SUMMARY OF APPLICANT'S FINANCIAL QUALIFICATIONS

WASHINGTON PUBLIC POWER SUPPLY SYSTEM

HANFORD NO. 2

TESTIMONY OF JOSEPH J. STEIN, MANAGING DIRECTOR

My name is Joseph J. Stein. My business address is Washington Public Power Supply System, 301 Fifth Avenue, Richland, Washington. I am the Managing Director of Washington Public Power Supply System.

Washington Public Power Supply System is a municipal corporation of the State of Washington and was organized in January 1957 as a joint operating agency, pursuant to the laws of Washington. The Supply System is composed of 18 Public Utility Districts and 3 cities,* each of which operates an electrical distribution system within the State of Washington, serving approximately 659,000 electrical customers. The Supply System is empowered to acquire, construct and operate facilities for the generation and transmission of electric power and energy, but does not engage in the distribution of electric energy at retail.

The Supply System is authorized by R.C.W. 43.52.3411 to "issue revenue bonds or warrants payable from the revenues of the utility properties operated by it". The Supply System is required to adopt a resolution describing the proposed system or plan and setting forth the estimated cost. Such resolutions have been adopted for Hanford No. 2 in connection with a resolution for revenue notes of $15 million on December 4, 1970 and $40 million on November 15, 1972. The estimated cost includes nuclear fuel, interest during construction, and provides for escalation and contingencies. The bonds or notes of the Supply System are negotiable instruments and legal securities for deposits of public moneys, and are legal investments for trustees and other fiduciaries, and for savings and loan associations, banks and insurance companies doing business in

* This updates the application. The City of Tacoma became a member in October of 1972.

the State of Washington.

The note and bond resolutions adopted by the Supply System's Board of Directors are the indentures to the purchasers of the securities in which certain covenants are made to such purchasers. By agreements with power purchasers, termed "participants", the System receives a promise to pay a portion of the costs of acquiring, constructing and operating the facility. The aggregate of the participants' obligation to pay costs of the facility will equal the total of such costs. Each participant's portion of such costs includes the amount required each year to pay the interest and a portion of the principal on the bonds outstanding, plus the participant's share of the annual operating costs. The System covenants with the bond holders to pay this principal and interest, as provided in the bond resolution, from the revenues received by it which are pledged to payment of the bonds. The System agrees to set aside in sinking funds amounts sufficient to pay each year's accrued interest and principal and to deposit all revenues of the Project into a Project Revenue Fund. The System further promises not to agree to any modification of the contracts with participants or others, or amendment of the bond resolution, which would adversely affect the rights of the bond holders.

Net Billing Agreements between each participant, the Supply System and Bonneville Power Administration ("Bonneville") provide that the Project's entire capability will be sold by the Supply System to certain statutory preference customers of Bonneville, and assigned by the participants to Bonneville. The Net Billing Agreements provide that each participant will assign its share of Project capability to Bonneville which will credit the payments made to the Supply System by each participant for its proportionate share of the Project's annual costs (which includes debt service) against billings made by Bonneville to the participant for power and certain services

delivered under other contracts. The Net Billing Agreements provide that the participants are obligated to pay the Supply System whether or not the Project is completed, operable or operating and notwithstanding the suspension, interruption, interference, reduction or curtailment of the Project output.

This method of financing large electric generating projects and electric systems has been successfully utilized in the Pacific Northwest for many years. It has proven to be a sound economic means of financing and is particularly well adapted to the needs of the System in undertaking the financing of large nuclear generating projects. These Net Billing Agreements are included in the Ten Year Hydrothermal Power Program of the Pacific Northwest. This program was approved by Congress in the Public Works Bill, 1970 (83 Stat. 323,333) and in Public Works Appropriations Bill, 1971, (84 Stat. 890)).

In 1962 the Supply System began construction and is now operating the Packwood Lake Hydroelectric Project (27,000 kw). Construction costs of this project were financed by the sale of revenue bonds in the amount of $13,700,000. All costs, including debt service, have been paid on a current basis and, in addition, excess construction funds have been applied to retire $519,000 par value of bonds ahead of schedule. The project output is sold to 12 public utility districts. Operating revenues for fiscal year 1972 totaled $851,300.

The System is now operating the Hanford Generating Project, which is supplied steam by the A.E.C.'s N-Reactor. Construction costs were financed by the sale of revenue bonds in 1963 in the total amount of $122,000,000. All costs including debt service have been paid on a current basis and, in addition, excess construction funds have been applied to retire $26,640,000 par value of bonds ahead of schedule. The project output is sold to 76 power purchasers, including public utility districts, municipalities, rural electric cooperatives and investor-owned utilities in the Northwest region. Operating revenues for fiscal year 1972 totaled $26,165,200.

To finance the project under consideration in this proceeding, Hanford No. 2, Revenue Notes in the amount of $15,000,000 were sold in February 1971 for the preliminary planning and initial construction costs and an additional $40,000,000 were sold in December 1972 for purchase of fuel and to meet progress payments. The Project has been designated as the "Washington Public Power Supply System Nuclear Project No. 2", referred to herein as the "Project". The Project will be constructed near Richland, Washington, and have an installed capacity of approximately 1100 megawatts. Funds sufficient to pay interest expense on the Notes until maturity on July 1, 1974, are held in trust. It is planned that the Notes will be redeemed from proceeds of the first long term Revenue Bonds to be sold for construction of the Project after the issuance of the Construction Permit. Construction expenditures through November 1972 amount to $9,494,400. Total cost of construction is estimated to be $457,000,000. Current estimates for Hanford No. 2 construction expenditures through the year 1977 are as follows:

Year	Expenditure
1972	$13,311,000
1973	62,804,000
1974	93,058,000
1975	157,886,000
1976	101,990,000
1977	27,790,000

Commercial operation is scheduled for September 1977. The project output has been sold to 95 consumer utilities in the States of Idaho, Montana, Oregon and Washington. The participants have agreed to pay the System approximately $50,000,000 per year for the term of the bonds, as prescribed in the Net Billing Agreements.

In order to successfully market long term bonds in the amount of

approximately $457,000,000 to finance the Project, the Supply System will issue its tax exempt revenue bonds in series from time to time during the period of construction. It is planned to issue these bonds on the following schedule:

Date of Issue	Amount
November 1973	$150;000,000
July 1975	$150,000,000
September 1976	$157,000,000

The first bond issue, Series 1973, would include the refunding of outstanding short term notes. Each series of bonds issued will be on a parity with other bonds issued. The bonds are to be repaid on a level debt service basis over the 35 year anticipated life of the Project.

All of the System's long term funding for these projects will be provided from the sale of revenue bonds. The System's current rating is A-1 by Moody's Investors Service, Inc., and AA by Standard and Poor's Corporation.

If, for any reason, the Supply System is unable to issue and sell bonds or refunding notes to obtain funds to pay the principal of the Notes, together with any interest thereon, when due, or is unable to proceed with the financing of the Project, the Supply System covenants in the resolutions authorizing the issuance of such notes that it will terminate the Project as provided in the Project Agreement.

If, for any reason, the System is unable to complete construction of the Project, or after commencement of commercial operation the System is unable to continue operation of the Project, each of the Participants will pay to the System its respective share of debt service, together with any other costs associated with the termination of the Project. These payments are to be treated as credits against billings made by Bonneville to the participants for

power and certain services.

The System plans to construct Washington Public Power Supply System Nuclear Project No. 1 on the site of the existing Hanford Generating Project. Nuclear Project No. 1 will include a commercial nuclear steam supply system to replace the government owned N-Reactor, which is to be shut down in 1975, and a topping turbine generator to interface with the existing 860 MW steam plant. Nuclear Project No. 1 is scheduled to be completed in 1980 at a cost of approximately $607,000,000. The System also plans to construct and acquire 70% undivided ownership interest in a nuclear electric generating plant, defined as the Washington Public Power Supply System Nuclear Project No. 3, having an installed capacity of approximately 1130 megawatts. Siting studies are underway and WPPSS No. 3 Project is scheduled to be completed in 1981.