springs, Wyoming. Work on the two additional units scheduled for commercial service in June, 1976, and March, 1977, is progressing satisfactorily.

—Completion of additional electrostatic fly-ash precipitator capacity at the Centralia, Washington, project.

—Completion of primary foundations for the Wyodak 330,000-kilowatt steam plant which Pacific Power and Black Hills Power and Light Company are building in northeast Wyoming.

—Start on the foundations for the electrostatic fly-ash precipitators to be retrofitted on the three older generating units of the Company's Dave Johnston steam plant near Glenrock, Wyoming, so those units will conform to Wyoming and federal particulate emission standards.

All of the power output from the initial unit at Jim Bridger, which went into commercial service December 1, 1974, with relatively few problems, is being taken into the system of Idaho Power Company. When the second unit comes on the line, each company will have half the combined output of the two units. Upon completion of the third unit, scheduled now for March, 1977, total output will be divided two-thirds to Pacific Power and one-third to Idaho Power. The two utilities anticipate constructing a fourth 500,000-kilowatt unit, for which a construction application has been filed, at the same site.

On January 31, 1975, the Wyoming Environmental Quality Council adopted regulations which would impose restrictions on emissions of sulfur dioxide in stack gases much stricter than applicable federal regulations. The regulations appear to require installation of scrubbers at all of the Company's existing and proposed plants in Wyoming under a compliance time schedule yet to be determined, though the Council's staff has stated publicly that none would be required at the Dave Johnston plant. In any event, capital expenditures and operating costs associated with such scrubbers would be substantial. The Company and others affected by the regulations have sought court review to set them aside.

During the fall months of 1974 the supplemental electrostatic fly-ash precipitator equipment installed at the Centralia, Washington, plant achieved a level of efficiency that permits the coal-fired plant to operate at capacity and fully meet air quality regulations for the southwestern Washington locality.

Growth in electric power needs in Wyoming and certain areas of Oregon and Washington will require the expansion of transmission and related substation capacity and several major phases of this work will be completed or started during 1975. In Wyoming the needs of new petroleum and gas field pumping, uranium mining and milling, and new coal and trona production will require boosting the capacity of the 161,000-volt Casper-to-Yellowtail transmission circuit up to 230,000 volts and greater capacity in substations near Rawlins, Rock Springs and Medicine Bow.

Looking ahead to the system's power requirements for the 1980s, the Company is participating in coal-fired and nuclear-fueled steam-electric projects for which preliminary engineering and construction work is underway. These include 10% ownership of a 1,400,000-kilowatt coal-fired plant being considered for Colstrip, Montana, and participation of from 10% to 25% in three nuclear-fueled plants scheduled for service between 1982 and 1985 in Oregon and Washington.

Wyoming Division Manager Robert W. Moench and Worland District Manager Robert E. West are in front of the Worland office, which serves a north-central sector of the state that has extensive oil and gas production and beet sugar output.

Financing Broadens Ownership; Authorized Shares Increased

The Company marketed two issues of first mortgage bonds and one offering of common stock during 1974 to raise approximately $180,000,000 to finance construction and to redeem an issue of bonds that matured November 1. Short-term financing needs were met through a $65,000,000 line of credit with a group of commercial banks that supplanted a similar agreement that expired June 30, a $35,000,000 loan facility in the Eurodollar market, and authorization to sell up to $60,000,000 of commercial paper. The Eurodollar facility enabled the Company to borrow funds in foreign money markets at various times during the year at rates more attractive than were available domestically.

The first of the bond issues was marketed on January 9, 1974, when $60,000,000 of 30-year first mortgage bonds, bearing interest of 8⅜% were sold at an effective interest cost to the Company of 8.45%. The terms of the second bond issue, which will mature October 1, 1983, were negotiated with underwriters, whose offer on October 23 of 98.925% for the $70,000,000 issue bearing 9⅞% interest resulted in an effective interest cost to the Company of 10.06%.

Sale of 2,500,000 shares of common stock was accomplished March 27 when the Directors accepted a bid of $20.233 per share, netting the Company $50,557,500. The shares were reoffered to the public at $21 per share.

At a special meeting of the stockholders held December 11 in Portland, the authorized shares of the Company's common stock were increased to 50,000,000 shares and the limit on the unsecured debt which may be outstanding at any one time was raised to 30% of total capitalization. It is expected the additional shares will be sufficient to carry the Company's future equity financing well into the 1980s.

A sale of 3,500,000 shares of common stock on January 9, 1975, netted $15.88 per share to the Company for a total of $55,580,000. The shares were reoffered to the public at $16.75.

During the balance of 1975 the Company expects to issue $150,000,000 of long-term debt and equity securities and may guarantee up to approximately $93,000,000 of new pollution control bonds.

At the end of the year there were 85,674 holders of the Company's common stock, up 7,718 from the prior year, and 10,346 holders of the preferred, with 67% of the common and preferred shareholders residing in states west of the Mississippi River. Approximately 75% of the common share owners owned fewer than 500 shares.

Subsidiaries Record Gains; More Coal Sales Arranged

Decker Coal Company, in which a PP&L subsidiary, Western Minerals, Inc., has a one-half ownership, increased its shipments of the low-sulfur Montana coal to more than six and one-half million tons, and will boost shipments another half million tons in 1975.

Shipments to Commonwealth Edison Company under its contract extending to 1978 represented the larger portion of 1974 output. In August, the Chicago utility and Decker concluded a new agreement providing for delivery of 80 million tons over a 20-year period. Shipments to Detroit Edison Company are scheduled to exceed one million tons in 1975 under terms of a 26-year contract for 180 million tons from Decker. Sales of smaller tonnages were made during 1974 to several other midwestern utilities when they were stockpiling coal.

On October 29 Decker concluded an agreement with the Lower Colorado River Authority, which is an agency of the State of Texas, and the City of Austin, Texas, for purchase of 50 million tons for a period beginning in 1978 and ending 2003. Of the total reserves held by Decker Coal Company of approximately 750 million tons, 330 million tons have been committed to date under these long-term contracts.

Other coal reserves that are controlled by Pacific Power and are available to fuel future power plants of the Company and other utilities include 400 million tons in Montana located near the Decker operation, and two major fields and several minor deposits in Wyoming that contain an estimated 700 million tons. Aside from these uncommitted reserves the Company controls the Glenrock coal field which supplies the Dave Johnston plant and two-thirds of the coal reserves that supply the Jim Bridger plant. The other one-third of the Bridger field was acquired from Pacific Power early in 1974 by Idaho Power Company.

In Washington state, the Company has a one-half ownership and Washington Irrigation & Development Company, a subsidiary of The Washington Water Power Company, owns the other half of the coal reserves that are committed to supply the Centralia, Washington, steam-electric plant.

Legislation to provide federal regulation of surface mining is pending in the 94th Congress, but it cannot be determined, as this report is prepared, what

Jerry A. Warner, Local Manager at Dallas, OR, and Mid-Oregon Division Manager Glen W. Spicer. Dallas area has 11,000 people, is a typical small western Oregon city with an economy of metals manufacturing, forest products industries and agriculture.

will be the outcome of the proposals. In its present form, the legislation would not prevent the Company from mining its coal reserves, although it would increase costs.

The Company's telephone interests involve an 80% ownership of the common stock of Telephone Utilities, Inc., a holding company headquartered at Ilwaco, Washington, with 23 operating subsidiary units in Washington, Oregon, Montana, Idaho and Nevada. The systems service 115,750 stations. During the year TU had gross operating revenues of $25,627,000, up $2,636,000; consolidated net income of $3,732,000, up 12% or $413,000, and earnings of 82¢ per share of common on the average of 4,504,295 shares outstanding as compared with 73¢ for the same average number of shares in the prior year. On February 22, 1974, TU's Board of Directors authorized payment of a 5% stock dividend to shareholders of record March 18, 1974. TU announced on January 15, 1975, that an Oregon subsidiary had concluded arrangements, subject to regulatory approvals, to acquire two independent systems in central Oregon serving 1,400 telephones.

The Company Supports Research In a Broad Range of Technologies

Research activities to develop and improve a broad range of technologies needed for production, transmission and the efficient use of electricity are being supported by Pacific Power in association with other utilities and in cooperation with universities, corporations and individuals.

The industry's largest program is coordinated by the Electric Power Research Institute, which was formed in 1972 with the support of the utilities, the federal government and manufacturers. EPRI has more than 300 research projects under contract. These include studies of advanced systems for conversion of nuclear, solar and geothermal energy to electricity; studies directed to environmental considerations, and development of new technologies for using fossil fuels, particularly coal.

Several hundred utilities, including the Company, contribute funds for the development of a gas-cooled fast breeder nuclear reactor prototype system, a system which is gaining scientific recognition and engineering feasibility.

Studies in 1975 for which the Company is the principal sponsor include research on the dispersal of particulate matter from coal-fired generating plant stacks, assigned to the Northwest Air Pollution Center of the Oregon Graduate Center; development at Oregon State University of a method for measuring physical, chemical and ecological characteristics of the Pacific Ocean surf zone where future power plants might be located; work with the Washington State Department of Fish and Game on steelhead trout productivity in PP&L's Skookumchuck River reservoir, which supplies water for the Centralia plant; monitoring of the operation of four electric-powered vehicles utilized in the Company's operation, and research conducted at Oregon State University for improved methods for retarding decay of wood poles.

A program to determine whether solar energy can be utilized to preheat water before it is raised to household temperatures with standard electric water heating equipment will be evaluated in five homes on the system. The Company also is a prime financial sponsor of work being done at the Solar Energy Center, University of Oregon, relative to collecting

Columbia Basin Division Manager Robert M. Smith is with Sunnyside, WA. District Manager John K. Ness. The Sunnyside area has a diversified agri-industry economy that is common to the PP&L areas in central and eastern Washington.

meteorological data and optimizing equipment design for supplemental solar heating units.

Geothermal field investigations were conducted during 1974 on Weyerhaeuser Company lands near Klamath Falls, Oregon, to delineate drilling targets for hot water or steam. Preliminary evaluations were also undertaken on other potential geothermal areas in southern Oregon and northern California.

Among the projects concluded in 1974 was a study by the Marine Science Center at Oregon State University of the feasibility of using heated water from power plants or other sources to accelerate production of Pacific Ocean salmon and oysters. Preliminary evaluations of the data are favorable.

Employees, Officers and Directors

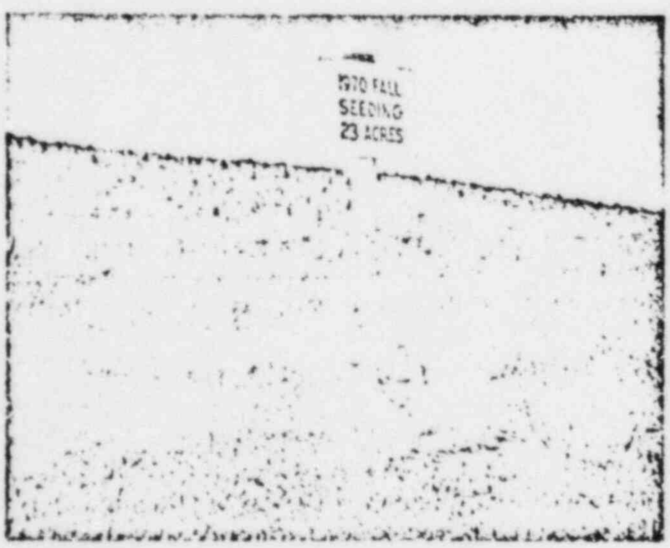
The work force of the Company totaled 3,519 full-time employees at year's end. In addition, the coal mining and telephone subsidiaries employed 628 full-time employees on that date. Of the 189 employees added during 1974, all but 30 were required to staff necessary expansion in our power supply and coal mining activities. As in prior years, the competency and commitment of the employees contributed to the ability of the organization to cope with the special economic circumstances affecting the industry.

Reassignment of certain executive responsibilities was effected in September when the Board of Directors elected G. Eldon Drennan, 53, to Senior Vice President in charge of engineering, construction, power planning and production functions; Karl Hoffmann, 51, to be Treasurer, and Fredric D. Reed, 37, to be Controller. The position of Treasurer was previously held by Vice President John H. Geiger, who, as Vice President-Finance, continues as the principal financial officer of the Company. At the same meeting, the Directors noted the retirement of Senior Vice President George L. Beard, who had served the Company since 1954 in engineering management positions.

Retirement of two Directors and election of two occurred during the year. Henry G. Lambert, New York, N.Y., who had served from 1950 and as a member of the Executive Committee from 1954, retired as of September 11 and was elected a Director Emeritus. Kenneth W. Self, President of Freightliner Corporation, Portland, Oregon, was elected to that vacancy. Thomas F. Sandoz, Astoria, Oregon, a Director since 1963 and a member of the Executive Committee for ten years, retired December 15 and also was elected a Director Emeritus. Dr. Roy A. Young, Vice President for Research and Graduate Studies at Oregon State University, Corvallis, Oregon, was elected to fill that vacancy.

At the special meeting of the Board on January 8 the Directors adopted a memorial resolution recording the valued services to the Company of Alfred S. V. Carpenter, who passed away at his home in Medford, Oregon, on December 17 at the age of 93. Mr. Carpenter had served as a Director of The California Oregon Power Company from 1948 to 1961, and, upon its merger with Pacific Power in 1961, he became a member of the Pacific Power Board and a member of its Executive Committee. He retired in 1971 and was elected a Director Emeritus.

Healthy stand of crested wheatgrass planted to reclaim the Glenrock mine area contrasts with sparse desert vegetation visible in background. Rehabilitation program was instituted four years before the 1969 Wyoming legislature adopted regulations.



Various seed mixtures were planted over the years before Pacific Power determined the best method.

A restored area produced this healthy stand of grass one year after 1973 spring seeding and fertilizing.

Our Source of Coal . . . and Pride

This is the story of your company's attempt to reconcile the energy demands of America's civilization with the necessity of preserving her great beauty, a story of Pacific's mining operation at Glenrock, Wyoming.

Energy shortage is among the most critical problems facing our country. America needs more domestic energy supply, but some don't want to mine coal, construct coal-fired plants, or use nuclear technology. People may dream of solar and geothermal energy, but without utilizing the resources and technology available to us today, exotic energy supplies in meaningful quantities will remain only a dream.

Coal, which our nation has in great supply, is one of the prime answers to this country's energy problems for the next quarter century. Under the prairielands of the Northern Great Plains lie billions of tons of coal with an energy equivalent greater than Saudi Arabia's oil reserves. Much of this coal is found in thick seams that lie close to the earth's surface, seams that can easily and economically be surface mined. This mining method maximizes the efficient use of this resource by recovering a much greater percentage than is possible by underground methods. There is virtually no waste. Safety factors are an important benefit. Surface miners have substantially less frequency and severity of accidents than underground miners. This is human conservation, an often ignored aspect of ecology. In addition to achieving a high level of productivity, safety is always at the top of corporate priorities.

The mining process begins with scrapers lifting off the layer of topsoil and piling it aside for respreading later. Then draglines remove the subsoil that covers the coal seam. After the coal is broken up with explosives, it is loaded into trucks and carried to a railhead. Now comes a technically difficult and most controversial part of the mining operation—reclamation. Bulldozers recontour the subsoil to the existing lay of the land. Scrapers then replace the original topsoil. This reclaimed portion is then mulched with small grained straw, seeded with special perennial grasses, and fertilized with nitrogen.

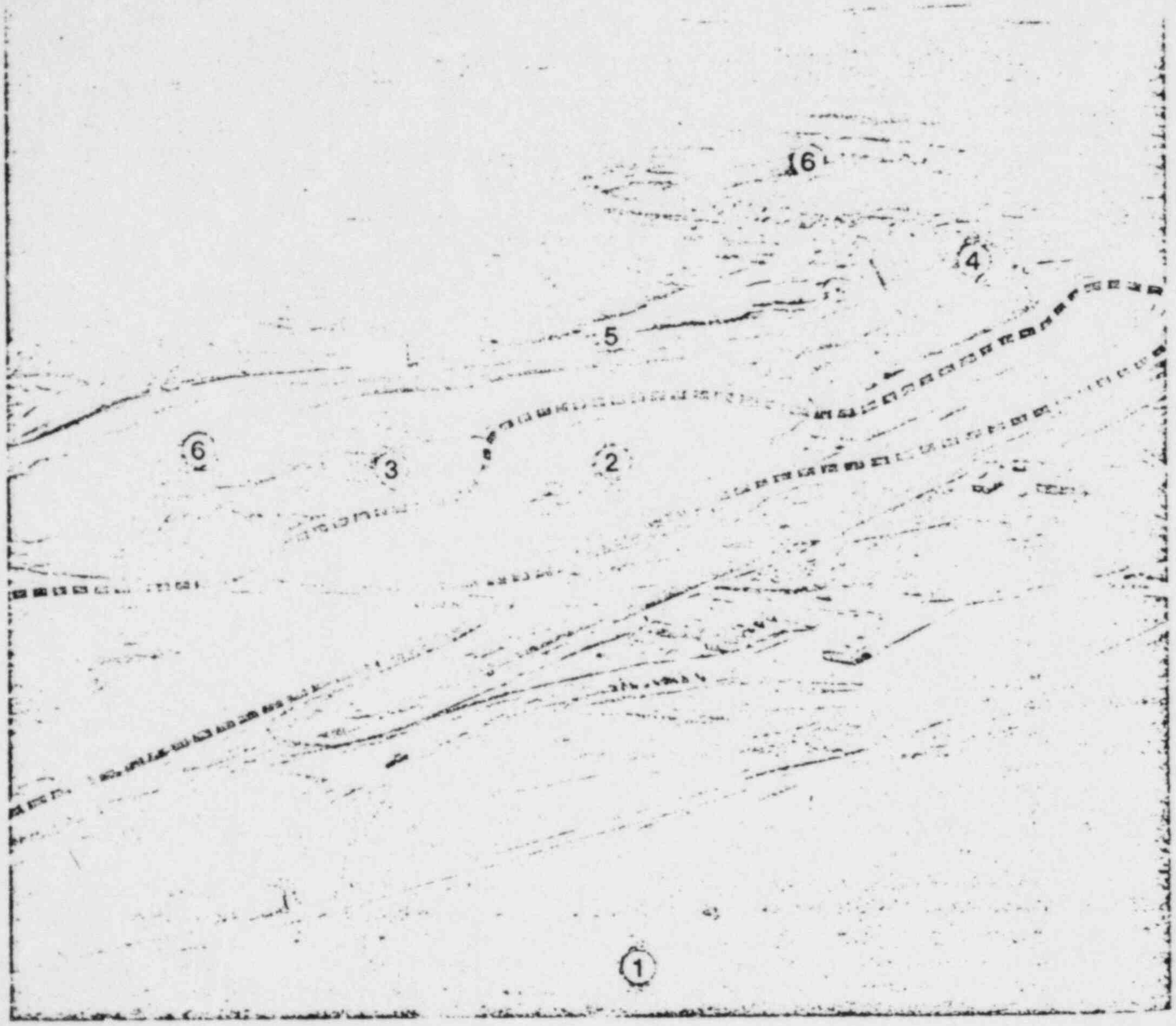
Our reclamation processes have undergone many years of research and experimentation so that reclaimed areas now exceed the native terrain in productivity. Nature herself can prove this. The number of animals which can feed in any given area is regulated by nature balance. On our 550 reclaimed acres of the Wyoming plains, the herds of deer and antelope are increasing markedly, positive proof that the productivity of the land has also increased.

The whole cycle of surface mining, from the time the topsoil is removed to the final seeding, takes about 2½ years and costs about $2,000 per acre. Though the surface acre may be valued at only $30, we proportion the reclamation cost to the value of the coal mined. The final bill will amount to about 5 cents a ton. Our commitment to reclamation is total. If ever the value of the coal will not support reclamation costs, the land will not be disturbed.

The myth that corporations are pro-pollution, relentlessly exploiting the earth, must be disclaimed. Many are often at the forefront in the struggle to preserve the environment, and preserve the land entrusted to them. Pacific has been reclaiming Wyoming land since 1965, four years before it became state law. There were many technical problems, but most of them are solved now. There may be more problems, but the recognition of that fact is the best assurance that we will overcome them. The responsibility to serve necessitates the obligation to keep trying.

An environmentalist is one who has learned to live in harmony with his surroundings, not be controlled by them. As the advance of society must not be made at the expense of nature, so the preservation of nature must not be achieved at the destruction of society. They must coexist, and in man's technology, ever alert and ever advancing, lies our only answer.

If man would strive for knowledge and understanding, reason, not emotion, must be the guidepost. Performance, not talk, must be the touchstone. We believe our performance speaks clearly. Pacific Power is uncovering one of nature's great resources, is supplying one of America's vital needs, and is revitalizing part of the prairielands of Wyoming. Both man and nature are benefiting from our recovery of necessary fossil fuel. That's our story . . . our source of pride.



Major stages of the work of reclaiming surfaces of the Glenrock coal field in eastern Wyoming are illustrated in this aerial photograph. The foreground area (1) is undisturbed land of the northern Great Plains, which has a sparse desert vegetation of native grasses, weeds and sagebrush. Within the circled area (2) can be seen a healthy growth of grass planted after the disturbed area was refilled, recontoured, topsoil applied, then seeded and fertilized. To the left (3) is a sector where overburden material was removed to mine the coal, the material replaced and contoured but not yet replanted. The piles of overburden moved to get at the coal look like this (4) before reclaiming begins. Topsoil has been skimmed off a strip (5) to be mined next. The soil will be stockpiled until used in the reclaiming cycle. The stone, clay and sandy overburden material under the topsoil and over the coal is placed in the trench (6) from which the coal has been mined. An average of 70 acres of the coal field area will be mined annually and about 500 acres of land may be unreclaimed at any given time, with a large portion of this required for roads, permanent buildings and coal handling facilities.

SUMMARY OF CONSOLIDATED OPERATIONS

	1974	1973	1972	1971	1970
			Thousands of Dollars		
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	81,981	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	(836)	132
Other income—net of deductions	3,203	42	(206)	(3)	(3)
Minority interest	(805)	(167)	(20)		
Income taxes	(4,129)	(1,053)	(62)	483	169
OTHER INCOME (DEDUCTIONS)—NET	22,200	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	DECEMBER 31 1973
	Thousands of Dollars	
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	206,854
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	8,883	6,838
Other	12,138	8,680
TOTAL DEFERRED DEBITS	31,032	22,105
TOTAL ASSETS	$1,588,430	$1,356,807

(See accompanying Notes to Financial Statements)

LIABILITIES

	DECEMBER 31 1974	DECEMBER 31 1973
	Thousands of Dollars	
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 5)		
TOTAL LIABILITIES	$1,588,430	$1,356,807

(See accompanying Notes to Financial Statements)

STATEMENT OF CONSOLIDATED INCOME

	Years ended December 31 1974	1973
	Thousands of Dollars	
OPERATING REVENUES:		
Electric	$216,789	$220,377
Steam heating	2,124	1,465
Water	2,438	2,188
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	156,092
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	31,143
Total deductions	44,426	39,550
Balance, December 31	$135,187	$125,484

(See accompanying Notes to Financial Statements)

STATEMENT OF CHANGES IN CONSOLIDATED FINANCIAL POSITION

	Years Ended December 31	
	1974	1973
	Thousands of Dollars	
SOURCE OF FUNDS:		
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)	(7,887)
Undistributed earnings of joint ventures	(2,095)	(462)
Minority interest in net income of subsidiaries	805	167
Other—net	(419)	421
TOTAL FROM OPERATIONS	68,965	76,782
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	245,401	148,591
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	$313,865	$238,255
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	7,887
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	$313,865	$238,255

(See accompanying Notes to Financial Statements)

CAPITAL STOCK and LONG-TERM DEBT

SCHEDULE 1

CAPITAL STOCK

December 31, 1974

Description	Issued and Outstanding *Number of Shares*	*Thousands of Dollars*
5% preferred, cumulative; authorized, 126,533 shares of $100 par value each	126,533	$ 12,653
Serial preferred, cumulative; authorized, 1,500,000 shares of $100 par value each:		
4.52%	9,835	984
7.00% (non-callable)	18,060	1,806
6.00% (non-callable)	5,932	593
5.00%	42,000	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

	December 31 1974	1973
	Thousands of Dollars	
Pacific Power & Light Company		
First Mortgage Bonds:		
3⅝% Series due Nov. 1, 1974	—	$11,434
3¼% Series due 1977	$ 29,000	29,000
3⅜% Series due April 1, 1978	4,500	4,500
3⅜% Series due Aug. 1, 1979	4,951	4,951
3 % Series due 1980	9,000	9,000
4⅛% Series due June 1, 1981	5,849	5,849
3⅝% Series due 1982	12,500	12,500
3¾% Series due Sept. 1, 1982	7,500	7,500
4⅛% Series due Oct. 1, 1982	6,157	6,157
9⅞% Series due 1983	70,000	—
3¾% Series due March 1, 1984	8,659	8,659
3⅜% Series due 1984	8,000	8,000
3½% Series due Aug. 1, 1984	30,000	30,000
3⅜% Series due 1985	10,000	10,000
4⅜% Series due May 1, 1986	14,454	14,454
4¼% Series due 1988	15,000	15,000
4⅜% Series due July 1, 1988	20,000	20,000
5⅛% Series due 1990	20,000	20,000
4¾% Series due 1992	35,000	35,000
4½% Series due Dec. 1, 1992	32,000	32,000

LONG-TERM DEBT (Cont'd)

	December 31 1974	1973
	Thousands of Dollars	
4⅝% Series due 1993	30,000	30,000
4⅝% Series due 1994	30,000	30,000
5 % Series due 1995	30,000	30,000
8 % Series due 1999	25,000	25,000
8¾% Series due Nov. 1, 1999	20,000	20,000
9⅝% Series due 2000	25,000	25,000
7⅞% Series due 2001	40,000	40,000
8 % Series due Oct. 1, 2001	35,000	35,000
7¾% Series due 2002	30,000	30,000
8⅜% Series due 2004	60,000	—
Rawlins Electric Company—		
First Mortgage Bonds:		
4½% Series due 1975	90	93
6 % Series due 1977	128	132
Guaranty of Pollution Control Revenue Bonds, 6% Series due 2003 ($25,000,000 outstanding less $7,755,000 held by Trustee at December 31, 1973)	25,000	17,245
4¾% 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% First Mortgage Notes due 1990-1999	909	951
4½%-10¼% First Mortgage Notes due 1975-1998	20,163	21,708
7¾% Second Mortgage Note due 1980	11,000	11,000
5¾%-9½% 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
9¾% Unsecured Note due 1975	—	8,000
10%* Unsecured Note due in installments through 1978	4,683	6,933
7¾% 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 statemen since October 1, 1973, at which time the Compa had acquired by purchase approximately 66% of t outstanding common stock of T.U., a Washing company operating telephone properties, thro 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,[illegible]3)
Other items capitalized and miscellaneous differences	(3,439)	(3,494)
Total income tax expense	1,389	[illegible].525
Amount charged to other income	(4,129)	(1,053)
Federal and state income tax expense included in operating expenses	$ (2,740)	$ 7,472

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	$ 1,389	$ 8,525

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	$3,742	[illegible]

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	5,725
1990-1994	7,626
Remainder	8,925
Total	$52,839

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 $544,000, 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.

HASKINS & SELLS

Portland, Oregon
February 28, 1975

CONSOLIDATED FINANCIAL RATIOS (As of December 31)

	1974	1973	1972	1971	1970
CAPITALIZATION:			*Thousands of Dollars*		
Mortgage bonds	$ 667,788	$ 549,229	$ 549,236	$ 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	—	—	5,000	15,000	25,000
Long-term subsidiary debt	58,583	70,797	11,515	2,351	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	474,580
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	$ 900,378	$ 796,188
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

ENERGY SALES (Thousands of kilowatt-hours):	1974	1973	1972	1971	1970
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	1,091,980	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	14,424,939	13,320,982
Power plant output—including power purchased (Thousands of kilowatt-hours)	18,218,967	19,172,017	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	466,197
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	12,391	12,331	12,237	11,539

MARKET AND DIVIDEND INFORMATION

COMMON STOCK:

The Company's Common Stock ($3.25 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	4th
High	$25\frac{1}{2}$	$21\frac{1}{8}$	$18\frac{1}{2}$	$17\frac{1}{2}$	$26\frac{1}{8}$	$24\frac{7}{8}$	$25\frac{1}{8}$	$25\frac{3}{4}$
Low	21	$17\frac{1}{2}$	15	$13\frac{3}{8}$	$22\frac{7}{8}$	$22\frac{1}{8}$	$21\frac{3}{4}$	$20\frac{1}{2}$

Quarterly cash dividends have been paid at the rate of $37\frac{1}{2}$ 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	4th
High	66	63	55	$53\frac{3}{4}$	$68\frac{1}{2}$	68	$65\frac{1}{2}$	65
Low	$59\frac{1}{4}$	$51\frac{1}{2}$	$51\frac{1}{2}$	50	$63\frac{1}{2}$	$63\frac{1}{4}$	$61\frac{7}{8}$	$58\frac{3}{4}$

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	$62\frac{1}{2}$	61	$61\frac{1}{2}$	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	$55\frac{1}{2}$	50	NQ	41	56	$57\frac{3}{4}$	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	$104\frac{1}{2}$	100	81	$85\frac{1}{2}$	108	108	104	104
	Low	103	87	80	77	107	108	NQ	NQ
7.96%	High	94	84	71	$74\frac{7}{8}$	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.

PACIFIC POWER & LIGHT COMPANY General Offices: 920 S.W. Sixth Avenue, Portland, Oregon 97204

BOARD OF DIRECTORS

C. M. BISHOP, JR. *Portland, Oregon*
President, Pendleton Woolen Mills
Manufacture of woolen sportswear

DON C. FRISBEE *Portland, Oregon*
Chairman of the Board and Chief Executive Officer of the Company

GREGORY A. HARRISON *San Francisco, California*
Partner, Brobeck, Phleger & Harrison—Attorneys at Law

GLENN L. JACKSON *Medford, Oregon*
Chairman of the Executive Committee of the Company

C. HOWARD LANE *Portland, Oregon*
President, Mt. Hood Radio & Television Broadcasting Corporation

JOHN Y. LANSING *Portland, Oregon*
President of the Company

CONRAD F. LUNDGREN *Kalispell, Montana*
Co-owner, Four Seasons Motor Inn and West Glacier Mercantile Company—Motel, stores, restaurants

PAUL F. MURPHY *Portland, Oregon*
President, Ladd Estate Company
Real estate development

LOUIS B. PERRY *Portland, Oregon*
President, Standard Insurance Company
Life, health and accident insurance

GEORGE D. RIVES *Portland, Oregon*
Senior Partner, Rives, Bonyhadi & Drummond
Attorneys at Law

WILLIAM E. ROBERTS *Portland, Oregon*
Co-owner, B & D Development Company
Real estate development

KENNETH W. SELF *Portland, Oregon*
President, Freightliner Corporation—Truck manufacturing

DONALD SHERWOOD *Walla Walla, Washington*
Director, Sherwood & Roberts, Inc.
Real estate, investments and financing

HOWARD VOLLUM *Portland, Oregon*
Chairman of the Board, Tektronix, Inc.
Manufacture and marketing of oscilloscopes and associated electronic products

ROY A. YOUNG *Corvallis, Oregon*
Vice President for Research and Graduate Studies
Oregon State University

OFFICERS

DON C. FRISBEE *Chairman of the Board and Chief Executive Officer*
JOHN Y. LANSING *President*
ALLAN C. BARTHOLOMEW *Senior Vice President*
G. ELDON DRENNAN *Senior Vice President*
HOWARD ARNETT *Vice President*
C. P. DAVENPORT *Vice President*
JOHN H. GEIGER *Vice President—Finance*
A. M. GLEASON *Vice President*
ELWOOD B. HEDBERG *Vice President*
PHILIP G. HUMPHREYS *Vice President*
R. B. LISBAKKEN *Vice President*
ROBERT W. MOENCH *Vice President*
JACK T. STILES *Vice President*
KARL HOFFMANN *Treasurer*
LEONARD BENNETT *Corporate Secretary*
FREDRIC D. REED *Controller*

DIRECTORS EMERITUS

JOHN C. BOYLE *Medford, Oregon*
A. S. CUMMINS *Charleston, West Virginia*
JOHN DIERDORFF *Portland, Oregon*
W. D. JOHNSTON *Casper, Wyoming*
HENRY G. LAMBERT *New York, New York*
GEORGE MACKENZIE *Walnut Creek, California*
HENRY H. PRINGLE *Medford, Oregon*
T. F. SANDOZ *Astoria, Oregon*

GENERAL COUNSEL

RIVES, BONYHADI & DRUMMOND *Portland, Oregon*

FISCAL AGENTS

PREFERRED STOCK

TRANSFER AGENTS:
FIRST NATIONAL BANK OF OREGON, Portland, Oregon
FIRST NATIONAL CITY BANK, New York
CROCKER NATIONAL BANK, San Francisco

REGISTRARS:
UNITED STATES NATIONAL BANK OF OREGON, Portland, Oregon
BANKERS TRUST COMPANY, New York
WELLS FARGO BANK, National Association, San Francisco

COMMON STOCK

TRANSFER AGENTS:
UNITED STATES NATIONAL BANK OF OREGON, Portland, Oregon
THE FIRST NATIONAL BANK OF CHICAGO
THE CHASE MANHATTAN BANK, National Association, New York
CROCKER NATIONAL BANK, San Francisco

REGISTRARS:
THE BANK OF CALIFORNIA, National Association, Portland, Oregon
HARRIS TRUST AND SAVINGS BANK, Chicago
CHEMICAL BANK, New York
WELLS FARGO BANK, National Association, San Francisco

BONDS

TRUSTEE, REGISTRAR AND PAYING AGENT:

For First Mortgage Bonds of the Company:
MORGAN GUARANTY TRUST COMPANY OF NEW YORK

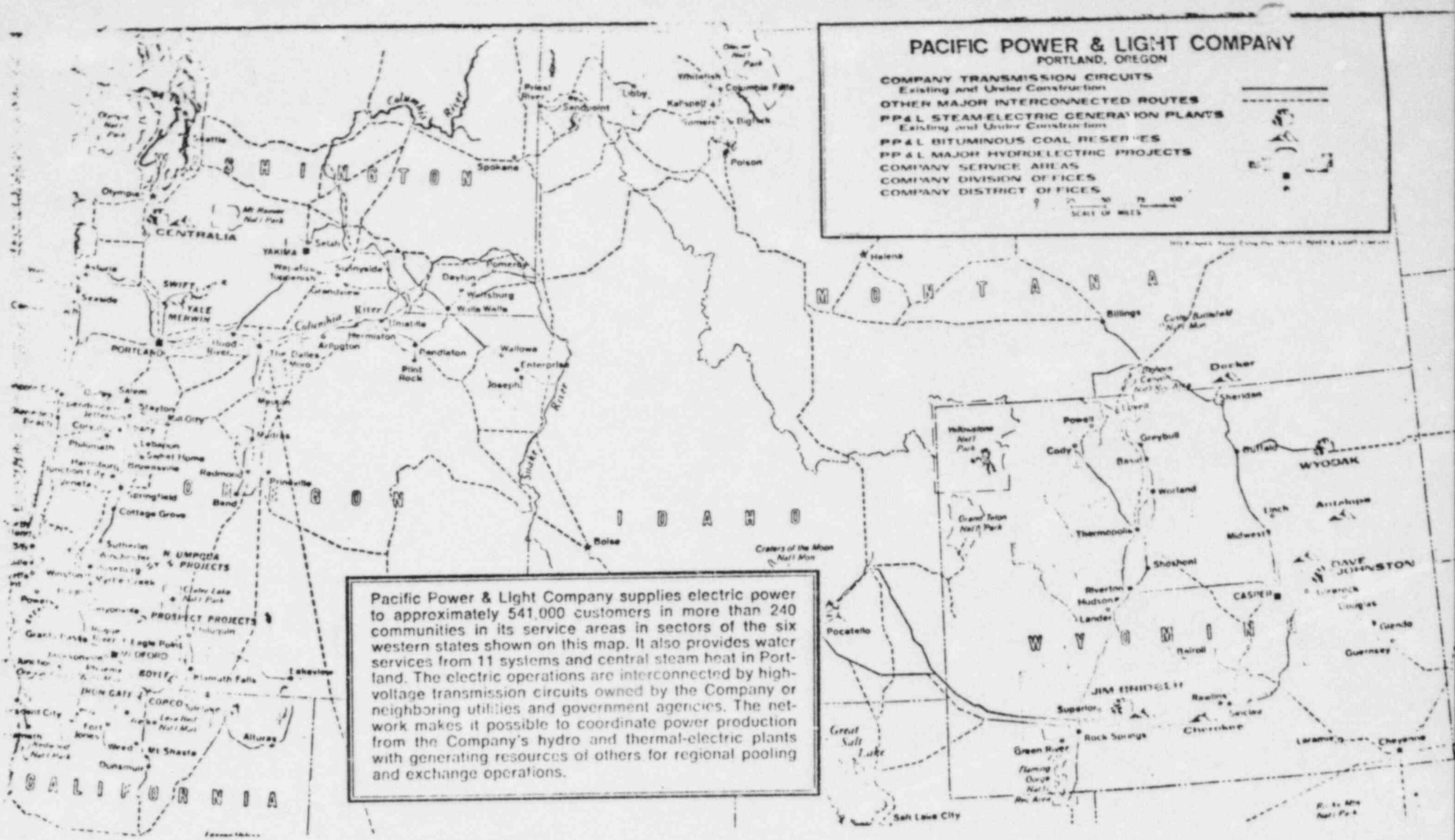
For Bonds assumed from Rawlins Electric Company:
IRVING TRUST COMPANY, New York

OTHER REGISTRARS AND PAYING AGENTS:

For First Mortgage Bonds of the Series Due April 1, 1978; Aug. 1, 1979; June 1, 1981; Oct. 1, 1982; March 1, 1984 and May 1, 1986:
WELLS FARGO BANK, National Association, San Francisco
CONTINENTAL ILLINOIS NATIONAL BANK AND TRUST COMPANY OF CHICAGO

For First Mortgage Bonds of the Series Due April 1, 1978 and Aug. 1, 1979:
CHEMICAL BANK, New York

For First Mortgage Bonds of the Series Due June 1, 1981; Oct. 1, 1982; March 1, 1984 and May 1, 1986:
THE CHASE MANHATTAN BANK, National Association, New York



DIVISION AND DISTRICT OFFICES AND MANAGERS

MID-OREGON DIVISION

Headquarters
Portland, Oregon
Glen W. Spicer

District Offices
Albany—Henry A. Hurlbut, Jr.
Astoria—J. Dan Webster
Bend—Harold G. Baughman
Corvallis—C. Roy Rolls
Springfield—Russell M. Pofi
Lincoln City—Albert C. Bustrin
Portland—Warne Nunn
Hood River—Kenneth C. Medearis
The Dalles—Clifford V. Pierce

SOUTHWESTERN DIVISION

Headquarters
Medford, Oregon
E. E. Smith

District Offices in Oregon
Coos Bay—Jack B. Dunham
Grants Pass—P. C. Quisenberry
Klamath Falls—William L. Scholtes
Lakeview—Donald E. Pierce
Medford—D. Clifford Jones
Roseburg—William R. Parrett

District Offices in California
Crescent City—Robert B. Zike
Yreka—R. Dale Collins

COLUMBIA BASIN DIVISION

Headquarters
Yakima, Washington
Robert M. Smith

District Offices in Washington
Yakima—Bruce G. Beaudoin
Sunnyside—John K. Ness
Walla Walla—M. Wayne Goin

District Office in Montana
Kalispell—Charles E. McQueary

District Office in Idaho
Sandpoint—Thomas A. Lockhart

District Offices in Oregon
Pendleton—Melvin E. Joy
Enterprise—Elvin M. Adams

WYOMING DIVISION

Headquarters
Casper, Wyoming
Robert W. Moench

District Offices
Casper—Dale D. Addington
Laramie—Howard S. Yeend
Rawlins—Robert R. Gerlach
Riverton—Bruce V. Fritzler
Rock Springs—Joseph R. King
Worland—Robert L. West

1974 ANNUAL REPORT
PACIFIC POWER & LIGHT COMPANY
Public Service Building
Portland, Oregon 97204

Yale hydroelectric reservoir is one of three Pacific Power projects located on the Lewis River in southwestern Washington that have a combined generating capacity of 448,000 kilowatts. The Company has 30 more hydroelectric power developments on other river watersheds in California, Oregon and Washington.

ATTACHMENT 7(c)-1

INVESTOR-OWNED UTILITIES

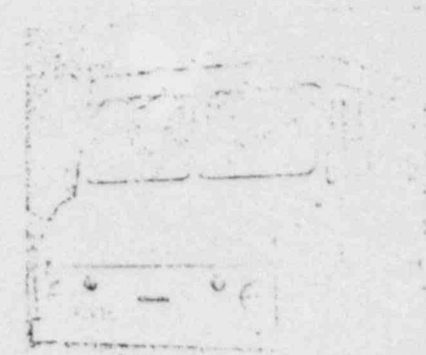
1975 QUARTERLY FINANCIAL STATEMENTS

LIABILITIES AND CAPITAL

Earnings were $1.57 per average share for the first nine months of 1975 compared with $1.17 for the same period of last year. Net income for common stock was $18,145,456 for the first nine months of 1975 compared with $13,905,206, an increase of $4,240,250 or 30.5% over the same period last year. Kilowatt-hour sales to consumers increased 7.1% in the first nine months of 1975 and operating revenues were $121,151,702, an increase of $13,695,659 or 12.7% over the $107,456,043 (restated for sales to other utilities) for the same period of 1974. The general rate increase effective November 1, 1974 accounted for about $11.5 million of this increase.

For the 12 months ended September 30, 1975, earnings were $4.49 per average share compared with $3.75 for the previous 12 months. Net income for common stock was $22,311,646 or $5,852,616 above the $16,459,030 a year earlier. That is an increase of 35.6%. Kilowatt-hour sales to consumers increased 5.9% and operating revenues were $156,189,835, a gain of $19,156,156 or 14.0% over the $136,563,675 (also restated) of the previous 12 months. The rate increase granted in 1974 accounted for about $15.7 million of this gain.

Puget Sound Power & Light Company
Bellevue, Washington 98009



Puget

Comments of the President

[illegible] response to our new [illegible] and Stock Purchase [illegible] with [illegible] in the Plan by [illegible] authorization [illegible]. Under the Plan, Common [illegible] and Preference shareholders [illegible] in their names, [illegible] automatically reinvested [illegible] cash payments [illegible] Common [illegible]. The Plan is [illegible] Company and there are [illegible] or other charges to [illegible] will be accepted at [illegible] to reinvest next [illegible] shareholders must have [illegible] into the Company [illegible] which will be on or [illegible] 1975. Anyone wishing [illegible] information about [illegible] W. E. Watson, Company [illegible], Puget Power Building, [illegible] 98009.

On [illegible] Company sold $30 million [illegible] bonds with an [illegible] September 4 [illegible] shares of Common [illegible] were [illegible].

[illegible] Nuclear [illegible] of a [illegible] start of [illegible]

STATEMENTS OF INCOME

Three Months Ended September 30 — Nine Months Ended September 30 — Twelve Months Ended September 30

STATEMENTS OF EARNINGS REINVESTED IN THE BUSINESS

[illegible] company sold 200,000 [illegible] per share preferred [illegible] a dividend rate of 10.50%.

[illegible] adopting a dividend reinvestment [illegible] which would be available to [illegible] of all classes of the Company [illegible]. Such a plan would provide a [illegible] way for shareholders to reinvest [illegible] common stock rather than [illegible] It is expected that the [illegible] this year, at [illegible] and all necessary [illegible] will be provided to [illegible].

[illegible] before the State Thermal Power [illegible] Council on the Skagit [illegible] have been completed. The [illegible] expected to make a recommendation [illegible] in the next month, [illegible] must make the decision [illegible] certified for construction [illegible] kilowatt nuclear units. [illegible] the Federal Nuclear [illegible] for issuance of a [illegible] to allow start of [illegible] this year are expected [illegible] this month. Actual [illegible] is expected to begin in the summer of 1976.

Sincerely,

Ralph M. Davis, *President*

[illegible]

STATEMENTS OF EARNINGS REINVESTED IN THE BUSINESS

[illegible]

† August 15 quarterly dividend [illegible] 1974 and [illegible] 1975.

BALANCE SHEET

ASSETS

	June 30 1975	June 30 1974

LIABILITIES AND CAPITAL

Report to Shareholders

Dividends Paid

A quarterly dividend of 34 cents per share of common stock and dividends on Preferred and Preference Stocks at their stated rates are being paid today to shareholders of record on July 24, 1975.

Earnings [illegible]

Kilowatt-hour sales to consumers increased 7.44% in the first six months of 1975 and operating revenues were $86,535,469, an increase of $12,630,921 or 17.1% over the $73,904,548 (restated for sales to other utilities) for the first half of 1974. The general rate increase effective November 1, 1974 accounted for about $3.9 million of this increase. Earnings were $2.03 per average share for the first half of 1975 compared to $2.[illegible] for the first half of last year. Net income for common stock was $14,665,874 for the first six months of 1975 compared to $11,545,[illegible], an increase of $3,120,236 or 27.0% over the same period last year.

For the 12 months ended June 30, 1975, kilowatt-hour sales to consumers increased [illegible] and operating revenues were $155,0[illegible], a gain of $27,206,344 or 21.[illegible]% over the $127,[illegible] (also restated) of the previous 12 months. The rate increase [illegible] in 1974 accounted for about $[illegible] million and sales of power to other utilities for about $[illegible] million of this gain.

[illegible] per share, or $2.13 [illegible]

[illegible] expected [illegible] of 1975.

The Company [illegible] 3,000,000 shares of [illegible] stock on or about May 21, 1975. [illegible] will be used to reduce [illegible] incurred for construction purposes. The Company construction expenditures for 1975 are expected to be about [illegible] which will require additional long-term financing.

The Annual Meeting of Shareholders was held May 13 at the [illegible] Office in Bellevue, Washington. All directors were re-elected.

Shareholders vacationing in the State of Washington this summer are cordially invited to visit the Company's headquarters in Bellevue.

Sincerely,

Ralph M. Davis, President

Puget Sound Power & Light Company
Puget Power Building
Bellevue, Washington [illegible]

[illegible] experienced the [illegible] customer consumption [illegible] sales to consumers [illegible] in the first quarter [illegible] the same period a year ago [illegible] sales to other utilities. The [illegible] weather this spring has [illegible] run-off from melting snow. As a result of the [illegible] run-off and increased [illegible] consumption, we had less energy [illegible] to other utilities. There are [illegible] of snow in the mountains [illegible] of the Northwest and [illegible] Company expects to continue [illegible] power to other utilities in [illegible]. The amount of such sales will depend [illegible] availability of power in excess of the Company's requirements, which, [illegible] upon future water conditions [illegible] Company's ability to market this [illegible] on the availability of [illegible] and is affected by the [illegible] power of other Northwest [illegible] Power Administration [illegible] available for sale to other utilities.

[illegible] leading to the licensing [illegible] of the Skagit Nuclear Power [illegible] Puget Power will be the principal [illegible]. One hearing before the State [illegible] Site Evaluation Council [illegible] was held late last month and another

LIABILITIES AND CAPITAL

CAPITALIZATION:		
Common stock [illegible] shares authorized*	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]
NOTES PAYABLE TO BANKS [illegible]	[illegible]	[illegible]
CURRENT LIABILITIES:		
Commercial paper	[illegible]	[illegible]
Accounts payable	[illegible]	[illegible]
Accrued expenses:		
Taxes	[illegible]	[illegible]
Interest and wages	[illegible]	[illegible]
Dividends payable	[illegible]	[illegible]
Other	[illegible]	[illegible]
Total current liabilities	[illegible]	[illegible]
DEFERRED TAXES [illegible]	[illegible]	[illegible]
OTHER DEFERRED CREDITS:		
Customer advances for construction	[illegible]	[illegible]
Other	[illegible]	[illegible]
ACCUMULATED PROVISION FOR [illegible]	[illegible]	[illegible]
OTHER OPERATING RESERVES [illegible]	[illegible]	[illegible]
	[illegible]	[illegible]

*[illegible] May 13, 1975 annual meeting

STATEMENTS OF INCOME

	Three Months Ended March 31		Twelve Months Ended March 31	
	1975	[illegible]	1975	1974
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

STATEMENTS OF EARNINGS REINVESTED IN THE BUSINESS

[illegible]

Report to Shareholders

A quarterly dividend of [illegible] cents per share on common stock is being paid today to [illegible] of record on April 24, 1975.

[illegible] increased [illegible] in the first quarter of 1975 and operating revenues [illegible] 104,174, an increase of [illegible] or 18.2% over the [illegible] to other [illegible] of 1974. The [illegible] December 1, 1974 [illegible] million of this [illegible] per average [illegible] 1975 compared to $1.46 for the first quarter last year. Net [illegible] stock was $8,064,150 [illegible] compared to [illegible] ,554,647 or [illegible] last year.

For the 12 months ended March 31, 1975, [illegible] increased [illegible] were $149,- [illegible] or 23.6% over the $1[illegible],111,[illegible] of the [illegible] granted [illegible] $13.7 million [illegible] for about [illegible]. Earnings were $4.24 [illegible] to $3.01 for the [illegible] for com- [illegible] $8,444,6[illegible] [illegible]

Puget Power

May 15, 1975

Exhibit A

PORTLAND GENERAL ELECTRIC COMPANY

PORTLAND, OREGON

November 10, 1975

To Those Concerned:

In the opinion of the Company, the accompanying consolidated financial statements and related notes reflect all adjustments necessary to present fairly the financial position of Portland General Electric Company and subsidiary (see Note 1) as of September 30, 1975 and 1974, and the results of their operations and sources of funds invested in electric utility plant for the nine months and twelve months ended those dates, and were prepared in conformity with generally accepted accounting principles applied in all material respects, except for the changes in accounting for deferred income taxes as described in Notes 3(d) and 3(e), on a consistent basis during the periods.

PORTLAND GENERAL ELECTRIC COMPANY

By /s/ James N. Woodcock

James N. Woodcock, Treasurer

PORTLAND GENERAL ELECTRIC COMPANY AND SUBSIDIARY

STATEMENTS OF INCOME FOR THE NINE MONTHS AND TWELVE MONTHS ENDED SEPTEMBER 30, 1975 AND 1974 (CONSOLIDATED AT SEPTEMBER 30, 1975 - NOTE 1)

(Unaudited)

	Nine Months Ended September 30		Twelve Months Ended September 30	
	1975	1974	1975	1974
	(Thousands of Dollars)			
Operating Revenues (Note 11)	$ 129,227	$ 108,009	$ 167,218	$ 142,2[illegible]
Operating Expenses and Taxes:				
Operation:				
Power purchased and interchange - net	21,650	22,[illegible]	40,323	3[illegible]
Production	6,145	5,233	[illegible]	[illegible]
Transmission and distribution	6,41[illegible]	5,705	8,620	7,[illegible]
Administrative and other	13,633	10,903	17,305	[illegible]
Maintenance and repairs (Note 7)	5,320	4,663	7,024	6,[illegible]
Depreciation annuity and interest on 5% Sinking Fund basis (Note 2)	10,427	9,028	13,[illegible]	11,[illegible]
Taxes other than income taxes	12,617	10,676	16,264	10,[illegible]
Taxes on income (Notes 3, 7 and 9):				
State	629	20	562	[illegible]
Federal	(7,995)	91	(2,[illegible])	[illegible]
Disposition of [illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Total [illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Utility operating income	47,017	39,4[illegible]	52,784	47,[illegible]
Other Income:				
Allowance for funds used during construction (Note 4)	15,896	12,289	20,600	1[illegible]
Other income and deductions - net	(300)	259	(391)	[illegible]
Gross income	62,513	52,043	73,992	6[illegible]
Interest Charges:				
Interest on long-term debt	20,602	15,[illegible]	26,7[illegible]	20,3[illegible]
Interest on short-term notes payable	6,753	6,[illegible]	9,[illegible]	7,[illegible]
Other interest and amortization	245	[illegible]	[illegible]	[illegible]
Total interest charges	27,796	21,884	36,[illegible]	[illegible]
Net Income Available	34,717	30,159	37,479	35,7[illegible]
Preferred Dividend Requirement	7,312	4,933	8,956	[illegible]
Income Available for Common Stock	$ 27,405	$ 25,226	$ 28,520	$ [illegible]
Average Common Shares Outstanding	13,944,444	11,666,667	13,833,333	11,375,000
Earnings per Average Common Share	$ 1.97	$ 2.16	$ 2.06	$ 2.5[illegible]
Dividends Declared per Common Share	$ 1.18½	$ 1.14	$ 1.56½	$ 1.5[illegible]

The operating results for interim periods are not necessarily indicative of results to be expected for the year due to the seasonal nature of the Company's operations.

The accompanying notes are an integral part of these statements.

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PORTLAND GENERAL ELECTRIC COMPANY AND SUBSIDIARY

BALANCE SHEETS AS OF SEPTEMBER 30, 1975 AND 1974
(CONSOLIDATED AT SEPTEMBER 30, 1975 - NOTE 1)

(Unaudited)

Assets

	September 30 1975	September 30 1974
	(Thousands of Dollars)	
Electric Utility Plant:		
In service, at original cost (Note 8)	$587,323	$524,883
Less - Reserve for depreciation (Note 2)	107,700	97,048
	479,623	427,835
Construction work in progress, including $268,798,000 for the Trojan Nuclear Plant at September 30, 1975 (Note 8)	378,839	292,764
Nuclear fuel	34,460	27,9[illegible]
	892,922	[illegible]
Other Property and Investments:		
Construction work in progress, headquarters complex (Note 1)	13,018	-
Nonutility property, substantially at cost, less reserve	2,164	1,420
Sales contracts receivable and other	2,395	3,213
	17,577	4,633
Current Assets:		
Cash (Note 10)	10,989	12,185
Special deposits	176	--
Receivables:		
Customers' accounts	8,196	7,206
Other accounts and notes	829	2,984
Reserve for uncollectible accounts	(455)	(30[illegible])
Estimated income tax refunds	5,290	-
Materials and supplies, at average cost:		
Fuel oil	20,216	7,787
Other	9,557	6,273
Prepayments	1,436	1,260
	56,235	37,388
Deferred Charges:		
Preliminary engineering and survey costs on proposed generating plants	7,930	3,507
Unamortized debt expense	2,928	1,912
Other deferred charges	5,222	[illegible]
	16,080	[illegible]
	$982,814	$7[illegible]

The accompanying notes are an integral part of these statements.

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PORTLAND GENERAL ELECTRIC COMPANY AND SUBSIDIARY

BALANCE SHEETS AS OF SEPTEMBER 30, 1975 AND 1974
(CONSOLIDATED AT SEPTEMBER 30, 1975 - NOTE 1)
(Unaudited)

Liabilities

	September 30 1975	September 30 1974
	(Thousands of Dollars)	
Capitalization (See Accompanying Statements):		
Common stock equity	$281,374	$2[illegible]
Cumulative preferred stock	110,000	[illegible]
Long-term debt	400,[illegible]	[illegible]
Total capitalization	791,[illegible]	[illegible]
Current Liabilities:		
Long-term debt maturing within one year	-	2[illegible]
Current sinking fund requirements on long-term debt	2,386	2,300
Short-term notes payable (Note 10)	123,955	117,8[illegible]
Accounts payable	[illegible]	[illegible]
Wages and material payable	[illegible]	[illegible]
Dividends payable	8,629	6,20[illegible]
Accrued general taxes	4,825	3,64[illegible]
Accrued income taxes (Note 3)	403	375
Accrued interest	6,805	[illegible]
	180,865	[illegible]
Other:		
Deferred income taxes - accelerated amortization (Note 3)	6,602	7,1[illegible]
Deferred income taxes - liberalized depreciation (Note 3)	19[illegible]	-
Deferred investment tax credits (Note 3)	3,39[illegible]	3,[illegible]
Possible additional income taxes and other contingencies (Note 11)	-	1,939
Miscellaneous	443	1,305
	10,528	14,05[illegible]
Commitments and Contingent Liabilities (Note 16)		
	$982,814	$[illegible]

The accompanying notes are an integral part of these statements.

PORTLAND GENERAL ELECTRIC COMPANY AND SUBSIDIARY

STATEMENTS OF CAPITALIZATION AS OF SEPTEMBER 30, 1975 AND 1974
(CONSOLIDATED AT SEPTEMBER 30, 1975 - NOTE 1)
(Unaudited)

	September 30 1975		September 30 1974	
	(Thousands of Dollars)			
Common Stock Equity:				
Common stock, $3.75 par value per share, 20,000,000 shares authorized, 15,500,000 and 12,000,000 shares outstanding at September 30, 1975 and 1974 (Note 12)	$ 58,125		$ 45,000	
Other paid-in capital (Note 12)	130,416		94,393	
Capital stock expense	(2,412)		(1,550)	
Retained earnings (Note 14)	95,245		88,642	
Total common stock equity	281,374	35.6%	226,488	37.5%
Cumulative Preferred Stock, $100 Par Value per Share, 1,600,000 Shares Authorized (Notes 12 and 13):				
9.76% Series, 100,000 shares outstanding	10,000		10,000	
7.95% Series, 300,000 shares outstanding	30,000		30,000	
7.88% Series, 200,000 shares outstanding	20,000		20,000	
8.20% Series, 200,000 shares outstanding	20,000		20,000	
11.50% Series, 300,000 shares outstanding	30,000		-	
Cumulative Preferred Stock, $30 Par Value per Share, 1,600,000 Shares Authorized, None Outstanding	-		-	
Total cumulative preferred stock	110,000	13.9	80,000	13.3
Long-Term Debt:				
First mortgage bonds:				
[illegible] Series due [illegible]	-		[illegible]	
3-1/2% Series due November 1, 1977	5,750		5,750	
3-1/2% Second Series due November 1, 1977	2,798		2,798	
3-3/8% Series due November 1, 1984	7,919		8,300	
4-1/4% Series due September 1, 1985	11,840		12,160	
4-7/8% Series due June 1, 1987	7,600		7,800	
5-1/4% Series due June 1, 1990	12,000		12,300	
5-1/8% Series due November 1, 1991	10,800		10,950	
4-5/8% Series due February 1, 1993	13,664		13,812	
4-3/4% Series due June 1, 1993	16,425		16,650	
4-3/4% Series due April 1, 1994	16,650		16,875	
4.70% Series due March 1, 1995	13,125		13,300	
5-7/8% Series due June 1, 1996	11,400		11,550	
6.60% Series due October 1, 1997	22,725		22,775	
8-3/4% Series due April 1, 1977	20,000		20,000	
9-1/8% Series due November 1, 2000	20,000		20,000	
8% Series due November 1, 2001	20,000		20,000	
7-3/4% Series due November 1, 2002	20,000		20,000	
7.95% Series due April 1, 2003	35,000		35,000	
8-3/4% Series due October 1, 2003	17,000		17,000	
10-1/2% Series due December 1, 1980	40,000		-	
10% Series due April 1, 1982	40,000		-	
9-7/8% Series due June 1, 1985	27,000		-	
5-1/2% Sinking fund debentures due 1983 (Note 15)	10,500		10,875	
Real estate purchase contracts	503		743	
Total	402,725		326,130	
Unamortized premium on long-term debt	8		20	
Unamortized discount on long-term debt	(298)		(311)	
	402,435		325,839	
Less - Amounts included in current liabilities (Note 15):				
Long-term debt maturing within one year	-		[illegible]	
Current sinking fund requirements	2,386		[illegible]	
Total long-term debt	400,049	50.5	[illegible]	[illegible]
Total capitalization	$791,423	100.0%	[illegible]	[illegible]

The accompanying notes are an integral part of these statements.

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PORTLAND GENERAL ELECTRIC COMPANY AND SUBSIDIARY

STATEMENTS OF RETAINED EARNINGS FOR THE NINE MONTHS
AND TWELVE MONTHS ENDED SEPTEMBER 30, 1975 and 1974
(CONSOLIDATED AT SEPTEMBER 30, 1975 - NOTE 1)

(Unaudited)

	Nine Months Ended September 30		Twelve Months Ended September 30	
	1975	1974	1975	1974
	(Thousands of Dollars)			
Balance at Beginning of Period	$84,627	$77,452	$88,642	[illegible]
Add - Net Income	34,717	30,159	37,470	35,730
	119,344	[illegible]	[illegible]	[illegible]
Deduct:				
Dividends declared:				
On common stock	16,787	13,690	21,917	17,5[illegible]
On preferred stock	7,312	4,935	[illegible]	[illegible]
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	-	356	[illegible]	[illegible]
	24,099	18,9[illegible]	30,[illegible]	[illegible]
Balance at End of Period (Note 1)	$95,245	[illegible]	[illegible]	[illegible]

The accompanying notes are an integral part of these statements.

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PORTLAND GENERAL ELECTRIC COMPANY AND SUBSIDIARY

STATEMENTS OF SOURCES OF FUNDS INVESTED IN ELECTRIC UTILITY PLANT
FOR THE NINE MONTHS AND TWELVE MONTHS ENDED SEPTEMBER 30, 1975 AND 1974
(CONSOLIDATED AT SEPTEMBER 30, 1975 - NOTE 1)

(Unaudited)

	Nine Months Ended September 30		Twelve Months Ended September 30	
	1975	1974	1975	1974
	(Thousands of Dollars)			
Funds Generated Internally:				
Income available for common stock	$ [illegible]	$ 25,226	$ 28,520	[illegible]
Depreciation (including amounts charged to other accounts)	11,3[illegible]9	9,671	14,37[illegible]	[illegible]
Deferred income taxes (Note 3)	5,605	-	5,60[illegible]	[illegible]
Investment tax credit adjustments (Note [illegible])	(1,325)	1,202	[illegible]	[illegible]
Income taxes deferred in prior years (Note [illegible])	[illegible]	(492)	[illegible]	[illegible]
Allowance for funds used during construction	[illegible]	(12,289)	[illegible]	[illegible]
Reserve transferred to revenue (Note [illegible])	(1,985)	-	(1,9[illegible])	-
	24,73[illegible]	23,40[illegible]	25,0[illegible]	[illegible]
Less: Dividends declared on common stock	16,785	13,880	21,927	[illegible]
Total funds generated internally	[illegible]	[illegible]	[illegible]	[illegible]
Funds Provided from Outside Sources:				
Long-term debt	67,000	-	107,0[illegible]	[illegible],000
Preferred stock	30,000	-	30,000	-
Common stock	29,770	27,638	49,5[illegible]	27,6[illegible]
Short-term notes payable	126,512	85,212	163,532	[illegible]
Refinancing of short-term notes payable with long-term financing	(96,350)	(27,500)	(157,4[illegible])	[illegible]
Total funds from outside sources	156,9[illegible]	85,350	192,[illegible]	[illegible]
Other Funds Provided (Used):				
Retirement of long-term debt	(29,396)	(2,377)	(30,171)	(3,[illegible]53)
Change in net current assets excluding long-term debt due within one year and short-term notes payable	(1,833)	(14,275)	2,25[illegible]	[illegible]
Headquarters [illegible] (Note 2)	[illegible]	-	[illegible]	-
Allowance for funds used during construction	15,886	12,289	20,601	16,0[illegible]
Deferred income taxes credited to construction work in progress (Note 3)	(5,412)	-	(5,412)	-
Other - net	(10,033)	1,825	(9,830)	9,0[illegible]
Total other funds provided (used)	(38,3[illegible])	(4,53[illegible])	[illegible]	[illegible]
Funds Invested in Electric Utility Plant	$124,543	$ 90,535	$164,762	$15[illegible]

The accompanying notes are an integral part of these statements.

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NOTES TO FINANCIAL STATEMENTS
(Unaudited)

Notes 1 through 6 summarize the Company's significant accounting policies.

1. Principles of Consolidation. The September 30, 1975 financial statements include the accounts of the Company and its wholly owned subsidiary which was organized in April 1975 to own a headquarters complex currently under construction, which will be leased by the Company. All intercompany balances have been eliminated in such consolidated financial statements. Through September 30, 1975 the subsidiary has had no operations.

   The Company had incurred costs of $4,740,000 at September 30, 1974 on the headquarters complex and such amounts were included in Electric Utility Plant - Construction Work in Progress.

2. 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 [illegible] average [illegible] plant-in-service balances were 2.5% and 2.4% for the twelve months ended September 30, 1975 and 1974, respectively. 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 [illegible] plant account with the cost of renewals and replacements of property units and the depreciation reserve with the cost, less net salvage, of property units retired other than land.

3. Income Taxes. The Company's accounting for income taxes as described below has been authorized or ordered by the Commissioner:

   (a) Federal and state income taxes. The Company follows flow-through accounting (other than as discussed below) for reductions of income taxes resulting from various provisions in the tax laws (primarily accelerated depreciation and allowance for funds used during construction), which has the effect of passing such reductions on to the Company's customers. See Note 9 for details of income tax [illegible]

NOTES TO FINANCIAL STATEMENTS

(b) Investment tax credits. Effective January 1, 1972 the Company elected to defer the tax reductions resulting from job development investment tax credits. As a result of the accounting change, taxes on income were decreased by $322,000 and increased by $1,484,000 for the 12 months ended September 30, 1975 and 1974, respectively. The deferred tax reductions are being amortized to income over a 30-year period, the approximate life of the related properties.

(c) Income taxes deferred in prior years. Prior years' tax reductions attributable to the excess of 5-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. The amounts deferred are being restored to income over the 25 years following the amortization period.

(d) Deferred income taxes - capitalized interest. The Commissioner, in his December 23, 1974 rate order, required the Company, effective January 1, 1975, to defer the reduction of income taxes currently payable resulting from the deduction for income tax purposes of interest expense included in construction work in progress. The deferred tax reductions are credited to construction work in progress and will be amortized to income over the life of the related properties through reduced provisions for depreciation. As a result of the accounting change, provisions for deferred income taxes increased Taxes on Income for the nine months ended September 30, 1975 and therefore the twelve months then ended by $5,412,000. The effect of the accounting change was considered in establishing rates charged to customers after January 1, 1975, and there is no effect on the financial statements for periods ended on or before December 31, 1974.

(e) Deferred income taxes - liberalized depreciation - asset depreciation range (ADR). The Company plans to adopt ADR for utility plant placed in service during the year 1975 in computing depreciation for federal income tax purposes if the Trojan Nuclear Plant is placed in service during 1975. The Company has elected to defer the tax reductions attributable to the use of ADR over the tax depreciation which would result from previous methods. In computing income tax provisions for 1975, the Company has assumed that Trojan will be placed in service and, accordingly, the tax reductions attributable to the use of ADR are being deferred. As a result, provisions for deferred income taxes increased Taxes on Income for the twelve months ended September 30, 1975 by $191,000.

4. Allowance for Funds Used During Construction (ADC). ADC is defined in the Federal Power Commission (the "FPC") Uniform System of Accounts as the net cost for the period of construction of borrowed funds used for construction...

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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.

5. Debt Premium, Discount and Expense. Debt premium, discount, and expense are being amortized over the lives of the respective issues.

6. 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, 1974 (latest actuarial valuation date), which are not recorded in the accounts, are estimated to be $2,184,000 before income tax effects. This amount had not changed materially at September 30, 1975. Retirement plan costs were $1,7[illegible],000 and $1,[illegible],000 for the twelve months ended September 30, 1975 and 1974, respectively. Of these costs $[illegible] and $771,000 for the twelve months ended those dates were charged to operations with the balance charged to other than income accounts.

7. See Note 3 for the Company's method of accounting for reductions of taxes resulting from the deduction of additional depreciation for income tax purposes. The Trojan Nuclear Plant (the "Trojan Plant") is presently scheduled to commence generating electricity in 1975. It is the Company's position that if this schedule is met, the Trojan Plant will have been placed in service for income tax purposes during 1975 thereby resulting in additional tax depreciation. If the Trojan Plant is not placed in service during 1975, income taxes will increase by approximately $8,100,000; however, the Company by an order dated August 19, 1975 has been authorized by the Public Utility Commissioner of Oregon to defer any such increased income tax expense and to amortize the deferral during subsequent periods.

8. 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, constitutes a direct first mortgage lien on substantially all property and franchises, other than expressly excepted property, owned by the Company.

9. For the Company's accounting policies relating to income taxes see Note 3. 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.

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PORTLAND GENERAL ELECTRIC COMPANY AND SUBSIDIARY

NOTES TO FINANCIAL STATEMENTS

Note 9 (concluded)

	Twelve Months Ended September 30 1975	Twelve Months Ended September 30 1974
	(Thousands of Dollars)	
State Income Taxes:		
Charged to operating expenses and taxes:		
Currently payable	$ (125)	$ 92
Deferred income taxes - capitalized interest (Note 3)	635	-
Deferred in prior years	(8)	(8)
	$ 502	$ 84
Charged to other income and deductions - net (currently payable)	$ 44	$ 43
Federal Income Taxes:		
Charged to operating expenses and taxes:		
Currently payable	$(6,931)	$ (41[illegible])
Deferred income taxes - capitalized interest (Note 3)	4,777	-
Deferred income taxes - liberalized depreciation (Note 3)	191	-
Deferred in prior years	(533)	(533)
Investment tax credit adjustments	(322)	1,4[illegible]
	(2,818)	456
Charge to other income and deductions - net (currently payable)	260	279
Total	$(2,558)	$ 735
Computed Federal Income Taxes Applying Statutory Rate (48%) to Income Before Income Taxes	$17,023	$17,56[illegible]
Reductions in Taxes Resulting From:		
Excess tax over book depreciation	11,754	4,74[illegible]
Costs capitalized for books and expensed for tax	2,476	1,1[illegible]
Allowance for funds used during construction	9,184	7,[illegible]
Investment tax credit	(239)	325
Income taxes deferred in prior years	533	533
Interest on debt related to construction work in progress (Note 3)	(4,777)	--
Liberalized depreciation - ADR (Note 3)	(191)	--
State income taxes	(39)	66
Adjustments of prior years accrued income taxes	(203)	(2)
Property taxes expensed - excess tax over book	147	(47)
Transfer of reserve to revenues (Note 11)	955	-
Other minor items	146	383
Adjustments of book-recorded items resulting from using estimated annual effective tax rate for interim income tax accruals	(877)	[illegible]
	19,581	[illegible]
Federal income taxes	$(2,558)	$ 735
Company's effective rate	(7.2%)	2.0%

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[illegible] AND SUBSIDIARY

NOTES TO FINANCIAL STATEMENTS

10. Short-term borrowings consisted of the following:

	September 30 1975	September 30 1974
	(Thousands of Dollars)	
Bank loans(a)	$ 37,500	$ 71,000
Commercial paper(b)	33,100	-
Pollution control bonds (c)	27,000	27,000
Less: Bond held by the Company	(3,900)	-
Funds held in trust	(1,012)	(5,999)
Nuclear core notes(d)	31,265	25,825
Total short-term borrowings(e)	$123,953	$117,826

(a) Bank loans. The Company has a credit agreement with banks, [illegible] August 31, 1976, which provides that the Company may borrow, repay and reborrow from time to time up to a maximum amount of $150,000,000. The interest rate on the first $[illegible] of the [illegible] is the prime commercial rate in effect from time to time, and [illegible] balance is 115% of the prime commercial rate in effect from time to time. The credit agreement provides for a commitment fee of 1/2 of 1% per annum on the [illegible] commitment and a service fee determined [illegible] $[illegible],000 at the end of each quarter by the average daily prime commercial rate percentage in effect during such quarter. The unused commitment was $112,500,000 at September 30, 1975.

It is understood that the Company will maintain compensating cash balances under the credit agreement; however, there are no legal restrictions to the withdrawal of such balances. The compensating balances at September 30, 1975 were calculated as follows (thousands of dollars):

Compensating cash balance requirements	$10,50[illegible]
Less - "Float"*	[illegible]
	$ [illegible]

* "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.

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(c) Pollution control bonds. The Company has entered into an agreement with the Port of St. Helens, Oregon (the "Port") to provide long-term 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.

In November 1973, the Port issued $27,000,000 of short-term pollution control bonds to a bank on a private placement basis. Pending receipt of the tax ruling discussed below, such bonds were successively refunded and the Company anticipates that the 7-1/4% bonds presently outstanding will be refunded by 7-1/2% bonds to mature in May 1976. The Company has received $25,988,000 at September 30, 1975 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 long-term pollution control bonds to the public, and the proceeds will be used to refinance the $27,000,000 of short-term refunding 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 could be required to compensate the bank for the taxable status of the interest thereon.

(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 5/8 of 1% per annum on the average daily outstanding amount of such notes. In August 1975, the above-described agreement was supplemented to increase the maximum financing of nuclear cores from $35,000,000 to $45,000,000 and to increase the fee the Company must pay from 5/8 of 1% to 1%. The other terms and conditions of the agreement, as supplemented, remain substantially identical to those described above.

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.

(e) Aggregate short-term borrowings. The weighted average interest rate for the short-term borrowings outstanding at September 30, 1975 was 7.5%. During the twelve months ended September 30, 1975, the maximum amount of such borrowings outstanding was [illegible], the average daily amount outstanding was $103,260,000, and the weighted average daily interest rate was 8.7%. 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.

Continued - 12

NOTES TO FINANCIAL STATEMENTS

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 assumed jurisdiction over this reserve and ordered that no portion of it be disposed of without his permission. With the approval of the Commissioner, the Company transferred the $1,989,000 reserve to Operating Revenues in equal amounts during the months of February and March 1975 as a form of rate relief.

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	[illegible]
Outstanding, September 30, 1973	10,500,000	$39,375	800,000	$ 80,000	$ [illegible]
Sales of Stock	1,500,000	5,625	-	-	[illegible]
Outstanding, September 30, 1974	12,000,000	45,000	800,000	80,000	94,[illegible]
Sales of Stock	3,500,000	13,125	300,000	30,000	[illegible]
Outstanding, September 30, 1975	15,500,000	$58,125	1,100,000	$110,000	$[illegible]

13. The Cumulative Preferred Stock outstanding is redeemable at the option of the Company: 9.76% Series at $110 to November 1, 1980, 7.95% Series at $100 to July 1, 1977, 7.88% Series at $106 to April 1, 1978, 8.20% Series at $10[illegible] to July 1, 1978 and 11.50% Series at $111 to January 15, 1980. Each Series is redeemable at reduced amounts after such dates, respectively.

The 11.50% Series Cumulative Preferred Stock is entitled to a mandatory cash sinking fund sufficient to retire a minimum of 15,000 shares at $100 per share on January 15 of each year commencing in 1976. The Company has the option to retire through the operation of the sinking fund an additional 15,000 shares at $100 per share on January 15 of each year commencing in 1976.

14. Retained Earnings in the amount of $92,665,000 and $86,104,000 at September 30, 1975 and 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.

NOTES TO FINANCIAL STATEMENTS

15. 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 periods from September 30, 1975 through September 30, 1980.

	Sinking Fund Requirements			
	Aggregate Requirements	Bonds Reacquired as of September 30, 1975	Net Remaining Sinking Fund Requirements	First Mortgage Bonds and Debenture Maturities
	(Thousands of Dollars)			
1976	$3,128	$742	$2,386	$10,12[illegible]
1977	3,003	740	2,263**	20,0[illegible]
1978	3,253	359	2,894**	8,160
1979	3,661	1	3,660**	-
1980	3,[illegible]	-	3,874**	-

* Subsequent to September 30, 1975, the Company called its 5-1/2% Sinking Fund Debentures due 1983 for redemption on [illegible] 1, 1975. Sinking fund requirements shown for years 1977-1980 are exclusive of requirements for such debentures.

** Sinking funds in amounts of $250,000 in 1977, $725,000 in 1978, $1,458,000 in 1979, and $1,701,000 in 1980 may be satisfied by pledging available additions equal to 166-2/3% of the sinking fund requirement.

16. (a) New construction for the year 1975 is currently estimated at $167,000,000 excluding the new headquarters complex, currently under construction, which is owned by a subsidiary of the Company. Purchase commitments outstanding relating principally to construction totaled approximately $280,950,000 at September 30, 1975, excluding new headquarters complex commitments of approximately $20,150,000. Cancellations of the purchase commitments could result in substantial cancellation charges. 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 proportionate share of the operating and debt service costs of each project whether or not operable. The agreements provide that the districts [illegible] the plants to the extent deemed adequate by them. Significant statistics regarding these projects are as follows:

Kilowatts available to the Company (nameplate rating)	874,000
Estimated current annual operating and debt service costs	$13,800,000

(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 [illegible] reduce the "net investment" in the projects. The original license on the Oak Grove Hydroelectric Plant - Project No. 135 - expired in 1971 and the Company made application for a new license for that Project. The United States has not acted to take over the Project or [illegible] 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 [illegible] determination of [illegible] 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 No. 477 - expired in November 1974, and 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 [illegible] 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.

(d) The minimum annual rental commitments of the Company under all noncancelable leases at December 31, 1974 are as follows:

NOTES TO FINANCIAL STATEMENTS

	Basic	Noncapitalized Financing Leases	Sublease 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	[illegible]	[illegible]	-	[illegible]
Remainder	7,0[illegible]	18,442	-	[illegible]
Total	$[illegible]	$[illegible]	$(112)	$[illegible]

The rental commitments have not changed materially as of September 30, 1975.

During 1973 and 1974 the Company entered into 25-year leases of combustion turbine [illegible]. The total lease payments for the combustion turbines represent $104,196,000 of the amounts shown above as noncapitalized financing leases. The present value of these leases computed upon the 5.90% interest rates (1973 leases) and 6.56% interest rates (1974 leases) implicit in the leases was approximately $52,429,000 at September 30, 1975. In the event of certain contingencies the Company could 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, 1974 and the twelve months ended September 30, 1975, 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.

Exhibit B

ARTHUR ANDERSEN & CO.

MORGAN BUILDING
PORTLAND, OREGON 97205

October 27, 1975

To Portland General Electric Company:

The Company follows flow-through accounting for reductions of income taxes resulting from the deduction of additional depreciation for income tax purposes. We have been informed that the Company plans to elect the Asset Depreciation Range System (ADR) for electric utility plant placed in service during the year 1975 in computing depreciation for Federal income tax purposes if the Trojan Nuclear Plant is placed in service during 1975. If such an election is made, the Company plans to provide deferred taxes for the difference between depreciation [illegible] and depreciation computed by methods previously used. This treatment has been approved by the Public Utility Commissioner of Oregon in Order #75-[illegible], dated August 19, 1975. In computing the income tax provisions for the nine month and twelve month periods ended September 30, 1975, the Company has assumed that the Trojan Nuclear Plant will be placed in service and, as a result, tax reductions attributable to the use of ADR are being deferred. In our opinion, this is an acceptable method. It should be noted that we have not audited the application of this change to the financial statements of any period. Accordingly, our comment thereon is subject to completion of our year-end audit examination. Further, we have not examined and do not express any opinion with respect to the Company's financial statements for the nine months or twelve months ended September 30, 1975.

Exhibit A

PORTLAND GENERAL ELECTRIC COMPANY

ELECTRIC BUILDING
621 S.W. ALDER STREET
PORTLAND, OREGON [illegible]

To Those Concerned:

As more fully discussed in Note [illegible], the accompanying June 30, 1975 [illegible] financial statements have been prepared on the basis that the Trojan [illegible] Plant ("Trojan Plant") will be placed in service for income tax purposes [illegible] 1975. If the Trojan Plant is not placed in service for income tax [illegible] during 1975, Taxes on Income for the six months, and therefore for the [illegible] months ended June 30, 1975, would increase by approximately $5,[illegible],000.

In the opinion of the Company, subject to the effects, if any, on the [illegible] solidated financial statements [illegible] June 30, 1975 and for the six [illegible] twelve months then ended of the in-service date of the Trojan Plant as discussed above, the accompanying financial statements and related notes reflect all adjustments necessary to present fairly the financial position of Portland General Electric Company and subsidiary (see Note 1) as of June 30, 1975 and 1974, and the results of their operations and sources of funds invested in electric utility plant for the six months and twelve months ended those dates, and were prepared in conformity with generally accepted accounting principles applied in all material respects, except for the change in accounting for deferred income taxes as described in Note 3(c), on a consistent basis during the periods.

PORTLAND GENERAL ELECTRIC COMPANY

By /s/ James N. Woodcock

James N. Woodcock, Treasurer

August 1, 1975

PORTLAND GENERAL ELECTRIC COMPANY AND SUBSIDIARIES

STATEMENTS OF INCOME FOR THE SIX MONTHS AND TWELVE MONTHS ENDED JUNE 30, 1975 AND 1974 (CONSOLIDATED AT JUNE 30, 1975 - NOTE 1)

(Unaudited)

	Six Months Ended June 30 1975	Six Months Ended June 30 1974	Twelve Months Ended June 30 1975	Twelve Months Ended June 30 1974
	(Thousands of Dollars)			
Operating Revenues (Note 11)	$ 90,315	$ 76,482	$ 159,834	$ [illegible]
Operating Expenses and Taxes:				
Operation:				
Power purchased and interchange - net	[illegible]	[illegible]	[illegible]	[illegible]
Production	4,6[illegible]	3,3[illegible]	8,774	[illegible]
Transmission and distribution	4,109	3,711	8,3[illegible]	[illegible]
Administrative and general	5,89[illegible]	7,196	16,5[illegible]	[illegible]
Maintenance (Note [illegible])	3,47[illegible]	3,15[illegible]	[illegible]	[illegible]
Depreciation, amortization and interest on [illegible] Sinking Fund Method (Note 2)	6,91[illegible]	5,9[illegible]	13,0[illegible]	[illegible]
Taxes other than income taxes	8,213	6,83[illegible]	15,72[illegible]	[illegible]
Taxes on Income (Notes 3, [illegible] and [illegible]):				
State	[illegible]	[illegible]	[illegible]	[illegible]
Federal	[illegible]	[illegible]	[illegible]	[illegible]
Disposition of utility plant [illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Total operating expenses and taxes	[illegible]	[illegible]	[illegible]	[illegible]
Utility operating income	35,956	20,179	51,341	[illegible]
Other Income:				
Allowance for funds used during construction (Note 4)	6,954	7,625	15,500	[illegible]
Other income and deductions - net	(922)	130	(257)	[illegible]
Gross income	45,625	38,734	70,412	[illegible]
Interest Charges:				
Interest on long-term debt	[illegible]	[illegible]	[illegible]	[illegible]
Interest on short-term notes [illegible]	[illegible]	3,[illegible]	[illegible]	[illegible]
Other interest and amortization	[illegible]	[illegible]	[illegible]	[illegible]
Total interest charges	[illegible]	[illegible]	[illegible]	[illegible]
Net Income (Note 7)	27,999	24,894	36,073	[illegible]
Preferred Dividend Requirement	4,805	3,288	8,094	[illegible]
Income Available for Common Stock (Note 7)	$ 23,194	$ 21,606	$ 27,979	$ [illegible]
Average Common Shares Outstanding	13,500,000	11,500,000	13,125,000	11,000,[illegible]
Earnings per Average Common Share (Note 7)	$ 1.72	$ 1.88	$ 2.13	$ [illegible]
Dividends Declared per Common Share	$ .79	$ .76	$ 1.55	$ [illegible]

The operating results for interim periods are not necessarily indicative of results to be expected for the year due to the [illegible] nature of the Company's operations.

The accompanying notes are an integral part of these statements.

Exhibit [illegible]-1

PORTLAND GENERAL ELECTRIC COMPANY AND SUBSIDIARY

BALANCE SHEETS AS OF JUNE 30, 1975 AND 1974
(CONSOLIDATED AT JUNE 30, 1975 - NOTE 1)

(Unaudited)

Assets

	June 30 1975	June 30 1974
	(Thousands of Dollars)	
Electric Utility Plant:		
In service, at original cost (Note 8)	$587,930	$526,151
Less - Reserve for depreciation (Note 2)	104,458	94,916
	483,472	431,2[illegible]
Construction work in progress, including $247,[illegible],030 for the Trojan Nuclear Plant at June 30, 1975 (Note 8)	335,0[illegible]	25[illegible]
Nuclear fuel	30,607	26,[illegible]
	849,0[illegible]	[illegible]
Other Property and Investments:		
Construction work in progress, headquarters complex (Note 2)	10,1[illegible]	-
Nonutility property, substantially at cost, less reserves	2,16[illegible]	[illegible]
Sales contracts receivable and other	2,62[illegible]	[illegible]
	14,9[illegible]	[illegible]
Current Assets:		
Cash (Note 10)	12,175	10,[illegible]
Receivables:		
Customers' accounts	9,302	7,595
Other accounts and notes	3,850	674
Reserve for uncollectible accounts	(467)	([illegible])
Materials and supplies, at average cost:		
Fuel oil	19,2[illegible]	3,[illegible]
Other	9,46[illegible]	5,7[illegible]
Prepayments	1 597	1,651
	55,162	29,[illegible]
Deferred Charges:		
Preliminary engineering and survey costs on proposed generating plants	5,986	3,058
Unamortized debt expense	3,018	1,9[illegible]
Other deferred charges	2,643	1,1[illegible]
	11,647	6,1[illegible]
	$930,836	$754,[illegible]

The accompanying notes are an integral part of these statements.

Continued - 2

PORTLAND GENERAL ELECTRIC COMPANY AND SUBSIDIARY

BALANCE SHEETS AS OF JUNE 30, 1975 AND 1974
(CONSOLIDATED AT JUNE 30, 1975 - NOTE 1)

(Unaudited)

Liabilities

	June 30	
	1975	1974
	(Thousands of Dollars)	
Capitalization (See Accompanying Statements):		
Common stock equity	$[illegible]	$[illegible]
Cumulative preferred stock	116,000	[illegible]
Long-term debt	400,379	[illegible]
Total capitalization	[illegible]	[illegible]
Current Liabilities:		
Current sinking fund requirements on long-term debt	2,386	2,[illegible]
Short-term notes payable (Note 10)	102,666	[illegible]
Accounts payable	[illegible]	[illegible]
[illegible] payable	[illegible]	[illegible]
Dividends payable	7,839	6,[illegible]
Accrued general taxes	4,1[illegible]	3,[illegible]
Accrued income taxes (Note 3)	403	[illegible]
Accrued interest	6,[illegible]	[illegible]
	156,[illegible]	[illegible]
Other:		
Deferred income taxes - accelerated amortization (Note 3)	6,73[illegible]	7,[illegible]
Deferred investment tax credits (Note 2)	3,5[illegible]	[illegible]
Possible additional income taxes and other contingencies (Note 11)	-	1,[illegible]
Miscellaneous	324	[illegible]
	10,598	13,[illegible]
Commitments and Contingent Liabilities (Note 16)		
	$930,836	$75[illegible]

The accompanying notes are an integral part of these statements.

Continued - 3

PORTLAND GENERAL ELECTRIC COMPANY AND SUBSIDIARY

STATEMENTS OF CAPITALIZATION AS OF JUNE 30, 1975 AND 1974
[illegible]

(Unaudited)

	June 30 1975		June 30 1974	
	(Thousands of Dollars)			
Common Stock Equity:				
Common stock, $3.75 par value per share, 20,000,000 shares authorized, 13,500,000 and 12,000,000 shares outstanding at June 30, 1975 and 1974 (Note 12)	$ 50,625		$ 45,000	
Other paid-in capital (Note 12)	108,146		94,196	
Capital stock expense	(2,397)		(1,250)	
Retained earnings (Note 1?)	97,155		8[illegible]	
Total common stock equity	253,529	35.2%	227,7[illegible]	[illegible]
Cumulative Preferred Stock, $100 Par Value per Share, 1,600,000 Shares Authorized (Note 1[illegible])				
9.76% Series, 100,000 shares outstanding	10,000		10,[illegible]	
7.95% Series, 300,000 shares outstanding	30,000		30,[illegible]	
7.8[illegible]% Series, [illegible] shares outstanding	20,[illegible]		[illegible]	
[illegible] Series, [illegible] shares outstanding	[illegible]		[illegible]	
11.56% Series, [illegible] shares outstanding	[illegible]		-	
Cumulative Preferred Stock, $25 Par Value per Share, 1,000,000 Shares Authorized, None Outstanding	-		-	
Total cumulative preferred stock	[illegible]	14.4	[illegible]	12.?
Long-Term Debt:				
First mortgage bonds:				
3-1/8% Series due July 1, 1975	27,199		27,[illegible]	
3-1/2% Series due November 1, 1977	5,758		6,[illegible]	
3-1/2% Second Series due November 1, 1977	2,[illegible]		[illegible]	
3-7/8% Series due November 1, 1980	7,819		8,[illegible]	
4-1/4% Series due September 1, 1984	12,1[illegible]		[illegible]	
4-7/8% Series due June 1, 1987	7,600		7,7[illegible]	
5-1/4% Series due June 1, 1990	12,000		12,[illegible]	
5-1/8% Series due November 1, 1991	10,100		10,[illegible]	
4-5/8% Series due February 1, 1993	15,6[illegible]		15,792	
4-3/4% Series due June 1, 1993	16,425		16,[illegible]	
4-3/4% Series due April 1, 1994	16,[illegible]		[illegible]	
4.70% Series due March 1, 1995	1[illegible],125		[illegible]	
5-7/8% Series due June 1, 1996	13,400		[illegible]	
6.60% Series due October 1, 1997	2[illegible]		[illegible]	
8-3/4% Series due April 1, 1977	20,000		20,[illegible]	
9-7/8% Series due November 1, 2000	20,000		20,[illegible]	
8% Series due November 1, 2001	20,000		20,000	
7-3/4% Series due November 1, 2002	20,000		20,000	
7.95% Series due April 1, 2003	35,000		35,000	
8-3/4% Series due October 1, 2003	17,000		17,000	
10-1/2% Series due December 1, 1980	40,000		-	
10% Series due April 1, 1982	40,000		-	
9-7/8% Series due June 1, 1985	27,000		-	
5-1/2% Sinking fund debentures due June 1, 1993	10,500		10,875	
Real estate purchase contracts	517		[illegible]	
Total	430,256		[illegible]	
Unamortized premium on long-term debt	9		24	
Unamortized discount on long-term debt	(301)		[illegible]	
	429,964		[illegible]	
Less - Current sinking fund requirements included in current liabilities (Note 15)	2,386		2,[illegible]	
Less - Amount deposited to pay at maturity First Mortgage Bonds, 3-1/8% Series due July 1, 1975	27,199		-	
Total long-term debt	[illegible]	[illegible]	[illegible]	[illegible]
Total capitalization	$70[illegible]	100.0%	[illegible]	[illegible]

The accompanying notes are an integral part of these statements.

Continued - 4

PORTLAND GENERAL ELECTRIC COMPANY AND SUBSIDIARY

STATEMENTS OF RETAINED EARNINGS FOR THE SIX MONTHS AND TWELVE MONTHS ENDED JUNE 30, 1975 AND 1974 (CONSOLIDATED AT JUNE 30, 1975 - NOTE 1)

(Unaudited)

	Six Months Ended June 30		Twelve Months Ended June 30	
	1975	1974	1975	[illegible]
	(Thousands of Dollars)			
Balance at Beginning of Period	$ 84,626	$ 77,432	$ 89,920	$ [illegible]
Add - Net Income (Note 7)	27,999	24,896	36,093	[illegible]
	112,625	102,328	[illegible]	[illegible]
Deduct:				
Dividends declared:				
On common stock	10,665	9,130	20,[illegible]	[illegible]
On preferred stock	4,805	3,288	8,09[illegible]	[illegible]
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	[illegible]
	15,470	12,408	28,8[illegible]	[illegible]
Balance at End of Period (Note 14)	$ 97,155	$ 89,920	$ 97,155	[illegible]

The accompanying notes are an integral part of these statements.

Continued - 5

PORTLAND GENERAL ELECTRIC COMPANY AND SUBSIDIARY

STATEMENTS OF SOURCES OF FUNDS INVESTED IN ELECTRIC UTILITY PLANT
FOR THE SIX MONTHS AND TWELVE MONTHS ENDED JUNE 30, 1975 AND 1974
(CONSOLIDATED AT JUNE 30, 1975 - NOTE 1)

(Unaudited)

	Six Months Ended June 30		Twelve Months Ended June 30	
	1975	1974	1975	1974
	(Thousands of Dollars)			
Funds Obtained Internally:				
Income available for common stock	$ 21,1[illegible]	$23,[illegible]	$ 37,[illegible]	$ [illegible]
Depreciation (including amounts charged to other accounts)	7,424	6,424	13,[illegible]	12,[illegible]
Deferred income taxes (Note 3)	3,369	-	3,[illegible]	-
Investment tax credit adjustments (Note 3)	(883)	1,4[illegible]	([illegible])	[illegible]
Income taxes deferred in prior years (Note [illegible])	[illegible]	[illegible]	[illegible]	[illegible]
Allowance for funds used during construction	(9,9[illegible])	(7,[illegible])	(19,[illegible])	([illegible])
Reserve transferred to revenue (Note 11)	(1,[illegible])	-	(1,9[illegible])	-
	23,8[illegible]	[illegible]	35,0[illegible]	[illegible]
Less dividends declared on common stock	10,665	9,1[illegible]	20,3[illegible]	16,[illegible]
Total funds obtained internally	[illegible]	[illegible]	[illegible]	[illegible]
Funds Provided from Outside Sources:				
Long-term debt	67,000	-	107,000	[illegible]
Preferred stock	30,000	-	30,000	[illegible]
Common stock	-	27,6[illegible]	19,[illegible]	[illegible]
Short-term notes payable	75,6[illegible]	66,[illegible]	154,[illegible]	[illegible]
Refinancing of short-term notes payable with long-term financing	(65,[illegible])	([illegible])	([illegible])	[illegible]
Total funds from outside sources	$[illegible]	[illegible]	[illegible]	[illegible]
Other Funds Provided (Used):				
Retirement of long-term debt	(25,076)	(1,701)	(33,527)	(3,[illegible])
Change in net current assets excluding long-term debt due within one year and short-term notes payable	([illegible])	(11,[illegible])	(4,[illegible])	([illegible])
Headquarters complex (Note 1)	(4,6[illegible])		([illegible])	
Allowance for funds used during construction	9,99[illegible]	7,655	19,[illegible]	14,[illegible]
Deferred income taxes credited to construction work in progress (Note 3)	(3,369)	-	(3,369)	-
Other - net	(6,0[illegible])	1,310	(5,342)	[illegible]
Total other funds provided (used)	(37,184)	(4,[illegible])	([illegible])	[illegible]
Funds Invested in Electric Utility Plant	$ 76,869	$52,556	$154,284	$14[illegible]

* Includes reimbursement by lessor for progress payments made by the Company for combustion turbines at two generating plants, resulting in $18,571,000 of funds provided.

The accompanying notes are an integral part of these statements.

PORTLAND GENERAL ELECTRIC COMPANY AND SUBSIDIARY

NOTES TO FINANCIAL STATEMENTS

(Unaudited)

Notes 1 through 6 summarize the Company's significant accounting policies.

1. Principles of Consolidation. The June 30, 1975 financial statements include the accounts of the Company and its wholly owned subsidiary which was organized in April 1975 to own a headquarters complex currently under construction, a portion of which will be leased by the Company. All intercompany balances have been eliminated in such consolidated financial statements. Through June 30, 1975 the subsidiary has had no operations.

   The Company had incurred costs of $3,956,000 at June 30, 1974 on the headquarters complex and such amounts were included in Electric Utility Plant - Construction Work in Progress.

2. 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 are both shown under Operating Expenses. The percentage of provisions for depreciation (including the annuity and interest portions) to the total average depreciable plant-in-service balances were 2.5% and 2.4% for the twelve months ended June 30, 1975 and 1974, respectively. 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.

3. Income Taxes. The Company's accounting for income taxes as described below has been authorized or ordered by the Commissioner:

   (a) Federal and state income taxes. The Company follows flow-through accounting (other than as discussed below) for reductions of income taxes resulting from various provisions in the tax laws (primarily accelerated depreciation and allowance for funds used during construction), thus passing on the benefit of such reductions to the Company's customers. See Note 9 for details of income tax reductions.

PORTLAND GENERAL ELECTRIC COMPANY AND SUBSIDIARY

NOTES TO FINANCIAL STATEMENTS

(b) Investment tax credits. Effective January 1, 1972 the Company elected to defer the tax reductions resulting from job development investment tax credits. As a result of the accounting change, taxes on income were decreased by $298,000 and increased by $1,907,000 for the 12 months ended June 30, 1975 and 1974, respectively. The deferred tax reductions are being amortized to income over a 30-year period, the approximate life of the related properties.

(c) Income taxes deferred in prior years. Prior years' tax reductions attributable to the excess of 5-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. The amounts deferred are being restored to income over the 25 years following the amortization period.

(d) Deferred income taxes. The Commissioner, in his December 23, 1974 order, required the Company, effective January 1, 1975, to defer the reduction of income taxes currently payable resulting from the deduction for tax purposes of interest expense included in [illegible] in progress. The deferred tax reductions are credited to construction work in progress and will be amortized to income over the life of the related properties through reduced provisions for depreciation. As a result of the accounting change, provisions for deferred income taxes increased Taxes on Income for the six months ended June 30, 1975 and therefore the twelve months then ended by $3,306,000. The effect of the accounting change was considered in establishing rates charged to customers after January 1, 1975, and there is no effect on the financial statements for periods ended on or before December 31, 1974.

4. Allowance for Funds Used During Construction (ADC). ADC is defined in the Federal Power Commission (the "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.

5. Debt Premium, Discount and Expense. Debt premium, discount, and expense are being amortized over the lives of the respective issues.

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PORTLAND GENERAL ELECTRIC COMPANY AND SUBSIDIARY

NOTES TO FINANCIAL STATEMENTS

6. 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, 1974 (latest actuarial valuation date), which are not recorded in the accounts, are estimated to be $2,184,000 before income tax offsets. This amount had not changed materially at June 30, 1975. Retirement plan costs were $1,694,000 and $1,520,700 for the twelve months ended June 30, 1975 and 1974, respectively. Of these costs $819,000 and $807,900 for the twelve months ended those dates were charged to operations, with the balance charged to other than income accounts.

7. As discussed in Note 3, the Company follows flow-through accounting for reductions of income taxes resulting from the deduction of additional depreciation for income tax purposes. The Trojan Nuclear Plant (the "Trojan Plant") is presently scheduled to commence [illegible] operation [illegible]. It is the Company's position that if this schedule is met, the Trojan Plant will have been placed in service for income tax purposes during 1975, thereby resulting in additional tax depreciation. Because of a number of factors, including the complexity of nuclear plants and the stringency of operating and safety standards applicable to testing and start-up procedures, if the work and procedures remaining do not proceed on schedule for any reason, the Trojan Plant may not be placed in service during 1975.

The June 30, 1975 Consolidated Financial Statements have been prepared on the basis that the Trojan Plant will be placed in service for income tax purposes during 1975. Accordingly, income tax provisions have been calculated by using an estimated 2.0% effective tax rate for the year 1975. If the Trojan Plant is not placed in service during 1975, the estimated effective tax rate for the year 1975 would be approximately 21%. An increase in the estimated effective tax rate for the six months ended June 30, 1975 from 2.0% to 21% would increase Taxes on Income, and reduce Net Income and Income Available for Common Stock, for such six months, and therefore for the twelve months ended June 30, 1975, by approximately $[illegible] and would reduce Earnings per Average Common Share for the twelve months ended June 30, 1975 by approximately $[illegible]. Due to the seasonal nature of the Company's operations and other [illegible], it is estimated that the impact on earnings for the full year 1975 would be less than that of the first six months of 1975 on an annualized basis.

8. 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, constitutes a direct first mortgage lien on substantially all property and franchises, other than expressly excepted property, owned by the Company.

9. For the Company's accounting policies relating to income taxes see Note 3. The following table shows the detail of taxes on income and the items used in accounting for differences between the statutory Federal income tax rate and the Company's effective tax rate.

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PORTLAND GENERAL ELECTRIC COMPANY AND SUBSIDIARY

NOTES TO FINANCIAL STATEMENTS

Note 9 (concluded)

	Twelve Months Ended June 30 1975	Twelve Months Ended June 30 1974
	(Thousands of Dollars)	
State Income Taxes:		
Charged to operating expenses and taxes:		
Currently payable	$ (308)	$ 259
Deferred income taxes (Note 3)	395	-
Deferred in prior years	(8)	(8)
	$ 79	$ 251
Charged to other income and deductions - net	$ 55	$ [illegible]
Federal Income Taxes:		
Charged to operating expenses and taxes:		
Currently payable	$(5,661)	$ [illegible]
Deferred income taxes (Note 3)	2,874	[illegible]
Deferred in prior years	(533)	[illegible]
Investment tax credit adjustments	(2[illegible])	[illegible]
	(3,52[illegible])	[illegible]
Charged to other income and deductions - net	217	[illegible]
Total	$[illegible]	$[illegible]
Computed Federal Income Taxes Applying Statutory Rate (48%) to Income Before Income Taxes	$15,018	$12,002
Reductions in Taxes Resulting From:		
Excess tax over book depreciation	9,854	[illegible]
Costs capitalized for books and expensed for tax	2,150	[illegible]
Allowance for funds used during construction	9,265	6,1[illegible]
Investment tax credit	47	154
Income taxes deferred in prior years	533	571
Interest on debt related to construction work in progress (Note 3)	(2,8[illegible])	
State income taxes	203	[illegible]
Adjustments of prior years' accrued income taxes	(389)	[illegible]
Property taxes expensed - excess tax over book	453	250
Transfer of reserve to revenues (Note 11)	955	-
Other minor items	138	289
Adjustments of book-recorded items resulting from using estimated annual effective tax rate for interim income tax accruals	(1,296)	[illegible]
	19,019	[illegible]
Federal Income Taxes	$(3,201)	$ [illegible]
Company's effective rate	(9.7%)	[illegible]

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10. Short-term borrowings consisted of the following:

	June 30 1975	June 30 1974
	(Thousands of Dollars)	
Bank loans(a)	$ 24,000	$37,000
Commercial paper(b)	28,750	-
Pollution control bonds (c)	27,000	27,000
Less: Bond held by the Company	(3,900)	-
Funds held in trust	(1,484)	(9,418)
Nuclear core notes(d)	28,300	22,750
Total short-term borrowings(e)	$[illegible]	$[illegible]

(a) Bank loans. The Company has a credit agreement with banks, maturing August 31, 197[illegible], which provides that the Company may borrow, repay and [illegible] up to a maximum amount of $150,[illegible]. 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 is 115% of the prime commercial rate in effect from time to time. The credit agreement [illegible] commitment fee of [illegible] per annum on the unused commitment and a [illegible] $1,875,000 at the end of each quarter by the average daily prime commercial rate percentage in effect during such quarter. The unused commitment was $120,000,000 at June 30, 1975.

It is understood that the Company will maintain compensating cash balances under the credit agreement; however, there are no legal restrictions to the withdrawal of such balances. The compensating balances at June 30, 1975 were calculated as follows (thousands of dollars):

Compensating cash balance requirement	$10,[illegible]
Less - "Float"*	[illegible]
	$ 9,6[illegible]

* "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 [illegible] by the [illegible] for the purpose of back-up support for such commercial paper.

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NOTES TO FINANCIAL STATEMENTS

(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.

The Port has issued $27,000,000 of 7-1/4% short-term refunding pollution control bonds to a bank on a private placement basis. The Company had received $25,516,000 at June 30, 1975 for completed pollution control facilities, the balance of the proceeds having been placed in trust for investment pending completion of the facilities. The short-term refunding pollution control bonds mature in November 1975.

The Port plans to issue up to $60,000,000 of long-term pollution control bonds to the public, [illegible] portion of the proceeds will be used to refinance the $27,000,000 of short-term refunding pollution control bonds. The issuance of the long-term pollution control bonds is contingent upon obtaining a favorable tax ruling from the Internal Revenue Service. If a favorable tax ruling is not received, the lease and [illegible] will be terminated and the Company will repay the short-term refunding pollution control bonds then outstanding and compensate the Port for the [illegible] of the [illegible] thereto.

(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 5/8 of 1% per annum on the average daily outstanding amount of such notes. The Company is presently negotiating to increase the Trojan fuel financing up to a maximum of $65,000,000. The Company anticipates that the 5/8 of 1% fee referred to above will increase to approximately 1% per annum.

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.

(e) Aggregate short-term borrowings. The weighted average interest rate for the short-term borrowings outstanding at June 30, 1975 was 6.6%. During the twelve months ended June 30, 1975, the maximum amount of such borrowings outstanding was $141,076,000, the average daily amount outstanding was [illegible], and the weighted average daily interest rate was 9.6%. 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.

NOTES TO FINANCIAL STATEMENTS

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 assumed jurisdiction over this reserve and ordered that no portion of it be disposed of without his permission. With the approval of the Commissioner the Company transferred the reserve to Operating Revenues in equal amounts during the months of February and March 1975 as a form of rate relief.

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
	Number of Shares	$3.75 Par Value	Number of Shares	$100 Par Value	Paid-in Capital
Outstanding, June 30, 1973	10,550,[illegible]	[illegible]	600,000	$ 60,000	[illegible]
Sales of Stock	1,500,000	5,625	200,000	20,000	[illegible]
Outstanding, June 30, 1974	12,0[illegible]	45,[illegible]	800,000	80,000	[illegible]
Sales of Stock	1,500,000	5,625	300,000	30,000	[illegible]
Outstanding, June 30, 1975	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

13. The Cumulative Preferred Stock outstanding is redeemable at the option of the Company: 9.70% Series at $110 to November 1, 1980, 7.95% Series at $100 to July 1, 1977, 7.88% Series at [illegible] to April 1, 1978, 8.20% Series at [illegible] to July 1, 1978, and 11.50% Series at $111 to January 15, 1980. Each Series is redeemable at reduced amounts after such dates, respectively.

The 11.50% Series Cumulative Preferred Stock is entitled to a mandatory cash sinking fund sufficient to retire a minimum of 15,000 shares at $100 per share on January 15 of each year commencing in 1976. The Company has the option to retire, through the operation of the sinking fund, an additional [illegible] at $100 per share on January 15 of each year commencing in 1976.

14. Retained Earnings in the amount of $94,576,000 and $87,143,000 at June 30, 1975 and 1974, respectively, 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.

NOTES TO FINANCIAL STATEMENTS

15. 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 periods from June 30, 1975 through June 30, 1980.

	Sinking Fund Requirements			
	Aggregate Requirements	Bonds Reacquired as of June 30, 1975	Net Remaining Sinking Fund Requirements	First Mortgage Bond Maturities
	(Thousands of Dollars)			
1976	$3,128	$742	$2,386	$ -*
1977	3,370	[illegible]	3,[illegible]**	30,[illegible]
1978	3,628	359	3,269**	8,[illegible]
1979	4,036	1	4,035**	-
1980	4,[illegible]	-	4,[illegible]**	-

* Prior to June 30, 1975, funds for the payment at maturity (July 1, 1975) of $27,[illegible],000 principal amount of first mortgage bonds [illegible] deposited in trust with the trustee [illegible] said bonds and upon such deposit such bonds ceased to be outstanding.

** Sinking funds in amounts of $[illegible],000 in 1977, $725,000 in 1978, $1,488,000 in 1979, and $1,761,000 in 1980 may be satisfied by pledging available additions equal to 166 2/3% of the sinking fund requirement.

16. (a) New construction for the year 1976 is currently estimated at $[illegible],000,000 excluding the new headquarters complex, currently under construction, which is owned by a subsidiary of the Company. Purchase commitments outstanding relating principally to construction totaled approximately $215,600,000 at June 30, 1975, excluding new headquarters complex commitments of approximately $7,500,000. Cancellation of the purchase commitments could result in substantial cancellation charges. 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 [illegible] to [illegible], for portions of power from public utility district plants [illegible]. [illegible] share of the operating and debt service costs of each project whether or not operable. The agreements provide that the districts [illegible]

[illegible] ELECTRIC COMPANY AND SUBSIDIARY

NOTES TO FINANCIAL STATEMENTS

the plants to the extent deemed adequate by them. Significant statistics regarding these projects are as follows:

Kilowatts available to the Company (nameplate rating)	874,700
Estimated current annual operating and debt service costs	$13,800,000

(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 [illegible] specified [illegible] reduce the "net investment" in the projects. The original license [illegible] Hydroelectric Plant - Project No. 135 expired in 1972 and [illegible] States has not [illegible] to take over the project [illegible] Annual licenses have been issued on the same terms and conditions as the original license. [illegible] "net investment" [illegible] annual license will not have a significant effect on the financial [illegible] of the Company.

The remaining major licenses expire from 2001 to [illegible]. The minor part [illegible] on the Bull Run Hydroelectric Plant - License No. [illegible] - expired [illegible] 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 [illegible] Act. [illegible] expire between [illegible] and 2011. [illegible] except one, contains provisions similar to the Federal Power Act 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.

(d) The minimum annual rental commitments of the Company under all noncancellable leases at December 31, 1974 are as follows:

	Basic	Noncapitalized Financing Leases	Sublease 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)	5,26[illegible]
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	-	23,78[illegible]
1990-1994	1,606	21,713	-	23,3[illegible]
Remainder	7,031	[illegible]	-	[illegible]
Total	$18,664	$105,[illegible]	$(112)	$[illegible]

The rental commitments have not changed materially as of June 30, 197[illegible].

During 1973 and 1974 the Company entered into 25-year leases of combustion turbines located at three of its generating plants. The total lease [illegible] ... above as noncapitalized financing leases. The present value of [illegible] computed upon the 5.90% interest rates (1973 leases) and 8.56% [illegible] rates (1974 leases) implicit in the leases was approximately $52,[illegible] at June 30, 1975. In the event of certain contingencies the Company [illegible] be required to purchase the turbines from the lessor at a maximum [illegible] of $19,261,000 in 1975 and at decreasing amounts thereafter. Such [illegible] 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. [illegible] all other leases with options to renew provide for [illegible] amount of rental at the time of exercising such options. [illegible] with options to purchase are not material.

If all noncapitalized financing leases had been capitalized during the years 1972, 1973, 1974 and the twelve months ended June 30, 1975, 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.

PORTLAND GENERAL ELECTRIC COMPANY

To Those Concerned:

As more fully discussed in Note 6, the accompanying financial statements have been prepared on the [illegible] Trojan [illegible] will be placed in service for income tax purposes during 1975. [illegible] Trojan is not placed in service for income tax purposes during [illegible] Taxes on income for the three months and twelve months ended March 31, 1975 would be increased by [illegible].

In the opinion of the Company, subject to the effects, if any, on the financial statements as of March 31, 1975 and for the three months [illegible] above, the accompanying [illegible] all adjustments necessary to present fairly the financial position of Portland General Electric Company as of March 31, 1975 and 1974, and the results of its operations and sources of funds invested in electric utility plant for the three months and twelve months then ended and were prepared in conformity with generally accepted accounting principles applied in all material respects, except for the change in accounting for deferred income taxes as described in Note 2(d), on a consistent basis during the periods.

PORTLAND GENERAL ELECTRIC COMPANY

By ______________________________
James N. Woodcock, Treasurer

May 8, 1975

PORTLAND GENERAL ELECTRIC COMPANY

STATEMENTS OF INCOME FOR THE THREE MONTHS AND
TWELVE MONTHS ENDED MARCH 31, 1975 AND 1974
(Unaudited)

	Three Months Ended March 31		Twelve Months Ended March 31	
	1975	1974	1975	1974
	(Thousands of Dollars)			
Operating Revenues (Note 10)	$48,245	$42,046	$152,200	$133,[illegible]
Operating Expenses and Taxes:				
Operation:				
Power purchased and interchange - net	13,137	8,790	41,732	32,460
Production	2,302	1,924	8,053	7,155
Transmission and distribution	1,971	1,870	8,015	6,5[illegible]
Administrative and other	4,257	3,516	15,547	12,1[illegible]
Maintenance and repairs (Note 1)	1,328	1,707	6,415	[illegible]
Depreciation [illegible]				
[illegible] (Note 1)	3,[illegible]	3,[illegible]	[illegible]	[illegible]
Taxes other than income taxes	4,150	3,476	15,028	[illegible]
Taxes on income (Notes 2, 6 and 8)				
State	23	8	(84)	[illegible]
Federal	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]				
Total operating expenses and taxes	[illegible]	[illegible]	10[illegible]	[illegible]
Utility operating income	17,[illegible]	17,[illegible]	45,[illegible]	41,[illegible]
Other Income:				
Allowance for funds used during construction				
(Note 3)	4,[illegible]	3,7[illegible]	18,0[illegible]	12,[illegible]
Other income and deductions - net	([illegible])	(8)	([illegible])	[illegible]
Gross income	21,[illegible]	21,45[illegible]	63,[illegible]	[illegible]
Interest Charges:				
Interest on long-term debt	6,1[illegible]	5,1[illegible]	21,[illegible]	[illegible]
Interest on short-term notes payable	2,296	1,631	10,1[illegible]	[illegible]
Other interest and amortization	61	37	406	[illegible]
Total interest charges	8,[illegible]	6,7[illegible]	32,[illegible]	[illegible]
Net Income (Note 6)	13,[illegible]	14,671	31,5[illegible]	[illegible]
Preferred Dividend Requirement	2,[illegible]	1,[illegible]	7,[illegible]	[illegible]
Income Available for Common Stock (Note 6)	$11,0[illegible]	$13,0[illegible]	$ 24,[illegible]	[illegible]
Average Common Shares Outstanding	13,500,000	11,000,000	12,750,000	10,[illegible]
Earnings per Average Common Share (Note 6)	$.82	$1.18	$1.91	[illegible]
Dividends Declared per Common Share	$.395	$.38	$1.535	$1.[illegible]

The operating results for interim periods are not necessarily indicative of results to be expected for the year due to the seasonal nature of the Company's operations.

The accompanying notes are an integral part of these statements.

PORTLAND GENERAL ELECTRIC COMPANY

BALANCE SHEETS AS OF MARCH 31, 1975 AND 1974
(Unaudited)

Assets

	March 31 1975	March 31 1974
	(Thousands of Dollars)	
Electric Utility Plant:		
In service, at original cost (Note 7)	$588,798	$527,267
Less - Reserve for depreciation (Note 1)	101,449	92,426
	487,349	434,841
Construction work in progress, including $232,[illegible] for the Trojan Nuclear Plant at March 31, 1975 (Note 7)	300,509	2[illegible]
Nuclear fuel	30,127	21,5[illegible]
	817,985	70[illegible]
Other Property and Investments:		
Nonutility property, substantially at cost, less reserves	2,900	1,744
[illegible]	[illegible]	[illegible]
	[illegible]	[illegible]
Current Assets:		
Cash (Note 9)	10,[illegible]	11,640
Special deposits	225	[illegible]
Receivables:		
Customers' accounts	10,234	[illegible]
Other accounts and notes	5,165	1,0[illegible]
Reserve for uncollectible accounts	(456)	(347)
Materials and supplies, at average cost:		
Fuel oil	17,244	[illegible]
Other	[illegible],450	5,[illegible]
Property taxes applicable to subsequent periods	3,387	2,764
Prepayments	2,031	1,905
	57,187	34,2[illegible]
Deferred Charges:		
Preliminary engineering and survey costs on proposed generating plants	5,292	2,897
Unamortized debt expense	2,460	2,037
Other deferred charges	1,272	1,335
	9,024	6,26[illegible]
	[illegible]	[illegible]

The accompanying notes are an integral part of these statements.

Continued - 2

PORTLAND GENERAL ELECTRIC COMPANY

BALANCE SHEETS AS OF MARCH 31, 1975 AND 1974
(Unaudited)

Liabilities

	March 31 1975	March 31 1974
	(Thousands of Dollars)	
Capitalization (See Accompanying Statements):		
Common stock equity	$246,701	$223,851
Cumulative preferred stock	110,000	80,000
Long-term debt	334,582	325,[illegible]
Total capitalization	691,283	[illegible]
Current Liabilities:		
Long-term debt maturing within one year	27,199	-
Current sinking fund requirements on long-term debt	2,300	2,[illegible]
Short-term notes payable (Note 9)	98,850	58,040
Accounts payable	35,104	27,420
Wages and salaries payable	1,116	883
Dividends payable	7,621	6,[illegible]
Accrued general taxes	7,656	8,367
Accrued income taxes (Note 2)	409	832
Accrued interest	5,895	6,[illegible]
	186,247	105,[illegible]
Other:		
Deferred income taxes - accelerated amortization (Note 2)	6,873	7,412
Deferred investment tax credits (Note 2)	4,402	2,375
Possible additional income taxes and other contingencies (Note 10)	-	1,[illegible]
Miscellaneous	391	267
	11,673	11,[illegible]
Commitments and Contingent Liabilities (Note 16)		
	$889,213	$748,014

The accompanying notes are an integral part of these statements.

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PORTLAND GENERAL ELECTRIC COMPANY

STATEMENTS OF CAPITALIZATION AS OF MARCH 31, 1975 AND 1974
(Unaudited)

	March 31 1975		March 31 1974	
	(Thousands of Dollars)			
Common Stock Equity:				
Common stock, $3.75 par value per share, 20,000,000 shares authorized, 13,500,000 and 12,000,000 shares outstanding at March 31, 1975 and 1974 (Note 11)	$ 50,625		$ 45,000	
Other paid-in capital (Note 11)	108,146		94,196	
Capital stock expense	(2,393)		(1,264)	
Retained earnings (Note 13)	90,328		85,912	
Total common stock equity	246,701	35.7%	223,851	33.6%
Cumulative Preferred Stock, $100 Par Value per Share, 2,000,000 Shares Authorized (Note 11):				
Series outstanding (redeemable at the Company's option):				
5.76% 100,000 Shares, redeemable to November 1, 1998 at $111 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	
[illegible] Shares, redeemable to July 1, 19[illegible] at $1[illegible] and at reduced amounts thereafter	50,000		50,000	
11.56% 300,000 Shares, redeemable to January 15, 1980 at $111 and at reduced amounts thereafter (Note 12)	30,000		-	
Total cumulative preferred stock	110,000	15.9	[illegible]	[illegible]
Long-Term Debt:				
First mortgage bonds (Note 13):				
3-1/8% Series due July 1, 1975	27,198		27,500	
3-1/2% Series due November 1, 1977	5,750		6,150	
3-1/2% Second Series due November 1, 1977	2,758		2,798	
3-3/8% Series due [illegible] 1, 198[illegible]	7,525		8,324	
4-1/2% Series due September 1, 1986	12,1[illegible]		12,[illegible]	
4-7/8% Series due June 1, 1987	7,800		8,000	
5-1/4% Series due June 1, 1990	12,350		12,6[illegible]	
5-1/2% Series due November 1, 1991	10,800		10,950	
4-5/8% Series due February 1, 1993	13,680		13,872	
4-5/8% Series due June 1, 1993	16,650		16,875	
4-3/4% Series due April 1, 1994	16,875		17,100	
4.70% Series due March 1, 1995	13,125		13,[illegible]	
4-7/8% Series due June 1, 1995	11,550		11,700	
6.60% Series due October 1, 1997	22,725		23,0[illegible]	
8-3/4% Series due April 1, 1977	20,000		20,000	
9-7/8 Series due November 1, 2000	20,000		20,000	
8% Series due November 1, 2001	20,000		20,000	
7-3/4% Series due November 1, 2002	20,000		20,000	
7.95% Series due April 1, 2003	35,000		35,000	
8-3/4% Series due October 1, 2003	17,000		17,000	
10-1/2% Series due December 1, 1980	40,000		-	
5-1/2% Sinking fund debentures due June 1, 1983	10,500		10,875	
Real-estate purchase contracts	630		872	
Total	364,471		328,266	
Unamortized premium on long-term debt	15		25	
Unamortized discount on long-term debt	(307)		(3[illegible])	
	364,177		327,926	
Less - Amounts included in current liabilities (Note 1[illegible]):				
Long-term debt maturing within one year	(21,198)		[illegible]	
[illegible]	[illegible]		[illegible]	
Total long-term debt	[illegible]	[illegible]	[illegible]	[illegible]
Total capitalization	[illegible]	[illegible]	[illegible]	[illegible]

The accompanying notes are an integral part of these statements.

Continued - - -

PORTLAND GENERAL ELECTRIC COMPANY

STATEMENTS OF RETAINED EARNINGS FOR THE THREE MONTHS AND TWELVE MONTHS ENDED MARCH 31, 1975 AND 1974
(Unaudited)

	Three Months Ended March 31		Twelve Months Ended March 31	
	1975	1974	1975	1974
	(Thousands of Dollars)			
Balance at Beginning of Period	$84,627	$77,452	$ 85,[illegible]	$ 74,[illegible]
Add - Net Income (Note 6)	13,392	14,671	31,579	[illegible]
	[illegible]	[illegible]	[illegible]	[illegible]
Deduct:				
Dividends declared:				
On common stock	[illegible]	[illegible]	[illegible]	[illegible]
On preferred stock	[illegible]	[illegible]	[illegible]	[illegible]
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	[illegible]
	7,631	6,204	27,170	[illegible]
Balance at End of Period (Note 13)	[illegible]	[illegible]	[illegible]	[illegible]

The accompanying notes are an integral part of these statements.

PORTLAND GENERAL ELECTRIC COMPANY

STATEMENTS OF SOURCES OF FUNDS INVESTED IN ELECTRIC UTILITY PLANT
FOR THE THREE MONTHS AND TWELVE MONTHS ENDED MARCH 31, 1975 AND 1974
(Unaudited)

	Three Months Ended March 31		Twelve Months Ended March 31	
	1975	1974	1975	1974
	(Thousands of Dollars)			
Funds Generated Internally:				
Income available for common stock	$11,034	$13,027	$ 24,348	$ 24,427
Depreciation (including amounts charged to other accounts) (Note 1)	3,698	3,246	13,367	12,329
Deferred income taxes (Note 2)	1,589	-	1,589	-
Investment tax credit adjustments (Note 2)	(8)	(80)	2,075	741
Income taxes deferred in prior years (Note 2)	(135)	(135)	(541)	(541)
Allowance for funds used during construction	(4,827)	(3,765)	(18,066)	(12,773)
Reserve transferred to revenue (Note 10)	(1,989)	-	(1,989)	-
	9,362	12,293	20,763	24,183
Less: Dividends declared on common stock	5,333	4,560	19,562	16,215
Total funds generated internally	4,029	7,733	1,201	7,968
Funds Provided from Outside Sources:				
Long-term debt	-	-	40,000	52,000
Preferred stock	30,000	-	30,000	40,000
Common stock	-	27,638	19,575	[illegible]
Short-term notes payable	32,159	25,426	128,965	[illegible]
Refinancing of short-term notes payable with long-term financing	(29,100)	(27,500)	(88,155)	[illegible]
Total funds from outside sources	33,059	25,564	130,385	[illegible]
Other Funds Provided (Used):				
Retirement of long-term debt	(777)	(396)	(3,535)	(3,321)
Change in net current assets excluding long-term debt due within one year and short-term notes payable	506	(312)	(11,371)	13,470
Reimbursement by lessor for prior construction expenditures	-	-	24,573	-
Allowance for funds used during construction	4,827	3,765	18,066	12,773
Deferred income taxes credited to construction work in progress (Note 2)	(1,589)	-	(1,589)	-
Other - net	(3,653)	705	(3,036)	183
Total other funds provided (used)	(686)	3,762	23,108	23,310
Funds Invested in Electric Utility Plant	$36,402	$37,059	$154,694	$160,456

The accompanying notes are an integral part of these statements.

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PORTLAND GENERAL ELECTRIC COMPANY

NOTES TO FINANCIAL STATEMENTS
(Unaudited)

Notes 1 through 5 summarize the Company's significant accounting policies.

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 percentage of provisions for depreciation (including the annuity and interest portions) to the total average depreciable plant-in-service balances were 2.4% for the twelve months ended March 31, 1975 and 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; the plant account with the cost of renewals and replacements of property units; and the depreciation reserve with the cost, less net salvage, of property units retired other than land.

2. Income Taxes. The Company's accounting for income taxes as described below has been authorized or ordered by the Commissioner:

   (a) Federal and state income taxes. The Company follows flow-through accounting (other than as discussed below) for reductions of income taxes resulting from various provisions in the tax laws (primarily accelerated depreciation and allowance for funds used during construction) which has the effect of passing such reductions on to the Company's customers. See Note 8 for details of income tax reductions.

   (b) Investment tax credits. Effective January 1, 1972 the Company elected to defer the tax reductions resulting from job development investment tax credits. As a result of the accounting change, income tax expense was increased by $2,075,000 and $741,000 for the 12 months ended March 31, 1975 and 1974, respectively. The deferred tax reductions are being amortized to income over a 30-year period, the approximate life of the related properties.

   (c) Income taxes deferred in prior years. Prior years' tax reductions attributable to the excess of 5-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. The amounts deferred are

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being restored to income over the 25 years following the amortization period.

(d) Deferred income taxes. Effective January 1, 1975 the Company began deferring the reduction of income taxes currently payable resulting from the deduction for income tax purposes of interest expense included in construction work in progress. Provisions for deferred income taxes increased income tax expense by $1,589,000 for the three months and twelve months ended March 31, 1975. The deferred tax reductions are credited to construction work in progress and will be amortized to income over the life of the related properties through reduced provisions for depreciation.

3. Allowance for Funds Used During Construction (ADC). ADC is defined in the Federal Power Commission (the "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 fuel notes. See Note 5([illegible]). The amount of ADC capitalized has increased substantially [illegible] reflecting the increase in the Company's construction program expenditures.

4. Debt Premium, Discount and Expense. Debt premium, discount, and expense are being amortized over the lives of the respective issues.

5. 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. Costs of the plan were $1,554,400 and $1,499,900 for the twelve months ended March 31, 1975 and 1974, respectively. Of these costs $708,700 and $778,500 for the twelve months ended those dates were charged to operations with the balance charged to other than income accounts.

6. As discussed in Note 2, the Company follows flow-through accounting for reductions of income taxes resulting from the deduction of additional depreciation for income tax purposes. The Company presently anticipates that the Trojan Nuclear Plant ("Trojan") will be placed in service for income tax purposes during late 1975, thereby resulting in additional tax depreciation. Because of a number of factors, including, among others, the complexity of nuclear plants and the various regulatory requirements relating to the testing and start-up of nuclear plants, there is the possibility that Trojan will not be placed in service during 1975.

The accompanying financial statements have been prepared on the basis that Trojan will be placed in service for income tax purposes during 1975. Accordingly, income tax provisions have been calculated by using an estimated 7.3[illegible]

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effective tax rate for the year 1975. If Trojan is not placed in service during 1975, the estimated effective tax rate for the year 1975 would be approximately 22% which would increase Taxes on Income by approximately $3,200,000, thereby reducing Net Income and Income Available for Common Stock by a like amount for the three months and twelve months ended March 31, 1975 and would reduce earnings per average common share for the three months and twelve months ended March 31, 1975 by $.24 and $.25, respectively.

7. 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, constitutes a direct first mortgage lien on substantially all property and franchises, other than expressly excepted property, owned by the Company.

8. For the Company's accounting policies relating to income taxes see Note [illegible]. 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.

PORTLAND GENERAL ELECTRIC COMPANY

NOTES TO FINANCIAL STATEMENTS

Note 8 (concluded)

	Twelve Months Ended March 31 1975	Twelve Months Ended March 31 1974
	(Thousands of Dollars)	
State Income Taxes:		
Charged to operating expenses and taxes:		
Currently payable	\$ (263)	\$ [illegible]
Deferred income taxes (Note 2)	187	-
Deferred in prior years	(8)	[illegible]
	\$ (84)	\$ [illegible]
Charged to other income and deductions - net	\$ 70	[illegible]
Federal Income Taxes:		
Charged to operating expenses and taxes:		
Currently payable	\$(3,[illegible])	\$ [illegible]
Deferred income taxes (Note 2)	[illegible],402	[illegible]
Deferred in prior years	(533)	([illegible])
Investment tax credit adjustments	2,075	[illegible]
	([illegible])	[illegible]
Charged to other income and deductions - net	[illegible]	[illegible]
Total	\$ ([illegible])	\$ [illegible]
Computed Federal Income Taxes Applying Statutory Rate (48%) to Income Before Income Taxes	\$[illegible]	\$[illegible]
Reductions in Taxes Resulting From:		
Excess tax over book depreciation	6,197	[illegible]
Costs capitalized for books and expensed for tax	1,820	1,75[illegible]
Allowance for funds used during construction	8,672	6,13[illegible]
Investment tax credit	177	[illegible]
Income taxes deferred in prior years	533	[illegible]
Interest on debt related to construction work in progress (Note 2)	(1,402)	-
State income taxes	9	81
Adjustments of prior years accrued income taxes	(351)	([illegible])
Property taxes expensed - excess tax over book	435	-
Transfer of reserve to revenues (Note 10)	955	-
Other minor items	313	315
Adjustments of book recorded items resulting from using estimated annual effective tax rate for interim income tax accruals	(1,[illegible])	[illegible]
	15,380	14,[illegible]
Federal Income Taxes	\$ ([illegible])	\$ [illegible]
Company's effective rate	(1.4%)	[illegible]

NOTES TO FINANCIAL STATEMENTS

9. Short-term borrowings consisted of the following:

	March 31 1975	March 31 1974
	(Thousands of Dollars)	
Bank loans(a)	$24,500	$12,000
Commercial paper(b)	29,700	12,000
Pollution control bonds (c)	27,000	27,000
Less: Bond held by the Company	(8,125)	-
Funds held in trust	(1,991)	(14,160)
Nuclear core notes(d)	27,765	21,200
Total short-term borrowings(e)	$98,849	[illegible]

(a) Bank loans. The Company has a credit agreement with banks, maturing August 31, 1976, which provides that the Company may borrow, prepay and reborrow [illegible]. 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 it is 115% of the prime commercial rate in effect from time to time. The credit agreement provides for a commitment fee of 1/2 of 1% per annum on the [illegible] $1,875,000 at the end of each quarter by the average daily prime commercial rate percentage in effect during such quarter. The unused commitment was $125,500,000 at March 31, 1975.

It is understood that the Company will maintain compensating cash balances under the credit agreement; however, there are no legal restrictions to the withdrawal of such balances. The compensating balances at March 31, 1975 were calculated as follows (thousands of dollars):

Compensating cash balance requirements	$10,500
Less - "Float"*	3,557
	$ 6,943

* "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.

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NOTES TO FINANCIAL STATEMENTS

(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.

The Port has issued $27,000,000 of 8-1/4% short-term refunding pollution control bonds to a bank on a private placement basis. The Company had received $25,000,000 at March 31, 1975 for completed pollution control facilities, the balance of the proceeds having been placed in trust for investment pending completion of the facilities. The short-term refunding pollution control bonds mature in May 1975 but the Company anticipates that the maturity will be extended to November 15, 1975.

The Port plans to issue up to $[illegible] 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. 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 [illegible] for the [illegible].

(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 $[illegible]. 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 5/8 of 1% per annum on the average daily outstanding amount of such notes.

The Company has 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.

(e) Aggregate short-term borrowings. The weighted average interest rate for the short-term borrowings outstanding at March 31, 1975 was 7.7%. During the twelve months ended March 31, 1975, the maximum amount of such borrowings outstanding was $141,076,000, the average daily amount outstanding was $90,219,000, and the weighted average daily interest rate was 10.1%. The interest rates are calculated by using the rates of such borrowings but excluding the fees discussed above and the effect of the [illegible].

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PORTLAND GENERAL ELECTRIC COMPANY

NOTES TO FINANCIAL STATEMENTS

10. 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 assumed jurisdiction over this reserve and ordered that no portion of it be disposed of without his permission. With the approval of the Commissioner the Company transferred the reserve to operating revenues in equal amounts during the months of February and March 1975.

11. 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
	Number of Shares	$3.75 Par Value	Number of Shares	$100 Par Value	Paid-in Capital
Outstanding, March 31, 1973	10,500,000	$39,375	400,000	$ 40,000	$ 72,1[illegible]
Sales of Stock	1,500,000	5,625	400,000	40,000	22,0[illegible]
Outstanding, March 31, 1974	12,000,000	45,000	800,000	80,000	94,1[illegible]
Sales of Stock	1,500,000	5,625	300,000	30,000	13,9[illegible]
Outstanding, March 31, 1975	13,500,000	$50,625	1,100,000	$110,000	$[illegible]

On April 30, 1975 the stockholders approved an amendment to the Company's Articles of Incorporation reclassifying 400,000 shares of the 2,000,000 authorized shares of Cumulative Preferred Stock, $100 par value per share, as 1,600,000 shares of Cumulative Preferred Stock, $25 par value per share.

12. The 11.50% Series Cumulative Preferred Stock is entitled to a sinking fund sufficient to retire a minimum of 15,000 shares and a maximum of 30,000 shares at $100 per share on January 15 of each year commencing in 1976.

13. Retained Earnings in the amount of $87,753,000 and $83,124,000 at March 31, 1975 and 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.

PORTLAND GENERAL ELECTRIC COMPANY

NOTES TO FINANCIAL STATEMENTS

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 periods from March 31, 1975 through March 31, 1980:

	Sinking Fund Requirements			
	Aggregate Requirements	Bonds Reacquired as of March 31, 1975	Net Remaining Sinking Fund Requirements	First Mortgage Bond Maturities
	(Thousands of Dollars)			
1976	$3,[illegible]	$1,[illegible]	$2,556	$27,250
1977	3,378	740	2,638*	-
1978	3,628	359	3,269*	28,160
1979	4,0[illegible]	1	4,0[illegible]*	-
1980	4,249	-	4,249*	-

* Sinking funds in amounts of $[illegible],000 in 1977, $725,000 [illegible] may be satisfied by pledging [illegible] equal to 166 2/3% of the sinking fund requirement.

15. On April 16, 1975 the Company sold $40,000,000 First Mortgage Bonds, [illegible] due April 1, 1982.

16. (a) New construction for the year 1975 is currently estimated in the range of $165-175 million excluding the proposed headquarters complex, which is expected to be financed by a sale-and-lease-back arrangement. Purchase commitments outstanding, relating principally to construction, totaled approximately $258,250,000 at March 31, 1975. 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 proportionate 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 (nameplate 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 [illegible] by the Company [illegible]. In the opinion of [illegible] ment, the final determination of "net investment" as of the [illegible] annual license will not have a significant effect on the financial position of the Company.

The remaining major licenses expire from 200[illegible] to 20[illegible]. The minor [illegible] on the Bull Run Hydroelectric Plant - License No. 477 - expired in [illegible] 1974. An annual license has been issued on the same terms and conditions [illegible] original license.

The Company holds state licenses covering all or portions of certain hydro-electric projects which are also covered by licenses under the Federal Power Act. Such licenses expire between 200[illegible] and 20[illegible]. 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 [illegible] proceedings.

(d) The minimum annual rental commitments of the Company under all noncancelable leases at December 31, 1974 are as follows:

	Basic	Noncapitalized Financing Leases	Sublease Rentals (Credit)	Total
		(Thousands of Dollars)		
1975	$ 1,103	$ 4,368	$ (50)	$ 5,421
1976	1,049	4,365	(50)	[illegible]
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	-	[illegible]
1985-1989	1,973	[illegible]	-	[illegible]
1990-1994	1,606	[illegible]	-	[illegible]
Remainder	7,031	18,449	-	[illegible]
Total	[illegible]	[illegible]	[illegible]	[illegible]

The rental commitments have not changed materially as of March 31, 1975.

During 1973 and 1974 the Company entered into 25 year leases of combustion turbines located at three of its generating plants. The rental 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 5.80% interest rates (1973 leases) and 6.56% interest rates (1974 leases) implicit in the leases was approximately $[illegible] at December 31, 1974. In the event of certain contingencies the Company could 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 purchases 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, 1974 and the twelve months ended March 31, 1975, 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.

THE WASHINGTON WATER POWER COMPANY

FINANCIAL STATEMENTS

I, J. M. Coombs, Treasurer of The Washington Water Power Company, hereby certify that the attached comparative balance sheet as of March 31, 1975, and statements of income retained earnings and changes in financial position for the quarterly period and the twelve-month period ended March 31, 1975, were prepared under my direction and present true and correct statements taken from the records of the Company.

Dated at Spokane, Washington, this 29th day of April, 1975.

Treasurer

Subscribed and sworn to before me this 29th day of April, 1975.

Notary Public in and for the State of Washington, residing in Spokane

THE WASHINGTON WATER POWER COMPANY

BALANCE SHEET

LIABILITIES	March 31 1975	March 31 1974
LONG-TERM DEBT (note 1)	$260,491,950	$2[illegible]7,586,250
COMMON STOCK - no par; authorized 10,000,000 shares; outstanding shares - 1975, 7,21[illegible],130; 1974, 6,773,250 (note 2)	119,135,216	110,[illegible]
RETAINED EARNINGS (note 3)	24,86[illegible],382	20,6[illegible]
[illegible] EQUIVALENT TO REDUCTIONS IN FEDERAL INCOME TAXES RESULTING FROM ACCELERATED AMORTIZA- [illegible] MAINTAINED PURSUANT TO STATE REGULATORY RE- QUIREMENTS)	4,806,9[illegible]	[illegible]
CURRENT LIABILITIES:		
Currently maturing long-term debt	488,000	[illegible]
Accounts payable	4,462,470	[illegible]
Accounts and notes payable to subsidiary companies	1,146,80[illegible]	[illegible]
Taxes accrued	12,501,[illegible]	[illegible]
Interest accrued	3,492,[illegible]	[illegible]
Other	1,445,[illegible]	[illegible]
Total current liabilities	23,[illegible],135	[illegible]
DEFERRED CREDITS:		
Investment tax credits	1,076,[illegible]	[illegible]
Other	1,[illegible]	[illegible]
Total Deferred Credits	2,[illegible]	[illegible]
CONTRIBUTIONS IN AID OF CONSTRUCTION (note 4)	—	3,[illegible]
TOTAL	$434,973,157	$407,[illegible]

See Notes to Financial Statements

THE WASHINGTON [illegible] COMPANY
COMPARATIVE [illegible] OF INCOME

	[illegible] Quarter Ended March [illegible]		Twelve Months Ended March 31	
	[illegible]	1974	1975	1974
OPERATING REVENUES:				
Electric	[illegible] 22,3[illegible]	$ 20,584,452	$ 76,298,353	$66,[illegible]2,070
Gas	1[illegible],9[illegible]	11,810,545	38,719,541	2[illegible],[illegible]3,[illegible]66
Other	[illegible]	518,730	2,551,373	1,[illegible]2,1[illegible]4
Total operating revenues	[illegible]	32,913,728	117,569,267	9[illegible],[illegible]9,[illegible]0
OPERATING REVENUE DEDUCTIONS:				
Power purchased	2,15[illegible],[illegible]5	1,920,305	9,923,654	[illegible],[illegible]6,349
Gas purchased	10,66[illegible],[illegible]31	6,891,130	27,132,325	17,[illegible]3,383
[illegible]	1,06[illegible],[illegible]43	987,154	4,584,098	3,[illegible]6,998
Other operating expenses	6,35[illegible]	5,273,350	21,504,050	18,[illegible]0,[illegible]69
Federal and state income taxes (note 3)	4,5[illegible]	4,050,521	6,368,143	[illegible],[illegible]4,086
Other [illegible]	[illegible]	2,180,698	9,9[illegible]2,906	[illegible]65
[illegible]	2,[illegible]7	2,072,451	8,598,655	7,[illegible]2,470
Total operating revenue deductions	[illegible]	25,375,5[illegible]	88,[illegible]3,831	7[illegible]1,[illegible]20
OPERATING INCOME	[illegible]	7,538,3[illegible]	28,[illegible]5,436	[illegible]
OTHER INCOME (DEDUCTIONS):				
Equity in earnings (losses) of subsidiary companies	([illegible])	(93,979)	(367,878)	[illegible]1,741
Allowance for funds used during construction	15[illegible],[illegible]9	118,200	737,455	[illegible]3[illegible],537
Other - net	15[illegible],[illegible]	85,834	57,487	[illegible],725
Total other income (deductions) - net	[illegible]	110,055	427,064	1,[illegible]2,003
INTEREST CHARGES:				
Interest on long-term debt	3,[illegible]	3,543,961	15,164,767	13,[illegible]9,683
Other	3[illegible],[illegible]20	82,578	70,209	[illegible]2,667
Total interest charges	3,[illegible]	3,626,539	15,234,976	13,[illegible]2,350
INCOME BEFORE THE FOLLOWING ITEM	[illegible]	6,021,845	14,057,524	15,[illegible]8,153
[illegible] RETAINED EARNINGS-RESTRICTED (note 3)	1[illegible],[illegible]10	135,510	542,040	542,040
[illegible] AVAILABLE FOR DIVIDENDS AND OTHER [illegible]	[illegible]	6,157,355	$ 14,599,564	$1[illegible],[illegible]0,193
[illegible] common share (note [illegible])	[illegible]	$[illegible]	$2.12	$[illegible]
[illegible] common [illegible] (note [illegible])	[illegible]	$[illegible]	$2.[illegible]	[illegible]

THE WASHINGTON WATER POWER COMPANY

COMPARATIVE STATEMENTS OF RETAINED EARNINGS

	First Quarter Ended March 31		Twelve Months Ended March 31	
	1975	1974	1975	1974
RETAINED EARNINGS UNAPPROPRIATED				
Balance, beginning of period	$ [illegible]	$ 16,984,113	$ 20,635,365	$ [illegible],653
Net income available for dividends and other corporate purposes (as transferred from income statement)	[illegible]	6,157,355	14,599,564	[illegible],193
Add or (Deduct):				
Dividends:				
Cash - [illegible].50 a share in 1975; [illegible] in 1974	(2,74[illegible])	(2,506,103)	(10,372,547)	([illegible],481)
Balance, end of period	$ [illegible]	$ 20,635,365	$ 24,852,382	$ [illegible]
RETAINED EARNINGS-RESTRICTED				
Balance, beginning of period	$ 4,33[illegible]	$ 4,878,457	$ 4,742,947	$ [illegible],967
Transfer to income (note 3)	(13[illegible])	(135,510)	(542,040)	([illegible],040)
Balance, end of period	$ [illegible]	$ 4,742,947	$ 4,200,907	$ [illegible]

See Notes to Financial Statements

THE WASHINGTON WATER POWER COMPANY
Statement of Changes in Financial Position

	First Quarter Ended March 31		Twelve Months Ended March 31	
	1975	1974	1975	1974
SOURCE OF FUNDS:				
From operations:				
Net income	$ 6,[illegible],103	$ 6,157,355	$ 14,599,564	$ 1[illegible],[illegible]60,193
Depreciation and amortization	2,[illegible],808	2,135,632	9,045,172	[illegible],153,655
Investment tax credit adjustments - net	([illegible],178)	(72,828)	(46,728)	101,921
Allowance for funds used during construction	([illegible],859)	(118,200)	(737,455)	([illegible]374,537)
Undistributed (earnings) losses of subsidiary companies	[illegible],690	93,979	367,873	([illegible]81,741)
Non-cash income transfer	([illegible],510)	(135,510)	(542,040)	([illegible],040)
Total from operations	[illegible],019	8,060,426	22,686,391	21,[illegible]
From other sources:				
Bank borrowings			33,000,000	16,000,000
Mortgage bonds	25,0[illegible],000		25,000,000	[illegible],000
Sale of common stock	7,[illegible]	72,293	7,608,287	[illegible],433,812
Issuance of common stock in Columbia Gas merger			659,760	
Changes in other working capital components - net	(4,0[illegible],085)	1,065,189	(4,486,673)	55,945
Changes in other non-current balance sheet items - net	([illegible]52)	(531,366)	447,801	([illegible],606)
TOTAL FUNDS PROVIDED	$ 26,[illegible]59	$ 8,666,544	$ 84,915,567	$ [illegible]87,602
APPLICATION OF FUNDS:				
Repayment of bank borrowings	$ 27,0[illegible],000	$	$ 45,000,000	$ 21,000,000
Construction expenditures	5,[illegible],576	5,660,441	26,732,524	[illegible]73,949
Cash dividends	2,[illegible]90	2,506,103	10,372,547	9,[illegible]2,481
Investment in subsidiary companies	[illegible],093	200,000	1,109,093	[illegible],172
Acquisition of Columbia Gas Company (primarily net utility plant)			855,403	
Redemption of debentures	1[illegible],000	300,000	846,000	[illegible]737,000
TOTAL FUNDS APPLIED	$ 26,[illegible]59	$ 8,666,544	$ 84,915,567	$ [illegible]87,602

See Notes to Financial Statements

THE WASHINGTON WATER POWER COMPANY

Notes to Financial Statements
March 31, 1975

1. Long-term debt:

	March 31 1975	1974
First mortgage bonds:		
3 3/4% Series due 1982	$ 20,370,000	$ 20,370,000
4 7/8% Series due 1987	30,000,000	30,000,000
4 1/8% Series due 1988	20,000,000	20,000,000
4 3/8% Series due 1988	15,000,000	15,000,000
4 3/4% Series due 1989	15,000,000	15,000,000
4 5/8% Series due 1994	30,000,000	30,000,000
4 5/8% Series due 1995	10,000,000	10,000,000
6 % Series due 1996	20,000,000	20,000,000
9 1/4% Series due 2000	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]
9 3/8% Series due 2005	20,000,000	
Total	[illegible]	[illegible]
Sinking fund debentures:		
4 1/4% due 1975	7,754,000	[illegible]
4 1/2% due 1983	6,590,000	[illegible]
[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]
Total	[illegible]	[illegible]
Notes payable - banks:		
Due November 1, 1974		12,000,000
Due December 1, 1975		
Unamortized premium on long-term debt: (note 4)	827,950	[illegible]
Total long-term debt	[illegible]	[illegible]

2. On May 2, 1974, the Company received the proceeds from the sale of 250,000 shares of common stock sold as a negotiated public offering by a group of underwriters. Such proceeds amounted to $5,112,500 or $20.45 per share.

The Company issued 32,988 shares of common stock in connection with the merger, effective May 20, 1974, of Columbia Gas Company into The Washington Water Power Company.

On February 20, 1975, the Company received the proceeds from the sale of 400,000 shares of common stock sold as a negotiated public offering by a group of underwriters. Such proceeds amounted to $7,400,000, or $[illegible] per share.

Notes to Financial Statements (Continued)

On the basis of average shares by periods, common shares are as follows:

Three Months Ended March 31		Twelve Months Ended March 31	
1975	1974	1975	1974
7,053,936	6,772,012	6,876,625	6,745,174

On the basis of shares outstanding at end of respective periods, common shares are as follows:

Three Months Ended March 31		Twelve Months Ended March 31	
1975	1974	1975	1974
7,218,130	6,773,250	7,218,130	6,773,250

3. Investment tax credits are accounted for on the "flow-through" method. [illegible] 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 $[illegible] in 1975 and $[illegible] in 1974.

The Company and its subsidiaries file consolidated Federal income tax returns. Subsidiaries are charged or credited for the tax effect of their own [illegible] and investment credits.

During a 60-month period ended in February 1958, provisions for Federal income taxes were affected by accelerated amortization, for tax purposes only, of [illegible] Cabinet Gorge [illegible] for the resultant reductions in Federal income taxes was [illegible] 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 [illegible] Earnings-Restricted, and that the amount so accumulated be transferred ($5[illegible]2,640 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.

4. As of December 31, 1974, pursuant to FPC instructions, amounts received from customers 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.

THE WASHINGTON WATER POWER COMPANY

BALANCE SHEET

LIABILITIES	June 30 1975	June 30 1974
LONG-TERM DEBT (note 2)	$260,078,399	[illegible]
PREFERRED STOCK - no par; authorized 10,000,000 shares; outstanding shares - none		
COMMON STOCK - no par; authorized 20,000,000 shares; outstanding shares - 1975, 7,225,692; 1974, 6,809,379 (note [illegible])	[illegible]	[illegible]
RETAINED EARNINGS (note 3)	25,875,[illegible]	[illegible]
[illegible] EQUIVALENT TO REDUCTIONS IN FEDERAL INCOME TAXES RESULTING FROM ACCELERATED AMORTIZA-TION (RECORDED AS RETAINED EARNINGS [illegible] [illegible] TO STATE REGULATORY RE-QUIREMENTS)	4,065,397	[illegible]
CURRENT LIABILITIES:		
Currently maturing long-term debt	667,000	[illegible]
Accounts payable	2,936,938	3,16[illegible]
Accounts and notes payable to subsidiary companies	800,000	127,[illegible]
Taxes accrued	9,561,908	8,[illegible]
Interest accrued	3,530,702	[illegible]
Other	1,678,540	[illegible]
Total current liabilities	19,475,0[illegible]	[illegible]
DEFERRED CREDITS:		
Investment tax credits	1,530,422	1,[illegible]
Other	1,850,431	[illegible]
Total Deferred Credits	3,380,853	[illegible]
CONTRIBUTIONS IN AID OF CONSTRUCTION (note 1)	—	3,[illegible]
TOTAL	$431,875,611	$[illegible]

See Notes to Financial Statements

THE WASHINGTON WATER POWER COMPANY
COMPARATIVE STATEMENT OF INCOME

	Second Quarter Ended June 30		Twelve Months Ended June 30	
	1975	1974	1975	1974
OPERATING REVENUES:				
Electric	$18,7[illegible],099	$18,460,033	$ 76,552,419	$ 71,695,754
Gas	11,3[illegible],689	8,223,094	41,844,136	30,[illegible]7,735
Other	584,[illegible]	393,524	2,542,142	1,[illegible]7,582
Total operating revenues	30,[illegible]	27,076,651	120,935,697	10[illegible]
OPERATING REVENUE DEDUCTIONS:				
Power purchased	2,[illegible],919	2,503,952	9,649,621	9,462,425
Gas purchased	7,3[illegible]	5,055,295	29,512,131	1[illegible],497,338
[illegible]	1,[illegible]	1,303,884	4,614,025	[illegible],353,144
Other operating expenses	6,[illegible]	5,241,951	22,884,557	19,754,610
Federal and state income taxes (note 1)	1,[illegible]	1,647,823	5,894,940	6,[illegible]43,955
Other taxes	3,0[illegible]	2,773,481	10,310,786	9,[illegible]35,461
Depreciation	2,2[illegible]	2,095,399	8,749,887	8,[illegible]8,908
Total operating revenue deductions	2[illegible]	20,521,[illegible]	91,615,947	[illegible],341
OPERATING INCOME	[illegible]	6,454,[illegible]	29,322,750	[illegible]
OTHER INCOME (DEDUCTIONS):				
Equity in earnings (losses) of subsidiary companies	291,[illegible]	201,363	(277,823)	104,192
Allowance for funds used during construction	21[illegible],[illegible]36	167,185	786,906	459,675
Other - net	1[illegible]	80,509	105,632	1[illegible],468
Total other income (deductions)-net	[illegible]	449,05[illegible]	614,715	[illegible]
INTEREST CHARGES:				
Interest on long-term debt	3,8[illegible]16	3,603,754	15,399,429	13,[illegible]94,462
Other	[illegible]	20,287	136,847	[illegible],016
Total interest charges	3,9[illegible]	3,624,041	15,536,276	[illegible]
INCOME BEFORE THE FOLLOWING ITEM	3,6[illegible]	3,279,968	14,401,189	14,173,387
TRANSFER FROM RETAINED EARNINGS-RESTRICTED (note 1)	[illegible]	135,510	542,040	542,040
NET INCOME AVAILABLE FOR DIVIDENDS AND OTHER [illegible]	3,7[illegible]	3,415,478	$ 14,943,229	$ [illegible]
[illegible]		$.[illegible]	$2.14	$2.17
[illegible] (note 3)		[illegible]	$2.07	$1.16

THE WASHINGTON WATER POWER COMPANY

COMPARATIVE STATEMENT OF RETAINED EARNINGS

	Second Quarter Ended June 30		Twelve Months Ended June 30	
	1975	1974	1975	1974
RETAINED EARNINGS UNAPPROPRIATED				
Balance, beginning of period	$24,[illegible]	$20,635,365	$21,931,373	$[illegible]
Net income available for dividends and other corporate purposes (as transferred from income statement)	3,[illegible]	3,415,478	14,943,229	[illegible],715,927
Add or (Deduct):				
Dividends:				
Cash - $1.51 a share in 1975; $1.[illegible] in 1974	(2,[illegible])	(2,519,470)	(10,598,840)	([illegible])
Balance, end of period	$[illegible]	$21,531,373	$25,[illegible],762	$[illegible]
RETAINED EARNINGS-RESTRICTED				
Balance, beginning of period	$4,200,[illegible]	$4,742,947	$4,607,437	$[illegible]
Transfer to income (note 1)	(135,[illegible])	(135,510)	(542,040)	([illegible])
Balance, end of period	$[illegible]	$4,607,437	$4,065,397	$[illegible]

See Notes to Financial Statements

THE WASHINGTON W[illegible]R POWER COMPANY
Statement of Changes in Financial Pos[illegible]tion

	Second Quarter Ended June 30		Twelve Months Ended June 30	
	197[illegible]	1974	1975	197[illegible]
SOU[illegible] OF [illegible]S:				
Fr[illegible] operations:				
[illegible]	$ 3,7[illegible]	$ 3,415,478	$14,943,229	$1[illegible],71[illegible],927
[illegible] and amortization	2,3[illegible]	2,149,638	9,[illegible]4,366	8,[illegible]69,224
[illegible] tax credit adjustments - net	45[illegible]	(72,846)	[illegible]79,940	8[illegible],622
[illegible] for funds used during construction	(2[illegible])	167,189	(786,906)	([illegible]59,875)
[illegible] (earnings) losses of subsidiary [illegible]	(2[illegible]17)	201,303	277,823	([illegible]04,102)
[illegible] transfer	(1[illegible]10)	(135,510)	(5[illegible]2,040)	([illegible],040)
[illegible] operations	5,[illegible]	4,988,262	23,[illegible],412	[illegible]
Fr[illegible] other sources:				
[illegible]		2,000,000	31,000,000	1[illegible],000,000
[illegible]			25,000,000	
[illegible] stock	1[illegible]	54,820	7,718,364	[illegible]32,979
[illegible] of common stock in Columbia Gas merger		659,700		[illegible]99,760
[illegible] other working capital components - net	4,2[illegible]	1,460,5[illegible]	(1,654,466)	[illegible]
[illegible] other non-current balance sheet items - net	1[illegible]	(1,457,211)	2,310,554	([illegible]97)
TO[illegible] PROVIDED	$10,[illegible]	$ 7,706,175	$87,970,864	$[illegible],[illegible]73,474
APPL[illegible]:				
[illegible] bank borrowings	$	$	$45,000,000	$
[illegible] expenditures	7,7[illegible]09	4,476,705	30,037,528	2[illegible],[illegible]45,834
[illegible]	2,74[illegible]	2,519,470	10,[illegible]98,840	[illegible],[illegible]8,412
[illegible] in subsidiary companies	13,[illegible]	700,000	422,093	[illegible],228
A[illegible] of Columbia Gas Company (primarily net [illegible])			855,403	
[illegible] of debentures	[illegible]	10,000	1,057,000	[illegible]7,000
TOT[illegible]	$1[illegible]	$ 7,706,175	$87,970,864	$[illegible],[illegible]73,474

[illegible] Notes [illegible]

THE WASHINGTON WATER POWER COMPANY

Notes to Financial Statements
June 30, 1975 and 1974

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 [illegible] 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 [illegible]

DEPRECIATION:

Depreciation provisions are computed by a method of depreciation [illegible] electric hydro production [illegible] 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.

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 are borne by the Company. The Company's policy is to fund pension cost accrued.

Notes to Financial Statements (Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

In accordance with directives of regulatory authorities, 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 in service are credited to Federal income tax expense [illegible] Pursuant to provisions of [illegible] the Company elected to [illegible] investment tax credits in excess of [illegible] ratable amortization over the lives of the property generating the credit.

[illegible] returns. Subsidiaries are charged or credited with the tax effects of their operations and investment credits.

[illegible] 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

	[illegible]	
	1974	[illegible]
First Mortgage Bonds:		
[illegible]	$ [illegible]	
[illegible]	30,000,000	
[illegible]	20,000,000	
[illegible]	[illegible]	

Notes to Financial Statements (Continued)

2. LONG-TERM DEBT (Continued)

	June 30 1975	[illegible]
First mortgage bonds:		
4 3/4% Series due 1989	$ 15,000,000	$ 15,000,[illegible]
4 5/8% Series due 1994	30,000,000	30,000,[illegible]
4 5/8% Series due 1995	10,000,000	[illegible]
6 % Series due 1996	20,000,000	20,000,[illegible]
9 1/4% Series due 2000	20,000,000	20,000,[illegible]
7 7/8% Series due 2003	20,000,000	20,[illegible]
9 3/8% Series due 2005	25,000,000	
Total	225,370,000	[illegible]
Sinking fund debentures:		
4 1/4% due 1978	7,754,000	[illegible]
4 1/2% due 1983	6,590,000	[illegible]
4 3/4% due 198[illegible]	4,9[illegible]	[illegible]
[illegible]	[illegible]	[illegible]
Total	[illegible]	[illegible]
Unamortized debt premium:	[illegible]	[illegible]
Notes payable - banks:		
[illegible]		
Due [illegible] 1, 1975		[illegible]
Total long-term debt	$260,[illegible]	$[illegible]

3. [illegible]

The Company issued [illegible] shares of common stock in connection with the merger, effective May 20, 1974, of Columbia Gas Company [illegible] Water Power Company.

On February 20, 1975, the Company received the proceeds from the sale of 400,000 shares of common stock sold as a negotiated public offering by a group of underwriters. Such proceeds amounted to $7,400,000 or $18.[illegible] per share.

On the basis of average shares by period, common shares are as follows:

Six Months Ended June 30 1975	Six Months Ended June 30 1974	Twelve Months Ended June 30 1975	Twelve Months Ended June 30 [illegible]
7,154,440	6,784,674	6,903,427	6,[illegible]

On the basis of shares outstanding at end of respective periods, common shares are as follows:

Six Months Ended June 30 1975	Six Months Ended June 30 1974	Twelve Months Ended June 30 1975	Twelve Months Ended June 30 [illegible]
7,[illegible],698	[illegible]	7,229,698	[illegible]

THE WASHINGTON WATER POWER COMPANY

FINANCIAL STATEMENTS

SEPTEMBER 30, 1975

I, J. M. Coombs, Vice President - Finance and Treasurer of The Washington Water Power Company, hereby certify that the attached comparative balance sheet as of September 30, 1975, and statements of [illegible] financial position for the quarterly period and the twelve month period ended September 30, 1975, [illegible] prepared under my direction, and present true and correct statements taken from the records of the Company.

Dated at Spokane, Washington, this 30th day of October, 197[illegible]

J. M. Coombs

Vice President - Finance
and Treasurer

Subscribed and sworn to before me this 30th day of October, 197[illegible]

Isabelle M. Selene[illegible]

Notary Public in and for the State
of Washington, residing in Spokane

THE WASHINGTON WATER POWER COMPANY

BALANCE SHEET

LIABILITIES	September 30 1975	1974
LONG-TERM DEBT (note 2)	$269,067,397	$252,[illegible]
PREFERRED STOCK - no par; authorized 10,000,000 shares; outstanding shares - none		
COMMON STOCK - no par; authorized 20,000,000 shares; outstanding [illegible] [illegible] (note 3)	1[illegible]	[illegible]
RETAINED EARNINGS (note 3)	[illegible]	[illegible]
ACCUMULATED AMOUNT INVESTED IN THE BUSINESS EQUIVALENT TO REDUCTIONS IN FEDERAL INCOME TAXES RESULTING FROM ACCELERATED AMORTIZA- [illegible] MAINTAINED PURSUANT TO STATE REGULATORY RE- QUIREMENTS)	3,929,887	4,[illegible]
CURRENT LIABILITIES:		
Currently maturing long-term debt	646,000	4[illegible]
Accounts payable	3,433,803	5,[illegible]
Accounts and notes payable to subsidiary companies	1,130,000	
Taxes accrued	8,73[illegible],121	[illegible]
Interest accrued	3,48[illegible],521	[illegible]
Other	1,75[illegible]	[illegible]
Total current liabilities	19,2[illegible]	[illegible]
DEFERRED CREDITS:		
Investment tax credits	1,714,244	[illegible]
Other	1,773,441	[illegible]
Total Deferred Credits	3,487,685	1,[illegible]
CONTRIBUTIONS IN AID OF CONSTRUCTION (note 1)		[illegible]
TOTAL	$440,[illegible]1,[illegible]	[illegible]

See Notes to Financial Statements

THE WASHINGTON WATER POWER COMPANY
COMPARATIVE STATEMENT OF INCOME

	Third Quarter Ended September 30		Twelve Months Ended September 30	
	1975	1974	1975	1974
OPERATING REVENUES:				
Electric	$ [illegible]	$ 17,428,344	$ 77,725,351	$ [illegible]
Gas	[illegible]	[illegible],471,612	44,082,713	[illegible]
Other	[illegible]	451,760	2,633,340	[illegible]
Total operating revenues	[illegible]	[illegible]	124,441,404	[illegible]
OPERATING REVENUE DEDUCTIONS:				
Power purchased	[illegible]	2,792,235	10,294,714	[illegible],013
Gas purchased	[illegible]	4,195,730	31,666,984	[illegible]
Maintenance	[illegible]	1,110,138	5,023,951	[illegible]
Other operating expenses	[illegible]	5,071,477	24,450,613	[illegible]
Federal and state income taxes (note 1)	([illegible])	(1,074,813)	4,998,426	[illegible]
Other taxes	[illegible]	[illegible],782,705	10,245,642	[illegible]
Depreciation	[illegible]	[illegible],095,338	8,921,121	[illegible]
Total operating revenue deductions	[illegible]	[illegible]	95,581,451	[illegible]
OPERATING INCOME	[illegible]	[illegible]	28,859,953	[illegible]
OTHER INCOME (DEDUCTIONS):				
Equity in earnings (losses) of subsidiary companies	[illegible]	(232,040)	834,296	([illegible],332)
Allowance for funds used during construction	[illegible]	197,651	854,376	[illegible]
Other - net	([illegible])	(6,855)	61,481	[illegible]
Total other income (deductions)-net	[illegible]	(41,244)	1,750,653	[illegible]
INTEREST CHARGES:				
Interest on long-term debt	[illegible]	3,764,558	15,500,634	[illegible]
Other	[illegible]	(721)	169,417	[illegible]
Total interest charges	[illegible]	3,763,837	15,670,051	[illegible]
INCOME BEFORE THE FOLLOWING ITEM	[illegible]	1,573,761	14,940,555	[illegible]
TRANSFER FROM RETAINED EARNINGS-RESTRICTED (note 1)	[illegible]	135,510	[illegible]	[illegible]
NET INCOME AVAILABLE FOR DIVIDENDS AND OTHER [illegible]	[illegible]	$ [illegible],709,271	$ 15,48[illegible],595	$ [illegible]
[illegible] common share [illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible] common [illegible]	[illegible]	[illegible]	[illegible]	[illegible]

THE WASHINGTON [illegible] COMPANY

COMPARATIVE STATEMENT OF RETAINED EARNINGS

	Third Quarter Ended September 30		Twelve Months Ended September 30	
	197[illegible]	1974	1975	197[illegible]
RETAINED EARNINGS UNAPPROPRIATED				
Balance, beginning of period	$ [illegible]	[illegible]1,531,373	$ 20,720,186	$ [illegible],721
Net income available for dividends and other corporate purposes (as transferred from income statement)	2,[illegible]	1,709,271	15,[illegible]82,595	[illegible]14,[illegible]16,528
Add or (Deduct):				
Dividends:				
Cash - [illegible].22 a share in 1975; [illegible] 1974	(2,7[illegible])	([illegible],520,4[illegible]9)	(10,8[illegible]5,805)	([illegible])
Balance, end of period	[illegible]	[illegible],720,18[illegible]	$ 25,[illegible]76,976	$ [illegible]
RETAINED EARNINGS-RESTRICTED				
Balance, beginning of period	$ 4,0[illegible]	[illegible],607,[illegible]37	$ 4,471,927	$ [illegible]3,967
Transfer to income (note 1)	(13[illegible])	(135,510)	(5[illegible]2,040)	([illegible],040)
Balance, end of period	[illegible]	[illegible],471,9[illegible]7	$ 3,9[illegible]9,887	$ [illegible]1,927

See Notes to Financial Statements

THE WASHINGTON WATER POWER COMPANY
Statement of Changes in Financial Position

	Third Quarter Ended September 30		Twelve Months Ended September 30	
	197[illegible]	1974	197[illegible]	[illegible]
SOURCE OF FUNDS:				
From operations:				
Net income	$ [illegible],248,6[illegible]	$ [illegible],709,271	$ 15,48[illegible],[illegible]95	$ 1[illegible]
Depreciation and amortization	[illegible],526,[illegible]	[illegible],179,98[illegible]	9,374,226	[illegible]
[illegible] tax credit adjustments - net	183,[illegible]	(68,230)	731,[illegible]	([illegible],681)
Allowance for funds used during construction	(205,[illegible])	(197,651)	(85[illegible],876)	([illegible])
Undistributed (earnings) losses of subsidiary companies	(880,0[illegible])	232,040	(834,296)	[illegible],3[illegible]
Balancing account transfer	(135,[illegible])	(135,510)	(54[illegible],040)	([illegible],0[illegible]0)
Total from operations	[illegible]	[illegible],719,00[illegible]	23,39[illegible],[illegible]01	21,[illegible],7[illegible]
From other sources:				
Bank borrowings	[illegible],000,[illegible]	[illegible],000,000	36,000,000	1[illegible],[illegible],000
[illegible]			25,000,000	
Sale of common stock	82,1[illegible]	60,853	7,739,[illegible]17	[illegible],[illegible]97
[illegible] common stock in Columbia Gas merger				[illegible],700
Changes in other working capital components - net	([illegible],0[illegible]6,[illegible])	[illegible],717,105	(5,417,9[illegible]0)	3,[illegible],372
Changes in other non-current balance sheet items - net	22[illegible],[illegible]	[illegible],159,427	1,378,466	([illegible],[illegible],[illegible]1)
TOTAL FUNDS PROVIDED	$ [illegible],743,[illegible]	$ [illegible],656,391	$ 88,0[illegible],744	$ 3[illegible],[illegible],[illegible]1
APPLICATION OF FUNDS:				
Repayment of bank borrowings	$	$	$ 45,000,000	$
Construction expenditures	[illegible],974,8[illegible]	[illegible],727,932	31,165,902	23,[illegible],51[illegible]
Cash dividends	[illegible],747,[illegible]	[illegible],520,459	10,82[illegible],805	9,[illegible],0[illegible]
Investment in subsidiary companies		[illegible]00,000	22,093	3,[illegible],[illegible]2
Acquisition of Columbia Gas Company (primarily net utility plant)			(26,056)	71[illegible],859
Retirement of debentures	[illegible]1,[illegible]	8,000	1,070,000	[illegible]70,000
TOTAL FUNDS APPLIED	$ [illegible],743,[illegible]	$ [illegible],656,391	$ 88,0[illegible],744	$ 3[illegible],[illegible],[illegible]1

See Notes to Financial Statements

THE WASHINGTON WATER POWER COMPANY

Notes to Financial Statements
September 30, 1975 and 1974

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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 [illegible] 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.

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 investment 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 [illegible] years. The costs of the plan are borne by the Company. The Company's policy is to fund pension [illegible]

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

In accordance with directives of regulatory authorities, 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 in service are credited to Federal income [illegible] [illegible] elected to normalize eligible investment tax credits in excess of [illegible] ratable amortization over the lives of the property generating [illegible]

[illegible] returns. Subsidiaries are charged or credited with the tax effect of their operations and investment credits.

[illegible] income taxes were affected by 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 ($[illegible]2,0[illegible]0 annually) to retained earnings over the following [illegible]-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

[illegible]

Notes to Financial Statements (Continued)

2. LONG-TERM DEBT (Continued)

	September 30	
	1975	[illegible]
First mortgage bonds: (Continued)		
4 3/4% Series due 1989	$ 14,000,000	$ 15,000,[illegible]
4 5/8% Series due 1994	30,000,000	30,000,[illegible]
4 5/8% Series due 1994	10,000,000	10,00[illegible]
6 % Series due 1996	20,000,000	20,000,[illegible]
9 1/4% Series due 2000	20,000,000	20,000,[illegible]
7 7/8% Series due 2003	20,000,000	20,000,[illegible]
9 3/8% Series due 2005	25,000,000	
Total	225,370,000	[illegible]
Sinking fund debentures:		
4 1/4% due 1978	7,754,000	8,0[illegible]
4 1/2% due 1983	6,590,000	6,[illegible]
4 3/4% due 1990	4,9[illegible]	[illegible]
[illegible]	[illegible]	[illegible]
Total	[illegible]	[illegible]
Unamortized debt premium	[illegible]	[illegible]
Notes payable - banks:		
Due December 1, 19[illegible]		[illegible]
Due December 1, 1975	[illegible]	
Total long-term debt	$[illegible]	[illegible]

3. COMMON STOCK

The Company issued 32,958 shares of common stock in connection with the merger, effective May 20, 1974, of Columbia Gas Company into The Washington Water Power Company.

On February 20, 1975, the Company received the proceeds from the sale of 400,000 shares of common stock sold as a negotiated public offering by a group of underwriters. Such proceeds amounted to $7,[illegible] or $1[illegible] per share.

On the basis of average shares by period, common shares are as follows:

Nine Months Ended September 30		Twelve Months Ended September 30	
1975	1974	1975	1974
7,179,161	6,793,502	7,087,888	6,7[illegible]

On the basis of shares outstanding at end of respective periods, common shares are as follows:

Nine Months Ended September 30		Twelve Months Ended September 30	
1975	1974	1975	1974
7,230,[illegible]0	[illegible]	7,230,[illegible]0	[illegible]

COMPARATIVE INCOME STATEMENT

	Stated in Thousands of Dollars 12 Months Ended	
	Nov. 30, 1974	Nov. 30, 1973
Operating Revenues—Electric—General Business	$191,659	$182,019
—Other Electric Including Nonrecurring Sales for Resale	22,845	37,105
—Other Utilities	4,437	4,013
Total Operating Revenues	218,941	223,137
Operating Expenses:		
Operations:		
Electric—Power Purchased and Interchanged—Net	25,571	26,610
—Fuel Expense	16,443	15,674
—Other Production Costs	6,800	5,982
—Transmission and Distribution	11,239	10,034
—Customer Service Expense	9,916	9,388
Other Utilities	2,570	1,979
Administrative and General	16,038	15,419
Maintenance	15,106	11,986
Depreciation	25,654	23,360
Taxes—Other Than Income	21,915	21,511
Federal Income Taxes—Current	(5,808)	(1,477)
Other Income Taxes	8	665
Deferred Income Taxes	4,765	3,405
Income Taxes Deferred in Prior Years	(2,047)	(1,997)
Investment Tax Credit Adjustments	(2,102)	5,145
Total Operating Expenses	146,068	147,684
Net Utility Operating Income	72,873	75,453
Other Income (Deductions):		
Allowance for Funds Used During Construction	15,060	7,958
Equity in Earnings of Subsidiary Companies	8,160	3,172
Interest, Dividends and Other Income	4,266	870
Other Deductions	(1,002)	(776)
Income Taxes	(1,922)	26
Other Income (Deductions)—Net	24,562	11,250
Income Before Interest Charges	97,435	86,703
Interest Charges:		
Interest on Long-Term Debt	36,532	30,616
Amortization of Debt Discount, Premium and Expense—Net	200	153
Other Interest	7,278	2,765
Total Interest Charges—Net	44,010	33,534
Net Income	53,425	53,169
Preferred Dividend Requirements	8,407	8,407
Net Income Applicable to Common Stock	$ 45,018	$ 44,762
Average Number of Shares of Common Stock Outstanding (in thousands)	22,282	19,742
Earnings per Share on Average Number of Shares Outstanding	$ 2.02	$ 2.27

Notes:

Consistent with rate orders and accounting instructions of state regulatory authorities having principal jurisdiction, the Company follows flow-through accounting for reductions in federal income taxes arising from the use, for income tax purposes only, of liberalized depreciation and guideline lives. Such reductions approximate $4,995,000 and $4,855,000 for the twelve months ended November 30, 1974 and 1973, respectively.

As a result of recent changes in the federal income tax laws and regulations, the Company has elected to use the Class Life Asset Depreciation Range System of calculating depreciation for federal income tax purposes for 1971 and thereafter. The tax deferrals resulting from this election amount to $4,8[illegible]3,000 and $3,452,000 for the twelve months ended November 30, 1974 and 1973, respectively. Pursuant to permission obtained from regulatory bodies having principal jurisdiction, the Company is normalizing these deferrals and, therefore, the election to use CLADR has had no substantial effect on net income.

Job development investment tax credits provided for in the Revenue Act of 1971 deferred to future periods were $[illegible] and $6,562,000 for the twelve months ended November 30, 1974 and 1973, respectively (portions of which were utilized to reduce prior years' income tax payments). Amounts amortized to income were $1,472,000 and $1,416,000 for the twelve months ended November 30, 1974 and 1973, respectively.

For income tax purposes, the Companies generally compute ... amortized to income.

January 10, 1975

To Our Stockholders:

Quarterly dividends of 40¢ per share on the common stock and at the regular rates on the preferred stock, payable January 10, 1975, to shareholders of record at the close of business December 26, 1974, were authorized by the Board of Directors at the December 11 quarterly meeting.

The comparative income statement for the 12 months ended November 30, 1974, published with this report, shows total operating revenues of $218,941,000, down by $4,196,000, or almost 2% from the prior 12-month period. The increase of $9,640,000 in general business revenues, resulting principally from increased rates in Oregon, was more than offset by expiration of special contract sales to other utilities from the Centralia, Washington, and Glenrock, Wyoming, steam-electric plants. Earnings from subsidiaries, primarily Telephone Utilities, Inc., and the subsidiary participating in Decker Coal Company, increased by approximately $5,000,000.

In addition to the Oregon rate order which was effective September 3, the Washington Utilities and Transportation Commission and Idaho Public Utility Commission approved new rates in November. These three rate orders permitted the Company to increase retail electric rates in Oregon, Idaho and Washington in the aggregate of approximately $33,000,000 annually based upon the 1974 level of operations. Rate decisions are still pending for service areas in California and Montana where requests total $4,000,000 annually. Currently, the Company is planning to file in 1975 for additional revenues in several states.

Ten of the Company's largest customers in Oregon have filed suit challenging the Oregon Public Utility Commissioner's rate order on the ground that too much of the overall revenue increase is imposed upon them. They do not challenge the Commissioner's fin[illegible] of the Company's overall revenue requ[illegible] ment. They seek a reduction of appr[illegible] mately $2,300,000 annually. The court [illegible] denied motions filed by these customers [illegible] stay of the rate order. One individual [illegible] dential customer of the Company has [illegible] filed suit challenging portions of the s[illegible] order.

Net income for the 12 months en[illegible] November 30 amounted to $53,425,000 [illegible] $256,000. Income applicable to the com[illegible] stock was $2.02 per share, a decline of [illegible] share from the earnings for the prior p[illegible] As of February 1, 1974, the Company ha[illegible] cluded as Other Income a non-recurring [illegible] ment in the amount of $3.500,000 rec[illegible] from Idaho Power Company for the tran[illegible] of an undivided one-third interest in co[illegible] serves at the Jim Bridger project. This [illegible] sulted in an increase of $1,976,000, or [illegible] common share, in Net Income after p[illegible] sions for income taxes.

Retirement of Thomas F. Sandoz, Ast[illegible] Oregon, a Director since December 11, [illegible] and a member of the Executive Comm[illegible] for ten years, was accepted by the B[illegible] which elected him a Director Emeritus [illegible] Roy A. Young, 53, Vice President for [illegible] search and Graduate Studies at Oregon [illegible] University and formerly acting presider[illegible] that institution, was elected to the vac[illegible] Dr. Young is active in academic research [illegible] stitutes and programs involved with en[illegible] studies and the environmental sciences.

Voters of Portland, Oregon, and a sec[illegible] Lane County, Oregon, rejected by de[illegible] margins the proposals on the Novem[illegible] ballot which would have converted the [illegible] tric properties of Pacific Power in [illegible] areas to public ownership.

On October 23 the Company [illegible] $70,000,000 of first mortgage bonds matu[illegible] October 1, 1983 at an effective interest co[illegible] 10.06%.

STATEMENT OF CONSOLIDATED INCOME

	Stated in Thousands of Dollars 12 Months Ended Feb. 28, 1975	Feb. 28, 1974
Operating Revenues—Electric	$223,363	$219,058
—Telephone	26,187	13,252
—Other Utilities	4,697	3,814
Total Operating Revenues	254,247	236,184
Operating Expenses:		
Operation:		
Electric—Power Purchased and Interchanged—Net	25,960	25,452
—Fuel Expense	18,053	17,644
—Other Production Costs	5,682	4,805
—Transmission and Distribution	11,714	10,509
—Customer Service Expense	10,140	9,470
Other Utilities	6,103	3,989
Administrative and General	18,525	15,853
Maintenance	19,724	14,042
Depreciation	31,692	26,725
Taxes—Other Than Income	23,504	22,707
Federal and State Income Taxes	(2,769)	4,837
Total Operating Expenses	168,328	156,123
Net Utility Operating Income	85,919	80,061
Other Income (Deductions):		
Allowance for Funds Used During Construction	18,992	8,608
Equity in Earnings of Joint Ventures	8,468	4,504
Interest, Dividends and Other Income	769	4,857
Other Deductions	(1,330)	(1,048)
Minority Interest	(814)	(276)
Income Taxes	(2,744)	(3,274)
Other Income (Deductions)—Net	23,341	13,371
Income Before Interest Charges	109,260	93,432
Interest Charges		
Interest on Long-Term Debt	44,119	33,963
Amortization of Debt Discount, Premium and Expense—Net	253	169
Other Interest	8,810	4,251
Total Interest Charges—Net	53,182	38,383
Net Income	56,078	55,049
Preferred Dividend Requirements	8,407	8,407
Net Income Applicable to Common Stock	$ 47,671	$ 46,642
Average Number of Shares of Common Stock Outstanding (in thousands)	23,513	20,161
Earnings per Share on Average Number of Shares Outstanding	$ 2.03	$ 2.31

Notes:

The Statement of Consolidated Income includes the accounts of the Company and its subsidiaries (Companies), all majority-owned, since dates of organization or acquisition. All significant intercompany transactions and balances have been eliminated.

The statement for the twelve months ended February 28, 1974, which previously included the subsidiaries on the equity basis of accounting, has been restated to the consolidated basis of presentation. This restatement had no effect on previously reported net income. Unconsolidated earnings from joint ventures are included in the statement on the equity basis.

In accordance with the uniform system of accounts prescribed by regulatory authorities, an allowance for funds used during construction is credited to income using a composite rate, applied to construction work in progress, which assumes that funds used for construction were provided by borrowings, preferred stock, and common equity. The composite rate used was 7% through June 30, 1974, and 8% beginning July 1, 1974.

Depreciation of utility plant is computed under the straight-line method based on the estimated service lives of the various classes of property.

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 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 1954 resulting from accelerated amortization of certain properties under Necessity Certificates are being amortized to income.

April 10, 1975

To Our Stockholders:

Quarterly dividends of 40¢ per share on the common stock and at the regular rates on the preferred shares, payable April 10, 1975, to shareholders of record at the close of business March 25, were authorized by the Board of Directors at the March 12 quarterly meeting.

The income statement for the 12 months ended February 28, 1975, which is published with this report, is a slight departure in form from previous quarterly income statements and conforms with new reporting requirements of the Securities and Exchange Commission for all corporations. The principal change involves a subsidiary utility, Telephone Utilities, Inc., whose operating results are now consolidated in the Company's income statement. Earnings of other subsidiaries and joint ventures, primarily from one-half ownership of Decker Coal Company, are recorded under "Other Income and Deductions-Net."

Total operating revenues amounted to $254,247,000, which included $26,187,000 of telephone business, and were up $18,063,000 for the 12 months ended February 28. Although the sales of electric energy to regular customers of the system were ahead only 2%, revenues from these sales, amounting to $203,854,000, were ahead 12%, largely because of higher rates in effect in Oregon since September of last year and in Washington and Idaho since November. Sales to other utilities for resale were down significantly due to the expiration of contracts for sale of power from steam-electric plants at Glenrock, Wyoming, and Centralia, Washington, which was temporarily surplus to the Company's needs.

Net income for the 12 months amounted to $56,078,000, up $1,029,000. Earnings per common share amounted to $2.03, which was a decline of 28¢ per share from the prior period. The earnings drop reflects the continuing impact of inflationary forces upon the business, and an increase in the average number of common shares outstanding, w[illegible] was 3,352,000 shares greater than for the prior 12 months. The current earnings situation had been anticipated last year and the Company sought increases in electric rates in five states. Those granted in Oregon, Washington and Idaho will increase revenues an estimated $33,000,000 annually. On March 25 the California regulatory commission approved new rates that will increase electric revenues approximately $1,547,000 annually for the 26,000 customers in that state, effective on and after April 21. A 1974 filing in Montana, asking approximately $1,400,000 annually, is still pending. On January 31, the Company refiled in Oregon for further rate relief, asking approximately $17,000,000 annually, and intends to also file shortly in Washington and soon thereafter in other states.

In preparation for the financing scheduled for the remainder of the year, the Directors authorized the issuance of up to $60,000,000 of first mortage bonds, which are tentatively slated to be offered to the public May 1; approved plans for sale of up to 300,000 shares of Serial Preferred stock, and approved arrangements with Sweetwater County, Wyoming, for the sale of $15,000,000 of tax exempt revenue bonds to finance a portion of the Company's share of pollution control facilities at the Jim Bridger plant under construction in that county. The Company is responsible for the interest and principal payments on these bonds. This sale was completed last week. The bonds carry a coupon rate of 8⅜%. The first phase of the 197[illegible] financing program was undertaken January 9 when the Company sold 3,500,000 shares of common stock, netting $15.88 per share or $55,580,000. The stock was offered to investors at $16.75 per share.

Retirement of Gregory A. Harrison, San Francisco, a Director since June, 1961, and a member of the Executive Committee since 1967, was accepted by the Board, which then elected him a Director Emeritus. John Mc Gregor, Walla Walla, Washington, President

STATEMENT OF CONSOLIDATED INCOME

	Stated in Thousands of Dollars 12 Months Ended	
	May 31, 1975	May 31, 1974
Operating Revenues—Electric	$235,343	$214,905
—Telephone	27,292	17,180
—Other Utilities	4,861	4,080
Total Operating Revenues	267,496	236,165
Operating Expenses:		
Operation:		
Electric—Power Purchased and Interchanged—Net	26,776	24,132
—Fuel Expense	19,721	16,994
—Other Production Costs	5,709	5,072
—Transmission and Distribution	11,982	10,990
—Customer Service Expense	10,156	9,722
Other Utilities	6,452	4,608
Administrative and General	19,189	16,419
Maintenance	22,024	15,434
Depreciation	33,069	28,318
Taxes—Other Than Income	24,349	22,859
Federal and State Income Taxes	(1,853)	1,770
Total Operating Expenses	177,574	156,318
Net Utility Operating Income	89,922	79,847
Other Income (Deductions):		
Allowance for Funds Used During Construction	22,552	9,998
Equity in Earnings of Joint Ventures	9,892	5,511
Interest, Dividends and Other Income	781	4,755
Other Deductions	(1,454)	(1,042)
Minority Interest	(818)	(381)
Income Taxes	(3,424)	(3,620)
Other Income (Deductions)—Net	27,529	15,221
Income Before Interest Charges	117,451	95,068
Interest Charges:		
Interest on Long-Term Debt	46,213	37,682
Amortization of Debt Discount, Premium and Expense—Net	278	188
Other Interest	9,984	3,568
Total Interest Charges—Net	56,475	41,438
Net Income	60,976	53,630
Preferred Dividend Requirements	8,407	8,407
Net Income Applicable to Common Stock	$ 52,569	$ 45,223
Average Number of Shares of Common Stock Outstanding (in thousands)	24,620	20,996
Earnings per Share on Average Number of Shares Outstanding	$ 2.14	$ 2.15

Notes:

The Statement of Consolidated Income includes the accounts of the Company and its subsidiaries (Companies), all majority-owned, since dates of organization or acquisition. All significant intercompany transactions and balances have been eliminated.

The statement for the twelve months ended May 31, 1974 has been restated: (1) to include as of February 1, 1974 $[illegible] as other income, a non-recurring payment received due to transfer of a one-third interest in Jim Bridger coal reserves, resulting in an increase of $[illegible] ([illegible] per share) after taxes and (2) to the consolidated basis of presentation. Earnings of unincorporated joint ventures are included in the statement on the equity basis.

In accordance with the uniform system of accounts prescribed by regulatory authorities, an allowance for funds used during construction is credited to income using a composite rate, applied to construction work in progress, which assumes that funds used for construction were provided by borrowings, preferred stock, and common equity. The composite rate used was [illegible] through June 30, 1974, and 8% beginning July 1, 1974.

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 [illegible] 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 [illegible] 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 [illegible] 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.

July 10, 1975

To Our Stockholders:

An increase of two and one-half cents in the July quarterly dividend on the common stock, setting the payment at 42½¢ per share, was authorized by the Board of Directors at the June 11 meeting. The payment, which accompanies this report, was the 100th consecutive quarterly dividend on the common shares, or 25 years of regular payments.

The consolidated income statement for the 12 months ended May 31, 1975, published with this report, records operating revenues of $267,496,000, an increase of $31,331,000, or 13.3% over the prior 12 months. Of the increase, $20,438,000 is represented by revenues from sales of electricity, due primarily to the effect of higher electric rates which have been in effect in Oregon, Washington and Idaho since late last year and to the continuing growth in the number of new residential and commercial customers. As a result, sales to general business customers increased by $32,645,000 or 18%, more than offsetting a decline of $13,000,000 in sales to other utilities. For the first five months of 1975 revenues from our general customers were ahead 24%.

Revenues reported for telephone operations, representing Telephone Utilities, Inc., a subsidiary, are distorted because of certain changes in the method of reporting. Using the same method of reporting in both periods, the increase would be $3,575,000 rather than the $10,112,000 shown in the income statement.

Operating expenses of $177,574,000 were up $21,256,000, or 13.6%, principally because of increases in fuel costs and purchased power and heavy steam plant maintenance work. Despite the recent more favorable rates for short-term bank borrowings, total interest costs climbed 36% over the previous 12 months due to the large volume of long-term debt securities issued in 1973-74.

Other Income included $22,552,000 in Allowances for Funds Used During Construction, up $12,554,000 because of the volume of work in progress at the Jim Bridger and Dave Johnston power plants in Wyoming. Equity in Earnings of Joint Ventures was up $4,381,000, principally from PP&L's one-half ownership in Decker Coal Company operations in Montana.

Net income amounted to $60,976,000, an increase of $7,346,000 or 13.7%, and after provision for dividend requirements on the preferred stock, the income applicable to the common stock amounted to $52,569,000, up $7,346,000 or 16.2%. The earnings per share on the average number of shares of common stock outstanding, which for the current period was 3,624,000 shares greater than for the prior period, amounted to $2.14 per share, down one cent from the prior 12 month period. Earnings per share for the first five months of 1975 totaled $1.03, an increase of seven cents over the same period of the year previous. The improvement in the current earnings situation reflects the effect of the increased revenue per unit of energy sold under the higher rates as well as a tight expense control program and a stretchout of certain major construction activity. As a consequence, this trend of improvement in earnings per share is expected to continue throughout 1975.

Construction of the second 500,000-kilowatt generating unit at the Jim Bridger project in Wyoming is nearly completed, with start-up operations currently underway and full operation expected in November. Work on the third unit is moving ahead.

STATEMENT OF CONSOLIDATED INCOME

Stated in Thousands — 12 Months Ended	Aug. 31, 1975	Aug.
Operating Revenues—Electric	$245,484	$21
—Telephone	28,338	2
—Other Utilities	4,903	
Total Operating Revenues	278,725	23
Operating Expenses:		
Operation:		
Electric—Power Purchased and Interchanged—Net	27,122	2
—Fuel Expense	23,362	1(
—Other Production Costs	5,400	5
—Transmission and Distribution	12,270	11
—Customer Service Expense	10,197	9
Other Utilities	6,680	5
Administrative and General	19,741	17
Maintenance	25,781	16
Depreciation	34,399	29
Taxes—Other Than Income	25,402	23
Federal and State Income Taxes	(3,027)	(2
Total Operating Expenses	187,327	157
Net Utility Operating Income	91,398	80
Other Income (Deductions):		
Allowance for Funds Used During Construction	25,145	12
Equity in Earnings of Joint Ventures	10,994	6
Interest, Dividends and Other Income	3,726	3,8
Other Deductions	(1,581)	(9
Minority Interest	(899)	(7
Income Taxes	(3,764)	(3,7
Other Income (Deductions)—Net	33,621	17,7
Income Before Interest Charges	125,019	97,8
Interest Charges:		
Interest on Long-Term Debt	49,664	39,64
Amortization of Debt Discount, Premium and Expense—Net	313	20
Other Interest	9,674	5,65
Total Interest Charges—Net	59,651	45,50
Net Income	65,368	52,37
Preferred Dividend Requirements	8,407	8,407
Net Income Applicable to Common Stock	$ 56,961	$ 43,97
Average Number of Shares of Common Stock Outstanding (in thousands)	25,521	21,63
Earnings per Share on Average Number of Shares Outstanding	$ 2.23	$ 2.03

Notes:

The Statement of Consolidated Income includes the accounts of the Company and its subsidiaries (Companies), all majority-owned, since dates of organization or acquisition. All significant intercompany transactions and balances have been eliminated.

The statement for the twelve months ended August 31, 1974 has been restated (1) to include as of February 1, 1974 $1,800,000 as other income, a non-recurring payment received due to transfer of a one-third interest in Jim Bridger coal reserves, resulting in an increase of $1,976,000 ($.09 per share) after taxes and (2) to the consolidated basis of presentation. Earnings of unincorporated joint ventures are included in the statement on the equity basis.

In accordance with the uniform system of accounts prescribed by regulatory authorities, an allowance for funds used during construction is credited to income using a composite rate, applied to construction work in progress, which assumes that funds used for construction were provided by borrowings, preferred stock, and common equity. The composite rate used was 7% through June 30, 1974, and 8% beginning July 1, 1974.

For income tax purposes, the Companies generally compute depreciation under the liberalized methods allowed by the Asset Depreciation Range System (ADR) which became effective 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 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 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 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 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.

STATEMENT OF CONSOLIDATED INCOME

	Stated in Thousands of [illegible] 12 Months Ended Aug. 31, 1975	Aug. [illegible]
Operating Revenues—Electric	$245,484	$21[illegible]
—Telephone	28,338	2[illegible]
—Other Utilities	4,903	
Total Operating Revenues	278,725	23[illegible]
Operating Expenses:		
Operation:		
Electric—Power Purchased and Interchanged—Net	27,122	24[illegible]
—Fuel Expense	23,362	16[illegible]
—Other Production Costs	5,400	5[illegible]
—Transmission and Distribution	12,270	11[illegible]
—Customer Service Expense	10,197	9[illegible]
Other Utilities	6,680	5[illegible]
Administrative and General	19,741	17[illegible]
Maintenance	25,781	16[illegible]
Depreciation	34,399	29[illegible]
Taxes—Other Than Income	25,402	23[illegible]
Federal and State Income Taxes	(3,027)	(2[illegible]
Total Operating Expenses	187,327	157[illegible]
Net Utility Operating Income	91,398	80[illegible]
Other Income (Deductions):		
Allowance for Funds Used During Construction	25,145	12,5[illegible]
Equity in Earnings of Joint Ventures	10,994	6,9[illegible]
Interest, Dividends and Other Income	3,726	3,8[illegible]
Other Deductions	(1,581)	(9[illegible]
Minority Interest	(899)	(7[illegible]
Income Taxes	(3,764)	(3,7[illegible]
Other Income (Deductions)—Net	33,621	17,7[illegible]
Income Before Interest Charges	125,019	97,8[illegible]
Interest Charges:		
Interest on Long-Term Debt	49,664	39,64[illegible]
Amortization of Debt Discount, Premium and Expense—Net	313	20[illegible]
Other Interest	9,674	5,65[illegible]
Total Interest Charges—Net	59,651	45,50[illegible]
Net Income	65,368	52,37[illegible]
Preferred Dividend Requirements	8,407	8,407
Net Income Applicable to Common Stock	$ 56,961	$ 43,97[illegible]
Average Number of Shares of Common Stock Outstanding (in thousands)	25,521	21,63[illegible]
Earnings per Share on Average Number of Shares Outstanding	$ 2.23	$ 2.03

Notes:

The Statement of Consolidated Income includes the accounts of the Company and its subsidiaries (Companies), all majority-owned, since dates of organization or acquisition. All significant intercompany transactions and balances have been eliminated.

The statement for the twelve months ended August 31, 1974 has been restated: (1) to include as of February 1, 1974 $1,800,000 as other income, a non recurring payment received due to transfer of a one third interest in Jim Bridger coal reserves, resulting in an increase of $1,076,000 ($.05 per share) after taxes and (2) to the consolidated basis of presentation. Earnings of unincorporated joint ventures are included in the statement on the equity basis.

In accordance with the uniform system of accounts prescribed by regulatory authorities, an allowance for funds used during construction is credited to income using a composite rate, applied to construction work in progress which assumes that funds used for construction were provided by borrowings, preferred stock, and common equity. The composite rate used was 7% through June 30, 1974, and 8% beginning July 1, 1974.

For income tax purposes, the Companies generally compute depreciation under the liberalized methods allowed by the [illegible] Depreciation Range System (ADR) which became effect[illegible] 1971. For electric, steam heating, and water utility proper[illegible] deferred income taxes are provided for the excess of the tax [illegible]ductions attributable to the use of ADR over the use of [illegible]ized depreciation methods and guideline lives used prior [illegible] adoption of ADR. The tax reductions relating to the differ[illegible] between such prior liberalized methods and book deprecia[illegible] are flowed through to net income. For telephone utility pro[illegible]erties, deferred income taxes are provided for the total tax [illegible]duction resulting from the excess of the ADR method over b[illegible] depreciation. Federal income tax reductions resulting from [illegible] investment tax credit relating to utility plant other than te[illegible]phone are deferred and amortized to income over five-y[illegible] periods for those related to mass property additions and ten-y[illegible] periods for those related to major additions. Investment [illegible] credits relating to telephone plant are deferred and amortized [illegible] income over the estimated useful life of the property. Deferr[illegible] income taxes accumulated prior to 1954 resulting from acce[illegible]ated amortization of certain properties under Necessity Certi[illegible]cates are being amortized to income.

October 10, 1975

To Our Stockholders:

Quarterly dividends of 42½¢ per share on the common stock and at the regular rates on the preferred shares, payable October 10 to shareholders of record at the close of business September 15, were authorized at the September 4 quarterly meeting of the Board of Directors. Payments accompany this report.

Operating results for the current 12-month period ended August 31, 1975, as recorded in the Statement of Consolidated Income, indicate the Company has steadily improved its revenue, income and earnings per share situation as compared with the experience of the prior 12 months.

Total Operating Revenues amounted to $278,725,000, up $41,007,000, or 17.3%, over the prior 12-month period. While unit sales of electric energy to general service customers were ahead only 4% for the recent period, primarily due to reduced industrial activity, rate increases in Oregon, Washington and Idaho granted in the fall of 1974 and effective in California in March pushed these general revenues ahead by 23%. Sales to new residential and commercial customers also were a factor. Revenues from the Company's 80% ownership of Telephone Utilities, Inc., were $28,338,000, ahead $5,975,000.

Operating Expenses totaled $187,327,000. Additional power purchases, fuel costs for steam-electric plant production, and maintenance work on the system represented $18,241,000 of the increase of $29,695,000. Interest costs were ahead 31% because of the greater amount of long-term debt securities outstanding and the larger scale of short-term borrowings to carry construction during the latest 12-month period.

Other Income (Deductions) included $25,145,000 in Allowance for Funds Used During Construction, up $12,501,000 because of the volume of work in progress; and $10,994,000 of Equity in Earnings of Joint Ventures, up $4,050,000. The Equity item is derived principally from PP&L's one-half ownership in Decker Coal Company in Montana.

After provision for dividend requirements on the preferred stock, the Net Income Applicable to Common Stock amounted to $56,961,000, up $12,989,000, or 29.5%. Earnings per Share on the average number of common shares outstanding, which for the current period was 3,882,000 shares greater than for the prior 12-month period, amounted to $2.23, an increase of 20¢ per share from the earnings of the prior 12-month period.

On August 13 the Oregon Public Utilities Commissioner approved higher electric rates expected to produce $17,000,000 annually, an overall 12% increase. On September [illegible] the Washington Utilities and Transportation Commission approved new rates expected to produce $3,250,000 annually, up 11.[illegible]%. The Oregon order was issued within seven months and Washington's in five months, and both orders granted the Company essentially the revenues and rates of return requested.

The Oregon commissioner set the rate of return at 8.92% and the return on common equity at 13.5%. The Washington commission set the rate of return at 8.79% and the return on equity at 13% and also, for the first time, directed the Company to include the cost of uncompleted construction projects in the rate base, noting that utilities have had to greatly increase their capital expenditures in recent years in order to provide adequate generating capability to supply customers.

The Company's application for an increase of $1,298,000 in annual revenues from about 20,000 customers supplied in northwestern Montana is still pending.

The Board of Directors at the September 4 meeting approved the sale of 3,000,000 shares of common stock and authorized future marketing of up to $80,000,000 of securities in the form of either bonds or preferred stock or both. The common stock was sold to a group of underwriters who submitted a competitive bid of $17.935 per share, which provided the Company $53,805,000 of net proceeds used primarily to repay short-term borrowings. The shares were promptly [illegible] to investors at $18.625 per share and were sold quickly. The authorizations for future financings stipulate the securities will be in the form of First Mortgage Bonds, or [illegible] shares of Serial Preferred Stock or [illegible] shares of No Par Serial Preferred Stock, or any combination of the three but not to exceed the $80,000,000 limit. The management [illegible]

STATEMENT OF CONSOLIDATED INCOME

	Stated in Thousands of Doll 12 Months Ended Nov. 30, 1975	 Nov. 30, 19
Operating Revenues—Electric	$264,287	$214,503
—Telephone	28,967	24,705
—Other Utilities	4,984	4,437
Total Operating Revenues	298,238	243,645
Operating Expenses:		
Operation:		
Electric—Power Purchased and Interchanged—Net	31,250	25,571
—Fuel Expense	25,687	16,443
—Other Production Costs	5,291	5,411
—Transmission and Distribution	12,795	11,239
—Customer Service Expense	10,579	9,916
Other Utilities	7,149	5,636
Administrative and General	20,661	17,652
Maintenance	27,552	18,222
Depreciation	35,268	31,077
Taxes—Other Than Income	25,741	23,934
Federal and State Income Taxes	1,230	(2,491)
Total Operating Expenses	203,203	162,610
Net Utility Operating Income	95,035	81,035
Other Income (Deductions):		
Allowance for Funds Used During Construction	28,292	15,723
Commercial Coal Mining Operations:		
Revenues	27,713	16,216
Operating Expenses	(16,545)	(9,770)
Interest, Dividends and Other Income	4,948	5,854
Other Deductions	(1,716)	(1,054)
Minority Interest	(1,082)	(656)
Income Taxes	(4,489)	(4,247)
Other Income (Deductions)—Net	37,121	22,066
Income Before Interest Charges	132,156	103,101
Interest Charges:		
Interest on Long-Term Debt	52,751	41,847
Amortization of Debt Discount, Premium and Expense—Net	350	226
Other Interest	8,341	7,604
Total Interest Charges—Net	61,442	49,677
Net Income	70,714	53,424
Preferred Dividend Requirements	8,407	8,407
Net Income Applicable to Common Stock	$ 62,307	$ 45,017
Average Number of Shares of Common Stock Outstanding (in thousands)	27,174	22,282
Earnings per Share on Average Number of Shares Outstanding	$ 2.29	$ 2.02

NOTES: The Statement of Consolidated Income includes the accounts of the Company, its subsidiaries, all majority-owned, and its 50% interest in a commercial coal mining joint venture (Companies). The 1974 period has been restated to the consolidated basis of presentation from the equity basis in reporting a 50% interest in such coal mining joint venture. This restatement had no effect on previously reported net income. All significant intercompany transactions and balances have been eliminated.

In accordance with the uniform system of accounts prescribed by regulatory authorities, an allowance for funds used during construction is credited to income using a composite rate, applied to construction work in progress, which assumes that funds used for construction were provided by borrowings, preferred stock, and common equity. The composite rate used was 7% through June 30, 1974, and 8% beginning July 1, 1974.

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. [illegible] income taxes accumulated prior to 1954 resulting from accelerated amortization of certain properties under Necessity Certificates are being amortized to income.

January 10, 1976

To Our Stockholders:

Quarterly dividends of 42½¢ per share on the common stock and at the regular rates on the preferred shares, including a partial payment on the new No Par Serial Preferred, payable on January 10, 1976, to shareholders of record at the close of business December 15, were authorized at the December 4 meeting of the Board of Directors.

Operating results for the 12-month period ended November 30, 1975 and for the prior 12-month period are recorded in the Statement of Consolidated Income published with this report.

After provision for preferred stock dividend requirements, Net Income Applicable to Common Stock amounted to $62,307,000, up $17,290,000, or 38%. Earnings per Share on the average number of common shares outstanding, which was greater by 4,892,000 shares than in the prior 12-month period, amounted to $2.29, an increase of 27¢ per share over the prior 12 months.

Total Operating Revenues were $298,238,000, up $54,593,000, or 22%, reflecting the effect of higher electric rates in four states during the current 12 months and a sizable increase in sales of energy to other utilities made possible by very favorable hydro conditions in Oregon and Washington. There also were 10,500 new residential and 1,600 new commercial customers connected to service in the period. Revenues from Telephone Utilities, Inc., which is over 80% owned by PP&L, were $28,967,000, up $4,262,000.

Operating Expenses of $203,203,000 were up $40,593,000, due primarily to increases in power purchases, fuel costs for steam-electric production and system maintenance work. Interest costs were ahead $11,765,000 due to a 9.6% increase in long-term debt securities outstanding and a 27.5% increase in short-term borrowings needed for interim financing of construction.

Other Income (Deductions) included $28,292,000 in Allowance for Funds Used During Construction and $27,713,000 of revenues from the Company's one-half ownership in Decker Coal Company, which mines and markets coal under long-term contracts to midwestern utilities.

At the December 4 special meeting the Board of Directors approved the sale of 1,600,000 shares of a new issue of No Par Serial Preferred stock to a group of underwriters headed by Kidder, Peabody & Co. Incorporated, who reoffered the shares to investors at $25 per share. The annual dividend of $2.48 will be paid in quarterly installments and represents a return of 9.92% to investors. The net proceeds of $24.1299 per share provided the Company $38,607,840 that will be used to repay short-term borrowings. At the regular December 10 meeting the Directors authorized the sale of up to $75-million in first mortgage bonds tentatively scheduled to be offered to the public on January 21, 1976.

A capital construction budget of $277 million for 1976 was approved by the Board. Major expenditures are for work on the third and fourth 500,000-kilowatt generating units at the Jim Bridger project, retrofitting fly-ash precipitator equipment on three older Dave Johnston generating units, and participation in nuclear units under construction in Washington and Oregon. Final testing of the No. 2 unit at the Jim Bridger plant, which is one-third owned by Idaho Power Company, was completed and placed in commercial operation on December 1.

The other Board actions were the adoption of a memorial resolution recording the death of Henry G. Lambert, New York, N.Y., a Director of the Company from 1950 until September, 1974 and a Director Emeritus until his death November 28, 1975, and the election of Stanley K. Hathaway, 51, Cheyenne, Wyoming, a lawyer and former governor of Wyoming, to the Board of Directors.

On the basis of a tentative determination, subject to review by the Internal Revenue Service, tax counsel has advised that 90% of all dividends paid on the common stock in 1975 is excludable from gross income for federal income tax purposes and all dividends paid on the preferred shares are fully taxable.

We extend our best wishes for the New Year and our thanks for your continued confidence in the Company.

Sincerely,

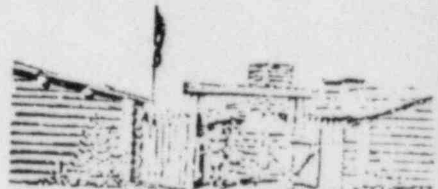
Don C. Frisbee

Chairman of the Board

John A. Lansing

President

The cover illustration is an aerial view of the 10 mile-long Merwin hydroelectric reservoir, concrete arch dam and its powerhouse on the Lewis River in southwestern Washington, where PP&L operates three projects with a combined generating capacity of 648,000 kilowatts. It is one of 33 hydroelectric projects where the Company produced 55% of its power output in 1975. The snow capped peak is 9,671-foot Mount St. Helens.



America's First Far West Explorations Make PP&L Service Area Rich in Histor

". . . the grandest and most pleasing prospec which my eyes ever surveyed."

The words are from the journal of Capt. Mer wether Lewis for January 8, 1806 in describ the view of the Pacific Ocean and the spectacul coastal scenery from atop Tillamook Head nea what is now the City of Astoria, Oregon.

Lewis and Capt. William Clark and their bri gade of explorers were encamped for the winte at Fort Clatsop after crossing the vast wilder ness of plains and mountains of the Louisiana Territory. Their two-year trek was to go down in history as the great overland adventure that opened the American West. A replica of the lo fort, shown above, is located on the original site is maintained as the Fort Clatsop National Memorial and is visited by thousands each year.

The northwestern corner of Oregon is rich in history. It had been visited earlier by another American, Captain Robert Gray of Boston, who sailed the Columbia across the treacherous bar on May 11, 1792, to discover the great river he named for his ship. Gray later sailed on to China to trade sea otter furs for silks and tea and then homeward around Africa. His was the first Yankee crew to circumnavigate the world.

Five years after Lewis and Clark departed, the trappers of John Jacob Astor's Pacific Fur Company came ashore to establish a trading post. This establishment was the first permanent American settlement on the Pacific coast and was significant in deciding U.S. claims to the Oregon Country, an area that now embraces five states in the northwestern corner of the U.S.

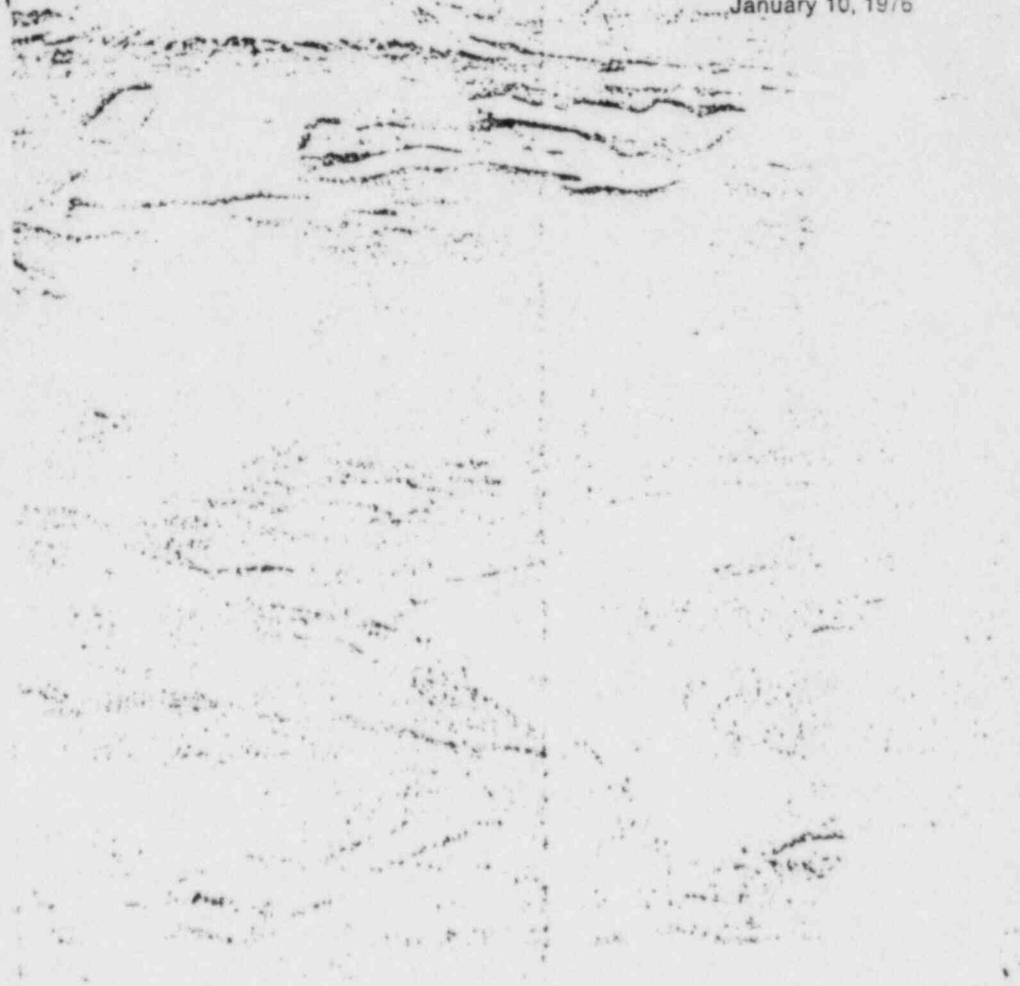
Other nearby points of historic interest include Fort Stevens, built in 1864 to guard against possible Confederate raiders and the only continental military establishment fired upon by the Japanese in World War II, and the Columbia River Maritime Museum, which houses a fascinating collection of artifacts and memorabilia of Pacific shipping, river boat lore and relics of the Pacific salmon industry which centers in Astoria, where PP&L has supplied power since 1910.

A highlight of the collection is Coast Guard Lightship 88, the Columbia, which, beginning in 1919, stood offshore for 52 years as a sentinel for ships entering the Columbia River.

PACIFIC POWER & LIGHT COMPANY
PORTLAND, OREGON 97204

QUARTERLY REPORT TO STOCKHOLDERS

January 10, 1976



is tentatively considering sale of $25 to $30 million of preferred later this year.

Final-stage test operations for the second 500,000-kilowatt generating unit at the Jim Bridger plant in southwestern Wyoming are in progress and the unit is expected to be in commercial service before the year's end. The output is assigned to Pacific Power and the power will flow to PP&L's Oregon-Washington system through the lines of Idaho Power Company, which has been taking the output of the first unit since last November. Work on the third unit, due on line December, 1976, is slightly ahead of schedule. The two utilities are moving ahead on engineering for the fourth unit, now slated for service late in 1979. Other major work this year includes installation of electrostatic fly-ash precipitators for the three older units of the Dave Johnston plant near Casper, Wyoming, and work on the 330,000-kilowatt Wyodak project east of Gillette, Wyoming. Wyodak is being built jointly with Black Hills Power and Light Company, Rapid City, S.D., which controls large coal reserves in the vicinity. Expansion of transmission and substation capacity (an example is illustrated on the cover of this report) also has been an important phase of this year's construction of facilities needed to supply customer requirements.

We extend our welcome to the many investors who became first-time shareholders of Pacific Power as a result of our September sale of common stock, and hope you will send along any questions you might have concerning the Company.

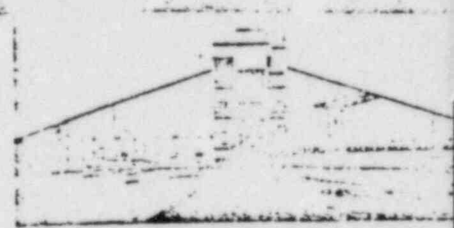
Sincerely,

Don C Frisbee

Chairman of the Board

John M. Lansing

President



Coal Production Reaches New Highs: Another Commercial Mine is Planned

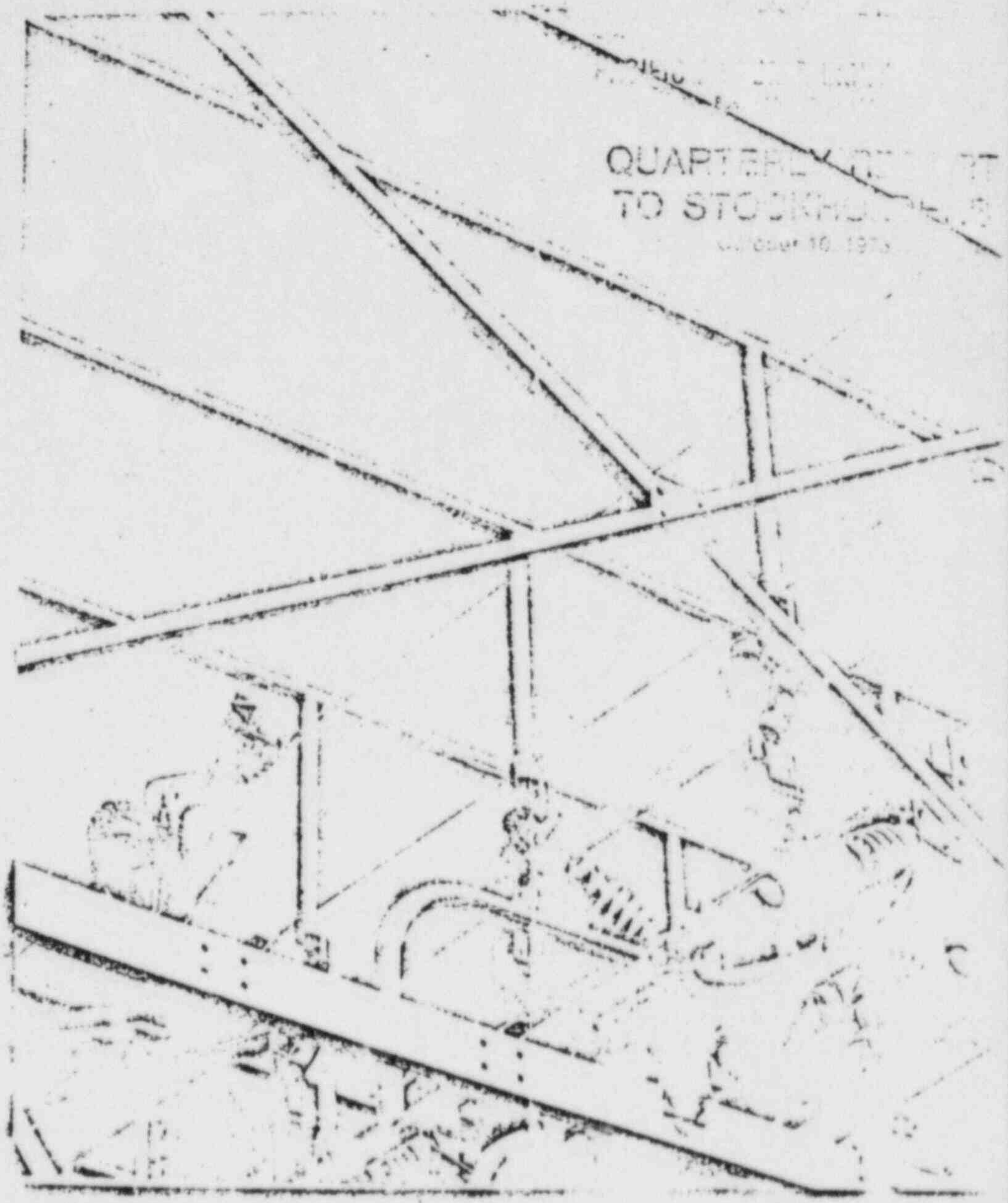
Coal production at mines in Washington, Mon- tana and Wyoming that are operated by Paci- Power or owned in association with other utili- ties or joint-venture partners are achieving ne- production records in 1975. And they are head- for even greater tonnage volumes in the ye- ahead. In addition, the Company is planning open untapped reserves in Montana for its ow- use and sale to others.

At Centralia, Washington, where PP&L ow- 50% of the coal field, 2.3 million tons were min- through August; at PP&L's Glenrock, Wyomi- coal field, Company-owned trains delivered million tons through August, highlighted by one-week delivery of a record 91,280 tons PP&L's plant stockpile; at the Jim Bridger pro- ect in southwestern Wyoming, the mine pr- duced 1.2 million tons through August. T- Bridger mine and plant is one-third owned Idaho Power Company.

The Jim Bridger production schedule for 19- calls for 3.9 million tons in order to supply fu- for the second unit now undergoing start-up te- and to stockpile for the third 500,000-kilow- unit slated for service late in 1976.

Largest of the coal operations—and growi- —is the Decker Coal Company in southeaste- Montana. Decker is one-half owned by a Paci- Power subsidiary and one-half by a subsidiary Peter Kiewit Sons', Inc., Omaha, Neb. Throu- August the mine had produced 5.9 million to- of which 5 million were shipped to Commo- wealth Edison Company, Chicago, and 816 to Detroit Edison Company, Detroit. Output 1975 is now expected to reach 9 million to- The Burlington Northern has assigned 19 1- car unit trains of 10,000 tons capacity each this operation. In one day in August three tra- were loaded and dispatched.

A new mine is being planned for Pac- Power's wholly-owned West Decker reserves Montana. The Company has started envir- mental studies and exploratory drilling to velop a large mine in a field that contains million tons of coal.


QUARTERLY REPORT
TO STOCKHOLDERS

At the Annual Meeting of Stockholders on June 11 in Portland proxies representing 92% of the capital stock shares outstanding were voted for the election of 15 directors. Nearly 400 shareholders attended in person and heard four officers review the progress of the Company. The shareholders were advised that the Board of Directors had authorized issuance of up to $70,000,000 of new securities. A sale of 3,000,000 additional shares of common stock is now tentatively scheduled for early September.

Applications for electric rate increases that would increase annual revenues a total of approximately $21,500,000 in Oregon, Washington and Montana have been advancing through the hearings and review process in those states. In Oregon, where the request is for $16,800,000, the case has been completed and is awaiting decision. The Public Utility Commissioner's staff has agreed that the Company requires the entire increase applied for. The commissioner's determination is expected in late July or early August. The Washington and Montana cases have proceeded through the initial hearings.

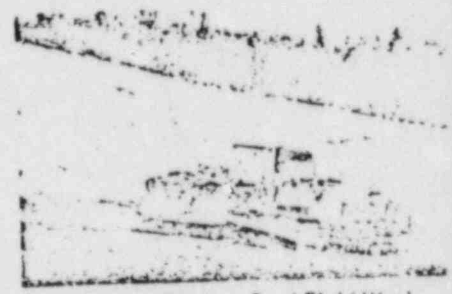
Sincerely,

Don C Frisbee

Chairman of the Board

John W. Lansing

President



Washington Salutes Coal Field Work With Environmental Excellence Award

Surface reclamation work at the strip m
that supplies coal to the Centralia, Washing
steam-electric generating complex has been re
ognized with the first "Environmental Exc
lence Award" given to an industry by the Sta
of Washington.

The coal field, jointly owned by Pacific Pow
& Light Company and The Washington Wa
Power Company, is managed by Washington
rigation and Development Company, a subsi
ary of WWP. Six other investor-owned and p
licly-owned utilities of Washington and Ore
also share in ownership of the plant.

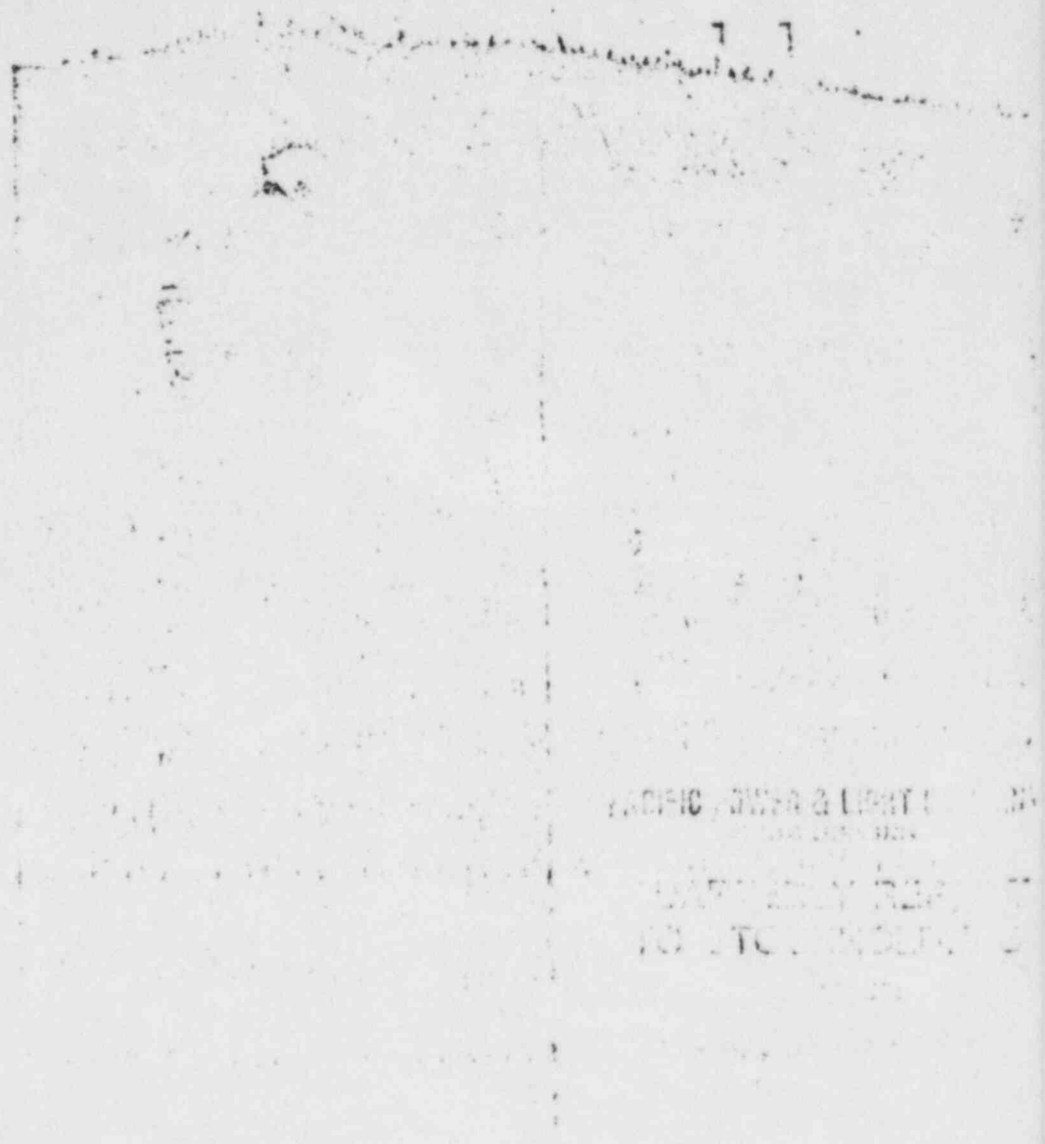
The deep grass pictured on the cover of t
report is the result of the land reclamation w
shown in progress above.

In presenting the award on behalf of
Washington Ecological Commission, Gov. D
iel J. Evans noted qualifications for the aw
"required pollution abatement facilities bey
minimum regulations for standards . . . that
recipient make positive commitments toward
search and development of waste control or e
ination of pollution on the receiving air
water or the land . . . and to show an on-go
commitment at consistently high levels for
vironmental quality maintenance.

"Now those are requirements that go far
yond what we expect out of law. And as the f
recipient of this award, I can think of no be
industrial operation than the one the Ec
ical Commission has chosen.

"They have constructed pollution control
abatement facilities which go beyond our m
mum requirements. They are continuing
carrying on . . . the research which will p th
help that land to be more productive after t
are through than it was before they began.

"And it is obvious that they are showin
on-going commitment to the process.



of the McGregor Land and Livestock Company and active in a number of agricultural, business and civic interests in Washington, Oregon and Idaho, was elected to the vacancy.

Shareholders who presently are not participating in the Company's Automatic Dividend Reinvestment Service for the purchase of common stock will receive with this report a brochure explaining how it works, its advantages and how they may participate.

The 1975 Annual Meeting of Stockholders is to convene at 1:30 P.M. on June 11 in the Benson Hotel in Portland, Oregon, and shareholders of record at the close of business April 22 will be entitled to notice of the meeting and to vote. The notices and proxy statements will be mailed to you early in May. We hope you will attend.

Sincerely,

Don C Frisbee

Chairman of the Board

John W. Lansing

President

A summary of financial and operating statistics on the Company's progress for the past eleven years has been prepared for investors and a copy is available upon request.

Pacific Power's snow-pack survey crew pictured on the cover is riding on top of six-foot thick snow on the North Umpqua River watershed near the ridge of the Cascade Range of southern Oregon. Data on moisture content of the winter's snow pack helps planning for hydroelectric production at 32 plants in Washington, Oregon and California.

Mining of Trona, Soda Ash Production Keeps Expanding in Southwest Wyoming

One of the largest industrial expansions in progress in the West is concentrated in Pacific Power's service territory in southwestern Wyoming where four chemical companies are adding capacity to mine trona and process the mineral into widely used soda ash products.

The new facilities of FMC Corporation, Stauffer Chemical and Allied Chemical will add mining and milling capacity totaling 2,330,000 tons annually to existing complexes in 1975. Also Texasgulf, Inc. has scheduled processing of another 1-million tons in 1976 at a new mine-mi facility. These will mean a 50% increase in th area's trona production capacity in three years

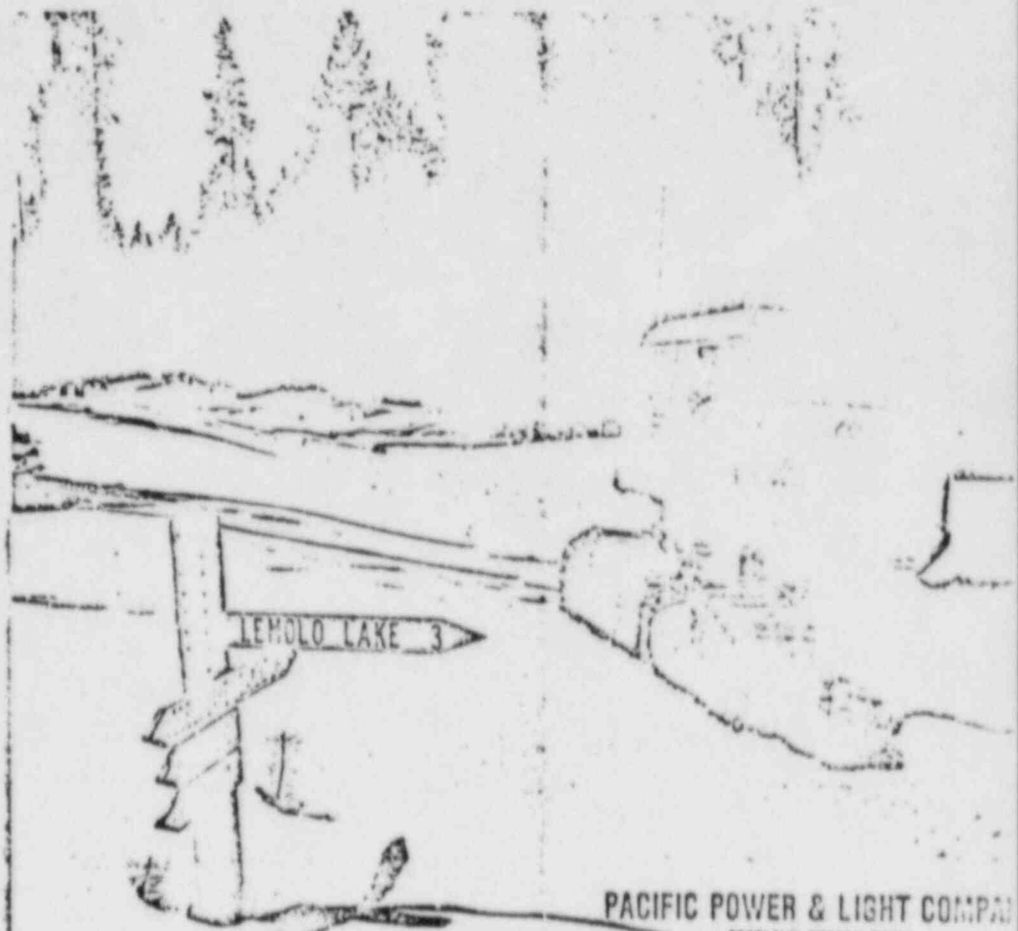
There will be a significant boost in electri energy use at the complexes that already ran among the world's largest for soda ash output.

Soda ash is needed for such diverse product as glass, paint, soaps, water softeners, textil dyes, pulp and paper and many inorganic indus trial chemicals. Church & Dwight produces it well-known Arm & Hammer brand baking sod from the Wyoming mineral. One major impetu to the industry's expansion has been the fact th detergents using the trona products are accept able from an ecological standpoint. This marke is tremendous, and growing.

Continuing mine-mill expansions in the year ahead are likely because the deposits near Gree River constitute the world's most extensive re serves of this basic industrial raw material.

The deposits were discovered in 1940 and th first mine shaft was sunk in 1947 by FMC which put the first mill in operation in 19 with 300,000 tons annual capacity. Allied an Stauffer later entered the field, and by 19 trona output was 1,782,000 tons, by 1973 it wa 6,500,000 tons and dominated U.S. supply. Th reserves extend under 1,200 square miles Wyoming and contain billions of tons of tron

One measure of the electric energy requir ment PP&L supplies is indicated by the FM mine and mill where monthly demand is 10, kilowatts and energy usage has averaged 3,3 000 kilowatt-hours a month the past year. T demand load by FMC is scheduled for 12,0 kilowatts in 1975 and 19,000 kilowatts by 197



PACIFIC POWER & LIGHT COMPA

PORTLAND, OREGON 97204

QUARTERLY REPORT TO STOCKHOLDERS

April 10, 1975

At the special stockholders meeting December 11, the authorized shares of common stock were increased from 25,000,000 to 50,000,000 and the limit on the unsecured debt was raised from 20% to 30% of total capital. Following the meeting the Directors approved plans to market 3,500,000 shares of common stock on January 9.

The first 500,000-kilowatt generating unit at the Jim Bridger plant near Rock Springs, Wyoming, was placed in commercial service December 1. At the Centralia, Washington, plant the installation of additional fly-ash precipitator capacity for both units has been completed, and at the Wyodak project in northern Wyoming the key foundations were completed on schedule before winter curtailed activity. Work also is proceeding on retrofitting precipitators on the three older generating units at the Dave Johnston plant near Glenrock, Wyoming.

The Directors approved a 1975 capital expenditures budget of $242,000,000, about $10,000,000 below the 1974 construction program, and were informed the schedules for major projects are under continual review to coordinate their in-service operation with changes in power supply requirements. Th in-service dates for the three remaining unit at Jim Bridger have been extended s months and work on Wyodak stretched ou another year.

On the basis of a tentative determination subject to review by the Internal Revenu Service, tax counsel has advised that 90% c all dividends paid on the common stock i 1974 is excludible from gross income for fed eral income tax purposes and all dividend paid on the preferred shares are fully taxabl

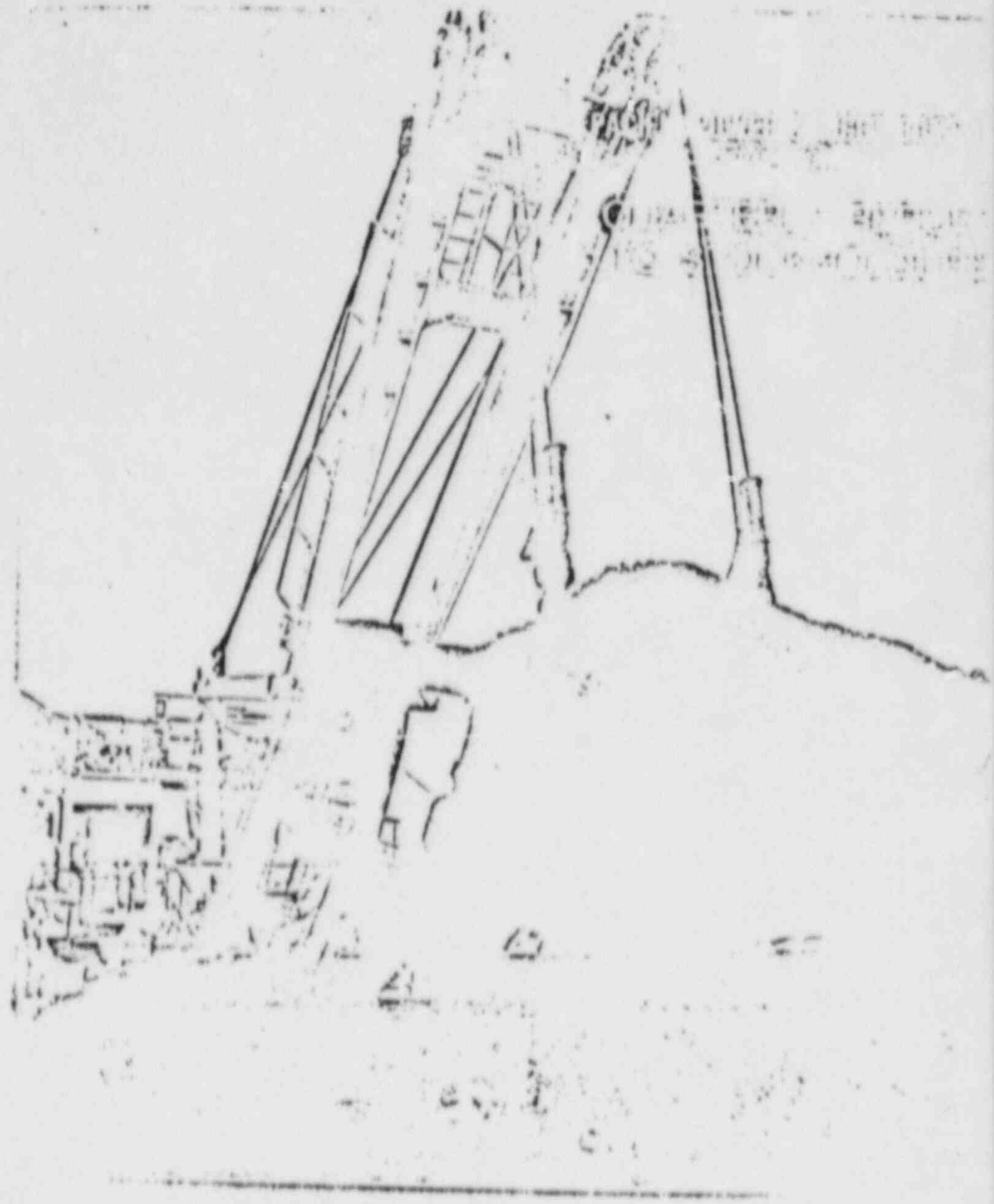
We extend our best wishes for the Nev Year and our thanks for your continued con fidence in the Company.

Sincerely,

Chairman of the Board

President

The cover illustration of this report shows an 18 cubic-yard capacity bucket scooping coal from the top 14 feet of the seam being mined to supply the Jim Bridger power plant near Rock Springs in southwestern Wyoming. The big shovel moves atop another 14 feet of coal that will be mined later. Coal production averages 35,000 tons a week and the shovel scoops and loads 110 tons every 2½ minutes into haulers that transport the fuel five miles to the plant storage area. There it is crushed and fed to the furnace-boiler of a 500,000-kilowatt generating unit now in commercial production and supplying Idaho Power Company. Work progresses on two similar units slated for services in 1976 and 1977 to supply Pacific Power, which operates the plant and owns two-thirds of the complex.



ATTACHMENT 7(d)-1

FINANCIAL ANALYSIS

Legal: a/c
BPA - 14-03-39104

C E R T I F I C A T E

I, DONALD W. FRANZWA, am Head of Contracts, Branch of Customer Service, Division of Power Management, Bonneville Power Administration, and as such am responsible for the administration of Bonneville Customer contracts.

I hereby certify that the attached copy of Washington Public Power Supply System Nuclear Project No. 3 Agreement (Contract No. 14-03-39104) is a true and correct copy of the originally executed agreement in our files.

Dated: October 9, 1973

Donald W. Franzwa
Donald W. Franzwa

ATTACHMENT 8(b)-1

WNP NO. 3

NET BILLING AGREEMENT

Puget Sound Power & Light Company

FINANCIAL ANALYSIS

	1974		1973	
	(Dollars in millions)			
Earnings available to common equity	18.0		12.9	
Average common equity	150.3		141.4	
Rate of return on average common equity	12.02		9.12	
Net income before total interest charges***	53.1		37.3	
Total interest charges	23.7		17.7	
Times total interest charges earned	2.24		2.11	
Net income before total interest charges***	53.1		37.3	
Interest on long-term debt	18.6		14.7	
Times long-term interest charges earned*	2.86		2.53	
Gross income after taxes	48.4		35.7	
Total interest charges and preferred dividends	27.1		20.3	
Preferred stock coverage**	1.79		1.76	
AFUDC	4.4		1.9	
Net income after preferred dividends	18.0		12.9	
%	24.48		14.73	
Operating expense (less depreciation and total taxes)	64.6		54.9	
Operating revenues	142.4		116.9	
Operating ratio	.45		.47	
Market price of common	19		25-3/8	
Book value of common	33.23		32.85	
Market-book ratio	.57		.77	
Cash earnings available for common	18.1		12.9	
Common dividends	8.7		8.7	
Ratio	.48		.67	
Capitalization (Amount and Percent)				
Long-term debt	318.7	.59	257.3	.56
Preferred stock	51.9	.10	54.2	.12
Common equity	116.1	.31	144.0	.32

* Provide latest Net Earnings Certificate showing interest coverage calculated in accordance with the provisions of the mortgage and/or debenture indenture together with a copy of the indenture(s).

** If the Corporate Charter contains a preferred stock coverage requirement, provide that portion which shows how such coverage is to be calculated.

*** Include income taxes - current and deferred.

Portland Gen. Elec. Co.

FINANCIAL ANALYSIS

	1974		1973	
	(dollars in millions)			
Earnings available to common equity	$ 26.3		$ 21.4	
Average common equity	$221.6		$187.7	
Rate of return on average common equity	11.87%		11.40%	
Net income before total interest charges***	$ 63.5		$ 48.8	
Total interest charges	$ 30.6		$ 22.2	
Times total interest charges earned	2.08%		2.20%	
Net income before total interest charges***	$ 63.5		$ 48.8	
Interest on long-term debt	$ 20.7		$ 18.6	
Times long-term interest charges earned*	3.07%		[illegible]	
Gross income after taxes	$ 63.5		$ 48.[illegible]	
Total interest charges + preferred dividends	$ 37.2		$ 27.5	
Preferred stock coverage**	1.71%		1.77%	
AFUDC	$ 17.0		$ [illegible]	
Net income after preferred dividends	$ 26.3		$ [illegible]	
%	64.6%		[illegible]	
Operating expenses (less depr. & total taxes)	$ 74.2		[illegible]	
Operating revenues	$146.0		[illegible]	
Operating ratio	50.8%		[illegible]	
Market price of common	$ 12.75		[illegible]	
Book value of common	$ 17.92		[illegible]	
Market-book ratio	71.1%		[illegible]	
Cash earnings available for common	$ 23.7		[illegible]	
Common dividends	$ 18.8		[illegible]	
Ratio	126.1%		[illegible]	
Capitalization (Amount & Percent)				
Long-term debt	$335.3	51.0%	[illegible]	
Preferred stock	$ 80.0	12.2%	[illegible]	
Common equity	$242.0	36.8%	[illegible]	

*Provide latest Net Earnings Certificate showing interest coverage calculated i[n] accordance with the provisions of the mortgage and/or debenture indenture to[gether] with a copy of the indenture(s).

**If the Corporate Charter contains a preferred stock coverage requirement, [provide] that portion which shows how such coverage is to be calculated.

***Include income taxes - current and deferred.

WASHINGTON WATER POWER COMPANY

ATTACHMENT FOR NUMBER 7d

FINANCIAL ANALYSIS

	1974	1973
	(dollars in millions)	
Earnings available to common equity	13,809,000	13,104,000
Average common equity	134,948,000	128,225,000
Rate of return on average common equity	10.2%	10.2%
Net income before total interest charges***		
Total interest charges		
Times total interest charges earned	See response for Paragraph ~~7~~ 5 - "Earnings and Equity Tests"	
Net income before total interest charges***		
Interest on long-term debt		
Times long-term interest charges earned*		
Gross income after taxes	28,744,000	26,398,000
Total interest charges & preferred dividends	14,935,000	13,294,000
Preferred stock coverage** no preferred stock	N.A. not applicable	N.A.
AFUDC	701,000	466,000
Net income after preferred dividends	14,351,000	13,646,000
%	4.9	3.4
Operating expenses (less depr. & total taxes)	58,426,000	45,899,000
Operating revenues	110,098,000	92,999,000
Operating ratio	1.88	2.03
Market price of common (Dec. price, C. A. Turner)	16.50	18.58
Book value of common (FPC Form 1)	20.14	19.59
Market-book ratio	.82	.95
Net income available for common	14,350,812	13,645,737
Common dividends	10,135,760	9,649,054
Ratio	70.6%	70.7%
Capitalization (Amount & Percent)		
Long-term debt	262,498,573	247,791,760
Preferred stock		
Common equity	137,237,520	132,657,446

*Provide latest Net Earnings Certificate showing interest coverage calculated in accordance with the provisions of the mortgage and/or debenture indenture together with a copy of the indenture(s). — same as item 5

**If the Corporate Charter contains a preferred stock coverage requirement, provide that portion which shows how such coverage is to be calculated. No preferred stock

***Include income taxes - current and deferred.

FINANCIAL ANALYSIS ATTACHMENT 7(1)-1

PACIFIC POWER & LIGHT COMPANY
and Its Consolidated Subsidiaries

	1974	1973
	(dollars in millions	
Earnings available to common equity	$ 45.7	$ 45.1
Average common equity	403.8	347.3
Rate of return on average common equity	11.32%	13.00%
Net income before total interest charges***	$102.3	$ 97.7
Total interest charges	50.9	36.7
Times total interest charges earned	2.0 x	2.7 x
Net income before total interest charges***	$102.3	$ 97.7
Interest on long-term debt	42.8	30.9
Times long-term interest charges earned*	2.4 x	3.2 x
Gross income after taxes	$105.0	$ 90.3
Total interest charges & preferred dividends	59.3	45.1
Preferred stock coverage**	1.8 x	2.0 x
AFUDC	$ 16.8	$ 7.9
Net income after preferred dividends	45.7	45.1
%	36.8%	17.5%
Operating expenses (less depr. & total taxes)	$111.9	$100.2
Operating revenues	247.0	235.9
Operating ratio	.45	.42
Market price of common (1)	$19.56	$23.31
Book value of common	19.32	18.76
Market-book ratio	1.01	1.24
Cash earnings available for common (2)	$ 62.3	$ 69.2
Common dividends	36.0	31.1
Ratio	1.73	2.19

Capitalization (Amount & Percent)	1974 $	1974 %	1973 $	1973 %
Long-term debt	749.2	57.6	637.8	56.5
Preferred stock	117.2	9.0	117.2	10.4
Common equity	434.6	33.4	372.9	33.1

*Provide latest Net Earnings Certificate showing interest coverage calculated in accordance with the provisions of the mortgage and/or debenture indenture together with a copy of the indenture(s).

**If the Corporate Charter contains a preferred stock coverage requirement, provide that portion which shows how such coverage is to be calculated.

*** Include income taxes - current and deferred.

(1) Average of high and low for the year
(2) Earnings available for common less AFUDC + depreciation + deferred taxes + investment tax adjustments

(AUTHENTICATED COPY)

Contract No. 14-03-39104

11-27-72

WASHINGTON PUBLIC POWER SUPPLY SYSTEM

NUCLEAR PROJECT NO. 3

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)

Index to Sections

(Index to Sections Cont.)

This AGREEMENT, executed September 25, ~~1972~~ 1973, 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 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 in order to achieve the economies of size for the benefit of Supply System's members, the Participants and the other Project Owners, the Project Owners have entered into an agreement simultaneously with this agreement providing that the Project Owners will finance and own the Project and that Supply System will design, construct, operate and maintain the Project on behalf of the Project Owners; and

WHEREAS Supply System and the Companies have entered into short-term Power Sales Agreements simultaneously with this agreement providing for purchase by the Companies of output from Supply System's Ownership Share of 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 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 capability of the Project acquired hereunder 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 adjustements 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 Supply System and the Administrator propose to enter into agreements with the other Participants containing terms and conditions substantially identical to those specified 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 jointly to construct, own, acquire and operate works, plants, and facilities for the generation and/or transmission of electric power and energy and to enter into contracts for such purposes and 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 Supply System's Ownership Share 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 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, 1981, 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 with respect to Supply System's Ownership Share, 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 and taxes imposed by law would exceed the total amount of ad valorem taxes that Supply System would have paid in that year to such taxing entities if Supply System's Ownership Share of 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 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 Power Sales 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 Share. 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 Ownership Share of the costs associated with planning, designing, financing, acquiring and constructing the Project pursuant to the Bond Resolution and (2) for any other purpose 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) "Companies" means the electric utilities or other entities, other than Supply System, that execute and are party to a Power Sales Agreement.

(f) "Contract Year" (1) means the period commencing on the Date of Commercial Operation, or on January 1, 1981, 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.

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

(h) "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. 14-03-39101 through 14-03-39203, inclusive).

(i) "Ownership Agreement" means the Agreement for construction, ownership, and operation of the Project, as the same may be amended, and as executed by the Project Owners.

(j) "Participants" means those entities which are specified in Exhibit A or which become assignees of all or part of any Participant's Share pursuant to sections 7(b) or 15.

(k) "Participant's Share" means the decimal fraction share of Supply System's Ownership Share of Project Capability, reduced by short-term sales of output from Supply System's Ownership Share of the Project under the Power Sales Agreements, purchased by the Participant hereunder as specified in Exhibit A, plus, during any period in which a decimal fraction is assigned to the Participant pursuant to sections 7(f) or 12 hereof or pursuant to section 7(b) in the other Net Billing Agreements the decimal fraction share or shares so assigned, and minus any reductions under section 12 hereof or under the assignment by the Participant under section 7(b) hereof during any period in which such reductions or assignments are in effect; provided, however, that such short-term sales from the Supply System's Ownership Share shall not exceed a total or

1,000 megawatt-years and shall not extend beyond June 30, 1984.

(l) "Power Sales Agreements" means the agreements for the short-term sale and purchase of output from Supply System's Ownership Share of the Project entered into simultaneously with this agreement by Supply System and each of the Companies.

(m) "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 Supply System's Ownership Share of the Project.

(n) "Project Agreement" means the agreement for the financing, construction and operation of Supply System's Ownership Share as the same may be amended, executed by Supply System and the Administrator (Contract No. 14-03-39100).

(o) "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.

(p) "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.

(q) "Project Owners" means Supply System and the electric utilities that execute and are party to the Ownership Agreement.

(r) "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, the Project Owners (except Supply System) and the Companies, to achieve optimum utilization of the resources of such systems taken as a whole, and to achieve efficient and economical operation of such systems. Any practice, method or act which pursuant to the Ownership Agreement is determined to be Prudent Utility Practice shall be deemed to be Prudent Utility Practice hereunder.

(s) "Supply System's Ownership Share" means 0.70 or such other decimal fraction as may be determined under the Ownership Agreement.

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 of written notice by Supply System pursuant to section 10(a).

4. Financing, Design, Construction, Operation and Maintenance of the Project. Supply System shall perform its duties and exercise its rights under the Ownership Agreement in accordance with Prudent Utility Practice, and shall, in good faith and in accordance with Prudent Utility Practice, use its best efforts to construct, operate and maintain the Project and to finance its interest therein.

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. 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 any other Project Owner 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 sections 7 and 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, or any other Project Owner, 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.

Whenever during a Contract Year the Participant's Share 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 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 8(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 Share, in addition to the payments specified in section 6(b) hereof. Payments under this section 6(c) hereof 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 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.

(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 the 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 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, 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 this subsection shall not without the consent of the Participant exceed an accumulated maximum of 25 percent of the Participant's Share specified in Exhibit A, 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. <u>Participant's Right to Use Project Capability</u>.

(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 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.

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 Project Owners and the Administrator agree to a shutdown of the Project; provided, however, that the Administrator may, at his election, and in accordance with section 11(d) of the Ownership Agreement, 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 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 10 of the Ownership Agreement.

10. Termination Settlements.

(a) If Supply System is unable to participate in ownership, construction, or operation of the Project due to licensing, financing, construction or operating conditions which are beyond its control, or if Supply System is in default as defined in the Ownership Agreement and has been requested by the Administrator to give notice of termination, or if the Project Owners invoke the End of the Project procedure in section 22 of the Ownership Agreement, Supply System shall give notice of termination of this agreement effective on the date of such notice.

Supply System shall terminate its activities related to construction and operation of the Project, and shall undertake the salvage, discontinuance, decommissioning and disposition or sale of Supply System ownership interest in the Project, all in accordance with the Ownership Agreement. Thereafter 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 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 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 Supply System's Ownership Share of Project assets. 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 such statements by the Participant's Share. In any case such payments shall be made at times and in amounts sufficient to cover on a current basis the Participant's Share of the amount 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. 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 Share, such amount 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 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 and the provisions of sections 5(a) and 5(b) describing the circumstances under which payments are to be made in this section and the provisions of section 13 shall remain in effect notwithstanding termination of this agreement pursuant to section 3.

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 in the exhibit specified 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 Project meters, adjusted for losses, if any, as agreed upon by the parties hereto, installed to record such deliveries at the place and in the circuit agreed upon by Supply System and the Administrator. Such point of delivery shall be described in a suitable exhibit to this agreement when the location, voltage, and metering details of the point of delivery are so agreed.

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 Exhibit A, 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.

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 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. 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.

16. 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.

17. 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, 1981, as the Participants' Review Board may determine, the Participants shall elect a Participants' 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 semiannually 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 (e) 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 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 recommendations 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.

(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 8 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 8(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.

18. 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 Ownership Agreement, 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 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

BENTON RURAL ELECTRIC ASSOCIATION

(SEAL)

By S/ RALPH ETHIER

Title President

ATTEST:

By S/ WALTER H. CARLSON

Title Secretary - Treasurer

EXHIBIT A
(WPPSS No. 3)

TABLE OF PARTICIPANTS AND PARTICIPANT'S SHARE

Participant	Reference
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, Idaho	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
*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
Public Utility District No. 1 of Franklin County, Washington	Franklin

Participant (Cont.)	Reference
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
Riverside Electric Company, Ltd..................................	Riverside

Participant (Cont.)	Reference
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' Shares for such Participants so long as the aggregate of the increases in Participants' Shares is equal to the aggregate of the decreases in Participants' Shares; 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 Share 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'S SHARE

Participant	1980-81	1981-82	1982-83	1983-84	1984-85	1985-86	1986-87 1/
Albion	0.00004	0.00004	0.00006	0.00006	0.00005	0.00004	0.00003
Bandon	0.00094	0.00094	0.00132	0.00140	0.00143	0.00147	0.00144
Benton PUD	0.03604	0.03604	0.04160	0.04308	0.04174	0.04158	0.04295
Benton REA	0.00673	0.00748	0.00783	0.00741	0.00699	0.00673	0.00645
Big Bend	0.00074	0.00074	0.00528	0.00507	0.00484	0.00332	0.00374
Blachly-Lane	0.00388	0.00388	0.00415	0.00436	0.00452	0.00470	0.00491
Blaine	0.00092	0.00092	0.00116	0.00107	0.00103	0.00102	0.00101
Bonners Ferry	0.00084	0.00084	0.00108	0.00109	0.00105	0.00104	0.0009[illegible]
Burley	0.00081	0.00081	0.00198	0.00198	0.00188	0.00121	0.0015[illegible]
Canby	0.00139	0.00139	0.00164	0.00193	0.00211	0.00231	0.00256
Cascade Locks	0.00042	0.00042	0.00049	0.00054	0.00058	0.00061	0.00064
Central Elec.	0.01009	0.01243	0.01183	0.01157	0.01079	0.01010	0.00966
Centralia	0.00148	0.00148	0.00275	0.00284	0.00278	0.00246	0.00258
Central Linc.	0.02763	0.02763	0.03236	0.03432	0.03476	0.03569	0.03607
Chelan	0.00747	0.00478	0.00606	0.00562	0.00496	0.00451	0.00433
Cheney	0.00431	0.00431	0.00479	0.00481	0.00460	0.00451	0.00442
Clallam	0.00738	0.00738	0.01006	0.01040	0.01020	0.01025	0.01001
Clark	0.13903	0.13764	0.15228	0.14715	0.14467	0.14576	0.13633
Clatskanie	0.00492	0.00492	0.00763	0.00731	0.00670	0.00628	0.00530
Clearwater	0.00584	0.00604	0.00703	0.00667	0.00631	0.00609	0.00573
Columbia Basin	0.00217	0.00217	0.00382	0.00377	0.00368	0.00366	0.00338
Columbia Power	0.00078	0.00078	0.00101	0.00098	0.00096	0.00095	0.00088
Columbia Rural	0.01058	0.01330	0.01323	0.01301	0.01272	0.01271	0.0129[illegible]
Cons. Irrig.	0.00008	0.00008	0.00007	0.00006	0.00005	0.00005	0.00005
Consumers	0.01538	0.01751	0.01655	0.01794	0.01923	0.02049	0.02242
Coos-Curry	0.00481	0.00481	0.00880	0.00869	0.00852	0.00844	0.00781
Coulee Dam	0.00032	0.00032	0.00052	0.00052	0.00049	0.00040	0.00041
Cowlitz	0.03296	0.04227	0.02370	0.01984	0.03146	0.02896	0.03461
Declo	0.00013	0.00013	0.00017	0.00019	0.00020	0.00021	0.00023
Douglas PUD	0.00123	0.00097	0.00085	0.00070	0.00057	0.00057	0.00049
Douglas Elec.	0.00574	0.00638	0.00617	0.00634	0.00654	0.00673	0.00692
Drain	0.00051	0.00051	0.00085	0.00089	0.00088	0.00082	0.00083
East End	0.00028	0.00028	0.00032	0.00029	0.00027	0.00026	0.00023
Ellensburg	0.00584	0.00584	0.00712	0.00723	0.00699	0.00693	0.00675
Fall River	0.00095	0.00099	0.00250	0.00288	0.00321	0.00359	0.00393

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

Participant	1980-81	1981-82	1982-83	1983-84	1984-85	1985-86	1986-87 1/
Farmers	0.00014	0.00014	0.00021	0.00019	0.00016	0.00011	0.00011
Ferry	0.00100	0.00100	0.00116	0.00112	0.00104	0.00099	0.00091
Flathead	0.00291	0.00327	0.00355	0.00327	0.00300	0.00232	0.00257
Forest Grove	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000	0.00091
Franklin	0.00898	0.00898	0.01251	0.01270	0.01225	0.01212	0.01151
Grant	0.00725	0.00464	0.00589	0.00545	0.00482	0.00438	0.00420
Grays Harbor	0.03090	0.03090	0.02040	0.02209	0.02251	0.02333	0.02386
Harney	0.00055	0.00055	0.00263	0.00261	0.00256	0.00210	0.00221
Heyburn	0.00090	0.00090	0.00173	0.00174	0.00166	0.00131	0.0014[illegible]
Hood River	0.00340	0.00340	0.00436	0.00448	0.00457	0.00469	0.00469
Idaho Co.	0.00067	0.00067	0.00111	0.00109	0.00106	0.00105	0.00098
Idaho Falls	0.00363	0.00363	0.00797	0.00836	0.00831	0.00722	0.00787
Inland	0.01735	0.02076	0.02029	0.01946	0.01857	0.01811	0.01798
Kittitas	0.00180	0.00180	0.00205	0.00210	0.00205	0.00205	0.00206
Klickitat	0.00442	0.00442	0.00565	0.00534	0.00503	0.00486	0.00448
Kootenai	0.00436	0.00502	0.00515	0.00492	0.00468	0.00454	0.00443
Lane	0.00832	0.00832	0.01114	0.01125	0.01133	0.01150	0.01123
Lewis	0.00944	0.00944	0.01249	0.01253	0.01197	0.01173	0.01103
Lincoln (M)	0.00187	0.00192	0.00225	0.00214	0.00202	0.00194	0.00182
Lincoln (W)	0.00143	0.00143	0.00119	0.00116	0.00113	0.00112	0.00117
Lost River	0.00069	0.00069	0.00120	0.00121	0.00121	0.00122	0.00118
Lower Valley	0.00540	0.00542	0.00671	0.00642	0.00611	0.00594	0.00557
Mason 1	0.00144	0.00144	0.00171	0.00173	0.00167	0.00165	0.00161
Mason 3	0.01326	0.01326	0.01419	0.01411	0.01336	0.01299	0.0126[illegible]
McCleary	0.00036	0.00036	0.00075	0.00074	0.00070	0.00050	0.00059
McMinnville	0.00000	0.00394	0.00102	0.00276	0.00469	0.00343	0.00547
Midstate	0.00475	0.00524	0.00590	0.00620	0.00648	0.00678	0.00704
Milton F.	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000	0.00002
Minidoka	0.00001	0.00001	0.00001	0.00001	0.00001	0.00001	0.00001
Missoula	0.00346	0.00411	0.00412	0.00392	00372	0.00360	0.00352
Monmouth	0.00292	0.00292	0.00352	0.00423	0.00473	0.00525	0.00588
Nespelem	0.00120	0.00129	0.00146	0.00140	0.00133	0.00129	0.00123
Northern Lts.	0.00446	0.00512	0.00547	0.00530	0.00509	0.00499	0.00489
Northern Wasco	0.00147	0.00147	0.00142	0.00165	0.00182	0.00197	0.00213
Okanogan Elec.	0.00033	0.00033	0.00092	0.00086	0.00085	0.00081	0.00079

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

Participant	1980-81	1981-82	1982-83	1983-84	1984-85	1985-86	1986-87 1/
Okanogan PUD	0.00253	0.00253	0.00299	0.00272	0.00266	0.00066	0.00143
Orcas	0.00537	0.00604	0.00728	0.00728	0.00722	0.00730	0.00733
Pacific	0.00746	0.00746	0.00941	0.00952	0.00916	0.00905	0.00870
Pend Oreille	0.00078	0.00051	0.00064	0.00060	0.00053	0.00049	0.00047
Port Angeles	0.00366	0.00366	0.00754	0.00746	0.00702	0.00481	0.00576
Prairie	0.00024	0.00029	0.00026	0.00023	0.00020	0.00018	0.00016
Raft River	0.00341	0.00341	0.00533	0.00522	0.00507	0.00501	0.00468
Ravalli	0.00377	0.00455	0.00455	0.00438	0.00420	0.00412	0.00409
Richland	0.01006	0.01006	0.01479	0.01559	0.01556	0.01589	0.015[illegible]
Riverside	0.00025	0.00027	0.00025	0.00022	0.00019	0.00017	0.0001[illegible]
Rupert	0.00062	0.00062	0.00121	0.00123	0.00119	0.00098	0.00106
Rural	0.00355	0.00442	0.00443	0.00436	0.00427	0.00426	0.00435
Salem	0.00988	0.00988	0.01025	0.01119	0.01200	0.01280	0.01385
Salmon	0.00063	0.00063	0.00104	0.00104	0.00102	0.00102	0.00097
Seattle	0.12094	0.11740	0.09930	0.08236	0.08079	0.07475	0.07206
Skamania	0.00207	0.00207	0.00291	0.00298	0.00290	0.00289	0.00278
Snohomish	0.22212	0.24072	0.19767	0.20948	0.19085	0.19308	0.19334
South Side	0.00074	0.00081	0.00085	0.00080	0.00074	0.00071	0.00067
Springfield	0.00040	0.00040	0.00145	0.00180	0.00202	0.00224	0.00238
Sumas	0.00010	0.00010	0.00019	0.00019	0.00019	0.00019	0.00018
Surprise V.	0.00097	0.00097	0.00163	0.00148	0.00135	0.00108	0.00102
Tacoma	0.06858	0.03044	0.02309	0.02792	0.04456	0.05865	0.05803
Tanner	0.00078	0.00084	0.00109	0.00108	0.00106	0.00106	0.0010[illegible]
Tillamook	0.00464	0.00464	0.00746	0.00804	0.00827	0.00857	0.008[illegible]
Umatilla	0.01473	0.01467	0.01487	0.01651	0.01794	0.01910	0.02107
Unity	0.00239	0.00275	0.00278	0.00264	0.00250	0.00242	0.00235
Vera	0.00259	0.00259	0.00378	0.00398	0.00397	0.00405	0.00401
Vigilante	0.00066	0.00066	0.00136	0.00126	0.00115	0.00090	0.00088
Wahkiakum	0.00156	0.00156	0.00203	0.00208	0.00203	0.00203	0.00198
Wasco	0.00225	0.00225	0.00271	0.00265	0.00260	0.00258	0.00244
Wells	0.00262	0.00245	0.00270	0.00248	0.00228	0.00214	0.00214
West Oregon	0.00229	0.00229	0.00238	0.00241	0.00246	0.00250	0.00252
Whatcom	0.00563	0.00482	0.00459	0.00427	0.00380	0.00347	0.00335

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

EXHIBIT B

PROJECT CHARACTERISTICS

WASHINGTON PUBLIC POWER SUPPLY SYSTEM

NUCLEAR PROJECT NO. 3

The Washington Public Power Supply System's Nuclear Project No. 3 is expected to have a net electrical plant capability of approximately 1,100 MW.

It will be located on a site in the State of Washington acceptable to the Project Owners and the Administrator.

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 cooling systems, facilities and piping; electrical and mechanical systems and other related equipment and facilities; electrical facilities required to deliver the output of the Project to the BPA transmission system at a point to be determined by the Supply System and the Administrator; and other structures, shops, warehouses, construction facilities, offices, equipment or facilities required in the construction, maintenance and operation of the Project.

A complete description of the Project will be prepared after bids have been received and evaluated and awards have been made for major plant components.

PROVISIONS REQUIRED BY STATUTE OR EXECUTIVE ORDER

1. 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.

(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,

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 8(b)-2

WNP NO. 3

OWNERSHIP AGREEMENT

CONFORMED COPY

EXHIBIT C

WASHINGTON PUBLIC POWER SUPPLY SYSTEM

NUCLEAR PROJECT NO. 3

AGREEMENT

executed by

PACIFIC POWER & LIGHT COMPANY

PORTLAND GENERAL ELECTRIC COMPANY

PUGET SOUND POWER & LIGHT COMPANY

THE WASHINGTON WATER POWER COMPANY

and

WASHINGTON PUBLIC POWER SUPPLY SYSTEM

(Ownership Agreement)

Index to Sections

THIS IS AN AGREEMENT among WASHINGTON PUBLIC POWER SUPPLY SYSTEM, a municipal corporation of Washington, herein called Supply System; PACIFIC POWER & LIGHT COMPANY, a Maine corporation, herein called Pacific; PORTLAND GENERAL ELECTRIC COMPANY, an Oregon corporation, herein called Portland; PUGET SOUND POWER & LIGHT COMPANY, a Washington corporation, herein called Puget; and THE WASHINGTON WATER POWER COMPANY, a Washington corporation, herein called Water Power; each individually called Party, and collectively called the Parties.

RECITALS

In order to achieve the economies of scale, the Parties enter into this agreement, pursuant to RCW 54.44 as amended, for the undivided ownership of a nuclear plant for the generation of electricity of approximately 1,100 megawatts net electric capacity and related facilities and property, all comprising the Project, hereinafter defined, and for the planning, financing, acquisition, construction, operation and maintenance thereof.

Supply System intends to acquire a site in the State of Washington for such Project, to be known as the Washington Public Power Supply System Nuclear Project No. 3, and Supply System, in connection therewith, intends to enter into certain contracts relating to said Project, and to file applications for the required licenses and permits to construct, operate and maintain the Project.

Recitals

Supply System is organized under the laws of the State of Washington (RCW 43.52) and authorized by law to construct, acquire, operate and maintain works, plants and facilities for the generation and/or transmission of electric power and energy. Pacific, Portland, Puget, and Water Power are investor-owned electric utility corporations subject to regulation by either the State of Washington or the State of Oregon, or by both.

All as hereinafter provided: Each Party shall own a percentage of the Project, hereinafter defined, and shall furnish money or the value of property equal to such percentage for the acquisition and construction of the Project and shall own and control a like percentage of the electrical output thereof. Each Party shall defray its own interest and other payments required to be made or deposited in connection with any financing undertaken by it to pay its percentage of the money furnished or value of property supplied by it for the planning, acquisition, construction and operation of the Project, or any additions or betterments thereto, a uniform method being provided for determining and allocating operation and maintenance expense of the Project.

Now, therefore, the Parties mutually agree as follows:

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

(a) "AEC" means the United States Atomic Energy Commission and such successor agencies as shall have responsibility for licensing or regulating nuclear power generating plants.

(b) "Annual Costs" means all Project costs except Fuel costs included in any budget or revised budget of Annual Costs which has been approved, or Projects costs incurred under Section 8(b), allocable to (1) Operation and Maintenance Expense Accounts as such accounts are described in the Uniform System of Accounts, (2) elective capital additions made pursuant to Section 18, and (3) beginning on the Date of Commercial Operation, repairs, renewals and replacements necessary to assure design capability, and modifications, betterments and additions required by governmental agencies. Credits relating to such costs shall be applied to Annual Costs when received.

(c) "Bonneville" means the Bonneville Power Administration, a bureau of the Department of the Interior of the United States of America acting by and through the Bonneville Power Administrator, or such successor entity as shall be assigned the responsibilities of the Bonneville Power Administrator under Contract No. 14-03-39100.

(d) "Committee" means the Committee established pursuant to Section 3 hereof.

(e) "Contract Year" means the period commencing on the Date of Commercial Operation, and ending at 12 p.m. on the following June

30. and 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) "Costs of Construction" means all costs allocable to the planning, acquisition and construction of the Project and of making it ready for operation (excluding the cost of Fuel and interest during construction), after giving appropriate consideration to credits relating to costs of construction, sales of salvage materials and interest received on monies deposited in the Construction Trust Account referred to in Section 6 hereof. Without limiting the generality of the foregoing such costs shall include:

(1) Preliminary investigation and development costs, engineering, contractors' fees, labor, materials, equipment and supplies, operator and other personnel training, testing, legal costs and all other costs properly allocable to construction.

(2) All costs of insurance obtained pursuant to Section 13(a) hereof and applicable to the period of construction.

(3) All costs relating to injury and damage claims arising out of the construction of the Project less proceeds of insurance maintained in accordance with Section 13(a) hereof.

(4) All Federal, state and local taxes and payments in lieu of taxes legally required to be paid in connection with the construction of

the Project, except any tax or payment in lieu of taxes assessed or charged directly against any individual Party unless such tax or payment was assessed or charged to the individual Party on behalf of the Project.

(5) The cost of all services performed by or at the request of Supply System which are directly applicable to Project construction.

(6) An appropriate allocation of administrative and general costs of Supply System applicable to Project construction to the extent such costs are not chargeable pursuant to the foregoing subsection (5).

(g) "Date of Commercial Operation" means the date fixed by Supply System as the point in time when the Project is ready to be operated and its output scheduled on a commercial basis.

(h) "Fuel" means nuclear fuel and rights relating thereto.

(i) "Matter" means any subject, or any aspect thereof, arising out of or relating to the interpretation or performance of this Agreement, including any proposal that may be made by any Committee member.

(j) "Minimum Capability" means the capability of the Project determined by Supply System but not less than the minimum generation permitted by the manufacturer's recommendations or by the terms of the AEC operating license, whichever is higher.

(k) "Ownership Share" of a Party means the percentage specified in Section 2 or as may be adjusted pursuant to Sections 16(b) and 22(b).

(l) "Plant Real Property" means the real property to be acquired by the Parties as the site for the Project. A description of the Plant Real Property will be attached as Exhibit A when determined pursuant to Section 3(j)(i).

(m) "Project" means the nuclear generating plant and related property as described in attached Exhibit B. Exhibit B may be revised from time to time by mutual agreement of the Parties.

(n) "Project Capability" at any time means the actual net electrical generating capability of the Project at such time.

(o) "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 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, Supply System, the Committee and any special board established pursuant to Section 4 hereof 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 prescribed statutory duties and responsibilities; and

(ii) the objective to integrate the Project Capability with the generating resources of the Federal Columbia River Power System and the generating resources of other systems operated by the Parties to achieve optimum utilization of the resources of such systems.

(p) "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 as amended to date of this Agreement.

2. OWNERSHIP AND WAIVER OF PARTITION (a) The Project shall be owned by the Parties as tenants in common, with each Party's respective undivided interest being in the following percentage (Ownership Share), except as modified pursuant to Sections 16(b) and 22:

PARTY	PERCENTAGE OWNERSHIP SHARE
SUPPLY SYSTEM	70%

PACIFIC	10%
PORTLAND	10%
PUGET	5%
WATER POWER	5%

(b) Each Party promptly and with all due diligence shall take all necessary actions and seek all regulatory approvals, licenses and permits necessary to carry out its obligations under this agreement.

(c) So long as the Project or any part thereof as originally constructed, reconstructed or added to is used or useful for the generation of electric power and energy, or to the end of the period permitted by applicable law, whichever first occurs, the Parties waive the right to partition whether by partition in kind or sale and division of the proceeds thereof and agree that during said time they will not resort to any action at law or in equity to partition and further that for said time they waive the benefit of all laws that may now or hereafter authorize such partition of the properties comprising the Project.

(d) The duties, obligations and liabilities of the Parties are intended to be several and not joint or collective, and none of the Parties shall be jointly or severally liable for the acts, omissions, or obligations of any of the other Parties. No provision of this agreement shall be construed to create an association, joint venture, partnership, or impose a partnership duty, obligation or liability, on or with regard to any one or more of the

Parties. No Party shall have a right or power to bind any other Party without its or their express written consent, except as expressly provided in this agreement.

(e) Each Party and its designees shall have the right to go upon and into the Project at any time subject to the rules and regulations of public authorities having jurisdiction thereof and to the necessity of efficient and safe construction and operation of the Project, but Supply System shall have possession and control of the Project for all the Parties.

(f) In order to provide unified management of the Project, the other Parties authorize and designate Supply System, and Supply System agrees to act, as their agent, to construct, operate and maintain the Project under the terms of this agreement. The Parties agree that such agency relationship shall not be changed without unanimous written consent of all Parties.

(g) In the construction and operation of the Project, each Party shall act without compensation other than reimbursement of costs and expenses as provided herein.

3. <u>COMMITTEE</u> (a) The Parties hereby establish a Committee to facilitate effective cooperation, interchange of information and efficient management of the Project, on a prompt and orderly basis. The Committee shall be composed of seven members, three to be appointed by Supply

System (one of whom will be designated by Bonneville pursuant to Contract No. 14-03-39100), and one member to be appointed by each other Party.

(b) Upon execution of this agreement each of the Parties shall notify all other Parties of the Committee member it appoints, and, thereafter, of any change in its appointment. Any Party by written notice to the other Parties may appoint an alternate or alternates to serve on the Committee in the absence of the regular Committee member which it has appointed, or to act on specified occasions or with respect to specified matters.

(c) The Committee shall meet regularly, but not less often than once in each calendar quarter, as may be agreed upon, and at such other times as requested by any Committee member upon three days' written notice. Supply System shall prepare written minutes of all meetings and distribute them to each Committee member within a reasonable time after each meeting.

(d) Each Committee member shall have the right to vote that part of the Ownership Share of the Party appointing him as designated in the notice of appointment. The total voting rights of the members of the Committee appointed by each Party shall be equal to such Party's Ownership Share.

(e) Any action which may be taken at a meeting of the

Committee may be taken without a meeting by individual action taken in writing by all members of the Committee.

(f) Supply System shall keep all members of the Committee informed of all significant Matters with respect to planning, construction, operation or maintenance of the Project (including, without limitation, plans, specifications, engineering studies, environmental reports, budgets, Fuel Plans, estimates and schedules), and when practicable, in time for members to comment thereon before decisions are made, and shall confer with the Committee, or separately with members thereof, during the development of any of Supply System's proposals regarding such Matters when practicable to do so. Upon request of any Committee member, Supply System shall furnish or make available to all members of the Committee, with reasonable promptness and at reasonable times, any and all other information relating to the planning, construction, operation or maintenance of the Project.

(g) Supply System shall submit each of the Matters listed below to the Committee for approval, which approval must be by a vote of Committee members having combined Ownership Share voting rights of more than eighty percent:

Determination of Minimum Capability (Section 1(j))

Any proposal made by Committee members, appointed by Parties other than Supply System, having Ownership Share voting rights of 20 percent or more, or by the Committee member designated by Bonneville pursuant to Section 3(a) (Section 4(e))

Construction budgets and changes therein (Section 5)

Any increase in the working fund in the Construction Trust Account (Section 6(b))

Award of any contract or approval of any change order, in either case in excess of $500,000 (Section 7(e)).

Budgets of Annual Costs (Section 8(a)) and revisions thereof (Section 8(b))

Any increase in the working fund in the Operating Trust Account (Section 9(b))

Fuel Plan, changes therein and determinations relating thereto as provided in Section 10

Scheduled outages as provided in Section 11(c)

Insurance coverage, including limits and choice of insurers (Section 13)

Estimate of cost of repair or damage to the Project (Section 16(a)) if in excess of $1,000,000, and estimate of the value of the Project without repair (Section 16(b))

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

(h) All proposals of Supply System relating to any Matters regarding the planning, construction, operation or maintenance of the Project submitted to the Committee 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.

(i) If any Matter submitted to the Committee under subsection (g) above is not approved by the vote within 30 days after the original submittal to the Committee, or within such longer time as the Committee may decide upon unanimously, then each member of the Committee who declines to vote approval shall specify in a written statement his reasons for declining approval, and shall also state therein what alternative is acceptable to him. Such statement shall be submitted to the other Committee members within 10 days after expiration of the later of (i) such 30-day period, or (ii) such longer period as the Committee may decide upon unanimously. Each member who has not submitted such written statement within the time provided in the preceding sentence shall be deemed to have approved the Matter as submitted by the Supply System.

Immediately after receipt of the written statement pursuant to the preceding paragraph from Committee members having 20 percent or more Ownership Share voting rights, Supply System may refer the disputed Matter to a special board for a decision pursuant to section 4 of this agreement. If Supply System elects not to do so and does not submit an alternative proposal, or if pursuant to section 8(b) Supply System continues to operate the Project without an approved budget of Annual Costs, members of the Committee having 20 percent or more of said voting rights may refer such matter to the special board for decision pursuant to section 4.

(j) Supply System shall submit the following additional Matters to the Committee and shall proceed on such Matters only upon unanimous approval of the Committee:

(i) Selection of the site of the Project

(ii) Selection of the type of nuclear steam supply system

(iii) Selection of the method of heat disposition

(iv) Award of contracts for nuclear steam supply system and turbine generators

(v) Selection of an architect engineer

(vi) Extension of insurance to any additional unit or generating project.

(vii) Elective capital additions to the Project

If the Committee is unable to reach unanimous agreement within sixty days after submission by Supply System of any of the Matters (i) through (v) listed in this subsection, then unless the Committee unanimously agrees otherwise, Supply System shall notify the Parties in writing and they shall then terminate the Project in accordance with Section 22(a) or proceed pursuant to Section 22(b).

4. PROCEEDINGS OF SPECIAL BOARD. (a) Supply System may refer any Matter which fails to receive the required vote of more than eighty percent under Section 3 hereof to a board of three members for decision by serving notice on all members of the Committee. Such notice shall specify in reasonable detail the Matter to be submitted to the Board.

Within 10 days after giving such notice, Supply System shall serve on all Committee members written notice naming a member of the board and stating Supply System's position on the Matter to be submitted to the board. Supply System shall obtain the concurrence of Bonneville with respect to the Board member appointed by it except as to any Matter on which the Committee member designated by Bonneville shall have declined to vote approval. Within 10 days after the serving of said notice of submission the Committee members who shall have declined to vote approval of the Matter submitted to the Committee shall appoint the second member of the board, each such Committee member exercising his voting rights for that purpose. If such Committee members are unable to agree upon the selection of the second board member by vote of the majority of the Ownership Share voting rights held by all of them, then any such Committee member after three days notice to each of the other Committee members may apply to the Chief Judge of the United States District Court for the judicial district of Washington in which the project is located, for appointment by him of such board member. Promptly after the second board member is appointed, either by said vote of such Committee members or by said judge, such Committee members shall serve upon all other Committee members written notice which shall name the board member so appointed and state their position or positions on the matter submitted to the board. Within ten days after their appointment, the two board members above mentioned shall appoint the third member by an instrument in writing signed by each of them. A copy of this instrument together with a notice of the time and place of hearing shall be served upon all Parties to this agreement and upon Bonneville at least seven days prior to the date of hearing.

(b) If the two board members fail to agree upon the appointment of the third within the time specified above, any Committee member, after three days' notice to the board members and to each of the other Committee members, may apply to the Chief Judge of the United States District Court for the judicial district of Washington in which the Project is located, for appointment by him of the third board member. Such judge shall be requested to appoint an individual of national reputation having demonstrated expertise in the field of the Matter submitted to the board.

(c) If any board member so appointed fails, or is unable, to act or to serve until a decision of the board is rendered, his successor shall be appointed by the same Committee members, the other board members, or by said Judge, as the case may be, who made the original appointment.

(d) Unless otherwise stipulated in writing by the parties to the proceeding, the board shall commence a hearing within ten days after the appointment of its third member, shall conduct the proceeding expeditiously and render its decision within thirty days after the close of such hearing. The board may receive any evidence that in their opinion will enable them to arrive at a fair and correct decision. The board shall decide whether the Matter proposed by Supply System is in accordance with Prudent Utility Practice. If the board decides in the affirmative, Supply System shall proceed as proposed by it; if in the negative, Supply System shall not so proceed. The decision of the majority of the board shall be final and conclusive.

(e) Committee members appointed by Parties, other than Supply System, having combined Ownership Share voting rights of 20 percent or more (Percentage Votes herein shall refer to Ownership Shares) or the Committee member designated by Bonneville pursuant to Section 3(a) may submit any proposal to the Committee which conforms with Prudent Utility Practice and the requirements imposed on Supply System under subparagraph 3(h) by serving a copy of it on all other Committee members. Within 15 days after receipt of such proposal, Supply System may submit one or more written alternative proposals. Such an alternative proposal may be that the Project continue to be constructed, operated and maintained, as the case may be, as previously planned; failure of Supply System to submit a written proposal to the Committee or to the board shall be treated for all purposes of this section 4(e) as if Supply System had submitted a written alternative proposal to such effect. The Committee shall meet with reasonable promptness and vote on such proposals. If Committee members by a vote of more than 80 percent approve any of Supply System's proposals, the proposal of the other Committee members shall be dismissed and Supply System shall implement its approved proposal. If the Committee does not approve any of Supply System's proposals, as they may be amended, the Committee shall vote on the proposal or proposals of the Committee members, and if the Committee approves any proposal by a vote of more than 80 percent, Supply System shall proceed with the approved proposals. If the Committee does not approve any of the proposals submitted, it may require submission of further proposals, or dismiss all proposals by a vote of more than 80 percent.

If the Committee does not require further proposals or dismisses all proposals by a vote of more than 80 percent, any Committee member appointed by Supply System or the Committee members submitting any such proposal having 20 percent or more of the Committee votes may submit its proposal to the board for review within 15 days after the Committee vote. Such board shall then consider Supply System's proposal and determine if its proposal is in accordance with Prudent Utility Practice. If the board so determines Supply System shall proceed accordingly and the proposal of the other Committee members shall be dismissed. If the board determines Supply System's proposal is not in accordance with Prudent Utility Practice it shall then consider the proposal of such other Committee members and determine if such proposal is in accordance with Prudent Utility Practice. If the board determines such proposal is in accordance with Prudent Utility Practice, Supply System shall proceed with the proposal. If the board determines that none of the proposals conform with Prudent Utility Practice, it shall dismiss all proposals and dissolve.

If, pursuant to section 3(i) or this section 4(e), Committee members initiate board review of a Matter, they shall serve on all other Committee members written notice naming a member of the board and stating their position on the Matter to be submitted. Thereafter the procedure shall be followed insofar as applicable, as set forth in subsections (a) through (d) and subsection (f) of this section 4. The Committee may adopt rules designed to implement the intent of this section.

(f) The board members shall determine the costs of the proceeding hereunder, including reasonable compensation for the board members and the reasonable costs incurred by each Party in connection with the proceeding, all of which costs shall be Costs of Construction or Annual Costs, as appropriate.

5. CONSTRUCTION BUDGET. An initial budget setting forth the preliminary estimate of amounts expected to be expended for Costs of Construction in each quarter hereafter to the completion of construction has been submitted by Supply System to each of the other Parties together with an estimated cash flow schedule for each of said quarters; said initial budget and schedule are hereby approved. By October 1 of each year until completion of construction, Supply System shall submit to the Committee for approval an updated budget and cash flow schedule, supported by detail adequate for the purpose of comprehensive review, describing the items of Costs of Construction and of the amounts expected to be expended therefor in each month during the next twenty-four months and in each quarter thereafter until completion of construction. Construction budget and cash flow schedules shall be changed by Supply System from time to time as necessary to reflect substantial changes in construction schedules, plans, specifications or costs, and when so changed shall be submitted to the Committee for approval.

6. CONSTRUCTION PAYMENTS. (a) Supply System shall

establish a separate trust account (Construction Trust Account) in a bank located in the State of Washington and having qualifications meeting all requirements imposed upon depositories for any of the Parties. Moneys for Costs of Construction of the Project shall be deposited therein and, except as provided in section 19, Supply System shall withdraw and apply funds therefrom only as necessary to pay Costs of Construction.

(b) Upon execution of this agreement each Party shall pay into the Construction Trust Account its Ownership Share of a working fund of $100,000; if Supply System proposes any larger amount it shall submit its proposal to the Committee for approval. Thereafter each Party shall continue to maintain its Ownership Share of such Fund in the amount stated, or in such larger amount as may be approved by the Committee.

(c) Except as otherwise agreed to by the Parties, Supply System will at least seven days prior to the date set for a meeting of its Board of Directors or Executive Committee give each of the other Parties a schedule of the Costs of Construction and reimbursement of the working fund expected to be paid on the Monday following such meeting if held on Friday, or on the next business day if such meeting is held on any other day, and each Party shall deposit its Ownership Share of such amounts in the Construction Trust Account on the day of such payment, whether or not such amounts are specified in the budget.

(d) Upon completion of the Project, acceptance thereof by Supply System and settlement of all the obligations relating to construction, Supply System shall close the Construction Trust Account and distribute to each Party its Ownership Share of any balance remaining.

7. CONSTRUCTION, LICENSING, OPERATION AND MAINTENANCE

(a) Supply System shall take whatever action is necessary or appropriate to seek and obtain all licenses, permits and other rights and regulatory approvals necessary for the construction, operation and maintenance of the Project, on behalf of itself and the other Parties.

(b) Supply System shall prosecute construction of the Project in accordance with Prudent Utility Practice, AEC licensing requirements, any applicable Federal or State laws and regulations thereunder, and plans and specifications for the Project prepared or recommended by the Project architect-engineer and so as to schedule the Date of Commercial Operation as near as may be on September 1, 1981.

(c) Supply System shall operate and maintain the Project in accordance with Prudent Utility Practice, giving due consideration to the recommendations of the Committee and the manufacturer's warranty requirements.

(d) Supply System shall operate and maintain the Project in such a manner as to meet the requirements of the AEC and other government agencies having jurisdiction in any given Matter, to safeguard the health and safety of persons and safety of property, and, as necessary in the normal course of business, to assure the continued operation and maintenance of the Project.

(e) Supply System shall award contracts for the construction, operation and maintenance of the Project in a manner designed to result in the least over-all cost consistent with standards of high quality. Contracts may be lump sum or unit price, and may also contain incentive and liquidated damages clauses. Supply System shall advertise for bids and award contracts or reject all bids after appropriate evaluation and review in accordance with applicable laws of the State of Washington, provided, however, that prior to making commitments thereon Supply System shall submit to the Committee for approval each proposed contract award or change order, in either case, for any amount in excess of $500,000.

8. ANNUAL COSTS - BUDGETS. (a) At least four months prior to the expected Date of Commercial Operation, Supply System shall submit to the Committee for approval a budget of the Annual Costs, except Fuel costs, but including administrative and general expenses relating to operation and Fuel, for each month from the expected Date of Commercial Operation to the end of the next succeeding Contract Year. Thereafter, by March 1 of each year, Supply System shall submit to the Committee for approval a similar budget for the next two succeeding Contract Years, which budget shall take into account the cumulative difference between payments into and expenditures from the Operating Trust Account established pursuant to Section 9 hereof up to the preceding March 1

and provide for restoration, as necessary, of the working fund. Each budget of Annual Costs shall be supported by detail adequate for the purpose of comprehensive review and shall show, among other things, staffing allocations and Supply System services.

(b) The effective budget of Annual Costs shall be changed as necessary to reflect changed circumstances, and when such changed circumstances become known, and prior to expenditure of any funds not contemplated in the effective budget of Annual Costs (except as otherwise provided hereafter in this subsection), Supply System shall submit promptly a revised budget to the Committee for approval. Unbudgeted expenditures made by Supply System in an emergency or to protect the safety of persons or property shall be Annual Costs as incurred. Other expenditures necessary in the normal course of business for the continued safe operation and maintenance of the Project, which are made by Supply System prior to the Committee's approval of a budget of Annual Costs, or a revision thereof shall be Annual Costs as incurred.

9. <u>OPERATING TRUST ACCOUNT.</u> (a) Prior to the date of the first payment required on account of Fuel, Supply System shall establish an Operating Trust Account in a bank located in the State of Washington and having qualifications meeting all requirements imposed upon a depository for any of the Parties. Each Party shall deposit therein its payments on account of Fuel, determined pursuant to Section 10

hereof, not less than 24 hours prior to the time payments are to be made by Supply System for Fuel.

(b) Prior to the Date of Commercial Operation each Party shall deposit in such Account its Ownership Share of a working fund in the amount of $100,000.00. If the Supply System proposes any larger amount it shall submit its proposal to the Committee for approval. All moneys received by Supply System under terms of this Agreement, except Costs of Construction and receipts related to Construction, shall be deposited in such Account.

(c) No later than Thursday of each week, each Party shall deposit in the Operating Trust Account such Party's Ownership Share of the portion of Annual Costs to be paid by Supply System in the succeeding week; provided, however, that if such portion of the Annual Costs increases during a week, each Party at the request of Supply System shall immediately deposit in the Operating Trust Account such Party's Ownership Share of any such increase for that week.

10. FUEL. (a) Supply System shall arrange for Fuel in amounts so that each Party may utilize its Ownership Share of the Project in a manner which such Party estimates will be best suited to its individual system needs.

(b) Not later than 90 days in advance of the first commitment for Fuel and annually thereafter by each July 1 until the Date of Commercial Operation, Supply System shall prepare and submit to the Committee for approval a ten-year Fuel management plan (Fuel Plan). Each year thereafter, the Fuel Plan shall be submitted with each budget of Annual Costs beginning with the first such budget.

Supply System shall consult with the Committee, and shall prepare the Fuel Plan consistent with section 10(a). The first Fuel Plan shall describe the proposed Fuel contract arrangements; each succeeding Fuel Plan shall describe in detail each contemplated action and payment and the dates thereof, as well as core usage and design burnup, and estimated fueling dates. It shall include a cash flow analysis of forecasted expenditures and credits for each Party 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.

Each Party shall furnish to Supply System, as requested, forecasts of its generation requirements from the Project. Supply System shall use such forecasts in preparing each Fuel Plan. 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 Committee for approval. Supply System shall secure Fuel and refuel the Project in a manner which implements the Fuel Plan to the extent reasonably practicable.

(c) At the time of each fueling, Supply System shall submit to the Committee for approval its determination of (i) the next fueling date (Forecast Refueling Date), (ii) the kilowatt-hours of net energy available to each Party to the Forecast Refueling Date (Energy Entitlement), and (iii) the cost per kilowatt-hour of its Energy Entitlement. Each Party's Energy Entitlement shall equal as nearly as practicable such Party's forecasted generation requirements. Supply System shall periodically review such determinations with the Committee, revise such determinations as necessary and submit them to the Committee for approval.

(d) Each Party shall order at least its Ownership Share of the Fuel necessary to insure operation at Minimum Capability to the Forecast Refueling Date; provided, however, that a Party may order less than such Ownership Share, to the extent that such Party has arranged, pursuant to section 11(d), for the delivery of alternative capacity and energy to the Parties requesting operation.

(e) Each Party shall pay or cause to be paid into the Operating Trust Account its share of the amounts for Fuel as and when determined by Supply System and appropriate to the Fuel Plan.

Each Party shall have the right to make whatever arrangements it may desire, whether by lease, security transaction, or otherwise, for the discharge of its Fuel payment obligation so long as such arrangements do not impair the rights of any other Party. Supply System shall disburse each payment relating to Fuel, when due, from the Operating Trust Account.

(f) Each Party shall receive appropriate net Fuel recovery credits, as determined by Supply System.

(g) Any Party may require that the Forecast Refueling Date be advanced or delayed and/or may use the Energy Entitlement of the other Parties if such Party (1) makes arrangement for delivery of alternative capacity and energy at the Project point of delivery equivalent to the amount of capacity and energy which would have been available to such other Parties from their Ownership Shares of Project Capability if the Forecast Refueling Date had not been advanced or delayed or such Energy Entitlement had not been used by the requiring Party, or (2) makes other arrangements acceptable to the affected Parties, including, but not limited to, payments for Fuel used or making a portion of such Party's Ownership Share of Project Capability available for use by such other Parties; provided, however, that neither the advancing or delaying of the Forecast Refueling Date nor the use of another Party's Energy Entitlement shall (i) adversely affect the availability of capacity and energy to which any other Party otherwise would have been entitled from the Project, or (ii) adversely affect any other Party's costs for such capacity and energy.

(h) After reprocessing of a Fuel batch removed from the core, Supply System shall make a detailed final accounting of all costs, payments and energy allocable to each Party. Such final accounting shall stipulate any credits or deficits due any Party, including any provisional settlements made. Supply System shall submit such data to the Committee for approval, after which the Parties will settle accounts within 30 days or as otherwise agreed.

11. SCHEDULING. (a) Within the constraints of section 10 and this section 11 each Party shall be entitled to receive, as scheduled by it, all or any part of its Ownership Share of the Project Capability. Supply System's dispatcher promptly shall notify each Party of any significant change in Project Capability.

(b) By 4:00 p.m. on each regular working day, each Party shall submit its hourly schedule for the following day to Supply System's dispatcher except that each Party shall submit its hourly schedule 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. Each party submitting such hourly schedules may make changes therein at any time; provided, however, that if the total requested changes in the level of operation of the generating plant requires a rate of change in excess of that prescribed either by the manufacturer's warranty or in the AEC operating license, each Party whose scheduled rate of change is in excess of its Ownership Share of the prescribed limit shall be limited proportionately so that the total rate of change does not exceed the prescribed rate of change.

(c) Supply System shall schedule generating plant outages other than fueling outages and submit same to the Committee for approval as to the time and duration thereof as far in advance as practicable. Notwithstanding the foregoing, Supply System may shut the generating plant down to meet requirements of AEC or other governmental agency having jurisdiction or to avoid hazard to the Project or to any person or property.

(d) Except as otherwise provided herein, each Party shall schedule energy from the Project in such a manner that its Energy Entitlement is adequate to maintain such Party's Ownership Share of Minimum Capability until the next Forecast Refueling Date; provided, however, that a party may require that the Project not be operated during any period by arranging for delivery of alternative capacity and energy at the Project point of delivery to the Parties requesting operation equivalent to the amount of capacity and energy which would have been available to such Parties from their Ownership Shares of Project Capability during such period, and such requesting Parties shall pay the supplying Party a percentage of the amount of incremental savings which the requesting Parties realize from the displacement of energy from the Project, which percentage and amount of savings shall be as agreed by the Parties involved; provided further, that requiring non-operation of the Project will not (i) adversely affect the availability of capacity and energy to which any other Party otherwise would have been entitled from the Project, or (ii) adversely affect any other Party's costs for such capacity and energy.

If fulfilling the schedules submitted by the Parties would require operation of the Project at an operating level below the Minimum Capability, Supply System's dispatcher shall immediately notify all Parties. Unless otherwise agreed by the Parties as provided in the preceding paragraph, the Parties whose schedules are greater than their Ownership Share of such Minimum Capability shall take such schedules, and the other Parties shall schedule and take (proportional to their Ownership Share) the remainder of such Minimum Capability.

(e) When testing of plant facilities requires generation, each Party shall make provision for acceptance of its Ownership Share of such generation. Supply System will notify Parties of test schedules as far in advance as practicable.

(f) During any hour in which the Project does not generate its station use and losses, Supply System's dispatcher shall notify the Parties and each Party shall arrange for delivery of its Ownership Share of such energy to the Project.

12. <u>ACCOUNTING.</u> Supply System shall keep up-to-date books and records showing all financial transactions and other arrangements 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. Such books and records shall be retained by Supply System for ten years and shall be

made available for inspection and audit by the Parties at any reasonable time.

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 Parties at all reasonable times for review and audit for a period of three years after final settlement of the applicable contracts. Each of the Parties shall have the right to examine and copy all plans, specifications, bids and contracts relating to the Project.

(b) All accounts shall be kept so as to permit conversion to the system of accounts prescribed for electric utilities by the Federal Power Commission, and the allocation of costs by Supply System between Costs of Construction and Annual Costs pursuant to this agreement shall be binding on the Parties for purposes of this agreement, but the manner in which accounts are kept pursuant to this agreement is not intended to be determinative of the manner in which they are treated in the books of account of the Parties.

Sec. 12

(c) Supply System shall by the 15th of each month supply to each Party a complete, itemized account of all deposits in and withdrawals from the trust accounts during the previous month, together with an itemization of the basis for reimbursement made to Supply System from such account during such month. Supply System shall cause all books and records to be audited by independent Certified Public Accountants of national reputation acceptable to all the Parties at approximately annual intervals and at such time as such accounts are closed. Copies of such audits shall be supplied to each Party.

13. INSURANCE. (a) Supply System shall procure at the earliest practicable time and thereafter maintain in force for the benefit of the Parties as named insured and with losses payable to the Parties as their respective interests shall appear, such insurance coverage for the construction, operation, maintenance and repair of the Project as the Committee may determine pursuant to Section 3(g), but not less than shall be required under the contract to be executed with the Project Architect Engineer, and not less than will satisfy the requirements of the Atomic Energy Act of 1954 (as amended), (including all AEC regulations in effect from time to time thereunder), and conform to Prudent Utility Practice.

(b) Any Party may request additional insurance to the extent available, and Supply System shall purchase such requested insurance at the expense of such Party. The Proceeds from such requested insurance shall be disbursed as directed by such Party.

14. LIABILITIES; WAIVER OF SUBROGATION. (a) Each of the Parties releases each of the other Parties, its agents and employees from any claim for loss or damage, including consequential loss or damage, arising out of the construction, operation, maintenance, reconstruction, and repair of the Project due to negligence, including gross negligence, but not any claim for loss or damage resulting from breach of any contract relating to the Project, including this Agreement, or for willful or wanton misconduct.

(b) Any loss, cost, liability, damage and expense to the Parties or any Party, other than damages to any Party resulting from loss of use and occupancy of the Project or any part thereof, resulting from the construction, operation, maintenance, reconstruction or repair of the Project and based upon injury to or death of persons or damage to or loss of Project property and property of other parties, to the extent not covered by collectible insurance, shall be charged to Cost of Construction or Annual Costs, whichever may be appropriate.

(c) Each Party shall cause its insurers to waive any rights of subrogation against each of the other Parties, its agents and employees, for losses, costs, damages or expenses arising out of the construction, operation, maintenance, reconstruction or repair of the Project.

15. UNCONTROLLABLE FORCES. No Party shall be considered to be in default in the performance of any of the obligations hereunder, other than obligations of any Party to pay its Ownership Share of

costs and expenses, if failure of performance shall be due to uncontrollable forces. The term "uncontrollable forces" shall mean any cause beyond the control of the Party affected and which, by the exercise of reasonable diligence, the Party is unable to overcome, and shall include but not be limited to an act of God, fire, flood, explosion, strike, sabotage, an act of the public enemy, civil or military authority, including court orders, injunctions, and orders of government agencies with proper jurisdiction prohibiting acts necessary to performance hereunder or permitting any such act only subject to unreasonable conditions, insurrection or riot, an act of the elements, failure of equipment, or inability to obtain or ship materials or equipment because of the effect of similar causes on suppliers or carriers. Nothing contained herein shall be construed so as to require a Party to settle any strike or labor dispute in which it may be involved. Any Party rendered unable to fulfill any obligation by reason of uncontrollable forces shall exercise due diligence to remove such inability with all reasonable dispatch.

16. DAMAGE TO THE PROJECT. (a) If the Project suffers damage resulting from causes other than ordinary wear, tear or deterioration to the extent that Supply System's estimate of the cost of repair is less than 20% of the then depreciated value of the Project, and if the Parties do not unanimously agree that the Project shall be ended pursuant to Section 22, Supply System shall promptly submit a revised construction

budget or budget of Annual Costs as appropriate, and shall proceed to repair the Project, and each Party shall pay as budgeted, into the appropriate Trust Account, its Ownership Share of the cost of such repair.

(b) If the Project suffers damage to the extent that Supply System's estimate of the cost of repair exceeds 20% of the then depreciated value of the Project, Supply System shall determine the estimated fair market value of the Project if it is then terminated without repair. Thereafter, each Party which, within a reasonable time to be determined by the Committee, gives notice in writing to each of the other Parties of its desire that the Project be repaired, shall pay into the appropriate Trust Account, as budgeted in a revised budget, that part of the total cost of repair in the proportion that its Ownership Share bears to the total of the Ownership Shares of all Parties giving such notice. If any Party has given such notice, the Ownership Share of each Party which has not given notice shall be reduced at the end of each month thereafter to the extent determined by the following formula:

$$S_r = S_o \left[\frac{V}{V + C}\right]$$

where

V = Estimated fair market value of the Project if it is terminated without repair
C = Actual expenditures for Repair
S_o = Ownership Share prior to loss
S_r = Reduced Ownership Share

At the same time, the amount of such reduction shall be added to the Ownership Share of each Party giving such notice in the proportion that its Ownership Share bears to the total of the Ownership Shares of all Parties giving such notice.

(c) If the Project suffers damage to the extent that Supply System's estimated cost of repair exceeds 20% of the then depreciated value of the Project and no Party gives the notice provided in Section 16(b), the Project shall be ended pursuant to Section 22.

(d) For the purposes of this section 16, the depreciated value of the Project at any time shall be based on the original cost of the Project, plus additions and less retirements, depreciated on a straight-line basis using a composite life of 35 years.

(e) Supply System shall submit each of the estimates referred to in this section hereinabove to the Committee for its approval pursuant to Section 3(g).

17. DEFAULT. (a) Upon failure of a Party to make any payment when due, or to perform any obligation herein, any other Party may make written demand upon said Party, 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 a Party in good faith disputes the legal validity of said written demand, it shall make such payment or perform such obligation within said 10 day period under written protest directed to each of the other Parties. Such protest shall be in writing and shall specify the reasons upon which the protest is based. Payments not made by the defaulting Party pursuant to said written demand may be advanced by the other Parties and, if so advanced, shall bear interest until paid, at the highest lawful rate. Upon resolution of such dispute, then any payments advanced or made between the Parties, as in this section provided, shall be adjusted appropriately.

(c) In addition to the rights granted in this Section 17, any nondefaulting Party may take any action, in law or equity, including an action for specific performance, to enforce this Agreement and to recover for any loss, damage or payment advances, including attorneys' fees in all trial and appellate courts and collection costs incurred by reason of such default.

18. ELECTIVE CAPITAL ADDITIONS. Renewals and replacements not necessary to assure design capability, and betterments and additions not required by governmental agencies, shall be made after the Date of Commercial Operation only upon unanimous approval of the Committee.

19. INVESTMENT. Supply System shall use its best efforts to invest funds in the Construction Trust Account or in the Operating Trust Account in legally issued obligations of the United States or the State of Washington, or in other obligations in which Supply System is

authorized to invest. The net proceeds from such investments shall be deposited in the Account from which it came and credited to the Parties in their respective Ownership Shares.

20. ASSIGNMENTS. This agreement shall be binding upon and shall inure to the benefit of successors and assigns of the Parties; provided, however, that no transfer or assignment of other than all of a Party's interest in the Project and under this agreement to a single entity shall operate to give the assignee or transferee the status or rights of a Party hereunder and no transfer or assignment hereunder shall operate to increase the number of members on the Committee. Except as provided in Section 16 of this agreement, the undivided interest (or a portion thereof) of any Party in the Project, the property, real or personal, related thereto, and under this agreement may be transferred and assigned as set out below but not otherwise, provided that so long as Supply System retains its Ownership Share in the Project, no interest, except as a security interest, in the Project shall be sold or assigned pursuant to subsections (b) through (f) to an entity not authorized by RCW 54.44, as amended, to participate and enter in[illegible]greements with an operating agency for the undivided ownersh[illegible]on facilities:

(a) To any mortgagee, trustee, or secured Party, as security for bonds or other indebtedness of such Party, present or future; such mortgagee, trustee or secured Party may realize upon such security in foreclosure or other suitable proceedings, and succeed to all right, title and interests of such Party;

(b) To any corporation or other entity acquiring all or substantially all the property of the Party making the transfer;

(c) To any corporation or entity into which or with which the Party making the transfer may be merged or consolidated;

(d) To any corporation or entity, the stock or ownership of which is wholly owned by the Party making the transfer;

(e) To any corporation or entity in a single transaction constituting a sale and lease back to the transferor or assignor;

(f) To any other person, provided that the Party shall first offer to transfer or assign such interest to the other Parties in proportion to their respective Ownership Shares in the amount of and on terms and conditions not less advantageous than those which it is willing to accept for a transfer or assignment to such other person. Such offer shall remain open for a reasonable period but not less than three months and, if the offer of the selling Party's interest is not accepted by the other Parties proportionately, the entire offer may be accepted by one of the other Parties or in different proportions among the other Parties as such Parties may mutually agree.

(g) Transfer or assignment shall not relieve a Party of any obligation hereunder except to the extent agreed to in writing by all the other Parties. Any interest or assignment permitted by subsections (b) through (f) of this section 20 is expressly conditioned upon the transferee or assignee assuming the obligations of the transferring or assigning Party under this agreement.

21. TRAINING. Supply System shall carry out a familiarization and training program to maintain adequate staffing in connection with the construction, operation and maintenance of the Project and the expenses thereof shall be part of the Costs of Construction or Annual Costs as appropriate. Each Party shall be entitled to have employees present at the Project for purposes of training, subject to reasonable rules to be established by Supply System. Any increase in the Costs of Construction or Annual Costs resulting from such training shall be borne by the Parties employing such trainees.

22. END OF PROJECT. (a) When the Project can no longer be made capable of producing electricity consistent with Prudent Utility Practice or the requirements of governmental agencies having jurisdiction or is no longer licensed by the AEC, or when the Project is ended pursuant to Section 16, Supply System shall sell for removal all salable parts of the Project exclusive of Fuel to the highest bidders. After deducting all costs of ending the Project, including, without limiting the generality of the foregoing, the cost of decommissioning, razing all structures and disposing of the debris and meeting all applicable requirements of

law, Supply System shall close the appropriate Trust Account and, if there are net proceeds, distribute to each Party its Ownership Share of such proceeds. Supply System shall liquidate the Fuel, and after making all required payments and receiving all due receipts, shall disburse the proceeds to the Owners as their interests appear. In the event such costs of ending the Project exceed available funds, each Party shall pay its Ownership Share of such excess as incurred.

(b) (i) If the Parties are unable to reach agreement to any of the items (i) through (v) described in Section 3(j), one or more of the Parties may, within ninety (90) days after the date of the notice to the Parties provided for in Section 3(j), elect to proceed with the Project.

(ii) If one or more of the Parties is rendered incapable of proceeding with its obligations hereunder by reason of one or more of the conditions listed below, which condition is beyond the ability of such party to remedy by reasonable means within a reasonable time, one or more of the other Parties may, within ninety (90) days after notice by a Party of the occurrence of the condition, elect to proceed with the project without the disabled Party; provided, however, that if such disabled Party is proceeding with all due diligence to remove such disability, the election shall not be made until 90 days after final order or other final disposition of the matter; provided further, that if delay would cause substantial additional costs to be incurred if the election were so postponed, the electing

Parties may proceed as necessary to avoid or minimize delay, preserving the rights of the disabled Party until final order or other final disposition. The conditions are:

1. Inability to finance.

2. Failure to obtain necessary legal authorizations, including regulatory approvals.

(iii) Upon the election for any of the reasons set forth in (i) and (ii) above, the Parties so electing shall promptly reimburse each non-electing Party for its Costs of Construction and costs of Fuel, if any, incurred hereunder; provided, however, that such reimbursement shall not occur with regard to a disabled Party until final order or other final disposition in the Matter confirming the disability. Upon such reimbursement, the non-electing Parties' interest in the Project and in this Agreement, and any related rights or interest acquired by them hereunder, shall forthwith vest in the electing Parties in such proportion as the electing Parties may agree.

23. NOTICES. Any notice, demand or request provided for in this Agreement served, given or made in connection therewith shall be deemed properly served, given or made if given in person or se' by registered or certified mail, postage prepaid, addressed to the person and at the address designated in writing by the respective Party or by Bonneville, as the case may be. Any Party and Bonneville may at any time, and from time to time, change its designation of the person to whom notice shall be given by giving notice to all other Parties

as herein above provided.

24. PROVISIONS RELATING TO DELIVERY. Deliveries of electric power and energy to the Parties and to Bonneville 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 meters, adjusted for losses as agreed upon by the Parties, installed to record such deliveries at the place and in the circuits hereinafter specified:

PROJECT POINT OF DELIVERY:

Location: the point where the 230 kv or higher voltage facilities of the Project and those of Bonneville or of a Party are connected;

Voltage: 230 kv or higher;

Metering: in the circuits over which such electric power and energy will flow;

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

25. ADDITIONAL GENERATING UNITS AND FACILITIES. (a) Each Party shall have the right to install and operate on the Plant Real Property such facilities as are reasonably required to enable it to deliver to its own system its Ownership Share of the Project Capability; provided, however, that the facilities of such Party shall be so installed and operated as not to burden or interfere with those of any other Party, or the Project, or the construction on the Plant Real Property of generating units in addition to the first unit. In the event of construction on the Plant Real Property

of generating units in addition to the first unit, the Party who installs such facilities, if necessary to avoid interference with such new generating units, shall relocate such facilities at its own expense. If a Party proposes to install or operate facilities which would require the relocation of previously installed facilities of any other Party, or of the Project, but would otherwise meet the requirements of this subsection, the Party desiring to install or operate such facilities shall have the right to call for such relocation if it bears all costs resulting therefrom.

(b) Supply System, either individually or jointly with other entities, shall have the right to construct and operate on Plant Real Property (subject to the provisions of subsection (c), below, giving each of the other Parties a right to participate therein) additional nuclear generating units and necessary appurtenances thereto. If Supply System individually or jointly with any other entity decides to construct and operate an additional generating unit or units and appurtenances which would require the relocation of previously installed facilities of the Project, it shall have the right to call for or accomplish such relocation, as the case may be, if it bears all costs resulting therefrom. In connection with any such additional units, Supply System individually or jointly with other entities shall have the right to use any facilities installed as part of the Project and to modify such facilities for use in connection with the installation or operation of such additional generating units and appurtenances; provided, however, that such use of Project facilities shall not burden or unreasonably interfere with the Project, that the cost of any modification shall be borne by Supply System, and that Supply System shall pay to the Parties a reasonable monthly facilities charge based on the portion of the Project facilities devoted to the use of the additional units as compared to the portion devoted to the generating unit of the Project, which charge shall take into account such costs as capital and other carrying charges, depreciation, operation and maintenance expense, taxes, insurance and return on investment.

(c) To the extent Supply System individually or jointly with any other entity decides to construct and operate additional nuclear generating units on the Plant Real Property, each of the other Parties shall have the right to participate in the ownership of such units to the extent it elects but not to exceed its Ownership Share of the total ownership of each unit under terms and conditions substantially similar to this Agreement, taking into account intervening changes in construction, ownership and operating costs and conditions. Such right shall be exercised with respect to each individual additional generating unit at the time that Supply System makes a firm decision to construct said additional unit and may not be cumulated for application against later generating units.

(d) All of the rights of the Parties described in subsection (c) above shall be subject to the following limitations:

(1) If a Party elects to participate pursuant to subsection (c) above, it will so advise Supply System in writing within ninety (90) days of the receipt by it of written notice from Supply System that it has made a firm decision. Prior to sending such notice, Supply System shall make available to each of the Parties any relevant information it has concerning the proposed additional generating unit;

(2) Such rights are not assignable by a Party to any other entity without the consent of Supply System except to a corporation whose stock or other ownership is wholly owned by the Party or except to a successor corporation to a Party resulting from a corporate reorganization in which there is no substantial change in beneficial ownership;

(3) No assignment shall be made except to a corporation authorized by RCW 54.44 as amended to participate and enter into agreements with an operating agency for the undivided ownership of common facilities.

(4) Supply System, unless otherwise mutually agreed, shall be the Operator of any generating plants constructed under the terms of this section.

27. CONSTRUCTION OF AGREEMENT. This Agreement shall be construed in accordance with the law of the State of Washington.

28. ADDITIONAL DOCUMENTS. Each Party, upon request by the other Parties, shall make, execute and deliver any and all documents reasonably required to implement the terms of this Agreement.

IN WITNESS WHEREOF, the Parties hereto have caused this Agreement to be executed this 17th day of September, 1973.

(SEAL)

WASHINGTON PUBLIC POWER SUPPLY SYSTEM

ATTEST:

/s/ Ed Fischer
Secretary

By /s/ J. J. Stein
Managing Director

PACIFIC POWER & LIGHT COMPANY

/s/ L. Bennet
Secretary

By /s/ George L. Beard
Title Senior Vice President

PORTLAND GENERAL ELECTRIC COMPANY

/s/ H. H. Phillips
Secretary

By /s/ Robert H. Short
Title Senior Vice President

PUGET SOUND POWER & LIGHT COMPANY

/s/ W. E. Watson
Secretary

By /s/ D. H. Knight
Title Vice President

THE WASHINGTON WATER POWER COMPANY

/s/ J. P. Buckley
Secretary

By /s/ H. W. Harding
Title Vice President

WASHINGTON PUBLIC POWER SUPPLY SYSTEM

NUCLEAR PROJECT NO. 3

The Washington Public Power Supply System's Nuclear Project No. 3 is expected to have a net electrical plant capability of approximately 1,200 MW.

It will be located on a site in the State of Washington acceptable to the Project Owners and Bonneville, such site to be described more particularly in Exhibit A.

The plant and associated facilities will include the site referred to, 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 cooling systems, facilities and piping; electrical and mechanical systems and other related equipment and facilities; electrical facilities required to deliver the output of the Project to the point of delivery described in Section 24; and other structures, shops, warehouses, construction facilities, offices, equipment or facilities required in the construction, maintenance and operation of the Project.

EXHIBIT B

ATTACHMENT 8(b)-3

WNP NO. 3

PROJECT AGREEMENT WITH BPA

Contract No. 14-03-39100

7-27-72

WASHINGTON PUBLIC POWER SUPPLY SYSTEM

NUCLEAR PROJECT NO. 3

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)

Index to Sections

(Index to Sections Cont.)

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 in order to achieve the economies of size for the benefit of Supply System's members, the Participants and the other Project Owners, the Project Owners have entered into an agreement simultaneously with this agreement providing that the Project Owners will finance and own the Project and that Supply System will design, construct, operate and maintain the Project on behalf of the Project Owners; and

WHEREAS the Administrator has determined that acquisition of up to 70 percent of Project Capability 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 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 pow 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 acquire rights to a parcel of land in the State of Washington, acceptable to the Project Owners and the Administrator, as the site for the Project and expects, in connection therewith, to enter into certain contracts for the financing, planning, engineering, construction and operation of said plant; and

WHEREAS Supply System and the Companies have entered into short-term Power Sales Agreements simultaneously with this agreement providing for purchase by the Companies of output from the Supply System's Ownership Share of the Project; and

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

WHEREAS Supply System is organized under the laws of the State of Washington (Rev. Code of Washington, Ch. 43.52, cum supp.) and is authorized by law to jointly construct, own, acquire and operate works, plants, and facilities for the generation and/or transmission of electric power and energy and to enter into contracts for such purposes and 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 Supply System's Ownership Share 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 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, 1981, 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 Ownership Share of costs associated with planning, designing, financing, acquiring and constructing the Project pursuant to the Bond Resolution and (2) for any other purpose 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) "Companies" means ____________________ ____________________ ____________________ and ____________________.

(e) "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 Supply System's Ownership Share of the Project, as well as any amendments thereto during the course of construction.

(f) "Contract Year" (1) means the period commencing on the Date of Commercial Operation, or on January 1, 1981, 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.

(g) "Date of Commercial Operation" means the date determined pursuant to Section 1(d) of the Ownership Agreement.

(h) "Net Billing Agreements" means the agreements for the Project entered into by Supply System, the Administrator and each of the Participants (Contracts No. 14-03-39101 through 14-03-____, inclusive).

(i) "Ownership Agreement" means the Agreement for construction, ownership, and operation of the Project, attached hereto as Exhibit C, as the same may be amended, and as executed by the Project Owners. Any amendment thereto which may affect rights, duties, or costs of the Administrator under the Net Billing Agreements shall require approval by him prior to execution by Supply System'

(j) "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 such agreements.

(k) "Power Sales Agreements" means the agreements for the short-term sale and purchase of output from Supply System's Ownership Share of the Project, entered into simultaneously with this agreement by Supply System and each of the Companies.

(l) "Project" means the nuclear generating plant and related properties as described in Exhibit A. Said 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 Supply System's Ownership Share of 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 Owners" means Supply System, ______________________, ______________________________________, and _______________________________.

(p) "Prudent Utility Practice" at a particular time means any of the practices, methods and acts engaged in or approved by a significant portion 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. Prudent Utility Practice shall apply not only to functional parts of the Project but also to appropriate structures, landscaping, painting, signs, lighting, and other facilities and public relations programs reasonably designed to promote public enjoyment, understanding and acceptance of the Project and to other activities relating to the statutory responsibilities and duties of Supply System. 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 act or proposal conforms to Prudent Utility Practice, the parties and any Project Consultant shall take into account the objective to integrate the entire Project Capability with the generating resources of the Federal Columbia River Power System, the Companies and the Project Owners (except Supply System) to achieve optimum utilization of the resources of such systems taken as a whole, and to achieve efficient and economical operation of such systems. Any practice, method or act which pursuant to the Ownership Agreement is determined to be Prudent Utility Practice shall be deemed to be Prudent Utility Practice hereunder.

(q) "Supply System's Ownership Share" means 0.70 or such other decimal fraction as may be determined under the Ownership Agreement.

2. Exhibits. Exhibits A through C 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 Net Billing Agreements terminate.

4. Representation of the Administrator. Supply System shall appoint a member designated by the Administrator to each of the Engineering and Operating Committees established pursuant to the Ownership Agreement. During the period the Administrator is assigned any Participant's Share or portion thereof under the Net Billing Agreements, Supply System, in accordance with section 3 of the Ownership Agreement, shall specify that the Administrator's representative on the Engineering and Operating Committees shall have the right to vote a portion of Supply System's Ownership Share, and with respect to votes pursuant to section 12(b) of the Ownership Agreement, that the Administrator's representative on the Operating Committee shall have the right to vote that portion of Supply System's Ownership Share determined by dividing the sum of the Participants' Shares assigned to the Administrator in the particular Contract Year by Supply System's Ownership Share. The amounts expended by Supply System at the request of the Administrator pursuant to section 3(g) of the Ownership Agreement shall be billed separately for payment by the Administrator under section 7 of the Net Billing Agreements.

5. <u>Design, Construction, Operation, and Maintenance of the Project</u>.

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

(b) Supply System shall keep the Administrator informed of all matters Supply System deems significant with respect to construction or operation of the Project (including without limitation, plans, specifications, engineering studies, budgets, fuel plans, and estimates) where practicable in time for the Administrator to comment thereon before decisions are made, and shall confer with him during the development of Supply System's proposals for such matters when practical to do so. Upon request by the Administrator, Supply System shall furnish or make available to him with reasonable promptness, and at reasonable times, any and all other information relating to construction or operation of the Project.

(c) Subject to provisions of section 2(e) of the Ownership Agreement, 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.

(d) The Administrator shall use his best efforts to construct, operate and maintain necessary facilities to interconnect the Project with the Federal Columbia River Power System so as to be ready to receive Project generation on or before the initial test and operation of the Project, presently scheduled for April 1, 1981.

(e) 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.

(f) During any hour in which the Project does not generate electric power and energy for station use and for losses to the high-voltage terminals of the Project substation, the Administrator shall furnish his pro rata share of such electric power and energy, based on the sum of decimal fraction shares then assigned to him under the Net Billing Agreements, to the Supply System at the point of delivery specified in the Net Billing Agreements; provided, however, that deliveries of such electric power and energy 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 electric power and energy.

6. 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 Supply System's Ownership Share of 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 7(b), to finance Supply System's Ownership Share of costs of any capital additions, renewals, repairs, replacements, or modifications to the Project which Supply System is required to pay pursuant to the Ownership Agreement; 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 8.

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

7. Budget and Accounting Procedures.

(a) Construction Budget. The Administrator has heretofore reviewed Supply System's Construction Budget in connection with the Project. Promptly after approval of an updated or revised construction budget pursuant to the Ownership Agreement, Supply System shall submit to the Administrator its revised Construction Budget. Such budget shall include Supply System's share of construction costs pursuant to the Ownership Agreement and shall separately itemize all Supply System's other costs related to construction and financing of Supply System's Ownership Share of the Project. 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 thirty days, and seven days, respectively, a[illegible] submittal. Any item disapproved shall be referred to the Project Consu[illegible]nt as provided in section 8.

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.

The Annual Budget shall include Supply System's Ownership Share of operating costs according to the operating budget adopted pursuant to the Ownership Agreement, and Supply System's Ownership Share of anticipated fuel and other costs pursuant to the Ownership Agreement and shall separately itemize all of Supply System's other costs related to the Supply System's Ownership Share of the Project. All taxes imposed and required by law to be paid with respect to Supply System's Ownership Share, 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 and taxes imposed by law would exceed the total amount of ad valorem taxes that Supply System would have paid in that year to such taxing entities if Supply System's Ownership Share of 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.

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 as defined in the Ownership Agreement, 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 Participants pursuant to section 7(a) of the Net Billing Agreements and the amounts of such reserves and insurance, 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 6(a).

Notwithstanding any other provision of this agreement, Supply System's Ownership Share of 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 thirty days, and seven days, respectively, after submittal. Any item disapproved shall be referred to the Project Consultant as provided in section 8.

(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. Such books and records shall be retained by the 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 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 Supply System's Ownership Share of the Project which are surplus to a current year's operating and capital expenses and Bond Resolution requirements shall be invested by the Supply System in accordance with the Bond Resolution until such surplus moneys can be appropriately applied in a future Contract Year.

8. Administrator's Approval and Project Consultant.

(a) All proposals of Supply System, including but not limited to, budgets, plans, actions, activities or matters relating to construction or operation of the Project 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 the exact items of difference are identified and shall become effective immediately as to items not disapproved.

(b) Disapproval by the Administrator shall be given in writing and, except as provided in section 6(b), 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 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 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 pursuant to section 3(h) of the Ownership Agreement, Supply System proceeds with a disapproved item and if the determination made by the Project Consultant is that the item was not consistent with Prudent Utility Practice, such action having been taken by Supply System without the concurrence of the Administrator's representative on the appropriate committee, or if Supply System proceeds with a disapproved item reviewable under this agreement and if the determination made by the Project Consultant is that the item is not consistent 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 Supply System's Ownership Share of the Project in the Annual Budget to the extent such item w` inconsistent with what the Project Consultant determined would under ... circumstances have met such test. Notwithstanding other provisions of this section 8(e), whenever a proposal has been referred to the Project Consultant, Supply System shall operate in accordance with the 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) Supply System shall not proceed with a capital addition to the Project pursuant to section 19 of the Ownership Agreement without concurrence of the Administrator's representative on the Operating Committee, nor shall Supply System elect, pursuant to section 16(b) of the Ownership Agreement, to give notice to repair damage to the Project without concurrence of the Administrator.

(h) Items subject to review by the Engineering and Operating Committees under the Ownership Agreement shall not be reviewable hereunder.

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

9. Insurance. Supply System shall keep the Administrator informed of the insurance carried pursuant to the Ownership Agreement and shall purchase additional insurance requested by the Administrator, at the Administrator's expense, to the extent insurance may be available. The proceeds from such requested insurance shall be disbursed as directed by the Administrator.

10. 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 to the other party.

11. Ownership of Facilities.

(a) Ownership of any and all equipment, and all salvable facilities, installed by the Administrator or Supply System on the property of the other, shall be and remain in the installing party.

(b) Each party shall identify all movable equipment and to the extent agreed upon by the parties, all other salvable facilities which are installed by such party on the property of the other, by permanently affixing thereto suitable tags, stencils, stamps, or other markers plainly stating the name of the owner of the equipment and facilities so identified.

12. 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 defects in the Project.

13. 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.

14. 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 Ownership Agreement, 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 ___________________________

EXHIBIT A

PROJECT CHARACTERISTICS

WASHINGTON PUBLIC POWER SUPPLY SYSTEM

NUCLEAR PROJECT NO. 3

The Washington Public Power Supply System's Nuclear Project No. 3 is expected to have a net electrical plant capability of approximately 1,100 MW.

It will be located on a site in the State of Washington acceptable to the Project Owners and the Administrator.

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 cooling systems, facilities and piping; electrical and mechanical systems and other related equipment and facilities; electrical facilities required to deliver the output of the project to the BPA transmission system at a point to be determined by the Supply System and the Administrator; and other structures, shops, warehouses, construction facilities, offices, equipment or facilities required in the construction, maintenance and operation of the project.

A complete description of the project will be prepared after bids have been received and evaluated and awards have been made for major plant components.

EXHIBIT B

(12-3-69)

PROVISIONS REQUIRED BY STATUTE OR EXECUTIVE ORDER

1. 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.

(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,

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.

7-27-72

WASHINGTON PUBLIC POWER SUPPLY SYSTEM

NUCLEAR PROJECT NO. 3

AGREEMENT

executed by the

WASHINGTON PUBLIC POWER SUPPLY SYSTEM

and

____

and

____

and

____

(Ownership Agreement)

Index to Sections

(Index to Sections cont.)

THIS IS AN AGREEMENT between WASHINGTON PUBLIC POWER SUPPLY SYSTEM, a municipal corporation of Washington, herein called Supply System; ________ __________, a corporation of ______________, herein called _____________; __________________, a corporation of ______________, herein called _____ __________________; and __________________, a corporation of ________ _________, herein called _______________; each individually called Party, and collectively called the Parties.

RECITALS

In order to achieve the economies of size, the Parties propose to plan, finance, acquire, construct, operate, own, and maintain each with an undivided interest in common facilities comprising a nuclear plant for the generation of electricity of approximately 1,100 megawatts net electric capacity.

Supply System, on behalf of the Parties, intends to acquire a site in the State of Washington for such nuclear plant known as the Washington Public Power Supply System Nuclear Project No. 3 and Supply System in connection therewith, intends to enter into certain contracts for planning, engineering, and purchase of components and fuel for said plant and to file an application for licenses and permits to construct the plant together with a Preliminary Safety Analysis Report with the Atomic Energy Commission.

Supply System is organized under the laws of the State of Washington (RCW 43.52, cum supp.) and authorized by law to construct, acquire and operate works, plants, and facilities for generation and/or transmission of electric power and energy and _______, _______ and _______ are investor owned electric utility corporations subject to regulation by the States of Oregon and Washington.

Now, therefore, the Parties mutually agree as follows:

1. DEFINITIONS. (a) "AEC" means the United States Atomic Energy Commission and such successor agencies as shall have responsibility for licensing or regulating nuclear power generating plants.

(b) "Costs of Construction" means all costs attributable to the acquisition and construction of the Project and of making it ready for operation, excluding the cost of fuel and interest during construction. Credits relating to Costs of Constructions, including insurance proceeds, shall be applied to such costs when received.

(c) "Costs of Operation" means all costs attributable to the operation and maintenance of the Project, fuel and rights relating thereto, elective capital additions made pursuant to Section 19, and subsequent to the Date of Commercial Operation, repairs and renewals and replacements necessary to assure design capability, and betterments and additions required by governmental agencies. Credits relating to such costs, including insurance proceeds, shall be applied to Costs of Operation when received.

(d) "Date of Commercial Operation" means the date fixed by Supply System as the point in time when the Generating Plant is ready to be operated on a commercial basis pursuant to schedules submitted by the Parties.

(e) "Generating Plant" means the Nuclear Steam Supply System, the turbine-generator and related structures and facilities, including the cooling tower, Project substation, including facilities for switching and transformation, together with additions, betterments and replacements thereto and appropriate equipment, spare parts and initial operating supplies, but excluding fuel.

(f) "Labor Costs" shall mean all payroll, related employee benefit costs and employee expenses of all direct employees of the Parties, other than officers and principal department heads, chargeable to the Project.

(g) "Output" means the net capacity and energy from the Generating Plant which can be made available at the high-voltage terminals of the Project substation after station use and losses.

(h) "Ownership Share of a Party" means the decimal fraction specified in Section 2(a) or as may be adjusted pursuant to Sections 16, 17, and 24(b).

(i) "Plant Real Property" means the real property to be acquired by Supply System as a site for the Project which underlies the Generating Plant and the visitors' center, all subject to the conditions relating to easements necessary or appropriate to permit the placement and operation of other facilities as provided in Section 20 hereof on said parcel of real property, the prohibition of partition and conditions contained in Section 2 and the reverter described in Section 24. A description of the Plant Real Property and statement of the cost thereof will be attached as Exhibit A when determined pursuant to Section 4(c).

(j) "Project" means the (i) Generating Plant, (ii) Plant Real Property, (iii) fuel and rights relating to fuel, (iv) all licenses, permits and rights necessary to construction and operation of the Project, (v) visitors' information and view structures, signs, landscaping and recreational facilities placed or constructed upon the Plant Real Property (vi) roads, railroad spurs, docks, parking lots, fencing and similar facilities, and (vii) all cash in the Construction and Operating Trust Accounts and all things acquired with funds from such accounts.

(k) "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 for the resolution of a difference regarding a matter or item referred to it. A different Project Consultant may be appointed for each matter or item referred.

(l) "Prudent Utility Practice" at a particular time means any of the practices, methods, and acts engaged in or approved by a significant portion of the electrical utility industry prior to such time, or any of the practices, methods, and acts which, in the exercise of reasonable judgement 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. Prudent Utility Practice shall apply not only to functional parts of the Project but also to appropriate structures, landscaping, painting, signs, lighting, and other facilities and public relations programs reasonably designed to promote public enjoyment, understanding, and acceptance of the Project and to other activities relating to the statutory responsibilities and duties of Supply System. 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 act or proposal conforms to Prudent Utility Practice, the Parties and any Project Consultant shall take into account the objective to integrate the entire Project Capability with the generating resources of the Federal Columbia River Power System and the Companies, to achieve optimum utilization of the resources of such systems.

2. OWNERSHIP, RIGHTS, AND OBLIGATIONS: (a) The Parties shall have title to the Project as tenants in common and shall, as co-tenants with an undivided interest therein and subject to the terms of this agreement, own the Project, have the related rights and obligations, participate in its construction and operation and be entitled to its Output in the Ownership Share as follows:

PARTY	OWNERSHIP SHARE
SUPPLY SYSTEM	0.70
____________	____
____________	____
____________	____

(b) Each Party shall promptly and with all due diligence take all necessary actions and seek all regulatory approvals, licenses and permits necessary to carry out its obligations under this agreement

(c) The Parties expressly waive any right of partition of the Project and the real or personal property related thereto until the End of the Project as described in Section 24.

(d) Nothing in this agreement shall create a partnership, joint venture, association or, except as provided in Sections 7 and 10, a trust. Each Party shall severally bear its Ownership Share of all obligations, including the supply of energy for station use when not generated by the Project, and liabilities relating to the Project as they arise.

(e) Each Party and its designees shall have the right to go upon and into the Project at any time subject to the rules and regulations of public authorities having jurisdiction thereof and to the necessity of efficient and safe construction and operation of the Project, but Supply System shall have possession and control of the Project for all the Parties.

(f) In order to provide unified management of the Project, the other Parties authorize and designate Supply System to construct and thereafter operate and maintain the Project under the terms of this agreement; provided, however, that Supply System shall not be deemed to have the status or responsibility of an independent consultant, contractor, or engineer.

(g) In construction and operation of the Project each Party shall act without compensation other than reimbursement of costs and expenses as provided herein. In consideration thereof each Party expressly agrees that each other Party individually shall not be liable to such agreeing Party for any claims or damage, including claims or damage covered by insurance, based on or rising from a negligent act or omission of an agent or employee of such other Party, in connection with ownership, construction, or operation of the Project, and that payment of such claims shall be Costs of Construction or Costs of Operation as appropriate.

3. ENGINEERING AND OPERATING DECISIONS: (a) At the time of the execution of this agreement and thereafter from time to time each Party shall appoint two members to the Engineering Committee and when requested by Supply System, but no later than one month prior to the expected date of the first commitment for fuel, each Party shall appoint two members to the Operating Committee. Each Committee shall meet at such times as may be agreed or upon three days' written notice by any member, and shall keep written minutes of its meetings. Each member of a Committee shall have the right to vote that part of the Ownership Share of the Party appointing him designated in the notice of his appointment, but the total voting rights of all members of a Committee appointed by one Party shall not exceed such Party's Ownership Share. Any action which may be taken at a meeting of a Committee may be taken without a meeting by individual action taken in writing by members of the Committee.

(b) Supply System shall keep the members of the appropriate Committee fully informed of all matters Supply System deems significant with respect to construction or operation of the Project (including without limitation, plans, specifications, engineering studies, budgets, fuel plans and estimates) where practicable in time for members to comment thereon before decisions are made, and shall confer with the appropriate Committee, or separately with members thereof, during the development of Supply System's proposals for such matters when practical to do so. Upon request of any Committee member, Supply System shall furnish or make available to all members of such Committee with reasonable promptness, and at reasonable times, any and all other information relating to construction or operation of the Project.

(c) All proposals of Supply System, including but not limited to, budgets, plans, actions, activities, or matters relating to construction or operation of the Project submitted to the appropriate Committee 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. Matters not disapproved by a member of such Committee within the time after submission specified in this agreement (or if no time is specified, within seven days) shall be deemed approved by such member. Matters disapproved by a member shall be segregated by him so that the exact items of difference are identified and, subject to the provisions of Sections 10(a) and 12(b) with respect to the matters therein provided, items so identified shall be referred by Supply System to the Project Consultant. Each member which within the limited time disapproves an item shall at the time of such disapproval state in writing his reasons and what alternative is acceptable to him. Items not so identified shall be deemed approved.

(d) The Project Consultant shall be appointed by Supply System upon unanimous agreement of the Committee making the reference. In the absence of such agreement, Supply System shall request the Chief Judge of the United States District Court for the Western District of Washington to appoint the Project Consultant.

(e) The Project Consultant shall consider all written arguments and factual materials which have been submitted to it by any member 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 any disapproved item referred to it would or would not have been consistent with Prudent Utility Practice. If the Project Consultant determines that the item referred to it was not consistent with Prudent Utility Practice, then and only then it shall recommend what would under the same circumstances have met such test.

(f) Matters or items found by the Project Consultant to be consistent with Prudent Utility Practice shall become immediately effective. Matters of 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 appropriate Committee otherwise agrees and shall become effective as and when modified.

(g) The cost of employing the Project Consultant and the related expenses of its determination shall be a Cost of Construction or a Cost of Operation, as appropriate, if the Project Consultant determines that the item referred to it was not consistent with Prudent Utility Practice. If the Project Consultant determines that the item referred to it was not consistent with Prudent Utility Practice, such costs shall be borne by the Parties whose members on the Committee disapproved such item, in proportion to their Ownership Shares.

(h) Supply System shall have the right but not the duty to proceed with an item which has been disapproved by a member of a Committee; provided, however, if Supply System takes such action on a disapproved item and if the determination made by the Project Consultant is that the item was not consistent with Prudent Utility Practice, then Supply System shall individually bear the net increase in the Cost of Construction or Cost of Operation of such action to the extent it was inconsistent with what the Project Consultant determined would under such circumstances have met such test. Notwithstanding other provisions of this Section 3(h) whenever a disapproved item has been referred to the Project Consultant, Supply System shall operate in accordance with Supply Systems' position with respect to such item until such item has been resolved by the Project Consultant, whenever Supply System determines that the other position or positions would create an immediate danger to the safe operation of the Project.

(i) No member of a Committee (or his successor) shall disapprove (i) matters submitted to such member which he has previously approved or which were submitted to his Committee pursuant to the terms of this agreement and not disapproved by him within the time allowed, (ii) items found by the Project Consultant to have been consistent with Prudent Utility Practice, or items modified by the Project Consultant, or (iii) items involving a cost borne by Supply System individually.

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

4. CONSTRUCTION AND LICENSING: (a) Suppl. System shall take whatever action is necessary or appropriate to seek and obtain all licenses, permits, and other rights and regulatory approvals necessary to construction and operation of the Project for itself and on behal. of the other Parties.

(b) Supply System shall prosecute construction of the Project in accordance with Prudent Utility Practice and plans and specifications for the Project shall be prepared or approved by the Project Architect Engineer. Supply System shall schedule the Date of Commercial Operation to be, as r. ar as may be, September 1, 1981.

Supply System shall award separate contracts for readily separable parts of the work to the extent consistent with the construction of the Project at the 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 and responsive 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 appropriate Committee before taking action thereon.

(c) The selection of the site, nuclear steam supply system, method of cooling, turbine-generators and architect-engineer shall be made only upon the unanimous approval of the Engineering Committee. In the event the Engineering Committee cannot reach such agreement within ninety days, it shall notify the Parties who shall then terminate the Project in accordance with Section 24(a) or proceed pursuant to Section 24(b).

Supply System has entered into contracts relating to the Project listed in Exhibit B. The other Parties ratify and approve the said contracts.

5. REIMBURSEMENT FOR ADVANCES: (a) At the time this agreement is executed by all Parties the other Parties shall pay Supply System their respective Ownership Shares of the Costs of Construction and Cost of Operation, except administrative and general costs, advanced by Supply System up to the time of payment plus administrative and general costs equal to __ percent of such costs levelized pursuant to Section 5(d) and plus the interest cost to Supply System from the time of such advances. At the same

time each Party shall directly pay to such other Parties its respective Ownership Share of the Labor Costs and services advanced by such Parties with the consent of Supply System for the benefit of the Project, plus interest costs.

(b) Supply System shall be reimbursed from the Construction Trust Account for Costs of Construction advanced by it after this agreement has been executed by all Parties for, among other things: (i) Labor Costs, (ii) other Costs of Construction expended for the benefit of the Project, including, without limiting the generality of the foregoing, equipment, materials, supplies, travel and construction power, and (iii) administrative and general costs in an amount equal to __ percent of all Costs of Construction levelized pursuant to Section 5(d) except Costs of Construction reimbursed pursuant to Section 5(a) and except such administrative and general costs. After this agreement has been executed by all the Parties, such other Parties shall be reimbursed from the appropriate trust account for advancements on account of Labor Costs made thereafter with the consent of Supply System as part of the Costs of Construction.

(c) Supply System shall be reimbursed from the Operating Trust Account for Costs of Operation advanced by it after this agreement has been executed by all Parties for, among other things: (i) Labor Costs, (ii) other operating costs expended for the benefit of the Project, including, without limiting the generality of the foregoing, equipment, materials, supplies, and travel, (iii) administrative and general costs in an amount equal to __ percent of Costs of Operation, except such administrative and general costs, prior to the effective date of the first Operating Budget levelized pursuant to Section 5(d), and (iv) administrative and general costs included in the Operating Budget.

(d) The sum of the amounts of administrative and general costs due under Sections 5(a), 5(b) (iii), and 5(c) (iii) shall be estimated. Such sum shall be levelized and paid at such times and in such amounts that an equal amount is paid in each month of the period from the effective date hereof to the estimated Date of Commercial Operation, except that the sum of the amounts which would otherwise have been due in the months prior to the time this agreement is executed by all Parties shall be paid at such time. If during the period of construction Project facilities, construction work or licensing requirements and activities increase substantially beyond those contemplated by said estimate, or if the Date of Commercial Operation is significantly delayed, Supply System shall be equitably reimbursed by the other Parties for such Parties' Ownership Shares of any increased administrative and general costs occasioned by such increases or delay.

6. CONSTRUCTION BUDGET: An initial budget of the amounts expected to be expended for specific items of Costs of Construction in each quarter from the date of this agreement and to be expended in each quarter thereafter to the completion of construction as determined by Supply System has been submitted to the Parties and is hereby approved. By September 1 of each year until the completion of construction Supply System shall submit to the Engineering Committee an updated budget describing the items of Costs of Construction and of the amounts expected to be expended therefor in each month during the next calendar year and in each quarter thereafter. Such budgets shall become effective unless disapproved within 30 days after submittal. Construction budgets shall be changed by Supply System from time to time during a calendar year as necessary to reflect substantial

changes in construction schedules, plans, specifications or costs, and when so changed shall be submitted similarly to the Engineering Committee. Such changes applicable to the current calendar year shall be subject to disapproval for only seven days following submission.

7. CONSTRUCTION PAYMENTS: (a) Supply System shall establish a separate Construction Trust Account in a bank located in the State of Washington and having qualifications meeting all requirements imposed upon depositories for any of the Parties. All moneys for Costs of Construction of the Project not paid pursuant to Section 5(a) shall be deposited therein and Supply System shall withdraw and apply funds therefrom as necessary to pay all Costs of Construction.

(b) Upon execution of this agreement each Party shall pay into the Construction Trust Account its Ownership Share of a working fund of $100,000 and each Party shall thereafter continue to maintain its Ownership Share of such fund at such amount.

(c) Except as otherwise agreed by the Parties, each Wednesday Supply System shall notify the other Parties of the Costs of Construction and reimbursement of the working fund expected to be paid during the next calendar week and, whether or not such amounts are specified in the budget, each Party shall deposit its Ownership Share of such amounts in the Construction Trust Account on the first banking day of such week.

(d) Upon completion of the construction of the Project, acceptance of the Generating Plant by Supply System and settlement of all the obligations relating to construction, Supply System shall close the Construction Trust Account and distribute to each Party its Ownership Share of any balance remaining.

8. OPERATION: Supply System shall operate and maintain the Project so as to meet the requirements of the AEC and other government agencies having jurisdiction in the matter and in accordance with Prudent Utility Practice, giving due consideration to the recommendation of the Operating Committee and to the manufacturers' warranty requirements. Subject to the foregoing and to the provisions of Section 12, Supply System shall operate and maintain the Project so as to produce the amounts of energy scheduled by the Parties within their respective Ownership Shares of the net capacity of the Generating Plant.

9. OPERATING BUDGETS: (a) At least four months prior to the expected Date of Commercial Operation, Supply System shall submit to the Operating Committee a budget of the Costs of Operation, except fuel costs, but including administrative and general expenses relating to operation and fuel, for each month from the expected Date of Commercial Operation to the next succeeding July 1, and if the Date of Commercial Operation occurs subsequent to March 1 in a calendar year, a similar Operating Budget for the next succeeding fiscal year. Thereafter, by March 1 of each year, Supply System shall submit to the Operating Committee a similar Operating Budget for the next succeeding fiscal year, which Operating Budget shall take into account the cumulative difference between payments into and expenditures from the Operating Trust Account up to the preceding February 1 and provide for restoration, as necessary, of the working cash fund. Such budget shall become effective unless disapproved within 30 days after submittal.

(b) The effective Operating Budget shall be changed: (i) to include costs occasioned by an emergency, (ii) to provide for repairs, renewals, replacements or additions necessary to achieve design peak and energy capability, or (iii) to provide for an expenditure required by governmental authority or an expenditure required by Section 16. Promptly after the occurrence of any of the above events and promptly after the occurrence of other circumstances requiring the expenditure of funds not contemplated in the effective Operating Budget, Supply System shall submit a revised Operating Budget to the Operating Committee. Costs incurred by Supply System in the exercise of Prudent Utility Practice prior to the time a revised Operating Budget becomes effective shall be added as incurred to the amounts due under the Operating Budget. The revised Operating Budget shall become effective unless disapproved within seven days after submittal.

10. OPERATING PAYMENTS: (a) Prior to the date of the first payment required on account of fuel, or such earlier time as the Operating Committee shall agree, Supply System shall establish an Operating Trust Account in a bank located in the State of Washington and having qualifications meeting all requirements imposed upon depositories for any of the Parties. Prior to the Date of Commercial Operation each Party shall deposit in such Account its Ownership Share of a working cash fund of $100,000 or such other amount as the Operating Committee shall determine by a vote of 0.75 Ownership Share. All moneys received by Supply System as operator of the Project on account of the Project, except Costs of Construction, shall be deposited in such Account.

(b) No later than the next to the last business day of each month each Party shall deposit in the Operating Trust Account such Party's Ownership Share of the amount budgeted for the next succeeding month in the effective Operating Budget; provided, however, that when a revised Operating Budget becomes effective during a month each Party shall immediately deposit in the Operating Trust Account such Party's Ownership Share of any increase effectuated by the revised Operating Budget for that month.

11. FUEL: (a) Within 90 days after formation of the Operating Committee, and annually thereafter, the Supply System shall prepare and submit a ten-year fuel management plan. The Supply System shall consult with the Operating Committee, and shall give due consideration to the desires of each party in the preparation of such a plan. The first plan shall be limited to a description of the proposed fuel contract arrangements. Each succeeding plan shall describe in detail each contemplated action and payment and the dates thereof, as well as core usage and design burn-up, and estimated fueling dates. 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.

Each member of the Operating Committee shall furnish the Supply System its forecasts of generation requirements from 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. Supply System shall rely on such forecasts in preparing the plan.

Such plan shall become effective unless disapproved within 30 days after submittal, and subject to the provisions of section 11(b), Supply System shall implement such plan.

(b) If no effective fuel management plan provides specifically for a different time and manner of fueling, at the time when the design burnup has been achieved and also on each October 1 unless the core then contains sufficient energy to permit operation of the Generating Plant at 85% plant factor to the following March 1, Supply System shall proceed to fuel the Generating Plant subject to availability of fuel and to license and operating limitations.

(c) At the time of each fueling Supply System shall submit to the Operating Committee an estimate of the next fueling date, the kilowatt hours of net energy available to such next fueling, and the cost per kilowatt hour of energy available to the next fueling date. Such cost per kilowatt hour shall be based upon estimate of (i) plant factor, (ii) design burnup, and (iii) all payments made or to be made from the Operating Trust Account, minus net fuel recoveries credited or to be credited to such Account, all as applicable to the core between such fueling date and the next planned fueling date. If no member of the Operating Committee disapproves such estimate within 30 days of its submittal, it shall become effective.

(d) Each Party shall pay or cause to be paid into the Operating Trust Account its Ownership Share of each payment related to fuel required by the fuel plan at least seven days prior to the date when payment is due; provided, however, that each such Party shall have the right to make whatever arrangements it may desire, whether by lease, security transaction or otherwise, for the discharge of its Ownership Share of such obligation so long as such arrangements do not impair the rights of any other Party. Supply System shall disburse each payment related to fuel from the Operating Trust Account when due. Each Party shall receive its Ownership Share of each net fuel recovery credit.

(e) Supply System shall keep an hourly record, cumulative from the time of the most recent fueling, charging to each Party the net energy which has been generated for such Party and the net energy for which such Party has become entitled to be paid pursuant to this subsection (e). When the sum of the amounts so charged to a Party equals such Party's Ownership Share of the net energy estimated to be available pursuant to Section 11(c) such Party shall become a deficient Party and, while there are other Parties which are not deficient, shall be required to pay the cost estimated pursuant to Section 11(c) for each kilowatt hour thereafter scheduled by it until the next fueling. Such payment shall be made to each Party which was not at the time of such schedule a deficient Party, in the proportion that such Party's Ownership Share bore to the sum of the Ownership Shares of all Parties which were not deficient Parties. Amounts becoming due during a month shall be paid by the 15th day of the next succeeding month.

12. SCHEDULING: (a) Each Party shall be entitled to receive as scheduled all or any part of its Ownership Share of the Output of the Generating Plant at the high-voltage terminals of the Project substation. Each Party shall report its hourly schedule for the following day to Supply System dispatcher by 4:00 p.m. each day, except that the schedule for holidays, Saturdays and Sundays, and for the day following such days shall be submitted by 4:00 p.m. of the preceding week day provided, however, that each Party shall have the right to change its schedule on shorter notice to reflect changes in its requirements. Should the total of requested changes in the level of operation of the Generating Plant require a rate of change in excess of either that prescribed by its manufacturers or in the AEC operating license, each Party whose scheduled rate of change is in excess of its Ownership Share of the prescribed limit shall be limited proportionately so that the total rate of change does not exceed the prescribed rate of change. If fulfilling the requested schedules of Parties would require operation of the Generating Plant at an operating level below the minimums recommended by its manufacturers

or the terms of the AEC operating license, whichever is higher, the Supply System dispatcher shall immediately notify all the Parties, who with Supply System shall have the right (proportional in accordance with the Ownership Share of each among those exercising such right) to supply the requested schedules from other sources in lieu of operating the Generating Plant and to be paid therefor, by the 15th day of the month following the month of delivery, at the rate per kilowatt hour established pursuant to Section 11(c). If none of the Parties agrees to supply such schedules as so requested, the Generating Plant shall be operated at the minimum generation permitted by the manufacturers' recommendation or the terms of the AEC operating license, whichever is higher. The Parties whose schedules are greater than their Ownership Share of such minimum generation shall take such schedules, and the other Parties shall schedule and take (proportional to their Ownership Shares) the remainder of such minimum generation.

(b) Supply System shall schedule Generating Plant outages other than fueling outages and notify the Operating Committee as to the time and duration thereof as far in advance as practicable. If the Operating Committee does not disapprove such outage by a vote of more than 0.25 Share within five days, the Generating Plant shall be shut down in accordance with such schedule. Notwithstanding the foregoing, Supply System may shut the Generating Plant down to avoid hazard to any person or property.

(c) When testing of plant facilities requires generation, each Party shall make provision for acceptance of its Ownership Share of such generation. Supply System will notify Parties of test schedules as far in advance as practicable.

(d) During any hour in which the Project does not generate its station use and losses to the high-voltage terminals of the Project substation, Supply System's dispatcher shall notify the Parties and each Party shall deliver its Ownership Share of such energy to the Project.

13. ACCOUNTING: (a) Supply System shall keep separate, complete and accurate account of all deposits in and withdrawals from the Construction Trust Account and each of the Parties shall keep complete and accurate accounts of all costs incurred by it for which it is to be reimbursed from such Account.

(b) Supply System shall keep separate, complete and accurate account of all deposits in and withdrawals from the Operating Trust Account and complete and accurate account of all costs incurred by it for which it is reimbursed from such Account.

(c) All accounts shall be kept so as to permit conversion to the system of accounts prescribed for electric utilities by the Federal Power Commission, and the allocation of costs by Supply System between Costs of Construction and Costs of Operation pursuant to this agreement shall be binding on the Parties for purposes of this agreement, but the manner in which accounts are kept pursuant to this agreement is not intended to be determinative of the manner in which they are treated in the books of account of the Parties.

(d) Each Party shall have the right at any reasonable time to examine the separate books of account kept by Supply System pursuant to this section and to examine the books of account and all supporting data and documents relating to amounts for which any Party is to be reimbursed from the trust accounts, and to examine and copy all plans, specifications, bids and contracts relating to the Project.

(e) Supply System shall by the 15th of each month supply to each Party a complete itemized account of all deposits in and withdrawals from the trust accounts during the previous month, together with an itemization of the basis for reimbursement made to Supply System from such account during such month. Supply System shall cause all accounts to be audited by independent Certified Public Accountants of national reputation acceptable to all the Parties at approximately annual intervals and when such accounts are closed. Copies of such audits shall be supplied to each Party.

14. INSURANCE: (a) Supply System shall maintain in force, for the benefit of the Parties as their interests shall appear, as a Cost of Construction or a Cost of Operation as appropriate, such insurance as the Parties may agree upon, but not less than is required under the contract with the Project Architect Engineer during the time it is in force, and thereafter not less than will satisfy the requirements of the Atomic Energy Act of 1954, as amended, and conform to Prudent Utility Practice. Supply System shall keep the other Parties informed as to the status of insurance in force and if it does so, Supply System shall not be liable for any failure to insure or inadequacy of coverage; provided that Supply System shall not, without the unanimous consent of the appropriate Committee 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. Proceeds from such insurance for loss or damage to the Project shall be deposited in the appropriate trust account and shall be applied to repair of such damage as provided in Section 16(b). Any Party may request additional insurance to the extent available, and Supply System shall purchase such requested insurance at the expense of such Party. The proceeds from such requested insurance shall be disbursed as directed by such Party.

15. UNCONTROLLABLE FORCES: No Party shall be in default in performance of any obligation hereunder, except the payment of money, if such failure of performance is due to causes which such Party could not have reasonably been expected to avoid.

16. DAMAGE TO THE PROJECT: (a) In the event that (i) after the Date of Commercial Operation the Project suffers damage, resulting from causes other than ordinary wear, tear or deterioration to the extent that the estimated cost of repair as unanimously agreed by members of the Operating Committee, or, if they cannot agree within a period of three months from the date of damage, as determined by the Project Consultant, exceeds the estimated available proceeds of insurance, if any, by less than $6,000,000, or (ii) prior to the Date of Commercial Operation the Project suffers damage to any extent, and in either of such events, if the Parties do not unanimously agree that the Project shall be ended pursuant to Section 24, Supply System shall promptly submit a revised Construction or Operating Budget, as appropriate, and shall proceed to repair the Project, and each Party shall pay as budgeted, into the appropriate Trust Account, its Ownership Share of the cost thereof in excess of insurance proceeds.

(b) If after the Date of Commercial Operation the Project suffers damage to the extent that the estimated cost of repair exceeds the estimated available proceeds of insurance, if any, by more than $6,000,000 as determined in Section 16(a), the appropriate committee shall agree upon, or if they cannot so agree within six months from the date of damage, the Project Consultant shall determine, the estimated value of the Project as and when repaired. Thereafter, each Party which, within a reasonable time to be determined by the appropriate committee, gives notice in writing to the other

Parties of its desire that the Project be repaired, shall, in the Proportion that its Ownership Share bears to the total of the Ownership Shares of all Parties giving such notice, pay into the appropriate Trust Account, as budgeted in a revised budget, all of the cost of repair in excess of insurance proceeds, if any. If any Party has given such notice, the Ownership Share of each Party which does not give such notice shall, at the end of the reasonable time which was determined by the appropriate committee, be reduced to the extent determined by the following formula:

$$S_r = S_o \quad \frac{V - (C - I)}{V}$$

where

V = Estimated value of the Project as repaired
C = Estimated cost of repair
I = Estimated insurance proceeds
S_o= Ownership Share prior to loss
S_r= Reduced Ownership Share

At the same time the amount of such reduction shall be added to the Ownership Share of Parties giving such notice in the proportion that the Ownership Share of each bears to the total of the Ownership Shares of all Parties giving such notice.

(c) If after the Date of Commercial Operation the Project suffers damage to the extent that the estimated cost of repair as determined in Section 16(a) exceeds the estimated available proceeds of insurance, if any, by more than $6,000,000 and no Party gives the notice required by Section 16(b), the Project shall be ended pursuant to Section 24(a).

17. DEFAULT: (a) Upon failure of a Party to make any payment when due or perform any obligation of an owner herein, any other Party may make

written demand upon said Party, and if said failure is not cured within 60 days from the date of such demand it shall at the expiration of such period constitute a default. A Party in default shall have no right to the Output of the Project, to have representation on any committee, nor to exercise any other right of a Party. In such event the defaulting Party's Ownership Share of power and energy may be sold during the period of the default for the benefit of the defaulting Party (to third Parties or other Parties to the agreement) and the proceeds applied to the amounts owed by such Party. If a Party in good faith disputes the existence or extent of such failure, it shall within said 60-day period make such payment or perform such obligation under written protest directed to the other Parties. Such dispute shall be submitted to the Project Consultant who shall determine the extent of the obligation of the Party disputing such failure and any payments shall be adjusted accordingly. Payments not made when due may be advanced by the other Parties and, if so advanced, shall bear interest, until paid, at the rate of 1 percent per month or the highest lawful rate, whichever is lower.

(b) If such default results from the nonpayment of capital costs, as defined in the Federal Power Commission Uniform System of Accounts, and continues for a period of four months, the defaulting Party shall afford the other Parties the right (but they shall not have the obligation) for an additional period of two months to elect, by notice in writing, to undertake the payment of such capital costs in full. In such case any advances of such capital costs previously made pursuant to Section 17(a), and any additional payments necessary to pay such capital costs in full, shall be for the account of the paying Party, and the defaulting Party's Ownership Share shall at the time of such election be reduced to the extent determined by the following formula:

$$S_r = S_o \frac{V - A}{V} \quad \text{where:}$$

V = Estimated value of the project including estimated capital costs as agreed by the appropriate committee or, if it cannot agree, as determined by the Project Consultant

A = Such capital costs plus interest on any part advanced

S_o = Ownership Share prior to default

S_r = Reduced Ownership Share

At the same time the amount of such reduction shall be added to the Ownership Shares of the other Parties in the proportion that the amount so advanced by each bears to the total amount advanced.

(c) In addition to the rights granted in this Section 17, any non-defaulting Party may take any action, in law or equity, to enforce this agreement and to recover for any loss or damage, including attorney's fees and collection costs, incurred by reason of such default.

18. NOTICE UNDER OTHER AGREEMENTS: If Supply System is wholly unable to participate in the ownership, construction or operation of the Project due to licensing, financing, construction or operating conditions which are beyond its control, or if the Project is terminated pursuant to Section 24, Supply System shall give the notice of termination required by Section 8 of the Washington Public Power Supply System Nuclear Project No. 3 Agreement (Contract No. 14-03-39100) executed by the USA, Department of the Interior, acting by and through the Bonneville Power Administrator, and the Supply System.

19. ELECTIVE CAPITAL ADDITIONS: Renewals and replacements not necessary to assure design capability, and betterments and additions not required by governmental agencies, shall be made after the Date of Commercial Operation only upon unanimous recommendation of the Operating Committee; provided,

however, that Supply System alone or together with any other Party, may make such additions at its own expense.

20. ADDITIONAL FACILITIES: In the event additional facilities are constructed on the real property described in Exhibit A, the Parties hereto shall, to the extent that the same will not interfere with the use and operation of the Project in such a way as cannot be corrected or compensated for, grant to the owners of such additional facilities the right to use, add to and modify Project facilities; provided, however, that such owners shall first pay or agree to pay to the Parties: (i) an equitable part of the cost of such additions or modifications to Project facilities, (ii) any cost of relocation of Project facilities, (iii) equitable compensation for the use of any Project real, personal or other property, except easement rights, utilized by such owners, and (iv) equitable compensation for any increase in operating, maintenance or other costs incurred by the Parties by reason of the construction and operation of such additional facilities. Provided further that the provisions of this Section shall not operate to increase the Parties' exposure to uninsured loss without the written consent of the Parties, and if reasonable arrangements are made to cover such increased exposure, such consent shall not be withheld. If the owners of such additional facilities and the Parties are unable to agree as to any costs or compensation in accordance with the foregoing, the matter shall be referred to the Project Consultant for determination by it.

21. INVESTMENT. Supply System shall have the right, but not the obligation, to invest funds in the Construction Trust Account or in the Operating Trust Account in legally issued obligations of the United States or the State of Washington and the net proceeds from such investments shall be deposited in

the Account from which it came and credited to the Parties in their respective Ownership Shares.

22. <u>ASSIGNMENTS</u>: This agreement shall be binding upon and shall inure to the benefit of successors and assigns of the Parties, provided, however, that no transfer or assignment of other than all of a Party's interest in the Project and under this agreement to a single entity shall operate to give the assignee or transferee the status or rights of a "Party" hereunder and no transfer or assignment hereunder shall operate to increase the number or representatives of any Party on any committee. Except as provided in Sections 16 and 17 of this agreement, the undivided interest (or a portion thereof) of any Party in the Project, the property, real or personal, related thereto, and under this agreement may be transferred and assigned as set out below but not otherwise:

(a) To any mortage, trustee, or secured party, as security for bonds or other indebtedness of such Party, present or future; and such mortgagee, trustee or secured party may realize upon such security in foreclosure or other suitable proceedings, and succeed to all right, title and interests of such Party;

(b) To any corporation or other entity acquiring all or substantially all the property of the Party making the transfer;

(c) To any corporation or entity into which or with which the Party making the transfer may be merged or consolidated;

(d) To any corporation or entity, the stock or ownership of which is wholly owned by the Party making the transfer;

(e) To any corporation or entity in a single transaction constituting a sale and lease back to the transferor or assignor;

(f) To any other person, provided that so long as Supply System retains its Ownership Share in the Project no interest, except as a security interest, in the Project shall be sold or assigned to an entity not authorized by RCW 54:44 to participate in common facilities with a public utility district; and provided further, that the Party shall first offer to transfer or assign such interest to the other Parties proportionately at the amount of and on terms and conditions not less advantageous than those which it is willing to accept for a transfer or assignment to such other person. Such offer shall remain open for a reasonable period but not less than three months; and if the offer of the selling Party's interest is not accepted by any other Party proportionately, the entire offer may be accepted by one of the other Parties or in different proportions among the other Parties as such Parties may mutually agree;

(g) Transfer or assignment shall not relieve a Party of any obligation hereunder except to the extent agreed to in writing by all the other Parties.

23. <u>TRAINING</u>: Supply System shall carry out a familiarization and training program to maintain adequate staffing, engineering and operation of the Project and the expenses thereof shall be part of the Costs of Construction or Costs of Operation as appropriate. Each Party shall be entitled in proportion to its Ownership Share, within the limits of operating efficiency and safety requirements, to use of the facilities of the Project for the training of its own employees for staffing of other nuclear facilities or the engineering and operation thereof. Any increase in the Costs of Construction or the Costs of Operation resulting from such training shall be borne by the Parties employing such trainees.

24. <u>END OF PROJECT</u>: (a) When the Generating Plant can no longer be made capable, consistent with Prudent Utility Practice as determined (if necessary) by the Project Consultant, of producing electricity, or is not licenseable by the AEC, or when the Project is ended pursuant to Section 16, Supply System shall sell for removal all salable parts of the Project to the highest bidders; provided, however, that the Plant Real Property shall revert to Supply System. After deducting all costs of ending the Project, including, without limiting the generality of the foregoing, the cost of decommissioning, razing all structures and disposing of the debris and meeting all requirements of Federal, state or local law relating to the safe deactivation of the plant, Supply System shall close the appropriate trust account and, if there are net proceeds, distribute to each Party its Ownership Share of such proceeds, including the value of the Plant Real Property as determined by agreement of all the Parties, or in the absence of such agreement, by the Project Consultant. In the event such costs of ending the Project exceed available funds, each Party shall pay its Ownership Share of such excess as incurred.

(b) In the event the Engineering Committee is unable to reach agreement as to any of the items described in Section 4(c), one or more of the Parties may, within 90 days after the date of the notice to the Parties provided for in Section 4(c), elect to proceed with the Project; provided, however, that the Parties so electing shall promptly reimburse the non-electing Parties for all Costs of Construction incurred hereunder. Upon such reimbursement, the non-electing Parties' interest in this agreement and any related rights or interests acquired by them hereunder shall forthwith vest in the electing Parties in such proportion as the electing Parties may agree.

IN WITNESS WHEREOF, the Parties hereto have caused this agreement to be executed this _____ day of _____________, 1972.

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

WASHINGTON PUBLIC POWER SUPPLY SYSTEM

(SEAL) BY ______________________________

ATTEST:

____

____

(SEAL) BY ______________________________

ATTEST:

____

____

(SEAL) BY ______________________________

ATTEST:

____

____

(SEAL) BY ______________________________

ATTEST:

____

ATTACHMENT 8(b)-4

WNP NO. 3

POWER SALES AGREEMENT

(3)

CERTIFIED COPY

(AUTHENTICATED COPY)

Contract No. 14-03-37046

7-9-73

WASHINGTON PUBLIC POWER SUPPLY SYSTEM

NUCLEAR PROJECT NO. 3

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

INDUSTRIAL COMPANIES

(Power Sales Agreement)

Index to Sections

This AGREEMENT, executed as of September 25 , 1973, by the UNITED STATES OF AMERICA (Government), Department of the Interior, acting by and through the BONNEVILLE POWER ADMINISTRATOR (Administrator), and the WASHINGTON PUBLIC POWER SUPPLY SYSTEM (Supply System), a municipal corporation of the State of Washington, and each of the companies listed in Exhibit A attached hereto (each hereinafter called the Company, and collectively the Companies),

W I T N E S S E T H:

WHEREAS in order to achieve the economy of size for the benefit of Supply System and other Project Owners, the Project Owners have entered into the Ownership Agreement simultaneously with this agreement providing that the Project Owners will finance and own the Project and that Supply System will design, construct, operate, and maintain the Project on behalf of the Project Owners; 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 and the Administrator have entered 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 preference customers of the Administrator have entered into Net Billing Agreements simultaneously with this agreement under which the Administrator will acquire Project capability; and

WHEREAS the Companies desire to make a short-term purchase of Project energy from Supply System; and

WHEREAS Supply System, with the concurrence of the Administrator has determined that a portion of Project energy will be available for sale to the Companies and the Companies have agreed to purchase a portion of such Project energy under the terms of this agreement; and

WHEREAS the Administrator will deliver Project energy made available hereunder to each Company in consideration of payments made hereunder to Supply System which will reduce the Administrator's obligations under the Net Billing Agreements; and

WHEREAS the Administrator and each Company have entered into a Power Sales Contract which provides among other things for points of delivery to such Company's facilities; and

WHEREAS under the terms of this agreement the Companies assign energy hereunder to each Participant that executes an Assignment Agreement with the Administrator; and

WHEREAS the Supply System is organized under the laws of the State of Washington (Rev. Code of Washington, ch. 43.52) and is authorized by law jointly to construct, own, acquire and operate works, plants, and facilities for the generation and/or transmission of electric power and energy and to enter into contracts for such purposes 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. Definitions and Explanation of Terms.

(a) "Annual Budget" means the annual budget prepared and adopted by Supply System in accordance with the Net Billing Agreements.

(b) "Assignment Agreements" means any agreement executed by a Participant and the Administrator as provided in section 6(d) which provides that all or a portion of the energy sold by Supply System to the Companies hereunder may be assigned to such Participant.

(c) "Billing Statement" means the written statement prepared by Supply System in accordance with the Net Billing Agreements that shows the amount to be paid to Supply System by each of the Participants.

(d) "Contract Year" (1) means the period commencing at 2400 hours on June 30, 1981, and ending at 2400 hours on the following June 30, and (2) thereafter means the 12 month period commencing each year at 2400 hours on June 30.

(e) "Net Billing Agreements" means the net billing agreements relating to the Project entered into by Supply System, the Administrator and each of the Participants who have executed or are assigned such an agreement (Contract No. 14-03-39101 through 14-03-39203, inclusive).

(f) "Ownership Agreement" means the agreement for construction, ownership, and operation of the Project, as the same may be amended, and as executed by the Project Owners.

(g) "Participants" means those entities which are specified in Exhibit A of the Net Billing Agreements or which become assignees of a Net Billing Agreement pursuant to the Net Billing Agreements.

(h) "Power Sales Contract" means the contract or contracts listed in Table 1 of Exhibit A as each contract may be amended, extended or replaced, entered into by the Administrator and each Company under which the Administrator sells power and energy to such Company.

(i) "Project" means the Washington Public Power Supply System Nuclear Project No. 3 as described in the Project Agreement.

(j) "Project Agreement" means the agreement with respect to Project construction, operation, maintenance and budgets as executed by the Administrator and Supply System (Contract No. 14-03-39100).

(k) "Project Owners" means Supply System, Pacific Power & Light Company, Portland General Electric Company, Puget Sound Power & Light Company, and The Washington Water Power Company and such other entities which may become project owners in accordance with the Ownership Agreement.

(l) "Supply System's Ownership Share" means 0.70 or such other decimal fraction of the Project as may be determined under the Ownership Agreement.

2. Term. This agreement shall be effective as of the date of execution and shall terminate at 2400 hours on June 30, 1984, but obligations accrued hereunder shall continue until performed.

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

4. Sale and Purchase of Project Energy.

(a) Subject to the provisions in subsection (b) and (c)(1) below, Supply System hereby sells and each Company hereby purchases Project energy from Supply System's Ownership Share in the amounts designated for each Company in Exhibit A.

(b) The amounts of Project energy in each Contract Year sold under subsection (a) above shall be made available to each Company only after Supply System's Ownership Share of the Project has made available to the Administrator the following amounts of energy pursuant to the Net Billing Agreements:

(1) 1,400,000,000 kilowatt-hours during the first Contract Year;

(2) 3,100,000,000 kilowatt-hours during the second Contract Year; and

(3) 4,900,000,000 kilowatt-hours during the third Contract Year.

The Administrator shall have the right to reduce the amounts of energy set forth in subsections (b)(1), (b)(2) or (b)(3) above by giving notice to the Companies prior to any Contract Year if in his sole determination reduced amounts of Project output are sufficient to meet the Administrator's firm loads for such Contract Year.

(c) Not less than six months prior to any Contract Year the Administrator shall request that the Supply System reduce the amounts of Project energy sold to the Companies hereunder in such Contract Year if for such Contract Year (1) the Administrator determines he will need and will purchase all or a portion of such Project energy to enable the Administrator to meet his firm contractual obligations to supply power and that he will be able to make the payments to the Participants that are required for such purchases under the Net Billing Agreements in such Contract Year, or (2) the Administrator and a Participant execute an Assignment Agreement assigning to such Participant all or a portion of the energy sold to the Companies hereunder in such Contract Year. The amount of energy sold to each Company in such Contract Year and its obligations to make payments hereunder shall be ratably reduced in the ratio that the amount of each such reduction bears to the total amount of energy then specified in Exhibit A for sale to the Companies hereunder.

(d) Prior to each Contract Year, Supply System shall provide to each Company Supply System's estimate as approved by the Administrator of (1) the energy which can be generated by the Project from Supply System's Ownership Share during such Contract Year, and (2) the estimated energy from Supply System's Ownership Share of the Project to be sold by Supply System and purchased by the Companies hereunder.

(e) Supply System shall revise estimates made pursuant to subsection (d) above from time to time during any Contract Year to reflect any substantial changes in Project operation which will affect the prior estimate. If any such estimate indicates that the amount of Project energy to be sold to the Companies is substantially changed from the amount specified in Exhibit A or Supply System reduces the amount of energy sold hereunder pursuant to subsection (c) above, Supply System shall prepare a revised Exhibit A by ratably adjusting the amounts of Project energy sold to each Company hereunder and making a pro rata adjustment in the payments to be made by each Company pursuant to section 8.

5. Provisions Relating to Delivery.

(a) Supply System shall make available to the Administrator for the account of each Company the amounts of Project energy sold to each Company hereunder at the point of delivery described in the Net Billing Agreements.

(b) In consideration of the payments to be paid to Supply System by each Company and Supply System's obligations to apply the payments hereunder so as to reduce the Administrator's obligations under the Net Billing Agreements, the Administrator shall make available to each Company at the point or points of delivery as defined in the Power Sales Contract, at such time or times during each Contract Year as each Company and the Administrator may agree, the amounts of energy sold by Supply System hereunder to such Company.

(c) The Administrator and each Company may agree to defer delivery of energy from one Contract Year to another. The Administrator shall store such energy in the Federal Columbia River Power System (Federal System) for subsequent delivery to such Company. The Administrator, at his option and at such time or times as the Federal System is spilling energy, may determine that such stored energy is energy spilled. Energy so spilled shall be deemed to have been delivered to such Company. To the extent practical the Administrator will give advance notice of any anticipated spill.

(d) At the request of a Company, the Administrator shall deliver energy in advance of deliveries of Project energy by Supply System hereunder in such amounts as such Company and the Administrator may from time to time agree. Each Company shall be obligated to return any energy advanced by the Administrator if the Administrator determines any portion of such energy will not be or was not available from the Project during a Contract Year. Upon such determination such advanced energy shall be returned at the times and in the amounts requested by the Administrator by one or more of the following methods:

(1) allocating to the Administrator energy available to such Company from other sources;

(2) purchase of replacement energy under an appropriate replacement energy agreement;

(3) curtailing energy available to such Company under the Power Sales Contract, or

(4) any other method acceptable to the Administrator.

Accounting for advance energy shall be maintained by the Administrator as provided in section 9.

6. Assignment and Transfer of Energy.

(a) A Company may agree with one or more other Companies to transfer to the latter all or any portion of the transferor's entitlement to energy hereunder. The affected Companies shall immediately notify the Administrator of such transfers. After receipt of such notices, the amounts of energy and payments therefor shown in Exhibit A shall be deemed to be modified accordingly.

(b) Upon request of any Company, the Administrator shall use his best efforts to enter into agreements for the assignment of such Company's rights to any portion of the electric energy purchased by such Company hereunder, to another customer or customers of the Administrator, including customers outside of the Pacific Northwest, under terms and conditions which are mutually acceptable to the Company, the Administrator, and the other customer or customers.

(c) Transfers under subsection (a) above or assignments under subsection (b) above shall not affect the obligations of the transferor or the assigning Company, as the case may be, under section 8, but such obligations of the transferor or the assigning Company shall be deemed to be performed to the extent of payments received by Supply System from the transferee or assignee.

(d) Each Company hereby assigns its ratable share of Project energy as specified in an Assignment Agreement to each Participant that executes such an Assignment Agreement with the Administrator. Such Assignment Agreement shall provide that such energy shall be solely for use on the Participant's system, that the Participant shall not, as the result of entering into such Assignment Agreement, sell energy from other resources that are available to its system to entities outside of its service area (except that nonfirm energy from such other resources may be sold from time to time during a Contract Year), and that the Participant's use of such energy will not cause the dollar obligations due the Administrator from such Participant under the "Participant's Bonneville Contracts" as defined in section 7 of the Net Billing Agreements to be insufficient to offset the Administrator's dollar obligations to such Participant under all agreements requiring the Administrator to make payments to the Participant. The Administrator shall offer an Assignment Agreement to any Participant which requests such an Assignment Agreement. An Assignment Agreement, once executed by the Administrator and a Participant, shall become an addendum to this agreement and each Company's obligation to make payments hereunder shall be appropriately reduced. No Company shall be liable in any way for the failure of a Participant to make the payments required under an Assignment Agreement.

7. <u>Provisions Relating to Scheduling</u>.

(a) The Administrator on behalf of the Companies shall notify Supply System in accordance with section 8 of the Net Billing Agreements of the amounts of Project energy purchased by the Companies hereunder which will be required for each hour of the following day or days. Supply System's dispatcher, within the capability of the Project, shall schedule such amounts of energy for delivery at the Point of Delivery specified under the Net Billing Agreements. The Administrator in good faith shall submit such notice under this agreement and notice under the Net Billing

Agreement in a manner to obtain to the extent reasonably practicable the amounts of energy to be made available to the Companies hereunder taking into account the availability of the Project and operating conditions on the Federal System.

(b) In lieu of the notice to Supply System pursuant to subsection (a) above, the Administrator may deliver alternative energy to the Companies for the amounts of energy which would be available to the Companies from the Project. For the purpose of this agreement such alternative energy shall be deemed to have been energy from the Project and the payments provided in section 8 shall include payment for such alternative energy.

8. Payment.

(a) Each Company shall pay Supply System on July 1, 1981, and on the first day of each month thereafter to and including July 1, 1984, the sum of money appearing after its name in column 4 of the then effective Table of Exhibit A. If the amounts of energy specified in Exhibit A are modified as provided for in section 4 such payments shall be appropriately revised as provided in subsection (c) below.

(b) Such funds shall be deposited by Supply System in a revenue account of the Project, identified in the Annual Budget maintained pursuant to the Net Billing Agreements as funds payable from sources other than the payments to be made under the Net Billing Agreements, and used to reduce the amounts specified in the Billing Statement.

(c) Supply System shall prepare a statement at the beginning of each Contract Year and thereafter at the time of revision of Exhibit A showing the monthly payments to be made by each Company. Any revised statement shall reflect any prior payments by a Company to Supply System for that Contract Year. At the option of each Company such amounts paid in a Contract Year in excess of the amounts specified for each Company in Exhibit A or any revision to Exhibit A shall be (1) held by Supply System to reduce the obligation to each Company for the following Contract Year, or (2) returned to each Company at the end of each Contract Year.

9. Accounting. The Administrator shall maintain appropriate energy accounts for all energy hereunder and shall notify each Company and the Supply System of the status and balances of such accounts on a regular basis.

10. Execution in Counterpart. This agreement may be executed in a number of counterparts and shall be deemed to constitute a single document with the same force and effect as if all the parties hereto having signed a counterpart had signed the other counterparts. Each party shall deliver a signed counterpart to the Administrator, who will prepare a composite conformed copy and deliver the same to each party. The agreement shall become effective when the Administrator has signed a counterpart and has received signed counterparts from all the other parties.

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

ALUMINUM COMPANY OF AMERICA

(SEAL)

By S/ J. A. McGOWAN

Title Vice President

ATTEST:

By S/ F. I. THOMAS

Title Assistant Secretary

ANACONDA ALUMINUM COMPANY DIVISION
of The Anaconda Company

(SEAL)

By S/ JOSEPH B. WOODLIEF

Title Vice President, The Anaconda Company

ATTEST:

By S/ KRIST CYR

Title Assistant Secretary

THE CARBORUNDUM COMPANY

(SEAL)

By S/ EDWARD D. HOWELL

Title Vice President & General Manager Electro Minerals Division

ATTEST:

By S/ G. W. GIRDER

Title Vice President

CROWN ZELLERBACH CORPORATION

(SEAL)

By S/ H. H. BECKER

Title Vice President

ATTEST:

By S/ R. T. KIMBERLIN

Title Vice President & Secretary

GEORGIA-PACIFIC CORPORATION

(SEAL)

By S/ J. H. DUNKAK

Title Vice President

ATTEST:

By S/ RICHARD DUGGAN

Title Assistant Secretary

HANNA NICKEL SMELTING COMPANY

(SEAL)

By S/ J. N. PURSE

Title Vice President

ATTEST:

By S/ CHARLES E. NICKELS, JR.

Title Assistant Secretary

INTALCO ALUMINUM CORPORATION

(SEAL)

By S/ ROBERT FERRIE

Title President

ATTEST:

By S/ MARIE T. MORRIS

Title Notary Public

ITT RAYONIER INCORPORATED

(SEAL)

By S/ G. E. SCOFIELD

Title Vice President-Manufacturing

ATTEST:

By S/ TIMOTHY WILLIAMS

Title Secretary

KAISER ALUMINUM & CHEMICAL CORPORATION

(SEAL)

By S/ L. F. HUNT

Title Manager, Reduction Division

ATTEST:

By S/ JOHN A. MOORE

Title Assistant Secretary

MARTIN MARIETTA ALUMINUM INC.

(SEAL)

By S/ JACK P. DOAN

Title Vice President-Northwest Operations

ATTEST:

By S/ JOHN C. PETERSON

Title Assistant Secretary

PACIFIC CARBIDE & ALLOYS COMPANY

(SEAL)

By S/ THOMAS J. WATERS

Title President

ATTEST:

By S/ MARSHALL M. OKELL

Title Assistant Secretary

PENNWALT CORPORATION

(SEAL)

By S/ EDWIN E. TUTTLE

Title Group Vice President-Chemicals

ATTEST:

By S/ VERA M. BYRNE

Title Assistant Secretary

REYNOLDS METALS COMPANY

(SEAL)

By S/ R. B. NEWMAN

Title Vice President

ATTEST:

By S/ J. P. HENDERSON, JR.

Title Assistant Secretary

STAUFFER CHEMICAL COMPANY

(SEAL)

By S/ G. E. BUCCI

Title Vice President-Manufacturing

ATTEST:

By S/ C. M. JOHNSON

Title Assistant Secretary

UNION CARBIDE CORPORATION

(SEAL)

By S/ W. M. KELLY

Title Vice President of its Ferroalloys Division

ATTEST:

By S/ ALLAN McLANE

Title Assistant Secretary

Certificate

I, Donald W. Franzwa, Head of Contracts, Branch of Customer Service, Division of Power Management, Bonneville Power Administration, do hereby certify that the within and foregoing is a true, complete and conformed composite copy of Contract No. 14-03-37046 and that signed counterpart originals are on file with the Bonneville Power Administration, each signed by one or more of the parties thereto which taken together bear the signatures of all the parties thereto.

Date OCT 10 1973 Donald W. Franzwa

EXHIBIT A, Table I
Contract No. 14-03-37046
Effective during the first
Contract Year

Distribution of WPPSS Project #3 Energy
(in thousands of kwh)

Industry	Power Sales Contract No. 14-03-	(1) Energy at Points of Delivery	(2) % of Total	(3) Total Amount to be Paid	(4) Monthly Payment
Alcoa	63307	69,000	4.60	$ 517,500	$ 43,125
Anaconda	63313	173,400	11.56	1,300,500	108,375
Carborundum	61832	10,350	.69	77,628	6,469
Crown Zellerbach	68422	30,150	2.01	226,128	18,844
Georgia-Pacific	44509	24,300	1.62	182,256	15,188
Hanna Nickel	99116	44,700	2.98	335,244	27,937
Intalco Aluminum	47025	260,100	17.34	1,950,756	162,563
ITT Rayonier	69319	8,700	.58	65,244	5,437
Kaiser Aluminum	67598	293,400	19.56	2,200,500	183,375
Martin Marietta	71311	240,600	16.04	1,804,500	150,375
Pacific Carbide	19298	5,250	.35	39,372	3,281
Pennwalt	59850	44,700	2.98	335,244	27,937
Reynolds Metals	66836	260,700	17.38	1,955,256	162,938
Stauffer Chemical	76677	13,800	.92	103,500	8,625
Union Carbide	18750	20,850	1.39	156,372	13,031
	TOTALS	1,500,000	100.00	$11,250,000	$937,500

Revision 1
8-3-73

EXHIBIT A, Table II
Contract No. 14-03-37046
Effective during the second
Contract Year

Distribution of WPPSS Project #3 Energy
(in thousands of kwh)

Industry	(1) Energy at Points of Delivery	(2) % of Total	(3) Total Amount to be Paid	(4) Monthly Payment
Alcoa	69,000	4.60	$ 517,500	$ 43,125
Anaconda	173,400	11.56	1,300,500	108,375
Carborundum	10,350	.69	77,628	6,469
Crown Zellerbach	30,150	2.01	226,128	18,844
Georgia-Pacific	24,300	1.62	182,256	15,188
Hanna Nickel	44,700	2.98	335,244	27,937
Intalco Aluminum	260,100	17.34	1,950,756	162,563
ITT Rayonier	8,700	.58	65,244	5,437
Kaiser Aluminum	293,400	19.56	2,200,500	183,375
Martin Marietta	240,600	16.04	1,804,500	150,375
Pacific Carbide	5,250	.35	39,372	3,281
Pennwalt	44,700	2.98	335,244	27,937
Reynolds Metals	260,700	17.38	1,955,256	162,938
Stauffer Chemical	13,800	.92	103,500	8,625
Union Carbide	20,850	1.39	156,372	13,031
TOTALS	1,500,000	100.00	$11,250,000	$937,500

Revision 1
8-3-73

EXHIBIT A, Table III
Contract No. 14-03-37046
Effective during the third
Contract Year

Distribution of WPPSS Project #3 Energy
(in thousands of kwh)

Industry		(1) Energy at Points of Delivery	(2) % of Total	(3) Total Amount to be Paid	(4) Monthly Payment
Alcoa		34,500	4.60	$ 258,744	$ 21,562
Anaconda		86,700	11.56	650,244	54,187
Carborundum		5,175	.69	38,808	3,234
Crown Zellerbach		15,075	2.01	113,064	9,422
Georgia-Pacific		12,150	1.62	91,128	7,594
Hanna Nickel		22,350	2.98	167,628	13,969
Intalco Aluminum		130,050	17.34	975,372	81,281
ITT Rayonier		4,350	.58	32,628	2,719
Kaiser Aluminum		146,700	19.56	1,100,256	91,688
Martin Marietta		120,300	16.04	902,244	75,187
Pacific Carbide		2,625	.35	19,692	1,641
Pennwalt		22,350	2.98	167,628	13,969
Reynolds Metals		130,350	17.38	977,628	81,469
Stauffer Chemical		6,900	.92	51,744	4,312
Union Carbide		10,425	1.39	78,192	6,516
	TOTALS	750,000	100.00	$5,625,000	$468,750

Revision 1
8-3-73

EXHIBIT B

(12-3-69)

PROVISIONS REQUIRED BY STATUTE OR EXECUTIVE ORDER

1. 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.

(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,

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 8(d)-1

WNP NO. 5

OPTION AND SERVICES AGREEMENT

3/21/75

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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 corporation of the State of Washington, and ALDER MUTUAL LIGHT COMPANY, a mutual corporation organized under the laws of the State of WASHINGTON ("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 determined that they require the construction and acquisition of 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 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.

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

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

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.

(b) "Development Bonds" means any bonds, notes, or other evidences of indebtedenss 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.

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

(l) "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 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).

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.

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 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 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

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

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).

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 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 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.

<u>Section 7</u>. <u>Sources of Payments by Option Participant; Covenants</u>.

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

(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) 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.

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

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.

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 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 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.

(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 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 22 day of July, 1975.

WASHINGTON PUBLIC POWER
SUPPLY SYSTEM

ATTEST:

Secretary

By J. J. Stein
Managing Director

(SEAL)

ATTACHMENT 8(d)-2

WNP NO. 5

PARTICIPANTS AGREEMENT

DRAFT
3/21/75

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

TABLE OF CONTENTS

ALDER MUTUAL LIGHT Company

Joe Sanders
Manager/President

ATTEST:

By ______________________

(Title

(Title

Sec.

(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.

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 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 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.

(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

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*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.

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 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.

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

(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

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*A summary of the draft to be filed is now on file with the Option Participant.
**See footnote on page 5.

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.

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

(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.*

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

(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.

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*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.

(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 with 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 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.

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

4. <u>Financing, Design, Construction, Operation and Maintenance of the Projects</u>.

(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, <u>provided</u>, 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 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 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

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*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.

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, 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 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

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

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

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

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*See footnote on page 5

Annual Budget for the Projects for the period from such date to the following July 1. Thereafter, on or before April 1 of 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 entitites, 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 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 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 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

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, design 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 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'

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.

(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 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 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 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;

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.

(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.

(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 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.

(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, 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.

(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 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 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'

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.

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 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 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 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.

(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.

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 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 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 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 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 contrary, 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

(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; <u>provided</u>, 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 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. <u>Reservation of Interest in Future Projects</u>.

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

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

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

(b) 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.

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

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

Bonneville Power
Administration
P. O. Box 3621
Portland, OR 97208

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. Severability.

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:

__________________________ By ______________________________

Title ____________________ Managing Director

(SEAL)

UNITED STATES OF AMERICA
Department of the Interior

By ______________________________
Bonneville Power Administrator

____
Participant's Name

ATTEST:

______________________________ By ______________________________
Title ______________________________ Title ______________________________

(SEAL)

TABLE OF OPTION PARTICIPANTS AND OPTION PARTICIPANTS' SHARES

Participant	Participant's Share
Alder Mutual Light Company	0.00010
City of Bandon, Oregon	0.00070
Public Utility District No. 1 of Benton County, Washington	0.05250
*Benton Rural Electric Association	0.00690
*Big 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	0.00030
	1.20000

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*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 9-1

EXCERPTS FROM WASHINGTON STATE
STATUTES REGARDING RATE AUTHORITY

Washington State statutes

54.16.040 Electric energy. A district may purchase, within or without its limits, electric current for sale and distribution within or without its limits, and construct, condemn and purchase, purchase, acquire, add to, maintain, conduct, and operate works, plants, transmission and distribution lines and facilities for generating electric current, operated either by water power, steam, or other methods, within or without its limits, for the purpose of furnishing the district, and the inhabitants thereof and any other persons, including public and private corporations, within or without its limits, with electric current for all uses, with full and exclusive authority to sell and regulate and control the use, distribution, rates, service, charges, and price thereof, free from the jurisdiction and control of the utilities and transportation commission, in all things, together with the right to purchase, handle, sell, or lease motors, lamps, transformers and all other kinds of equipment and accessories necessary and convenient for the use, distribution, and sale thereof: *Provided*, That the commission shall not supply water to a privately owned utility for the production of electric energy, but may supply, directly or indirectly, to an instrumentality of the United States government or any publicly or privately owned public utilities which sell electric energy or water to the public, any amount of electric energy or water under its control, and contracts therefor shall extend over such period of years and contain such terms and conditions for the sale thereof as the commission of the district shall elect; such contract shall only be made pursuant to a resolution of the commission authorizing such contract, which resolution shall be introduced at a meeting of the commission at least ten days prior to the date of the adoption of the resolution: *Provided further*, That it shall first make adequate provision for the needs of the district, both actual and prospective. [1955 c 390 § 5. Prior: 1945 c 143 § 1(d); 1931 c 1 § 6(d); Rem. Supp. 1945 § 11610(d).]

35.92.050 Authority to acquire and operate utilities. A city or town may also construct, condemn and purchase, purchase, acquire, add to, maintain and operate works, plants, facilities for the purpose of furnishing the city or town and its inhabitants, and any other persons, with gas, electricity, and other means of power and facilities for lighting, heating, fuel, and power purposes, public and private, with full authority to regulate and control the use, distribution, and price thereof, together with the right to handle and sell or lease, any meters, lamps, motors, transformers, and equipment or accessories of any kind, necessary and convenient for the use, distribution, and sale thereof; authorize the construction of such plant or plants by others for the same purpose, and purchase gas, electricity, or power from either within or without the city or town for its own use and for the purpose of selling to its inhabitants and to other persons doing business within the city or town and regulate and control the use and price thereof. [1965 c 7 § 35.92.050. Prior: 1957 c 288 § 6; 1957 c 209 § 6; prior: 1947 c 214 § 1, part; 1933 c 163 § 1, part; 1931 c 53 § 1, part; 1923 c 173 § 1, part; 1913 c 45 § 1, part; 1909 c 150 § 1, part; 1899 c 128 § 1, part; 1897 c 112 § 1, part; 1893 c 8 § 1, part; 1890 p 520 § 1, part; Rem. Supp. 1947 § 9488, part. Formerly RCW 80.40.050.]

WPPSS General

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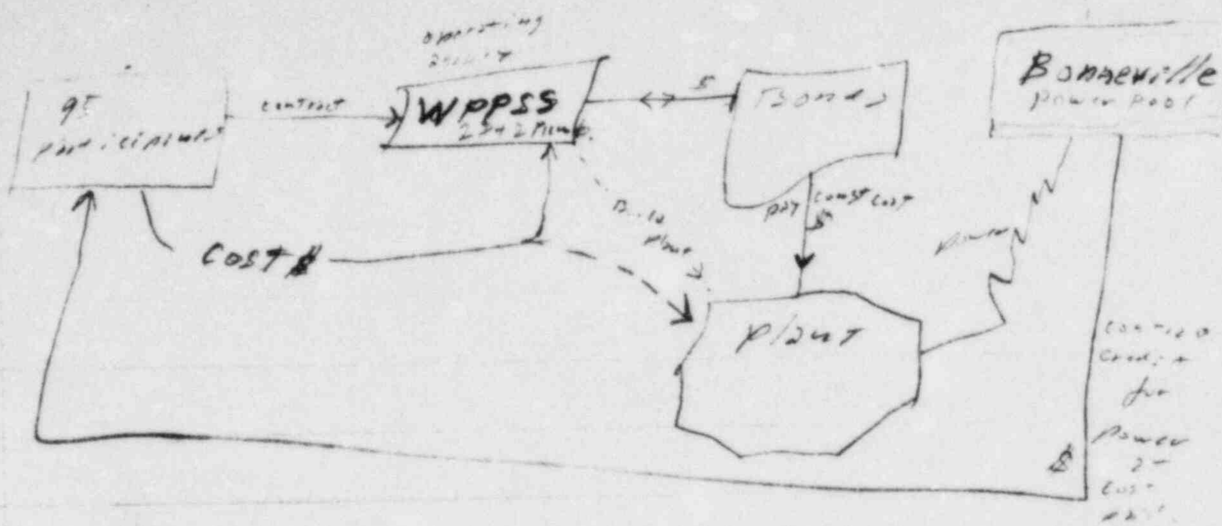

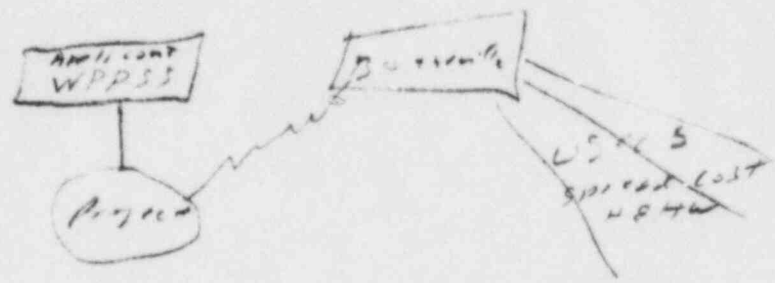

To: Phil Johnson, Reg. V, 463-3745 From: Jim Petersen, OSP 492-9883

(4)

Q&A for John Martin - Region V - Congressional Hearing

Question 1. What were the criteria used by the NRC staff to determine WPPSS' financial ability to build and operate five nuclear units? Who did the reviews? When were they done? What were the conclusions?

Response The NRC staff did financial qualification reviews regarding WPPSS' ability to construct each nuclear unit prior to the issuance of each construction permit. The criteria used by the staff were the provisions of 10 CFR 50.33(f) and Appendix C to 10 CFR Part 50 that were in effect prior to March 31, 1982. On that date the Commission issued a rule change eliminating its financial qualification reviews of electric utilities constructing and operating nuclear power plants (47 FR 13750). The rule change is discussed in greater detail at the end of this response.

For the construction permit reviews the staff examined WPSSS' plans for financing each nuclear unit. In accordance with the above-cited regulations, WPPSS submitted construction cost estimates for each unit and a statement of a proposed financing plan for each unit. In each case the staff reviewed both the cost estimates and financing plans to determine if they were reasonable in light of the staff's independent cost estimates and the actual financing experience of WPPSS. The staff relied substantially on the financial backing that would be provided by WPPSS' partners in the projects, a group of municipal, cooperative and investor-owned utilities. These utilities executed participation agreements with WPPSS stating that they would provide their pro-rata financial support to the projects whether or not they were completed, operable or operating.

Based on the combined financing capability of WPPSS and its partners and on the broad base of support evidenced by the participation agreements, the NRC staff concluded in each case that WPPSS and its associates had demonstrated reasonable assurance that they could obtain the funds to design and construct the units; i.e., that they were "financially qualified" to design and construct the units. This conclusion, specified in 10 CFR 50.33(f), required only "reasonable assurance" that WPPSS could obtain the requisite funds, not a guarantee that the funds would be obtained.

The construction permit review for WPPSS Unit No. 2 was done in February 1973. The construction permit review for Unit Nos. 1 and 4 was done in July 1975, and was updated in October 1975, August 1976 and January 1978. The construction permit review for Unit Nos. 3 and 5 was done in May 1976 and was updated in July 1977.

Only Unit No. 2 has been subject to a financial review for an operating license. That was done by the NRC staff in February 1982. Similarly to the construction permit review, the staff determined that WPPSS had demonstrated reasonable assurance, not a guarantee, that it could obtain the funds necessary to operate and eventually decommission the unit. The staff reviewed WPPSS' history of successfully funding all prior operating costs for its utility plants. It again relied substantially on the agreements by the Unit No. 2 participants (the municipal and cooperative utilities) to provide their pro-rata shares of all costs of the unit regardless of whether or not the unit is operable or operating. The staff concluded (in accordance with 10 CFR 50.33(f)) that WPPSS had demonstrated reasonable assurance that it could obtain the funds necessary to cover estimated operating and decommissioning costs; i.e., that it was financially qualified to conduct those activities.

Subsequent to the WPPSS financial qualification reviews the Commission determined that such reviews of electric utilities were ineffective in promoting the Commission's public health and safety objectives. Accordingly, as noted above, the Commission eliminated such reviews and the attendant licensing board litigation (related to electric utility applicants and licensees) on March 31, 1982 (47 FR 13750). The rule change was challenged by a group of intervenors and a decision is pending in the District of Columbia Circuit of the U. S. Court of Appeals (New England Coalition on Nuclear Pollution, et. al., v. NRC, D.C. Cir. No. 82-1581).

Q & A for John Martin, Region V, Congressional Hearing

Question 2: "Could WPPSS' present or foreseen financial situation jeopardize their ability to respond to an accident at WNP-2? How?"

Response: Under the provisions of 10 CFR 50.54(w) an electric utility licensee for a nuclear power plant must maintain on-site property damage insurance equal to a formula of certain minimum coverage available from insurers. At present that coverage would be at least $568 million for each nuclear unit. WPPSS could be expected to use the proceeds from such insurance to cover costs of on-site property damage. In case of liability arising from injury to a member of the public, WPPSS would be covered by provisions of the Price-Anderson Act. Also, Bonneville Power Administration's substantial involvement in financing and utilization of the WPPSS nuclear units might lead BPA to support accident recovery.

Question 3. Does WPPSS currently meet the financial qualifications requirements for Unit Nos. 2 and 3?

Response: As noted in response to question no. 1, above, the Commission on March 31, 1982 eliminated its financial qualifications reviews of electric utility licensees and applicants (47 FR 13750). It determined that such reviews and attendant licensing board litigation had not contributed to the Commission's public health and safety objectives. If the prior regulations were currently in effect, however, the staff indicates it would have reservations about WPPSS' ability to obtain significant amounts of capital to construct a generating plant in its present financial situation. The review as to WPPSS' ability to obtain funds to operate a nuclear plant would be somewhat more favorable since such expenses are normally covered completely by current revenues from the sale of electricity generated by such plant and other units.