

September 18, 1972

R. A. Clark, Chief  
SRR Branch No. 3, NOL

(Signed) Walker E. Campbell

THRU: W. E. Campbell, Assistant Controller for Accounting

WASHINGTON PUBLIC POWER SUPPLY SYSTEM, HANFORD NO. 2, SOCKET  
NO. 50-397

Enclosed is my financial testimony on the subject matter. The testimony has been prepared for inclusion in the main body of the staff's Safety Evaluation with financial information on applicant's operating projects attached for inclusion as an appendix to the Safety Evaluation.

Raymond L. Carroll  
Staff Accountant  
Accounting Procedures Branch, OC

Enclosures:  
As stated

cc: J. F. Sciato, OCC  
E. Gearin, BOL  
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Acctg. RF  
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OFFICE ▶	Accounting Procedures	Asst. Contr. for Acctg.			
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DATE ▶	9/18/72	9/18/72			

## FINANCIAL QUALIFICATIONS

The Commission's regulations which relate to financial data and information required to establish financial qualifications for an applicant for a facility construction permit are 10 CFR 50.33(f) and 10 CFR 50, Appendix C.

We have reviewed the financial information presented in the application and amendment Nos. 2, 10, and 11 thereto of the Washington Public Power Supply System (WPPSS) for a permit to construct a nuclear power reactor with an initial electrical output of about 1,103 megawatts (3,327 t) to be located at its Hanford Number Two site on the United States Atomic Energy Commission's Hanford Reservation on the Columbia River near the city of Richland, in the County of Benton, State of Washington. Based on this review, our conclusion that WPPSS is financially qualified to design and construct the proposed facility is made contingent on WPPSS providing by resolution for issuance of bonds, essentially in the amounts stated in the application, to finance the proposed project. Such a resolution, as required by Washington Law, has not yet been made. Our conclusion is based on the following facts and considerations:

1. Applicant estimates the costs for construction of the plant, including transmission facilities and other associated costs, and initial reactor core will total about \$465.9 million. The details of these estimates are contained in the application and amendments and are summarized below:

Total Nuclear Production Plant Costs	\$406.8 million
Transmission facilities and other associated costs	13.0
Nuclear fuel inventory cost for first core	<u>46.1</u>
Total	<u>\$465.9 million</u>

The Directorate of Licensing has reviewed the details of the estimated plant capital costs for construction and has found them to be reasonable.

2. Construction of the nuclear plant will be financed in accordance with Net Billing Agreements between the Bonneville Power Administration (BPA), WPPSS, and 95 customers, termed "Participants" of BPA. BPA, an agency of the U. S. Department of the Interior, was established by the Bonneville Project Act of August 20, 1937. Each of the 95 participants is a consumer-owned utility in the Pacific Northwest region of which 28 are municipalities, 22 are public utility districts, and 45 are REA cooperatives. These participants constitute virtually every consumer-owned utility in the Pacific Northwest. The participants will purchase the entire capability of the project from WPPSS and in turn each will assign its share of project capability to BPA. The power produced by the project will be distributed by the Bonneville Power Administration within the Federal Columbia River Power System. Since each participant purchases all or most of its power requirements from BPA, the agreements provide that each participant will receive credit on its BPA billings to the same extent that it makes payments to WPPSS for its share of project costs.

Based upon the contractual commitment of each of the participants to pay its respective share of project costs, WPPSS will issue revenue bonds in an amount sufficient to pay the net project construction costs. The Net Billing Agreements provide the basic security for the financing of the project. The participants are obligated to pay

WPPSS, and BPA is obligated to make offsets and credits specified in the Net Billing Agreements, whether or not the Project is completed, operable, or operating. The percentage participation in the Project has been developed so it is expected that the available credits from BPA during any year will exceed the estimated payments to be made to WPPSS by over 15%.

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

To provide funds for preliminary expenses of this project, WPPSS sold \$15 million of revenue notes in 1971. WPPSS plans to sell the permanent bonds required to finance the project in 1973. The bonds will be retired from revenues of the project.

The Supply System does not issue general obligation bonds; each project is financed as a self-supporting separate utility system. The Supply System has previously financed two generating projects by issuance and sale of tax exempt revenue bonds. The Packwood Lake Hydroelectric Project Bonds in the amount of \$10.5 million were sold in 1962. The Hanford Electric Generating Plant Bonds in the amount of \$122 million were sold in 1963. Completion Bonds for the Packwood Project, in the amount of \$3.2 million, were sold in 1965. The Packwood Bonds were

rated "A" by Moodys. Hanford No. 1 Bonds were rated "A-1" by Moodys. The Hanford Nuclear Project No. 2 Revenue Notes were rated "AA" by Standard and Poors and "A" by Moodys.

The Supply System has retained Lehman Brothers, Inc., and Lazard Frères and Co. as financial consultants. Lehman Brothers has advised WPPSS that the revenue bonds required to finance the Hanford No. 2 project should be readily marketable and should be rated at least as favorably as the revenue notes previously issued for that project.

In view of the applicant's record of performance on existing projects, the high regard held for its bond issues, the opinions of its financial consultants, and the security for the bonds, it is our opinion that there is reasonable assurance that the applicant can finance construction of Hanford No. 2 by issuance of revenue bonds as planned.

3. WPPSS is a municipal corporation of the State of Washington organized under Chapter 43.52 of the Revised Code of Washington, as amended. The Supply System is composed of 18 public utility districts and the cities of Richland and Seattle. The Supply System is empowered to acquire, construct and operate plants and facilities for the generation and transmission of electric power. The Supply System presently operates the Packwood Lake Hydroelectric Project in Lewis County, Washington, and the Hanford Electric Generating Project in Benton County, Washington.



These projects are adequately financed and each has significant resources at its command. As of June 30, 1971, total assets for the Packwood Lake Project amounted to \$13.6 million, cash and net receivables for the Packwood Lake Project Revenue Fund totaled \$221.6 thousand. Long-term debt represented 127% of the net investment in utility plant.

As security for the project bonds the system has executed power sales contracts with the twelve-member purchasers of the Project. Each of the members will purchase and pay for the percentage allocation of power at rates which will be sufficient to operate and maintain the Project, including extraordinary expenses and losses, debt service on all bonds, and major repairs and replacements. The project also has a sinking fund requirement. A summary reflecting ratios and other pertinent data for this project is attached as an appendix.

In brief, these ratios as of June 30, 1971, are: long-term debt to net utility plant - 1.27; operating ratio - .56; rate of earnings (before interest) on total investment - 3.7%; times long-term interest earned - 1.0; and ratio of plant investment to revenues 13.5.

As of August 31, 1971, total assets for the Hanford No. 1 project amounted to \$94.2 million. Cash and net receivables for the Hanford 1 Project Revenue Fund totaled \$3.0 million. Long-term debt represented 105% of the net investment in utility plant.

As security for the Hanford 1 Project Bonds, the System and Bonneville Power Administration executed exchange agreements with 76 participants

for the sale and exchange of 100% of the Power from the Project. As other security, sinking funds for \$3.8 million at August 31, 1971 are held in trust for the bondholders. Member purchasers of power are contractually obligated to pay among other defined project annual costs, the principal amount of bonded debt. The System has adopted the accounting policy of recording each month as part of operating revenue a portion of this reimbursable cost in order to spread the revenue equally over the full term of the bonds.

Pertinent financial ratios indicate an adequate financial position. A summary of ratios and other data for the project is attached as an appendix.

In brief, these ratios as of August 31, 1971 are: long-term debt to net utility plant - 1.05; operating ratio - .85; rate of earnings (before interest) on total investment - 2.5%; times long-term interest earned - 1.0; and ratio of plant investment to revenues - 8.7.

WASHINGTON PUBLIC POWER SUPPLY SYSTEM  
DOCKET NO. 50-397  
FINANCIAL ANALYSIS

	(dollars in millions)		(dollars in thousands)	
	Hanford 1		Packwood Lake	
	<u>8/31/70</u>	<u>8/31/71</u>	<u>6/30/70</u>	<u>6/30/71</u>
Long-term debt	\$ 78.1	\$ 73.0	\$ 13.2	\$ 13.2
Utility plant (net)	72.2	69.4	10.7	10.4
Ratio - debt to fixed plant	1.08	1.05	1.23	1.27
Net income before interest and after depreciatio	2.6	2.4	.5	.5
Liabilities	96.8	94.2	13.6	13.6
Rate of earnings on total investment	2.7%	2.5%	3.7%	3.7%
Net income before interest and after depreciation	2.6	2.4	.5	.5
Interest on long-term debt	2.5	2.4	.5	.5
No. of times interest charges earned	1.0	1.0	1.0	1.0
Net income for year	None	None	None	None
Total utility operating expenses (and depreciation)	4.7	8.1	.4	.5
Total utility operating revenues	6.3	9.5	.9	.9
Operating ratio	.75	.85	.44	.56
Utility plant (gross)	82.4	82.4	12.2	12.2
Utility operating revenues	6.3	9.5	.9	.9
Ratio of plant investment to revenues	13.1	8.7	13.5	13.5
Fund balances:				
Sinking Fund		\$ 3.8		\$661.8
Special Funds		6.4		280.0
Revenue Fund		3.0		115.0
Interest & Bond Redemption		6.3		2.1
Total All Funds		<u>\$19.5</u>		<u>\$1,058.0</u>
Initial Amount of Bonded Debt		\$122.0		\$ 13.7
Debt Balance at Fiscal Year End (Including Current Portion)		<u>78.1</u>		<u>13.2</u>
Debt Retired		<u>\$43.9</u>		<u>\$ .5</u>
Year Bonds Mature		Varying annual amounts through 1986 except \$35.8 due 1996		Varying annual amounts 1975 through 2012
Moodys Bond Ratings		A1		A
In-Service Date of Project		Nov. 30, 1966		June 1, 1964