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UNITED STATES OF AMERICA
NUCLEAR REGULATORY COMMISSIOI

BEFORE THE ATOMIC SAFETY AND LICENSING BOARD

I
Young / Wagner
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In the Matter of)
)
WASHINGTON PUBLIC POWER SUPPLY SYSTEM) Docket No. 50-460CPA Reply du.
et. al.)
) June 28, 1983.
)
(WPPSS Nuclear Project No. 1))

COALITION FOR SAFE POWER FIRST SET OF INTERROGATORIES TO NRC STAFF, JUNE 9, 1983.

INTERROGATORY 1: State the full name, address, occupation and employer of each person answering the interrogatories and designate the interrogatory or the part thereof he or she answered. ✓

INTERROGATORY 2: Identify each and every person you are considering calling as a witness in the event a hearing is held in this proceeding and with respect to each of these witnesses: ✓

a. State the substance of the facts and opinions to which the witness is expected to testify;

b. Give a summary of the grounds for each opinion; and

c. Describe the witnesses' educational and professional background.

INTERROGATORY 3: What is the complete basis for your position that Licensee's decision in April ,1982 to 'defer' construction for two to five years, and subsequent cessation of construction at WNP-1 was not "dilatory." ✓

INTERROGATORY 4: Please explain fully what you mean by the word "defer" .

INTERROGATORY 5: Please explain fully what you mean by the word "dilatory" .

INTERROGATORY 6: What is the basis for your response to interrogatories 4 and 5?

INTERROGATORY 7: Why do you contend that Licensee has established good cause for an extension of the WNP-1 construction permit? Explain your answer fully. ✓

INTERROGATORY 8: What are the reasons Licensee offered to NRC in support of a showing of "good cause" as required by 10 C.F.R. 50.55(b)?

INTERROGATORY 9: Is it your position that the reasons offered by Licensee to support a showing of good cause are

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in fact the only reasons why Licensee had requested an extension of its construction permit?

INTERROGATORY 10: If your response to Interrogatory 9 is no, state all other reasons.

INTERROGATORY 11 : What is the basis for your response to interrogatories 9 and 10?

INTERROGATORY 12: Please explain fully what you mean by a "reasonable period of time"

INTERROGATORY 13: What factors do you contend should be condidered when determining if a requested construction permit extension is for a "reasonable period of time"?

INTERROGATORY 14: What do you contend would constitute a "reasonable period of time" in the case of WNP-1?

INTERROGATORY 15: (a) Is it your position that BPA support is necessary to the financing of WNP-1?

(b) if your answer to Interrogatory No. 15(a) is in the affirmative, identify and giv e full details with respect to all information upon which you base that statement.

INTERROGATORY 16: Is it your position that the financial support or lack of financial support by BPA for WNP-1 would have an effect on the financing costs of WNP-1?

INTERROGATORY 17: Is it your position that the opinion of BPA as to when WNP-1 should go into commerical operation would have an effect on the financing costs of WNP-1?

INTERROGATORY 18: (a) Is it your belief that BPA has the authority to disapprove any further financing of WNP-1 construction?

(b) If your answer to Interrogatory No. 18(a) is in the affirmative, explain fully the factual basis for that statement.

INTERROGATORY 19: Is it your position that the growth rate of electric power requirements has a business relationship as to when WNP-1 should go into commercial operation?

INTERROGATORY 20: (a) Is it your position that the January 11, 1983 letter to H. Denton, Director, NRR, NRC from G.D. Bouchy, WPPSS, supports Permittee's assertion that a deferred need for power constitutes "good casue" for deferring construction?

(b) If your answer to Interrogatory No. 20(a) is in the affirmative, set forth and explain fully the factual basis or legal authority for your position.

INTERROGATORY 21: (a) Is it your position that a lack of need for power can, as a matter of law, constitute "good cause" under 10 CFR 50.55(b)?

(b) if your answer to Interrrogatory No. 21(a) is in the affirmative, set forth and explain fully the factual basis or legal authority for this position.

INTERROGATORY 22: (a) Does the lack of need for power in the Northwest justify deferring construction of WNP-1?

(b) Explain fully your answer to Interrogatory No. 22(a).

INTERROGATORY 23: Explain the factual basis and/or legal authority which supports ths position that six to nine years is a 'reasonable period of time' under 10 CFR 50.55(b).

INTERROGATORY 24: What do you believe would be a (maximum) reasonable period of time for extension of the construction completion date for WNP-1?

INTERROGATORY 25: (a) Identify any and all "requirements of any regulations" promulgated since the date of docketing of the WNP-1 operating license application from which WNP-1 would otherwise be grandfathered by virtue of its date of docketing.

(b) Explain fully how each of the requirements identified in response to Interrogatory No. 25(a) will delay completion of the plant beyond the requested completion date of 1991. Give full details as to the extend to delay attributable to each such requirement.

INTERROGATORY 26: Explain the difference, if any, between deferral, mothball and preservation.

INTERROGATORY 27: To what events is the restart of construction on WNP-1 tied. Explain fully your answer. [redacted]

INTERROGATORY 28: What would be the effect of default on WNP-4 and 5 on the restart and completion of WNP 1? Provide all probability analyses, scenarios and time predictions. [redacted]

INTERROGATORY 29: What is the effect of deferral of construction on WNP-3 on the restart and completion of WNP-1? Give the basis for your response.

INTERROGATORY 30: What is the effect of bond ratings on WPPSS ability to finance WNP-1. Explain fully and provide the basis for your response. [redacted]

INTERROGATORY 31: If a bond rating service refused to rate WPPSS bonds would WPPSS be able to finance the construction of WNP-1? Explain your answer. ✓

INTERROGATORY 32: Is it your position that the Atomic Safety and Licensing Board Initial Decision (LBP-75-72, 2 NRC 922) for the Construction Permit found that the ✓

Bonneville Power Adminstration had the power to approve or disapprove the issuance of bonds by WPPSS. If yes give the reasons in detail for approval and/or disapproval.

INTERROGATORY 33: Is it your position the ASLB Initial Decision (LBP-75-72, 2 NRC 922) found that BPA could control the construction of WNP-1? If yes, in what manner? Explain in detail the basis for your answer.

INTERROGATORY 34: Is it your position that the original finding by the ASLB in its Initial Decision (LBP-75-72, 2 NRC 922) on WPPSS financing ability remains valid? Explain the basis for your answer in detail.

INTERROGATORY 35: Is it your position that the original finding by the ASLB in its Initial Decision (LBP-75-72, 2 NRC 922) on the need for WNP-1 remains valid? Explain the basis for your answer in detail.

INTERROGATORY 36: Is it your position that the only reason the ASLB found WPPSS financially qualified is because of BPA financial backing?

(a) If yes, explain the basis in detail.

(b) If no ,cite all the reasons you believe the finding of financial qualification.

INTERROGATORY 37: What constitutes "good business sense" in decisions on nuclear plant deferal?

INTERROGATORY 38: What constitutes "BPA support"?

INTERROGATORY 39: How is "BPA support" recognized in the Initial Decision (LBP-75-72, 2 NRC 922) on the Construction Permit for WNP-1?

INTERROGATORY 40: Is cost of financing an issue in this proceeding? If so, why?

INTERROGATORY 41: Is need for power an issue in this proceeding? If so, what are the issues which should be litigated with regard to need for power ?

INTERROGATORY 42: What is the legal basis for your answer to Interrogatory 41?

INTERROGATORY 43: What, besides the Applicant's representation on the need for WNP-1, does the Staff rely upon for its position on the need for the plant?

INTERROGATORY 44: Was the construction of WNP-3 (Satsop) halted because of no need for its power?

(a) If so, how does this affect the five-year deferral of WNP-1?

(b) If not, what were the reasons and how will they affect the deferral of WNP-1?

INTERROGATORY 45: Is the ultimate cost of power from WNP-1 a factor in the need for the plant? Should it be a factor in the business decisions affecting continued construction?

INTERROGATORY 46: What is the Staff's position on the relationship between time and the deterioration of partially constructed facilities and equipment? Provide the basis for this position.

INTERROGATORY 47: What is the difference between BPA withholding approval for financing and BPA disapproving of financing?

INTERROGATORY 48: What level of staffing is necessary at WNP-1 to maintain the construction site and equipment without deterioration ?

INTERROGATORY 49: Is it your position that the only obstacle to financing of the WNP-1 was/is the BPA recommendation?

INTERROGATORY 50: Do you agree that the passage of Washington Initiative 395 affected the ability of WPPSS to issue bonds? Explain your answer fully giving the basis and identify all documents relied upon.

Respectfully submitted,

Eugene Rosolie

Dated this day, the 9th
of June, 1983.

Eugene Rosolie, Director
Coalition for Safe Power

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WPPSS Ratings Suspended by Moody's On Bonds for Nuclear Projects 1, 2 and 3

Press Intelligence, Inc.
WASHINGTON, D.C. 20005

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WALL STREET JOURNAL
--EASTERN EDITION--
JUN 2 1983
MORNING - 640,064

By Erik Larson
Staff Reporter of The Wall Street Journal

NEW YORK—Moody's Investors Service Inc. said it suspended the ratings of $6 billion of bonds used to finance Washington Public Power Supply System's nuclear projects Nos. 1, 2 and 3.

N.B.

The move is significant because the bonds have been viewed as distinct from bonds issued for canceled projects Nos. 4 and 5. The bonds for projects Nos. 1, 2 and 3 are backed indirectly by revenue from the federal Bonneville Power Administration, while bonds for projects Nos. 4 and 5 are backed by 88 utilities. Many of the utilities have refused to pay their obligations and are challenging their debt in court.

Moody's action follows by less than a month a decision by Standard & Poor's Corp. to suspend its rating for projects Nos. 1, 2 and 3. At the time, the credit-rating company cited concerns that the system might have to file under Chapter 9 of the federal Bankruptcy Code, which deals with municipal concerns.

Moody's, in its announcement, said it suspended the ratings "because of uncertainties concerning the long-term integrity of all assets of the supply system and in light of the nonpayment" of a monthly payment. It also suspended the ratings on two WPPSS issues that aren't directly related to the nuclear projects. A suspension means the agency is too uncertain about an issue to assign it a rating.

Yet after S&P's move to suspend the ratings May 13, Craig W. Atwater, Moody's senior revenue bond analyst, had said, "We're still of the opinion the pledge of Bonneville does provide security that is appropriate for a Baa debt."

Mr. Atwater said the failure to make the interest payment changed that. But what effect could that have on projects Nos. 1, 2 and 3? "We aren't quite sure," he said. "That's why we suspended it."

On Tuesday, the power system failed to make a $15.6 million monthly interest payment to Chemical Bank, New York, the trustee of the $2.25 billion in bonds issued for projects Nos. 4 and 5.

Moody's yesterday also said it assigned its Caa rating to the power system's projects Nos. 4 and 5, citing the failure to make the Chemical Bank payment. The rating had been suspended since Jan. 7, 1982; before that the rating had been Baa-1, Mr. Atwater said. The agency said bonds with a Caa rating "are of poor standing. These issues have present elements of danger with respect to the payments of principal or interest."

Chemical Bank had said it would declare the power system in default if it failed to make the payment, and would give the power system 90 days to correct the default. But last week a Washington state judge ruled the bank couldn't declare the system in default. The bank has 30 days, from the May 27 ruling date, to appeal the order. "We haven't decided not to appeal, but then again we haven't decided to appeal," said William H. Berls, vice president, trust and investment division of the bank. "We are going to continue to consider on a daily basis whether to appeal or not."

James Perko, chief financial officer for the Washington Public Power Supply System, based in Richland, Wash., said, "We're disappointed," but added the system didn't have a bond issue pending that would be directly affected by the rating. "From that standpoint, it's a disappointment, but not a major problem," he said.

The Moody's turnabout demonstrates heightened concern for the power supply system, which started in the early 70s as a grand plan to provide inexpensive power. But forecasts of power demand showed that all the planned electricity wasn't necessary. Currently, projects Nos. 4 and 5 have been canceled and project No. 1 was suspended in April 1982 for a maximum of five years. Last week the power system's executive board voted to suspend project No. 3, about two-thirds complete, as well. Project No. 2 is nearly complete. The suspension of No. 3 will result in the layoffs of 1,250 over the next two months.

Gary Lundgren, executive vice president of Marshall & Meyer Inc., a municipal bond broker and dealer that deals exclusively in the power system's bonds, said the Moody's action is "just a reflection of mounting concern over the lack of leadership out of the Pacific Northwest to resolve the problems of 4 and 5." He said the "Chinese wall" between the bonds for those plants and for projects Nos. 1, 2 and 3 is breaking down as the threat of default on Nos. 4 and 5 looms.

On bond markets, prices of WPPSS bonds tumbled again yesterday, although trading was extremely light. Dealers said they marked down prices on some WPPSS issues by as much as four or five points. A "point" equals $10 for each $1,000 face amount of bonds.

"This market is so thin that it's very hard to tell you what these bonds are worth," said the head of municipal bond research at one large Wall Street firm. "The gap between the bid and offered sides is so wide you can drive a truck through it."

Another municipal bond specialist described trading as "sporadic," with "only a few" small trades being done at his firm.

The power system's 15% bonds due 2017 were quoted at one firm at a price of 93 bid, 96 offered, down four points from Monday's close.

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RADIO TV REPORTS, INC.

4701 WILLARD AVENUE, CHEVY CHASE, MARYLAND 20815 656-4068

FOR NUCLEAR REGULATORY COMMISSION

PROGRAM CBS Morning News

STATION WDVM-TV
CBS Network

DATE June 16, 1983 7:00 A.M.

CITY Washington, D.C.

SUBJECT Ruling on Financing Nuclear Plants

SUSAN SPENCER: The stage is set for what could become the biggest default in the history of the municipal bond market. The Washington State Supreme Court has ruled that utilities in the state don't have to pay off on bonds used to finance two defunct nuclear power plants. That debt amounts to $2 1/2 billion. The ruling is still open to review, but it has sent jitters through the bond market.

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Press Intelligence, Inc.
WASHINGTON, D.C. 20005

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SALEM, OREGON
STATESMAN-JOURNAL
JUN 9 1983
MORNING - 47,361
SUNDAY - 59,868

'll pay
ill
WPPSS?

on high court
s case today

PPSS bid scandal; 8A.

HARLES E. BEGGS
ssociated Press Writer

egon Supreme Court is to
uments today in a lawsuit
d affect thousands of Ore-
electric bills.

uit is one of those in the
legal tangle that has result-
n the Washington Public
Supply System's huge finan-
oblems with its now-aban-
nuclear power plant projects
state.

CASE IS massive. More than
n lawyers are involved, and
written briefs filed with the
total more than 1,000 pages.
lawyers were scheduled to
the case at today's hearing.
e suit is an appeal by WPPPSS
ruling last fall by Lane County
uit Judge George Woodrich.
e held that the Springfield Utility
rd and 10 other publicly owned
ties in Oregon didn't have au-
rity to sign contracts obligating
epayers to pay for WPPSS plants
nd 5, which have been moth-
lled.

WOODRICH'S decision, if upheld,
uld shield the utilities' customers
om rate increases to pay off their
are of the $2.25 million in bonded
ebt for construction of the plants.

The 11 Oregon utilities' invest-
ments total an 8 percent share of the
two plants.

Woodrich ruled, in a suit filed by Springfield ratepayers, that the utilities' contracts are void because the agreements were made in violation of state law and local municipal charters.

THE SPRINGFIELD board and six other city-owned utilities in Oregon invested in the nuclear plants, along with four Oregon public utility districts.

The appeal was filed with the Oregon Court of Appeals. But in an unusual move, the two courts agreed to have the case bypass the appeals court and go directly to the Supreme Court. That new procedure is allowed under a law passed in 1981.

Besides Springfield, the suit involves city-owned utilities in Drain, Canby, Bandon, Cascade Locks, McMinnville and Milton-Freewater. The Clatskanie, Central Lincoln, Tillamook and Northern Wasco public utility districts are parties to the suit.

WPPSS LAWYERS contend that the case poses potentially serious long-range problems.

If the Supreme Court agrees with Woodrich, WPPSS attorneys argue in briefs, "it will undermine public contracts and drastically impair the power of local government."

That, they say, would have "consequences for the public that are far worse than the economic impact of enforcing" the contracts.

BUT LAWYERS on the other side argue that ratepayers shouldn't be saddled with costs of invalid agreements to buy power that's not needed anyway.

The "WPPSS scheme cut away the law to get at the devil of an anticipated power shortage that that never came," John Faust, an attorney for two of the public utility districts, said in his written briefs.

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PHILADELPHIA, PA.
INQUIRER
JUN 10 1983
MORNING - 423,746
SUNDAY - 852,126

Exemplary

To the Editor:

Your editorial of June 3 in which you again attack GPU Nuclear at Three Mile Island for management inefficiencies and casual practices with respect to restarting Unit 1, is a half-truth.

GPU Nuclear, owner of Three Mile Island, also operates a 620-megawatt nuclear power station at Forked River, N.J. This station, known as Oyster Creek, is the oldest commercial nuclear power station in the United States and has been operational since 1969. The performance of this station over the past 13 years has been totally exemplary and without one blemish on its record.

Why would the identical top management of GPU Nuclear manage a very efficient operation at Oyster Creek and then incongruously operate Three Mile Island in a different manner? The answer is obvious — it wouldn't!

DAVID H. BUERKEL

Narberth

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WALL STREET JOURNAL
--EASTERN EDITION--
JUN 20 1983
MORNING - 640,064

Board of WPPSS To Meet Friday; Bond Default Seen

By a WALL STREET JOURNAL *Staff Reporter*

SEATTLE – Washington Public Power Supply System's executive board will meet here Friday to consider its options in the wake of the Washington state Supreme Court's decision last week freeing Washington utilities from their obligations to pay their share of $2.25 billion in WPPSS plant Nos. 4 and 5 debt.

Although default on the plants' bonds is now a near certainty, Carl Halvorson, board chairman, tried to discourage speculation that the system will opt for a voluntary filing under Chapter 9 of the Bankruptcy Code, which regulates municipal bankruptcy. "I don't see it as an attractive option at this point or at any point. It doesn't do anything for you. The lawsuits aren't going to go away," he said.

As reported, the supply system's interest reserve account has enough money to meet the July 1 interest payment on the bonds of plants Nos. 4 and 5 but won't be able to make the payment of next Jan. 1. With cash dwindling, the system has suspended preventive maintenance on the partly built plants and halted contract-settlement negotiations with contractors and equipment suppliers.

Meanwhile, the supply system's woes continued to affect other Pacific Northwest utilities. Standard & Poor's Corp. added four investor-owned utilities with a combined 30% interest in WPPSS plant No. 3 to its CreditWatch list. S&P cited negative credit implications for bonds issued by Pacific Power & Light Co., Portland General Electric Co., Puget Sound Power & Light Co., and Washington Water Power Co.

S&P cited the supply system's decision to suspend construction for three years on unit No. 3 unless financing for its 70% share in the plant could be obtained. Such a delay could increase the risk of more cost overruns for the four investor-owned utilities, S&P said.

A bankruptcy-law filing, he noted, would dissolve the barrier that exists between plants Nos. 4 and 5 and the Bonneville Power Administration-supported plants Nos. 1, 2 and 3. The debt for the groups is currently secured separately. "Taking bankruptcy isn't going to pay any bills," he said, adding that such a filing would most likely kill any chance of raising the $2 billion to $3 billion still needed to complete plants Nos. 1 and 3. Plant No. 2 is near completion and should come on line later this year.

All four investor-owned utilities have opposed delays in the nuclear power plant's completion.

Pacific Power's first-mortgage bonds are rated triple-B, Portland General's bonds are rated triple-B-minus, Puget Sound's bonds are rated triple-B, and Washington Water's bonds are rated triple-B-plus.

Insurers, the Biggest Investors in WPPSS, Face Huge Losses if Power System Defaults

By DANIEL HERTZBERG

Staff Reporter of THE WALL STREET JOURNAL

NEW YORK–Insurance companies may turn out to be the big losers if things get any worse at the Washington Public Power Supply System.

Property casualty insurers are probably the biggest institutional investors in the tax-free bonds issued by WPPSS. The supply system seems certain to default on about $2 billion of its bonds. But it could default on more–it has more than $8 billion in bonds outstanding–and in that case insurers might have to write off hundreds of millions of dollars in assets.

If that happens, some companies may have to raise their rates. Insurers seem confident, however, that the power system won't default on all of its bonds. And even if it does, some say that the industry can easily absorb big WPPSS losses.

Property-casualty insurers held $1.35 billion in WPPSS bonds at the end of 1982, according to A.M. Best & Co., an Oldwick, N.J., research concern. Heading the list is State Farm Mutual Automobile Insurance Co. in Bloomington, Ill., which owns $257.2 million in WPPSS debt.

Many big companies say they hold relatively few of the high-risk bonds, which were issued for nuclear plants Nos. 4 and 5. They say most of their holdings are in WPPSS bonds for projects Nos. 1, 2 and 3, which are backed indirectly by revenue from the federal Bonneville Power Administration.

Insurers consider a default on these bonds unlikely. "The federal government wouldn't like to see the creditworthiness of one of its agencies besmirched," says John K. Lundberg, vice chairman and chief financial officer for Crum & Forster, the insurance subsidiary of Xerox Corp. "Bonneville Power will find a way to make payments and service the debts on 1, 2 and 3," he says.

Nonetheless, federal help for the troubled power system is far from assured. And on Friday, it indirectly suffered another setback when Standard & Poor's Corp. put four utilities on its credit-watch list because of their financial involvement with plant No. 3.

Property-casualty insurers traditionally buy a lot of tax-exempt bonds, and because WPPSS is the country's largest tax-free issuer, their investment in the power system isn't surprising. Major holders of WPPSS bonds, in addition to State Farm, include American Express Co., with about $200 million; Crum & Forster, $137.6 million; Continental Corp., $139 million; and ITT Corp's Hartford Insurance Group, $115.9 million.

The National Association of Insurance Commissioners has already made companies write down as much as 70% on their holdings in the Nos. 4 and 5 bonds. But because of its overall financial health, even a writedown of all WPPSS holdings "wouldn't be a matter of serious concern to us," says a State Farm spokesman.

Some insurers may have to raise their rates if the system defaults. But some say their profits on other investments in the past 12 months will compensate for any WPPSS losses.

Although most of the big insurers say they have already sold their Nos. 4 and 5 bonds–if recently, at a substantial loss–an exception is American Express. It still has $90 million of the bonds in its portfolios and those of its Fireman's Fund insurance subsidiary.

State regulators usually let insurers carry bonds on their books at original cost even though their true value may be much lower. But in the case of the Nos. 4 and 5 bonds, the association of insurance commissioners has told companies to list them at true value.

Some of the Nos. 4 and 5 bonds are trading at about 25 cents for each dollar of face value. Such a heavy write-down would cut deeply into the capital base of a company with large holdings. However, Sanford Weill, president of American Express, says the write-down won't have a big effect on the capital base of Fireman's Fund, which is $1.4 billion.

If the insurance commissioners made the same decision on Nos. 1, 2 and 3 bonds, companies would have to write off hundreds of millions of dollars, reducing their capital base. But insurers say they could handle such huge losses because they have equally huge paper profits on other stocks and bonds.

"The balance sheets of the insurance industry have gotten so much healthier over the last 12 months that a write-down wouldn't be a major factor," says Mr. Lundberg of Crum & Forster. He says his company's portfolio grew "by at least $600 million" in the past year.

David Seifer, an analyst at First Boston Corp., figures that the market value of insurers' bond portfolios, long depressed because of high interest rates, rose last year by 10 or 15 cents on the dollar.

All the turmoil over WPPSS comes at a difficult time for property casualty insurers. For the past four years, a fierce price war has been raging among insurers, depressing commercial insurance rates and sending the industry's operating profit down 19% last year.

Some insurance executives say it will take a major shock, like a costly hurricane, to drive commercial rates back up again. (Personal automobile insurance rates, however, are rising.) But they doubt that even a major WPPSS default will do the job. Currently, the combined assets of property-casualty insurers exceed their liabilities by $60 billion, dwarfing the WPPSS holdings.

Press Intelligence, Inc.
WASHINGTON, D.C. 20005
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WALL STREET JOURNAL
--EASTERN EDITION--
JUN 20 1983
MORNING - 640,064

Some Likely Consequences of the WPPSS Decision

FIXED-INCOME INVESTMENTS

By James E. Lebherz

In what appears to be a self-serving decision for Washington state, its supreme court delivered an adverse ruling regarding the validity of the contractual agreements between the Washington Public Power Supply System and some of the 88 participating utilities.

The devastating ruling absolved the Washington municipalities and public utility districts from their "take or pay" contractual agreement to service the debt on $2.25 billion worth of bonds for the construction of WPPSS nuclear projects No. 4 and 5.

Eileen Austen, a savvy municipal analyst who has followed the situation for Drexel Burnham Lambert, feels that the decision will have several effects. First, she feels that default becomes a virtual certainty.

However, default may not come until January, as funds are available with the trustee to meet the July interest payments. Second, there will be increased pressure on WPPSS to file for Chapter 9 bankruptcy. If this occurs, all five projects will be forced into bankruptcy, which cannot be entered into by the individual projects.

Next, Austen feels that the prospect of WPPSS obtaining financing to complete project No. 3 has been rendered virtually nonexistent.

Fourth, other joint action agencies –two or more utilities combined to provide cost-effective electric power—are going to feel the impact of the court's decision in the marketplace.

Finally, and extremely important, Austen thinks that there is a possibility underlying all of this that the security behind the bonds of projects No. 1, 2, and 3, could also be affected. She refers here to the Springfield, Ore., lawsuit in which the validity of the "net billing" agreements was challenged.

The district court ruled that these agreements were valid and enforceable. However, in light of the state supreme court's ruling, the decision of the district court will probably be appealed, and the potential challenge to the validity of these "net billing" contracts is not yet removed.

In light of the above, Austen feels that besides holding one's breath, investors should sell bonds of projects No. 1, 2, and 3, and as far as 4 and 5 go, it's already too late. Investors could use the losses to offset profits in equities or other areas.

The Treasury market led the bond markets last week with a strong performance until Friday. This was a situation where technical forces, led by technicians and chartists, plus a boost from the likely reappointment of Federal Reserve Board Chairman Paul A. Volcker, overcame the strong fundamental forces of supply, a strong economy and rising monetary aggregates. In fact, strong buying resulted when the long bond traded down near the bottom of its trading range—94½ or 11 percent. Buyers were hoping that prices would advance back to the top of its trading range –101½ or 10.20 percent.

The Treasury will offer three issues this week in its end-of-quarter financing. A four-year note will be auctioned on Tuesday, a seven-year note on Wednesday, and a 20-year bond on Thursday. These issues will come in minimum denominations of $1,000 and should return 10.45 percent, 10.70 percent, and 11 percent, respectively. They may be subscribed to at no charge, at any of the Federal Reserve banks or at the U.S. Treasury in Washington, D.C.

Lebherz has 23 years' experience in fixed-income investments.

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WASHINGTON, D.C. 20005

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WASHINGTON, D.C.
POST JUN 19 1983

MORNING - 584,500
SUNDAY - 820,452

WPPSS: Bellweather of North west's economic future?

Salem, OR
Statesman-Journal
(Cir. D. 64,719)
(Cir. Sun. 64,980)

JUN 5 1983

Carl Halvorson, chairman of WPPSS executive board.

Terminating N-plants isn't cheap

Terminating two multi-billion dollar nuclear plants n't cheap.

The Washington Public Power Supply System decid- in January 1982 it wanted nothing more to do with iclear plants 4 and 5 in its five-plant series.

Just who will pay for the $2.25 billion in bonds sold to nance the plants is now at issue in court.

MAINTAINING EQUIPMENT at the two plants is ting $2 million a year, according to Carl Halvorson, hairman of the WPPSS executive board. He said the s include:

- $35,000 a month rent for a Pasco, Wash., warehouse toring $100 million worth of equipment.
- $52,000 a month to Westinghouse Electric Corp. to babysit" two turbine generators at a Pittsburgh facil- y.
- $500,000 a year to insure about $500 million worth of quipment.

OTHER COSTS STEM mainly from legal complications, Halvorson said.

He said the first wave of lawsuits has broken and the second wave has hit. Numerous class action lawsuits have been filed, he said.

WPPSS has set aside $25 million for future legal costs, a move prompting criticism.

"A lot of people who criticize us want WPPSS broke and unable to defend itself," Halvorson said.

He said the idea is: "If it gets worse en[illegible]me-thing will come down from heaven or Co[illegible] and bail everything out." But he said, "There [illegible]ill be no bailout."

HALVORSON SAID HE gets anguished calls from holders of what were supposed to have been risk-free bonds. "All I tell them is that eventually the bonds will be paid," he said.

Halvorson said he would love to put some of his elderly callers in touch with the utilities that are refusing to pay off the bonds.

Cont.

ont. Salem Or. Statesman-Journal June 5-83

Despite week of bad news, chairman remains optimistic

Stories by **MARTIN ROSENBERG**
Photos by **GERRY LEWIN**
Of the Statesman-Journal

PORTLAND — As the Washington Public Power Supply System rises or falls, so goes the economic future of the Pacific Northwest, according to Carl Halvorson, chairman of the WPPSS executive board.

And Halvorson is optimistic about both.

IN A WEEK that brought bad financial news to the beleaguered WPPSS, Halvorson predicted three of the system's five plants will be brought on line as the power is needed.

WPPSS failed Tuesday to make a $15.6 million monthly interest payment on two terminated projects, plants 4 and 5.

Moody's Investors Service, a New York rating agency, last week suspended its rating on $6 billion of bonds used to finance plants 1, 2 and 3, even though the bonds are indirectly backed by revenue from the federal Bonneville Power Administration.

THE SUSPENSION reflected the agency's uncertainty about WPPSS' ability to cover its plants 4 and 5 debt.

Halvorson said plants 4 and 5, built by 88 utilities, are wholly distinct from plants 1, 2 and 3.

However, many of the 88 utilities are refusing to pay for their share of $2.25 billion in bonds sold for 4 and 5, restricting the systems ability to finance the other three plants.

WPPSS' salvation depends on legislation permitting it to declare bankruptcy selectively by project, Halvorson said.

Such a proposal failed to pass during the recently concluded session of the Washington Legislature.

BUT HALVORSON said he is convinced the legislation will be on the books by the time it is needed. Otherwise, WPPSS will never be able to sell bonds to finish plants 1 and 3, he said.

Construction of plant 3, two-thirds finished, was suspended last month. Plant 1 was mothballed for up to five years in April 1982.

Only plant 2 currently shows signs of life, with fuel loading slated for next fall and startup planned for February — about five years behind schedule.

> **"Every time you turn your light on in Salem, you're paying for a part of those three (unfinished) plants."**

Halvorson said all three plants are needed and will eventually be completed.

THE FINAL COST of plants 1, 2 and 3 will be about $13 billion, of which $9 billion has already been raised, he said.

The unfinished plants are already being paid for through electric rates, he said. "Everytime you turn your light on in Salem, you're paying for a part of those three plants," he said.

One-quarter of the federal Bonneville Power Administration budget — $800 million a year — is dedicated to paying off its share of bonds sold to finance plants 1, 2 and 3.

CONSUMERS IN the Northwest will all indirectly foot the bill through BPA rates for the next 35 years, whether or not the plants are finished, he said.

"Anyone who has any ideas of not finishing the plants — it's sheer stupidity," he said.

Halvorson, 68, is president of Halvorson-Mason Contractors, a Portland-based heavy construction and land development firm.

A former Salem resident, he joined the 11-member WPPSS executive board last spring, serving as one of six new outside directors.

THE WPPSS PROBLEMS originally stemmed from a faulty management structure incapable of overseeing development of five nuclear plants, he said.

The problems were compounded when an Oregon court ruled publicly owned utilities did not owe a penny toward plants 4 and 5 because they lacked authority to enter into the agreement to build the plants, Halvorson said.

Washington utilities balked at paying on the bonds when their Oregon counterparts refused, [illegible] said.

TROUBLE WITH plants 4 and 5 clouded the future of plants 1, 2 and 3 in the eyes of the financial community, he said, turning problems into a crisis.

The tragedy, he said, is that the plants 4 and 5 bonds could be paid off in a few years if Northwest electric rates were simply raised to levels paid by most Americans.

When WPPSS finishes plants 1, 2 and 3, it will find a "reasonable market" for long-term power in Southern California, he said.

YET HALVORSON is far from a WPPSS cheerleader.

"This thing is a cancer," he said at one point. "An absolute cancer."

Gypsy future awaits laid-off Satsop

By **MIKE OAKLAND**
Olympian Staff Writer

Olympian Bob Turman, one of 1,275 Satsop construction workers laid off last Tuesday, said he's tired of playing Indianapolis race driver.

"When the job is over, guys jump in their cars and race to the nearest work site to get on the hiring list first," Turman said. This time he has refused to race and is staying behind in hopes of finding work.

Many craftsmen have high-tailed it for another job. Don Dennis, a spokesman for Telephone Utilities of Washington, which serves the Elma, McCleary and Montesano, said his employees took 100 disconnect orders in the five days after plans to mothball the Satsop plant were announced due to financial straits of the Washington Public Power Supply System.

"I've been going from one job to the next for 17 years," Turman said. "Pretty soon the wife says I don't have another move in me. And the kids look at you and say, 'Mom's got a home and you've got a home, where's my home?'"

Turman, 35, a pipefitter by profession, said the "travelers" or "boomers" live from one job to the next.

"These nuclear power houses, and I've worked on seven of them, you know the job doesn't last forever," Turman said. "And sometimes the jobs even shut down before they're done. They're so political and the money on them is so flaky. They're committed to build it one minute; then backing out of it the next."

The layoffs force workers to do something they don't want to do, Turman said.

"It's a sad, sad situation," he said. "If you get on the road and leave the wife and kids behind, she has to make all the decisions. It causes real problems."

This time, Turman said, he's going to stay put in his East Olympia home.

"I decided I'm going to trust in the Lord — he's my provider," Turman said. "He's going to give me the wisdom, the knowledge and the direction."

It's the lack of stability by moving from town to town that bothers Turman. "You're not committed — in a church or in the community. You're a gypsy."

Turman said he'll consider switching professions just to stay in the Olympia area.

And he's angry that the craft workers were the first to get the ax when the Satsop nuclear plant was mothballed.

"All the clerks are still out there," he said. "There are two paper pushers for every worker. Just like over at (WPPSS) plant one at Hanford. There are still 900 paper pushers working even though it was mothballed a year ago. But they're still paying all that money and there's not a bit of work getting done. As far as I'm concerned they really created a monster by requiring all that paperwork."

Millwright Rink Wezenberg, 35, Olympia, agreed.

"What the hell all those people are still doing up there, I don't know," Wezenberg said. "There's nobody to boss around anymore."

But Wezenberg, the father of three sons, said he's not going to leave despite his pink slip.

"We moved up here (from California) in 1977 for the great Northwest. California's got the weather, but it's got too many people."

Wezenberg was in the construction business in California but after the move got into real estate. When the market fell flat, he went to work at Satsop two years ago.

Now that his job has been terminated, he's considering re-entering real estate.

"It's nice to have an option. But for a lot of these guys they don't know anything else. They're in a world of hurt."

Wezenberg said he doesn't understand how the federal government can spend lots of money on defense programs and in foreign countries. "Jeepers, creepers, why can't we help our own first. They can bail out Chrysler and New York City, why not WPPSS?"

Another construction worker, Mike "Jerry" Clark said, "There isn't much work anywhere. I guess I'll have to stay and see how unemployment treats me."

Sunday: The Olympian's business page looks at the financial fallout of mothballing the Satsop nuclear plant.

Press Intelligence, Inc.
WASHINGTON, D.C. 20005

Front Page | Edit Page | Other Page

OLYMPIA, WASHINGTON
OLYMPIAN
JUN 1 1983
EVENING - 27,923
SUNDAY - 29,596

Gypsy future awaits laid-off Satsop

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Press Intelligence, Inc.
WASHINGTON D.C. 20005
Front Page Edit Page Other Page

OLYMPIA, WASHINGTON
OLYMPIAN
JUN 4 1983
EVENING - 27,923
SUNDAY - 29,596

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Other
Page

WASHINGTON
N-REVIEW
3'1 1983
- 71,603
- 121,474

PSS debt deadline

ay of reckoning near

lay's decision by the executive oard of the Washington Public Power Supply System to moth- uclear power plant No. 3 for years, if financing cannot be in the next 30 days, leaves only of the five WPPSS plants actively r construction.

ant No. 2 is over 95 percent com- ed. But Nos. 4 and 5 have been ter- ated, No. 1 has been mothballed No. 3 is about to be mothballed.

Each day that passes brings us clos- to the day of reckoning for WPPSS ants 4 and 5. Today is the deadline r making an initial $15 million inter- t payment on the bonds for those lants and there is little sign any pay- ent will be made.

If the payment is missed, there still s a 90-day period before Chemical Bank, trustee for the bondholders, can take action. The legal tangle is so complex that any early resolution is hopeless. That makes a default, either technical or real, almost inevitable.

Until now there has been no such thing as a partial bankruptcy. The Legislature failed to authorize a partial, or project-by-project, bankruptcy that might have prevented the effects of a default on one segment of WPPSS from flowing over onto the remaining plants.

That is precisely what happened Friday in connection with Plant No. 3. A Bonneville Power Administration analysis concluded that because of the legal difficulties stemming from the debt on the two terminated plants, WPPSS would be unable to go to the bond market to get more money for No. 3.

The two terminated plants have outstanding debt of $2.25 billion. Including interest over 30 years that would total $7 billion. Upon default the bondholders can declare the entire debt due and payable. The creditors then can move legally against any and all assets.

But many of the bondholders of Plants 4 and 5 also hold debt on Plants 2 and 3. It is in their best interest to do their utmost to enable these nearly completed projects to become operational and revenue-producing.

At the moment, Wall Street and the bondholders are trying to collect $2.25 billion from a project with no revenue. However, if their moves against the two terminated plants also bring down the two plants still being built, they will be trying to collect an additional $4 or $5 billion from two more projects with no revenue, a prospect even more uncertain of success.

Even though today's deadline may bring technical default, there still is a little time. The payment is owed to Chemical Bank, the trustee, and the first payment to bondholders is due July 1. Chemical Bank has enough reserves to cover that $94 million semiannual payment. Then the crunch would come next Jan. 1, with no further reserves available for payment to bondholders.

Obviously, many conflicting interests are involved. Regionalization of the debt is definitely a possibility, although Gov. John Spellman failed to get agreement among all partics in his recent attempts.

The Treasury Department sees no role for the federal government in this, and Washington Sen. Henry Jackson says Congress is in no mood to bail us out. Therefore, it is up to those closely involved to reach an agreement among themselves, and forcing the mothballing of the only two projects left capable of producing revenue is definitely a counterproductive move.

Press Intelligence, Inc.
WASHINGTON, D.C. 20005

Front Page Edit Page Other Page

NEW YORK, N.Y.
TIMES JUN 16 1983

MORNING - 841,890
SUNDAY -1,403,[illegible]77

Nuclear Plant Contracts Voided, Raising Concern in Bond Markets

By MICHAEL QUINT

The Washington State Supreme Court yesterday declared invalid contracts that bound local utility companies to pay off $2.25 billion in bonds to build two nuclear power plants that were never finished.

Although the decision is certain to be appealed, it heightened concern in the nation's bond markets that there might be a default on bond payments. In the aftermath of the court decision, securities dealers said few of the bonds could be traded, although speculators were offering to buy them at only 15 cents on the dollar.

The Washington Public Power Supply System, created in 1957 to build and own nuclear plants in the state of Washington, had relied on the contracts to assure that its bonds would be paid off, even though it had halted work on the plants. The utilities had planned to pay off the bonds with revenue from electricity generated by the plants. But their contracts specified that they were obligated to make the payments even if the plants were not built and there was no electricity to sell.

In its 7-to-2 decision yesterday, released in Olympia, Wash., the Supreme Court found that the utilities "lacked authority to enter into this agreement." The 40-page decision, written by Judge Robert F. Brachtenbach, said that Washington State law allows the local utilities to purchase power and to own generating plants but not "to guarantee another party's ownership of a generating facility in exchange for a possible share of any electricity generated."

The guarantees the judge referred to were the promise by the local utilities to buy electricity produced by the power authority's plants, or to pay for the plants if electricity was not produced. Construction of the plants was stopped

Continued on Page D9, Column 1

Continued From Page A1

because of cost overruns and a decline in demand for electricity in the Northwest.

The decision was a blow to the Chemical Bank of New York, which as trustee for the bondholders had filed suit in Washington to force payment on the bonds. The bank has on hand the money to make the next interest payment, due July 1 but has not collected the money for future interest payments.

Brian McGirl, a Chemical Bank vice president, said the bank was "surprised and dismayed" at the court's decision. He said the bank would seek other means of protecting the bondholders' investment.

Mr. McGirl said that Chemical would return to the Washington courts "to assert fraud and contract claims for the full amount of the bonds" against many parties, including officials of the supply system, officials of the utilities that signed the contracts with the supply system, and the attorneys who said the contracts were valid under Washington State law.

Because the supply system is the country's largest issuer of tax-exempt bonds, its problems have become a cause célèbre in a market where individual investors buy about three-fourths of new bonds.

Some analysts are fearful that large losses on the supply system bonds would turn investors away from municipal bonds, including the general-obligation issues backed by the full faith and credit of local governments all over the country. Supply system bonds, while tax exempt, rely for repayment on the revenue of the utilities.

Slight Increase in Yields

The supply system's problem has caused a slight increase in yields needed to sell other bonds backed by sales of electricity, but has not spread noticeably, even yesterday, to issues of state and local governments.

The decision yesterday overturned an earlier judgment by Judge H. Joseph Coleman of King County Superior Court upholding the validity of the contracts. Judge Coleman's decision was appealed by the utilities, which are under pressure from their consumers.

Residents of the Northwest pay some of the lowest electric rates in the country because of abundant hydroelectric power sold by the Bonnevile Power Administration, a Federal agency. However, consumer electric bills would rise sharply if the utilities were required to pay off the bonds for the nuclear plants.

The supply system originally planned to construct five nuclear plants but has cut back its plans sharply because of the weaker-than-expected demand for electric power and the higher-than-expected costs. One plant is almost finished, construction of another has been suspended and building of the third has been slowed.

Doubts about the bonds for the fourth and fifth plants have reduced the value of the $6 billion of bonds that were issued for the three other plants, even though they are backed by contracts with Bonneville.

Eileen Titmuss, a vice president at the brokerage house of Drexel Burnham Lambert, said that the latest court decision made it unlikely that the supply system could obtain financing through loans from banks and insurance companies that it was seeking to complete the third plant.

Different View Taken

By finding that the contracts were not enforceable, the state court took a much different view of the contracts than did the utilities and their lawyers several years ago.

For example, in the official statement for bonds sold in September 1980, lawyers at Wood & Dawson, in New York City, and Houghton Cluck Goughlin & Riley, Seattle, said the agreements between the local utilities and the supply sytem were a "valid and binding agreement." In reaching that conclusion, they noted that "we have relied upon the opinion of counsel" for each of the participants.

The lawyers also added standard language saying that the enforceability of the contacts may be subject to judicial discretion, excercise of Washington State's police powers or bankruptcy proceedings.

In a minority opinion, Justice James M. Dolliver said the majority decision "places constraints on municipalities not intended by the Legislature." Justice Robert F. Utter also dissented from the majority and said, "The decision here today may not free municipalities from all potential costs in even the present case, will bar them from potentially advantageous contracts in the future, and will make financing of future projects more costly."

Cont.

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Press Intelligence, Inc.
WASHINGTON, D.C. 20005

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WASHINGTON, D.C.
POST JUN 1 4 1983
MORNING - 584,500
SUNDAY - 820,452

Whoops! Who Loses Money?

By Robert J. Samuelson

The brokerage firm of Shearson American Express now runs this advertisement: "Straight Answers to the 30 Most-Asked Questions. The Washington Public Power Supply System." To the initiated, the WPPSS is known as Whoops.

And it is a whoops. With $8.4 billion in outstanding tax-exempt bonds, Whoops threatens to become the largest bankruptcy of a tax-exempt governmental agency in U.S. history. Little about it is straight; most everything is crooked—not as in criminal but as in confused, uncertain and complicated.

Whoops promised cheap nuclear power and delivered expensive, partially built plants that produce nothing. But the story's moral extends beyond nuclear power. Private utilities have experienced comparable nuclear disappointments without triggering equal financial debacles.

What Whoops represents is a breakdown of the normal disciplines of business and politics that prevent routine errors from becoming calamities. It emphasizes what happens when "independent" government authorities—only loosely accountable to anyone and empowered to issue tax-free securities—interact with profit-seeking underwriters and bond-rating agencies.

And, in this, it is hardly exceptional. States and localities have luxuriated in an ingenious expansion of tax-exempt financing. Underwriters have eagerly promoted the expansion that has stretched the competency of rating agencies to provide reliable judgments about bonds' underlying worth. If the Whoops affair checks these tendencies, it may have some redeeming value.

ECONOMIC FOCUS

But virtue stops there. Already, electric bills have risen in the Pacific Northwest, and possible consequences stretch further. Some members of Congress are suggesting a federal rescue, which probably would cost billions. And some finance specialists argue that the losses to investors could disrupt municipal bond markets permanently.

That, in the end, is what Whoops is all about: Who loses money? When construction began in the early 1970s on five nuclear plants, the demand for electricity in the Northwest was growing at about 7 percent annually and the plants' costs were projected at $6.6 billion.

Now, growth has slowed and cost estimates have skyrocketed to $24 billion or more. As a result, two of the reactors (23 and 17 percent completed) have been canceled, another two (63 and 75 percent completed) have been delayed and only one nearly finished plant is scheduled to begin operating early next year.

Meanwhile, however, Whoops issued mountains of tax-exempt bonds to finance construction. For the canceled reactors, these totaled $2.25 billion. The delayed reactors have consumed another $3.7 billion; and the nearly completed reactor, $2.4 billion. Normally, revenue from the reactors' electricity sales would be expected to repay the bonds.

It is here that the plot thickens, because no one wants to be stuck with the resulting losses. The courts have been flooded with lawsuits in the legal equivalent of musical chairs to assure that someone else is standing when the bills arrive.

Cyrus Noe, whose newsletter

See FOCUS, C8, Col. 1

Samuelson writes regularly on economic affairs for National Journal, from which this article is reprinted.

Cont

2cont. Wash DC. Post. June 14-1983

FOCUS, From C7

Clearing Up records the legal brawling, describes the mounting litigation as indescribable. Whoops is a municipal corporation, which entitles it to issue tax-exempt bonds. But private and public utilities—the biggest is the federal Bonneville Power Administration—assured the reactors' financing by promising to pay for them regardless of whether they ever delivered any power.

Not surprisingly, some utilities now are challenging these contracts in Washington, and Oregon courts so far have rendered conflicting opinions. Although Whoops has missed a monthly payment to bondholders' trustees, the next semiannual payment to the bondholders themselves is likely to be made from the trustees' reserve account.

After that, no one knows. If Whoops went bankrupt, would creditors pursue the utilities? The Bonneville Power Administration? The closer a climax comes, the greater the pressure for federal help. Rep. George Hansen (R-Idaho) already wants the government to buy the bonds at their March 1 market value.

Combined with electricity rate increases in the Northwest and existing Bonneville Power funds, Hansen figures the extra cost will be $1 billion. That estimate could be low. The bonds' prices already have dropped sharply (some sell for 30 percent of their original value), and Howard Sitzer, vice president for municipal bond research at Thomson McKinnon, says investors would want more than these depressed values.

Regardless, someone is going to suffer. The Northwest aluminum industry (which represents about 30 percent of the U.S. total) already complains that rising business electricity rates increasingly put its plants at a competitive disadvantage with Canadian-produced aluminum. Farmers dependent on electricity for irrigation pumping face a similar cost squeeze.

But on available evidence, the case for federal intervention is weak. Abundant hydro power means that the Northwest's residential (if not business) rates remain less than half the national average of 8 cents per kilowatt hour. Many original bond investors probably have sold at large losses; the bonds now are prime vehicles for speculation.

As for the municipal bond market, no one knows what will happen. Sitzer says a default or bankruptcy might frighten away individual investors. Eileen Titmuss Austen, a Drexel Burnham vice president, dissents. She says that some interest rates will rise—primarily for Northwestern borrowers—but there will be no general interruption of borrowing.

And there are possible benefits from the routinely deplored conflict. The investing public heavily depends on the opinions of the bond-rating agencies and underwriters. Their good judgment has been conspicuously wanting. A little public clamor (plus bondholder suits) may focus their attention better.

Also overdue is a reexamination by Congress and the states of the immense variety of quasi-government organizations and activities that now benefit from tax-exempt or preferential interest rates. Schools, highways and sewers once constituted the bulk of tax-exempt borrowings; in 1981, they were less than one-fifth. Congress likewise has spawned quasi-government agencies that borrow for everything from housing to student loans.

It's gotten out of hand. Someone was bound to go whoops.

1983 National Journal

Press Intelligence, Inc.
WASHINGTON, D.C. 20005

Front Page Edit Page Other Page

MIAMI, FLORIDA
HERALD

MORNING - 420,400
SUNDAY - 552,426

MAY 29 1983

A troubled nuclear project leaves fallout in bond markets

By JAMES RUSSELL
Herald Financial Editor

The great "Whoops" bond saga, with a cast of characters numbering in the hundreds of thousands, is nearing a showdown.

The tension is mounting, the stakes are high, and the outcome is in doubt in the case of $8.3 billion in municipal bonds that were sold to pay for a grandiose and now troubled nuclear power development in the Pacific Northwest.

Financial fallout from the regional project of the Washington Public Power Supply System has spread throughout the land, since the money to pay for it came from countless investors in cities and towns from coast to coast.

WPPSS bonds, which acquired the acronym "Whoops" early in their 10-year history even before that term became descriptive of their character, are probably the most widely owned municipal debt obligations in history.

Small investors by the thousands bought them. So did giant insurance companies, blue chip corporations and gilt-edged bond mutual funds whose investments are limited to the safest things on the market.

"A disproportionate number of the bondholders reside in South Florida," said Joel Wildman, manager of two local offices of Donald Sheldon and Co., an investment firm active in the buying and selling of WPPSS bonds.

Joseph Huber, vice president and bond specialist at Southeast Bank, agreed.

"This is a big investment market, and it's likely there are large numbers of bonds held by investors in this area," he said.

Credibility problem

Bond issues that provided the money for two of the ill-fated WPPSS projects have been threatened with default as a result of plant cancellations and a refusal by potential users — some 88 municipalities and utility companies in all — to pay.

The remaining issues appeared largely immune to the crisis until Standard and Poor's Corp. removed its rating from them, contending they might get caught in the crossfire from courts, legislators, city governments, consumers and all the other players in the drama.

The plot thickened late Friday when the executive board of WPPSS ordered the mothballing of its project No. 3, the fourth of the five nuclear projects to be abandoned or delayed.

This new development brrught trading in all the WPPSS bonds to a sudden halt, a situation that seemed likely to continue until bond experts assess the latest chapter in the unfolding story of a gigantic undertaking gone sour.

"Every bid for a WPPSS bond, no matter what project, has been pulled," one trader declared late Friday.

Complex and confusing because of the immensity of the enterprise and all the people and institutions involved, the "Whoops" affair has taken on a significance far beyond its own regional dimensions. It is being described as a critical test case of the viability of the entire concept of municipal bond financing and the sanctity of contract relationships.

Cities, counties and states all over the nation depend on this type of financing for countless billions

Please turn to WHOOPS / 3F

WHOOPS / From 1F

of dollars worth of public works.

"If at any time interest is not paid on the bonds, there will be a large credibility problem involving municipal bonds in general," observed William Berls, vice president of New York's Chemical Bank, the trustee for the immediately threatened WPPSS bonds.

Jim Reilly, editor of the authoritative Fixed Income Journal, was even more emphatic.

"What is happening in the Washington situation today puts all of public power in jeopardy," he said. "This could be a dangerous domino thing with all tax-exempt bonds feeling the result. If contracts can be cast aside, our whole economic structure is in danger."

The WPPSS contracts were clear enough when they were drawn. The 88 signers would pay off the bonds regardless of what happened in the course of the massive nuclear development.

But as construction costs soared above budget and the demand for power declined rather than increased, two of the five plants were abandoned and activity on a third was stopped. Beset by consumer complaints and legal uncertainties galore, nearly all of the 88 would-be users reneged on their agreements.

Isolated as they are in the far northwest corner of the United States, the quintet of nuclear power projects themselves have attracted little attention elsewhere. It is the wide distribution of the bonds that has made them a matter of national concern.

Senators and congressmen from the region are trying for a partial federal bailout. The Washington State legislature is wrestling with the problems and, of course, the court system has been flooded with WPPSS-related law suits.

Cont.

Washington State Justices Say Utilities Not Liable for $2.25 Billion WPPSS Debt

By Carrie Dolan

Staff Reporter of The Wall Street Journal

OLYMPIA, Wash.—In a major and unexpected decision that could lead to the largest municipal default in history, Washington State's highest court freed Washington utilities from their obligations to help pay the $2.25 billion of debt on two canceled nuclear power plants.

In a 6-2 decision, the court ruled that the utilities lacked the authority to enter into agreements with the Washington Public Power Supply System to build the nuclear plants. The ruling overturned a lower court decision that held that the utilities had to pay for their share of projects Nos. 4 and 5, despite cancellation of the plants in 1982.

"Default is now pretty much assured," said Sen. Al Williams, chairman of the Washington State Senate Energy Committee, "and bankruptcy is much more likely."

Obtaining payment from the utilities, which are responsible for about two-thirds of the $2.25 billion of debt, was WPPSS' last major stab at avoiding default. Without payment from the utilities, it is unlikely WPPSS can meet its obligations to bondholders across the nation.

Bids on all WPPSS bonds were halted yesterday shortly after the court's decision was announced.

Donald Mazur, managing director of WPPSS, said that "the decision can only be devastating," and called it an "incredible" ruling. He said the WPPSS executive board was studying the decision, and didn't know what actions the board would take. WPPSS wouldn't comment further, except to say that the ruling wouldn't stop it from finishing its unit No. 2, scheduled for completion in September.

However, the ruling is likely to doom WPPSS unit No. 3. Officials had been trying this week to get banks to lend money to keep unit No. 3 open. Sen. Williams said "it will be nearly impossible" to get that money now.

Chemical Bank, New York, is the trustee for the bonds on projects Nos. 4 and 5, and filed the lawsuit on behalf of bondholders. Chemical wouldn't immediately comment on the suit.

Albert Malanca, attorney for some of the utilities, said he approached Chemcial Bank "two or three times" about a possible settlement, but said bank officials weren't interested in negotiating.

Mr. Malanca said although the utilities were successful in court, "you don't have a champagne celebration over a corpse."

A WPPSS spokesman said it wasn't clear what legal steps can now be taken. "This suit involved state law and was decided in the state's highest court, so I don't think we can appeal this case," he said.

In Portland, Ore., Portland General Electric Co., an investor-owned utility that doesn't have an interest in units Nos. 4 and 5, called the decision "terrible." Portland General is among those who believe that a WPPSS default will hurt the borrowing ability of all utilities in the Pacific Northwest.

James Durham, vice president and senior counsel for Portland General, said the result of the decision means "commitments made in good faith can be dishonored by government bodies. Apparently nobody's word is good for anything anymore—even if it's in writing."

Mr. Durham called the utilities' attempts to avoid repayment a "sad commentary." He said, "When they entered the agreement, they had every intention of paying. But when things got rough, they went looking for technical ways to get out of paying."

Portland General holds a 10% interest in project No. 3. Mr. Durham said the court's decision shouldn't affect separate arrangements for the completion of project No. 3 but "with what courts are doing with contracts these days, who knows what will happen?" he asked.

In Seattle, Michael Mines, an attorney for Chemical, said he was "still in shock" yesterday afternoon following the ruling. He said Chemical's lawyers will file a motion in a "couple of weeks" asking the Washington Supreme Court to reconsider its opinion.

Mr. Mines said Chemical doesn't have the authority to negotiate settlements with the utilities involved in the case.

Mr. Mines said Chemical intends to "recover whatever we can recover for the bondholders." He said, "bondholders were led to believe those bonds were a perfectly legitimate buy. They (bondholders) were badly used." He said Chemical's attorneys plan to study the opinion to see if it can be appealed to a federal court.

Howard Clark Jr., executive vice president of American Express Co., which holds $90 million in bonds for units Nos. 4 and 5 said the company "will continue to work with the bond trustee to pursue our case." He added, "It isn't going to stop here." Mr. Clark didn't know what action might be taken.

A spokesman for Bonneville Power Administration said that federal agency is studying the court's decision and wouldn't comment on it. Bonneville has a separate repayment contract with WPPSS for projects Nos. 1, 2 and 3. Under that agreement, Bonneville acts as a "middle man" between WPPSS and certain utilities that have a stake in WPPSS, with the agency's revenue backing the bonds for the three plants.

"Another Penn Central"

An analyst said that yesterday's decision increases pressure on the supply system to declare bankruptcy. "It's another Penn Central," she said. "The magnitude is incredible. I think it's going to end up in some kind of super court, a bankruptcy court."

At least some Whoops investors will come out whole in the event of a default. That is because their bonds are insured by one of the nation's two biggest bond insurance companies.

The insurer, American Municipal Bond Assurance Corp. is obliged to meet $76.4 million in principal and interest payments on project Nos. 4 and 5 bonds in individual and institutional portfolios. It would be the largest loss suffered by the Baldwin-United Corp. subsidiary, known as Ambac.

An Ambac spokeswoman said that the impact of a default "would be relatively minor," because the payments would be spread over the maximum 35-year lifetime of the Whoops bonds. Initially, Ambac would have to make interest payments of only $1. million annually.

So far, Ambac hasn't set aside any cash reserve to cover a Whoops default because

Please Turn to Page 20, Column 1

Continued From Page 1

"we haven't been notified of a default," the spokeswoman added. Karen Hessing, Ambac director of research, said that "it would be difficult for the people in the Northwest to let Whoops go under" because other Northwest bond issuers would be hurt.

Ambac said it also has guaranteed to meet payments of $156 million in principal and interest on Whoops project Nos. 1, 2 and 3 bonds, which weren't covered by yesterday's court ruling.

Ambac's principal competitor, Municipal Bond Insurance Association, said it hasn't insured Whoops bonds and won't be affected by a default. However, Leon Karvelis, a senior vice president, said that "We are being very circumspect" in insuring the bonds of any government unit that "isn't meeting its Whoops obligations," including public-utility districts and towns or cities that are part of these districts.

Press Intelligence, Inc.
WASHINGTON, D.C. 20005

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WALL STREET JOURNAL
--EASTERN EDITION--
JUN 16 1983
MORNING - 640,064

Press Intelligence, Inc.
WASHINGTON, D.C. 20005
Front Page Edit Page Other Page

WASHINGTON, D.C.
POST JUN 16 1983

MORNING - 534,500
SUNDAY - 820,452

Court Ruling Puts WPPSS At the Brink

By Les Blumenthal
Associated Press

SEATTLE, June 15—The Washington Public Power Supply System was left without a means of paying off the $2.25 billion debt for two terminated nuclear power plants today and the largest default in the history of the municipal bond market seemed all but assured.

The state Supreme Court, in a 7-to-2 decision, overturned a lower court ruling and held that public utility districts and municipal utilities in Washington state had neither the express nor implied legal authoritiy to enter into agreements to pay for the plants being built by WPPSS.

The Washington public utilities, which were among 88 Northwest public utilities that sponsored the two plants, together are responsible for more than two-thirds of the bond debt.

Courts in Idaho and Oregon have ruled that utilities in those states are not obliged to pay their share of the bond debt on the plants. Those cases are on appeal.

A default is "very close," said Washington Gov. John Spellman.

The decision sent ripples throughout the municipal bond market, which ended the day mixed after an initial slump.

But bonds for WPPSS projects No. 1, 2 and 3 fell about 4 points, and bonds for projects No. 4 and 5—the terminated plants—fell more than 15 points.

The movement of a point is equivalent to a $10 change in the price of a bond with a $1,000 face value.

"This is a devastating decision," said Don Mazur, new managing director of WPPSS, which was building the plants for the utilities and had sold the bonds to finance their construction.

All that is standing between the supply system and default now is a state court restraining order preventing bondholders from forcing the issue.

"I see no regional solution at this time without some federal intervention," Spellman said. But Rep. Al Swift (D-Wash.) predicted there was

See WPPSS, D14, Col. 3

WPPSS Verging on Default

WPPSS, From D12

little chance for congressional assistance unless it becomes a national problem.

The suit to force payment by the Washington utilities was brought more than a year ago by Chemical Bank of New York, the trustee for bonds sold to finance construction of the two abandoned plants.

"Chemical Bank has not yet seen the decision but is surprised and dismayed at the reported results," said Brian McGirl, a bank spokesman.

McGirl said the bank would ask the state Supreme Court to reconsider its decision and planned to amend its suit in the lower court to assert "fraud and contract claims for the full amount" of the bonds against members of the supply system and supply system directors, the utilities and their commissioners, and certain attorneys.

A series of 13 suits also has been filed by bondholders that allege violation of federal securities laws and that the ability of WPPSS to complete and finance the plants was "misrepresented."

Chemical Bank had planned to issue WPPSS a "notice of default" earlier this month after the supply system failed to make a payment into a bond reserve fund. Such a notice would have given the supply system 90 days to make the payment, after which default could have been declared and the supply system headed for bankruptcy or receivership.

WPPSS's only assets are its three remaining nuclear power plants, of which one is nearing completion, another has been mothballed for as long as five years and construction has been halted on a third.

The two abandoned plants, one at Satsop, west of Olympia, and the other at the Hanford nuclear reservation, were terminated more than a year ago after WPPSS was unable to borrow money to continue construction and questions were raised about whether the power from the plants would be needed.

WPPSS has already borrowed $2.25 billion, which, when interest is added, leaves the region's ratepayers with a $7 billion debt over 30 years.

As ratepayers realized they would have to pay for two "dry holes," they rose in revolt and the utilities in turn looked for a way of avoiding payment.

Special correspondent Lauro Parker also contributed to this report.

Value of WPPSS bonds plunges sharply

By Joel Connelly
P-I Reporter

Moody's Investors Service, one of New York's two major securities rating agencies, yesterday suspended its ratings on bonds for three Washington Public Power Supply System nuclear plants.

The action by Moody's, which downgraded WPPSS' bonds three weeks ago, caused a sharp drop in the trading price of bonds for the supply system's Nos. 1, 2, and 3 nuclear plants.

"The price for WPPSS' 15 percent bonds was hovering at just over par when the suspension was announced; it has since fallen about eight points, pretty substantial for an afternoon," said Eileen Austen, vice president of New York's Drexel Burnham Lambert brokerage house.

The latest drop in price means that bonds for WPPSS' projects 1, 2, and 3, once considered gilt-edged securities, have lost more than 20 percent of their trading value in less than a month.

WPPSS has sold more than $8 billion in bonds to finance the three projects. The supply system also sold $2.25 billion to pay for construction on its Nos. 4 and 5 plants, which have been officially terminated.

The bonds for WPPSS' 1, 2, and 3 nuclear projects carried a Triple-A rating as recently as February 1982. Since then, however, ratings have been lowered and suspended by both Moody's and Standard & Poors, the other major rating service.

The suspension by Moody's follows a string of adverse developments in the trouble-plagued WPPSS construction effort.

Last Friday, WPPSS suspended work on its No. 3 nuclear plant at Satsop, the fourth time in the past two years it has been forced to halt construction of a reactor.

The slowdown leaves WPPSS with only its No. 2 reactor under construction.

The supply system also failed to make a $15.6 million payment, which was due Monday, into bond accounts on WPPSS' shutdown Nos. 4 and 5 nuclear plants. Only a judge's order has prevented WPPSS' bond trustee, the Chemical Bank of New York, from triggering the largest municipal bond default in American history.

"Because of uncertainties concerning the long-term integrity of all assets of the supply system, and in light of the nonpayment under the bond resolution for projects 4 and 5, the ratings were suspended," said Craig Atwater, a vice president at Moody's.

Moody's was also tough on WPPSS' other securities bonds yesterday. It suspended ratings on bonds sold by WPPSS in the 1960s to finance the Hanford Generating Project, as well as bonds for WPPSS' small Packwood Lake hydroelectric project in Lewis County.

The plummeting bond ratings were the major reason WPPSS was forced to halt work at the No. 3 reactor last week. The supply system has been told it cannot sell bonds until the legal and financial mess over terminated plants 4 and 5 has been resolved.

"I think there is a lot of fear back here," said Howard Sitzer, vice president of Thomson McKinnon Securities Inc., an analyst who forecast some of WPPSS' present problems in the summer of 1981.

But Sitzer said he feels the WPPSS 1, 2, and 3 are "an outstanding value for investors willing to accept a certain amount of risk." He voiced confidence in the federal Bonneville Power Administration's ability to go on underwriting the reactors.

Press Intelligence, Inc.
WASHINGTON, D.C. 20005

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SEATTLE, WASHINGTON
POST-INTELLIGENCER

MORNING - 191,286
SUNDAY -- 233,811
JUN 2 1983

1

Press Intelligence, Inc.
WASHINGTON, D.C. 20005

Front Page Edit Page Other Page

WALL STREET JOURNAL
--EASTERN EDITION--
JUN 14 1983
MORNING - 640,064

WPPSS Woes Hurting Bonds In Washington

By CARRIE DOLAN

Staff Reporter of THE WALL STREET JOURNAL

Some people in Washington state are learning about the problems of having an unpopular neighbor.

The financial troubles of the Washington Public Power Supply System, a group of five nuclear-generating plants in the state, are affecting Washington municipalities that want to raise money—whether or not they have any part in the project.

WPPSS, often called "Whoops," is the largest issuer of municipal bonds in the nation. One of its generating units is near completion. One has been mothballed, and construction on another may soon be stopped. The other two were canceled in 1982, leaving investors with $2.25 billion in bonds whose interest WPPSS can't pay. While courts consider who must pick up the tab, the possibility of default hangs over the project and hurts the rest of the state.

"We have nothing to do with Whoops, except that we buy power from it," says Arnold Hartvigsen, treasurer of the Port of Tacoma. "But we have to pay higher interest to borrow, just because we're associated with it geographically."

Some expect the port's experience to become more common. The port recently sold $26 million in bonds to raise money to build new shipping facilities. It was forced to offer a higher-priced deal than it had hoped for. Even so, a Seattle bond dealer says an order for $4 million of the port's bonds was canceled when the buyer found they had the name "Tacoma" on them.

Comparisons With WPPSS

Mr. Hartvigsen says that isn't fair. Still, he says he can understand the reluctance.

"They've got the whole country to choose from," he says. "I suppose if I were on the East Coast, I'd be very selective about buying bonds in the Northwest."

The state of Washington plans to bring $150 million of general-obligation bonds to market in July. "We'll see a penalty rate," says Deputy Treasurer Tim Kerr. "Although the state's financial condition has dramatically improved in the last few years, some people see us tarred with the same brush as Whoops."

Mr. Kerr says he hopes investors will realize that the state shouldn't be penalized just because WPPSS is located in Washington. But if investors demand higher rates, he says, the state must pay; it has to sell bonds at least twice a year to raise money for highway projects, higher education and other necessities. "Whoops is always going to be with us," he says. "We have to live with that. It's just become an increased cost of doing business."

To reassure investors, underwriters for the state's past two sales have taken out insurance policies guaranteeing repayment on the bonds. General-obligation bonds are backed by a state's promise to repay them, and it isn't typical for them to be insured. "Local people don't like them buying the insurance because it makes the bonds more costly," says Mr. Kerr. "But back East, it's a real selling point."

Small investors, especially, feel safer with insurance, says Leon J. Karvelis Jr., senior vice president of the Municipal Bond Insurance Association in White Plains, N.Y. "The average guy on the street who wants to buy a bond doesn't have a staff to sort out all the background for him. It goes through his mind that all bonds in the state are related." He says Washington municipalities may have to seek out the small investors, because some institutional investors "don't want to touch their bonds anymore."

Some concerns are taking advantage of the area's troubles. "Because a lot of companies have stopped buying in the state, we've been getting much better yields there," says a spokesman for Allstate Insurance Co., a large investor. "In a market like that, you can demand and receive a better deal." Allstate is a unit of Sears, Roebuck & Co.

Voters Also Affected

The WPPSS troubles have also affected voters, who often must approve bond issues. Last month, the Elma school district, which has a WPPSS site within its borders, asked voters to approve a $12 million bond issue so it could replace the district's 73-year-old high school. The bond issue was defeated. Superintendent DeWayne Boyd says a telephone survey of voters taken after the election found WPPSS was a major factor.

"There's a growing distrust about bonds in general," he says. "People wonder whether approving an issue would be the end of it, or if it would turn into another Whoops." He says residents were also wary of having to back the bonds because they fear they will be burdened with other costs, such as higher unemployment claims and increased taxes, if WPPSS folds.

Smaller issues, in which the bonds are sold to local or regional banks, haven't been disrupted much. Snohomish County Treasurer Kirk Sivers says the county airport didn't have any trouble selling $1 million of bonds recently to fund repair work. But he says Washington municipalities will face some trouble away from home.

"On the East Coast they still think we've got cowboys and Indians out here. All the citizens of the state are going to be considered as part of Whoops for a while."

Of course, some people think wariness is warranted. In recent years, Washington state had financial difficulties unrelated to WPPSS.

"There's a perception in the East that we're financial donkeys out here," says a Seattle bond dealer. "Maybe we've earned it."

Fla

point

first crisis point was set for y, May 31. WPPSS was ex- to fail to pay its bond trus- emical Bank, a regular $15.6 installment due on the bond covering projects No. 4 and 5. kage valued at $2.25 billion acked by two power projects ave been abandoned.

a judge's ruling last week de- indefinitely an anticipated ration of default on the 4-5 prolonging the agony of un- aty that has enveloped the oops" debt for months.

re is money in an escrow ac- to cover a forthcoming July est payment to bondholders. dge said, and there can be no aration of default until the ts permit it.

one of the litigants — WPPSS, mical Bank, bondholder repre- tatives — appeared happy with ruling. It seemed to buy time little else.

James Russell

Financial Editor

"Bondholders, at least for the time being, are suffering no harm" Washington Superior Court Judge Joseph Coleman said.

According to Berls of Chemical Bank, the earliest that any bondholder could miss an interest payment is next January. But the bank, in its trustee role, is determined to pull out all the stops to see that no bondholder loses in the long run.

"There is so much confusion and so many variables," Berls said. "But Chemical will do everything in its power to make sure that the bond payments are made. One way or another, bondholders are going to get paid. If they don't, the Pacific Northwest region is in trouble and so is the bond industry. That just won't happen."

Berls said a default on WPPSS bonds would have serious side effects on all kinds of municipal and corporate obligations in the region. Thus, state and local authorities have to make good on the WPPSS debt, he reasoned.

Farther out

The bank executive's message to bondholders was not to worry about the July 1 semi-annual interest payment.

"Farther out is where the doubt lies," he said.

What's decided in legal and legislative battles in the "Whoops" affair now could set precedents for decades to come, according to bond experts.

"At least 90 per cent of those bonds will not mature until well past the year 2000," Huber of Southeast Bank pointed out.

When WPPSS bonds were first marketed, they bore the sponsorship of the biggest names on Wall Street, and the stamp of approval of the premier rating agencies — Standard and Poor's and Moody's. The legal support for paying them off appeared unassailable.

Now, with a crisis situation at hand and the ratings in disarray, the 4-5 bonds are selling at about one-third their face value, while two of the remaining three trade at sizeable discounts.

"We have been telling customers for a year that everything will work out," said Wildman of Donald Sheldon and Co. "Municipal bonds are a conservative, income-oriented investment, not a trading vehicle. In our opinion, the 1, 2 and 3 bonds still represent an excellent investment. I even believe the 4 and 5's will work out, although there may be a temporary hangup in the January interest payment."

Other bond specialists are less enthusiastic.

Steve Hueglin suggested to clients of Gabriele Hueglin and Cashman that they hold on to their 1, 2 and 3 bonds and consider buying if they don't have some already.

"But for holders of projects 4 and 5," he added, "the situation is more grim."

It's tough to give advice on the 4 and 5's, Hueglin said, because "the fate of the projects is, for the most part, in the hands of the courts."

Bond specialists now are saying that the underlying lesson from the "Whoops" experience is that legal support alone does not make for a safe bond.

While there are clear legal requirements for paying off the debt, the severe troubles of the power system removed any visible means of economic support for what is owed.

A promise to pay

Without power to be sold and customers to buy it, the revenue that normally would pay off the obligations simply is not there — and not in prospect.

So the responsibility falls back on what James Lebenthal of the Wall Street firm of Lebenthal and Co. calls "a promise to pay, come hell or high water."

In view of what now is happening in the "Whoops" affair, Lebenthal said: "Here come hell and high water."

Press Intelligence, Inc.
WASHINGTON, D.C. 20005

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CHICAGO, ILLINOIS
SUN-TIMES

MORNING - 675,995
SUNDAY - 710,663
3 1983

'Whoops' is no joke

Financial analysts used to chuckle at the Washington Public Power Supply System: Its initials, pronounced "whoops," became sarcastic shorthand for the project's overruns, construction delays and management problems.

They're not laughing anymore. WPPSS has become a worst-case example in the energy business.

In 1957, 88 public and private utilities in the Pacific Northwest, pushed by the federal Bonneville Power Administration, launched the massive construction program to meet what was seen as an explosive growth in the demand for electricity. They issued bonds and ordered up three nuclear power generators. In a few years, they ordered up ~~two~~ more plants, for a total of five.

Then the troubles began. Each plant's construction costs, projected in the hundreds of millions, ballooned past $3 billion. Total WPPSS costs grew to a boggling $24 billion. And a funny thing happened to the electricity demand the plants were supposed to satisfy: It tapered off. The Northwest, in fact, now has a power glut.

So WPPSS administrators canceled the last two of the five plants—for which they'd already issued $2.25 billion in bonds. Then they mothballed another plant under construction. And, last week, halted work on another one. Only one is still being built. But the costs of borrowing money for the project—which has yet to produce one watt of power—continue at $15.6 million *a month*. This week, short of cash, WPPSS failed to meet an interest payment.

Full default is likely. Perhaps bankruptcy. And almost certainly a plea for the feds to bail out the utilities and bondholders underwriting the project.

That would be wrong. Unlike the Chrysler loans, a WPPSS bailout offers no payback, in money or jobs. Utility customers in the Northwest have had bargain energy for decades; rates absorbing the WPPSS losses would still be lower than those in the Northeast. And bondholders knew the risks they were taking. Let them, not taxpayers, foot the massive bill for misjudgment.

Press Intelligence, Inc.
WASHINGTON, D.C. 20005

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NEW YORK, N.Y.
NEWS JUN 7 1963
MORNING - 1,606,365
SUNDAY - 2,237,494

Court relaxes N-curbs

By HARRISON RAINIE

Washington (News Bureau)—The risks posed by nuclear wastes do not have to be weighed every time the government examines a reactor license, the Supreme Court ruled unanimously yesterday.

The decision reverses the finding of a lower court that had sided with environmentalists and had jeopardized virtually every new reactor contemplated in the nation, including the Long Island Lighting Co.'s Shoreham plant.

Writing for the majority, Justice Sandra Day O'Connor upheld the right of the Nuclear Regulatory Commission to issue general findings about the limited dangers of nuclear waste rather than having them become an environmental issue at each licensing hearing for a reactor.

For years, the NRC has argued that there would be little or no environmental damage stemming from the disposal of nuclear wastes because technology would soon become advanced enough to contain the threat or the wastes could be buried safely in salt mines.

Though the lower court found these promises in doubt and that "significant environmental risks" were involved in nuclear waste storage, O'Connor said NSC blanket findings were "within the bounds of reasoned decision-making."

The court is aware of the problem of nuclear waste disposal, but that is a matter for Congress and the agencies to which Congress has delegated authority, she said.

Press Intelligence, Inc.

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MISSOULA, MONTANA
MISSOULIAN
MAY 27 1983
MORNING - 30,966
SUNDAY — 32,833

BPA chief wants WPPSS to halt another plant

By ROGER HOPKINS
Correspondent

KALISPELL — Bonneville Power Administration chief Peter Johnson will recommend a construction halt on the Washington Public Power Supply System's nuclear plant No. 3.

And Johnson, speaking to a Kalispell audience at the Northwest Public Power Association meeting Thursday, said he wonders if WPPSS No. 2 will be completed.

• Schwinden on WPPSS. Page 8.

Johnson said he will recommend WPPSS No. 3 be mothballed when the BPA board convenes Friday, "unless there's a miracle between now and tomorrow."

He said the construction halt is the only alternative facing BPA, which is trying to negotiate a bail-out of WPPSS and its previously abandoned plants 4 and 5. WPPSS No. 1 has since been mothballed, too, leaving plants 2 and 3 with the hope of completion.

No. 3 is 70 percent compete. No. 2 is about 97 percent finished and Johnson termed its fate uncertain.

Moments after Johnson's announcement, Carl Halvorson, chairman of the WPPSS executive board, asked the Kalispell audience, "Does anybody here have a miracle?"

Halvorson said he believes the Northwest is in a critical situation because of a possible default on bonds and interest totaling nearly $7 billion borrowed to finance the two terminated plants, 4 and 5.

Halvorson said the final determination on the WPPSS projects probably will come from the Washington Supreme Court, which is reviewing a suit filed more than a year ago by the Chemical Bank of New York, seeking to ensure payment to the bond holders.

Neither Johnson nor Halvorson were available after the meeting for further comment. Both left the session to meet a flight out of Kalispell.

Gerald Mueller, one of two Northwest Power Planning Council members from Montana, said Johnson's decision is disappointing but not surprising.

Muller said WPPSS could save as much as $300 million a year on construction costs for plant No. 3 by mothballing that project. But he added he would be very surprised if WPPSS plant No. 2, most nearly completed, is mothballed.

Mueller and seven other commissioners have just finished the Northwest Regional Power Plan. He said that plan and its forecast of power needs during the next 20 years include an assumption that three WPPSS plants will be completed. He said failure to complete any one of those could affect the plan's forecasts, but not to a serious extent.

Mueller said a nuclear energy task force reported to the commission that time constraints dictate reopening a mothballed nuclear plant within five years. Mueller said that while the plants are closed, it costs several hundred-thousand dollars a year to maintain and preserve the completed portions of the project.

On the problems facing BPA and WPPSS, Mueller said, "We're not in control of what's going on ... events are controlling us."

WPPSS to canvass world for Satsop plant money

By JOHN GILLIE

Faced with the prospect today of mothballing yet another nuclear power plant, WPPSS officials considered launching a worldwide search for "unconventional financing" to make the move unnecessary.

Such a search will take at least a month, Washington Public Power Supply System Treasurer Jim Perko told executive board members meeting at the Sea-Tac Hilton yesterday.

In the meantime, WPPSS Managing Director Don Mazur recommended beginning a construction slowdown on WPPSS's WNP-3 plant at Satsop.

The board was scheduled to meet again today to consider the slowdown proposal.

Mazur said he's not optimistic about the supply system finding money to continue the plant's construction, but he endorsed the board's efforts nonetheless.

Wall Street brokers have told both the supply system and the federal Bonneville Power Administration, which owns 70 percent of the plant's projected output, that selling more bonds to raise money would be impossible.

The supply system faces several major lawsuits over the validity of its agreements to pay back bondholders who lent WPPSS some $2.25 billion to build two other nuclear power plants, WNP at Hanford and WNP-5 at Satsop.

Construction was terminated on hose plants 16 months ago when ising construction costs and dropping power-demand forecasts preented WPPSS from raising more noney to finish them.

Mazur said he recently spent wo days talking with New York rokers about obtaining enough noney to keep construction going t WNP-3 until those lawsuits are ettled.

"They said they won't sell [illegible]," he said. "They said there's no market."

Board members agreed to search for unconventional money sources at the urging of Tacoma Utilities Director Paul Nolan and former Seattle First National Bank President Mike Berry. Both men are WPPSS executive board members.

"[illegible] the full market," said Berry.

Gesturing with a copy of *The Wall Street Journal* in his hand, Berry said that companies like Chrysler, Caterpiller and Lockheed, which have had their own troubles of late, have been able to raise new funds.

"I think its a gambling society we have here," he said.

Berry suggested that it might be worth paying 15 or 16 percent interest, double current short-term tax-free rates, to secure the needed money.

He suggested that WPPSS approach other brokers to see if they are interested in selling more bonds. WPPSS' present brokers, he suggested, may be gunshy because of possible lawsuits against them by present bondholders.

Nolan urged the board not to halt the Satsop construction without a thorough search for funds.

"I think there's a price for everything," he said, suggesting that a high enough interest rate might attract individual investors to gamble on another WPPSS bond issue.

Mothballing the plants and resuming construction in three years could cost WPPSS millions, according to Mazur.

The Bonneville Power Administration Wednesday strongly suggested the three-year delay.

BPA Deputy Administrator Bob Ratcliffe expressed reservations about the practicality of searching for more money.

BPA, he said, has already explored the market and found it was a dead end, he said.

Mason County Public Utility District Commissioner Bob Olsen said he sympathized with the idea of saving some 2,300 construction and white collar jobs at the Satsop site, but such short-term "bridge" financing could prove fatal to the projects.

The supply system, he said, has little idea how much money it would need to carry the plant until WPPSS' legal difficulties are resolved. If the courts rule that the agreements on the terminated plants are invalid, or if the cases are still pending when any new short-term financing must be repaid, he said, the supply system also would be forced to terminate WNP-3, which is 74 percent complete.

[illegible] Intelligence, Inc.
WASHINGTON, D.C. 20005

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TACOMA, WASHINGTON
NEWS-TRIBUNE
EVENING - 100,757
TRIBUNE-LEDGER
SUNDAY 104,676
MAY 27 1983

RADIO TV REPORTS, INC.

4701 WILLARD AVENUE, CHEVY CHASE, MARYLAND 20815 656-4068

FOR NUCLEAR REGULATORY COMMISSION

PROGRAM All Things Considered

STATION WETA Radio
NPR Network

DATE May 31, 1983 5:00 P.M.

CITY Washington, D.C.

SUBJECT Northwest Nuclear Program

SUSAN STAMBERG: Today a consortium of municipal electric utilities in the Pacific Northwest failed to make an interest payment on their bonds worth 2 1/2 billion dollars. Technically, the Washington Public Power Supply System is in default, but one of the biggest bankruptcies in history is on hold while the courts sort out who's responsible for the bills.

Joel Cumley, a reporter with the Seattle Post-Intelligencer, says the trouble began a decade ago.

JOEL CUMLEY: The utilities of the Northwest felt that we were going to be using more and more electricity in the years ahead. They embarked on a program to build five nuclear plants, abusing all of its critics with the denunciation that they were enemies of growth, granola eaters, one thing and another.

Gradually, the price of this nuclear program went up from four billion to 24 billion dollars, largely because of mismanagement. In the meantime, the customers rebelled against the resulting rate increases, creating less and less need for electricity. And finally, the Wall Street bond houses, which had enthusiastically embraced tax-free municipal offerings on Whoops, decided that they no longer had as much faith in the program as they did before.

The result has been that four out of the five nuclear plants are now essentially shut down, two of them permanently terminated, two of them in mothballs.

STAMBERG: Any lessons in all of this as to how good predictions have been for electrical demand, and also how good

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the private sector is in making such projections?

CUMLEY: All predictions were disastrously off. And if there's any lesson in this, I suppose it's that you can be wrong and you can go on to higher things. Because the person who was our federal Bonneville Power Administrator out here in the mid-1970s and predicted the shortages and pushed for the construction of these nuclear plants is now the U.S. Secretary of Energy, Don Hodel.

STAMBERG: There's a great worry that if they default, or maybe if this goes on as interminably as you're predicting it will, there would be a very detrimental impact on the bond market. Are people feeling that that's true?

CUMLEY: The people that have invested in Whoops bonds have seen the value fall out of them in the trading market the last couple of weeks. We have a fractured situation, with 88 utilities that own shares of these two dry holes refusing to put up the money to pay for them, and a great court battle, sometimes resembling and Abbott and Costello comedy, raging all over the region in the courts over whether the utilities will be forced to pay. Even if they are forced legally to pay, the customers can simply use less electricity, and the utilities won't have the money to pay off these debts.

STAMBERG: In the meantime, there's also cries for a federal bailout. Does anyone believe that that is likely?

CUMLEY: I don't think the people crying for a federal bailout know how deep the well is. I think there's very little chance of this happening. I would not want to expect somebody back in your neck of the woods paying between seven and ten cents per kilowatt-hour for electricity, I don't think such a person would be willing to bail out customers out here paying between two and four cents per kilowatt-hour for electricity.

STAMBERG: Yeah. Your rates are much lower, aren't they, out there?

CUMLEY: They are much lower. We have a legacy of cheap, low-cost federal dams on the Columbia River. I suppose, as a fellow taxpayer, I should thank you for helping put up the money to pay for them. But we've squandered that legacy now and we are into this nuclear debacle.

STAMBERG: But where will it all end? That's the question.

CUMLEY: I think it'll end with the biggest municipal bond default in American history, four shutdown nuclear plants, only one of them being completed, Northwest rate-payers facing enormously increased bills, being unable to afford the price tag, and everybody, from the electrical consumer here to the bond-holder in Florida, taking an enormous b[illegible].

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RADIO TV REPORTS, INC.

4701 WILLARD AVENUE, CHEVY CHASE, MARYLAND 20815 656-4068

FOR NUCLEAR REGULATORY COMMISSION

PROGRAM Good Morning America

STATION WJLA-TV
ABC Network

DATE June 2, 1983 7:00 A.M.

CITY Washington, D.C.

SUBJECT Default in Nuclear Plant Construction

KATHLEEN SULLIVAN: Officials at Washington state's biggest utility are trying to determine if the company is in default on a multibillion-dollar loan for nuclear power plant construction. The utility failed to meet a $16 million interest payment this week.

Sheila Kast tells us how the utility's problems began.

SHEILA KAST: In the mid-1970s, the Washington Public Power Supply System, nicknamed Whoops, set out to meet a projected demand for electricity by building five nuclear power plants. To finance them, Whoops issued tax-free bonds. In fact, it issued more such bonds than anyone else, $8 billion worth. Some of them even were backed by a federal agency. To many investors, they looked as solid as the concrete and steel going into the power plants.

But in 1983 the demand for electricity has not increased as forecast, while the cost of building the nuclear plants has skyrocketed. As a result, four of the five plants were mothballed. Whoops seems to be living up to its nickname.

MAN: Because this is the largest issue of municipal bonds, people may be hesitant to invest further in municipals due to the widespread publicity a default of this nature would entail.

KAST: So the specter of default is having a ripple effect among other states, cities, and utilities, which also depend on tax-exempt bonds to build highways and bridges, power plants and housing projects.

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Investors in the bond market were already nervous about interest rates because of big federal deficits and money policy. The risk of default by Whoops means state and localities have another worry, that they'll be charged higher interest rates and have to pay them by levying higher taxes.

Press Intelligence, Inc.
WASHINGTON, D.C. 20005

Front Page | Edit Page | Other Page

NEW YORK, N.Y.
TIMES
JUN 4 1983

MORNING - 941,890
SUNDAY -1,403,077

Thornburgh Asks U.S. To Stall Reactor Startup

HARRISBURG, Pa., June 3 (AP) — Gov. Dick Thornburgh is asking the Nuclear Regulatory Commission to postpone a restarting of the undamaged nuclear reactor at Three Mile Island until he is satisfied that it is safe.

In a letter to the commission on Thursday, Governor Thornburgh expressed "reservations" about the operation of the power plant and questioned the competency of the operators.

The Governor also noted recent allegations by engineers that the cleanup at the damaged Unit 2 reactor might not be proceeding as safely as it should.

The commission is studying management competency in its examination of whether the undamaged Unit 1 may be restarted. The reactor was shut down for refueling at the time of the 1979 accident at Unit 2, which was the nation's worst commercial nuclear accident, and has not operated since.

National news appears on pages 6-9.

Press Intelligence, Inc.
WASHINGTON, D.C. 20005

Front Page | Edit Page | Other Page

NEW YORK, N.Y.
TIMES
JUN 4 1983

MORNING - 941,890
SUNDAY -1,403,077

4 Northwest Utilities in A-Plant Bid

Special to The New York Times

SEATTLE, June 3 — Managers of the four largest private utilities in the Pacific Northwest are seeking a way to keep construction moving on a nuclear plant that the Washington Public Power Supply System has said it would mothball.

The executives are meeting with lawyers over the weekend and will present a plan to the supply system on Monday. The utilities have backed 30 percent of the $1.6 billion in bonds floated to construct the system's Unit 3, now 74 percent complete.

Because of a shortfall of power demand and inability to procure financing, the system has already terminated three other nuclear plants in an original five-plant program.

"Our intention is that the owners' committee will recommend that something come out of the meetings with the supply system Monday to keep the plant going," Jack Vogel, spokesman for the Pacific Power and Light Company, said today. "I don't know whether it will be a new financing plan or what."

The utility, based in Portland, Ore., backed 10 percent of the Unit 3 bond and has invested $253 million in the plant.

According to Gary Lundgren, executive vice president of Marshall & Meyer Inc., a Seattle brokerage that deals in the power system's bonds, the investor-owned utilities might take over Unit 3. "They are equipped to handle construction and operations," he said. "They are operated by businessmen and their record and credit rating is good."

Chris Curtis, spokesman for the Puget Sound Power and Light Company, questioned the supply system's efforts to find money to keep unit 3 going. "They have not proven to us that they have not been able to find financing outside of the bond market," he said. "We are really upset. We do not like the slowdown one bit."

Other utilities involved in the plant are Washington Water Power of Spokane, Wash., and Portland General Electric.

WPPSS Is Seeking Private Loans to Avoid Mothballing No. 3 Nuclear Power Project

By NORMAN THORPE

Staff Reporter of THE WALL STREET JOURNAL

PORTLAND, Ore. – Washington Public Power Supply System decided to look beyond the bond market for financing in a last-ditch effort to avoid mothballing its No. 3 nuclear power project.

Currently, project No. 3's accounts contain only about $90 million of the estimated $1 billion required to complete the 74%-built plant. Construction on the plant requires about $35 million a month for full production, James D. Perko, WPPSS chief financial officer and treasurer, said. The plant is projected to cost a total of $4.9 billion.

Unless WPPSS can raise the funds, it expects to suspend work on the plant for three years, beginning late this month. That would make plant No. 3 the fourth of WPPSS' five plants to be canceled or suspended. If funds can be obtained, they wouldn't only allow construction to continue; getting them would also head off a major clash and potential legal battle between WPPSS and four investor-owned utilities.

WPPSS officials and representatives of the four investor-owned utilities with shares in the project agreed here Friday to try to develop a financing plan by next Thursday, Mr. Perko said. The group hopes to propose the plan to committees of WPPSS' executive board Thursday, and to seek approval of the plan at an executive board meeting Friday.

Mr. Perko declined to discuss much of what the proposal might entail or how much money will be sought. But he said it would involve borrowing from a lender or lenders and wouldn't require any legislative action, suggesting possible lenders will be private. A participant in Friday's closed-door meeting said potential lenders would include banks and insurance companies, but he declined to discuss other potential sources of funds.

"I think we can agree to a proposal," Mr. Perko said. "But getting the financing is going to be a tough job. We have worked hard in an effort to find conventional funds, and finally determined we couldn't find any." A major question, he said, is "can we come up with a program that satisfies potential investors?"

WPPSS has been unable to issue additional construction bonds for the project because of investor fears that WPPSS might default on project Nos. 4 and 5. Last Tuesday, WPPSS missed a $15.6 million monthly interest payment to trustees of bonds for those projects.

On May 27, WPPSS' executive board voted to begin a three-year suspension of construction on plant No. 3 in 30 days if additional financing wasn't found. It ordered an immediate construction slowdown but said work should be kept at a level that would allow full resumption within the 30-day period. The action had been recommended by the Bonneville Power Administration, the federal electricity marketing agency, which is to market much of the power from the project and to repay part of the costs from its power sales revenue.

But the decision brought WPPSS and Bonneville into a direct clash with the four investor-owned utilities that together own a 30% stake in the plant. Pacific Power & Light Co. and Portland General Electric Co., both of Portland, each hold a 10% interest in the plant. Puget Sound Power & Light Co., Bellevue, Wash., and Washington Water Power Co., Spokane, Wash., hold 5% each.

The utilities oppose mothballing because it will boost project costs. In addition, some fear that if initial commercial operation of the plant is delayed three years from the current schedule of December 1986, an electricity shortage might occur in the interim.

A decision to suspend construction requires appoval of 80% of the plant's owners' committee. But the four utilities hold 30% of the vote, making approval unlikely. That could force the decision into arbitration, said a WPPSS lawyer. In addition, some of the utilities have threatened legal action to block the mothballing. If WPPSS can arrange adequate financing, it won't have to deal with these problems.

WPPSS canceled its No. 4 and 5 nuclear projects in January 1982 because of reduced forecasts for energy demand in the region. In April 1982, it suspended construction on its 63%-built plant No. 1 for as long as five years for the same reason. Plant No. 2 is 97%-complete and is scheduled for fuel-loading this September.

Press Intelligence, Inc.
WASHINGTON, D.C. 20005

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WALL STREET JOURNAL
--EASTERN EDITION--
JUN 6 1983
MORNING - 610,061

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Press Intelligence, Inc.
WASHINGTON, D.C. 20005

Front Page . Edit Page . Other Page

WASHINGTON, D.C.
POST JUN 2 1983

MORNING - 584,500
SUNDAY - 820,452

WPPSS Furloughs 1,250; Misses May Interest Payment

From News Services

SEATTLE, June 1—The growing financial woes of the Washington Public Power Supply System, teetering on the edge of multibillion-dollar default, have reached into more pockets with the layoffs of 1,250 nuclear power plant construction workers.

WPPSS' executive board decided Friday to halt construction on nuclear plant No. 3 for three to five years because it could not raise more money to complete it. Pink slips went out Tuesday, when the supply system missed a $15.6 million monthly interest payment due to Chemical Bank, trustee for $2.25 billion in WPPSS construction bonds.

Although Chemical had said it would formally declare WPPSS in default if the payment was missed, Superior Court Judge Joseph Coleman in King County, Washington, signed an order Friday prohibiting the bank and bondholders from declaring the system in default until a trial on the matter is held. Chemical said it is considering an appeal.

Among factors being weighed by Chemical, a bank spokesman said, is that the court "found it important that approximately $30 million already has been deposited by utilities into escrow accounts, subject to the control of the court.

"The court also found there is no immediate harm to bondholders as a result of the injunction, stating that July interest payments can be made from funds currently available," Chemical said.

If default is declared, Chemical Bank could demand payment from WPPSS on the bond debt—which could total more than $7 billion over the next 35 years.

In New York, Moody's Investors Service Inc. suspended its rating on bonds issued to finance three of the five nuclear projects originally planned by WPPSS.

Moody's said yesterday it had undertaken a new review of the bonds' creditworthiness.

Press Intelligence, Inc.
WASHINGTON, D.C. 20003

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NEW YORK, N.Y.
TIMES JUN 1 1983

MORNING - 941,000
SUNDAY -1,403,077

COMPANY NEWS

Washington Power Misses a Payment

Special to The New York Times

SEATTLE, May 31 — As expected, the Washington Public Power Supply System edged closer to default today on $2.25 billion in bonds floated to construct two nuclear reactors, when it missed a monthly payment. The plants were abandoned because the need for power had been overestimated and the plants were too expensive to build.

But the Chemical Bank, trustee for the bondholders, has been blocked from declaring the utility officially in default. Last week, the bank was indefinitely restrained by the King County Superior Court from making such a declaration.

If the court had not acted, Chemical would have issued a "cure" notice giving the utility 90 days to make the $15.6 million monthly installment that was due today but not paid. If the installment was still not paid by Aug. 30, the bank could ask for repayment of perhaps the entire $2.25 billion, according to William Berls, vice president for trust and investment at Chemical.

Judge H. Joseph Coleman of the Superior Court said bondholders would not be harmed by the missed payment today because Chemical had a reserve account of $93.8 million from which it could pay the bondholders. Some 70 percent of the 88 utilities that sponsored the now-abandoned plants have also paid $30 million into an escrow account.

Lawsuits in 3 States

Chemical is being restrained pending the outcome of lawsuits filed by the bank and others in Oregon, Washington and Idaho to determine who is responsible for repayment of the debt.

[Michael Mines, an attor[illegible]r Chemical, said the bank w[illegible]cide by the weekend whether to bring an additional suit to obtain the funds due today, Reuters reported.]

But in Washington today, default took a back seat to concern over layoffs of 1,300 people at the power system's nuclear plant No. 3. The utility's executive board voted Friday to shut down the reactor for three years because the board could not find $960 million in financing in the face of the possible default.

Plant No. 3, like No. 1, which was mothballed a year ago because of a lack of financing and shrinkage in the market for electricity, is backed by the Bonneville Power Administration, a Federal agency that markets half the power consumed in the region.

Peter Johnson, Bonneville's administrator, said money to repay bonds on the Nos. 1 and 3 plants, as well as on No. 2, which is expected to produce power in February, would be paid by Bonneville, which will increase rates to raise the money.

The specter of a default as sweeping as that by the power system is forcing utilities, municipalities, counties and port districts throughout the state to pay higher rates when they attempt to sell bonds.

The latest victim was the Port of Tacoma, which has no connection with Tacoma City Light, a utility that is participant in the power system.

The port on Friday accepted a negotiated 12-year bid on $28 million in bonds to finance a container ship terminal instead of the 22-year term that commissioners wanted. Instead of paying interest of 8.5 percent, the port will have to pay 8.39 percent.

Northwest Utility Halts Another Nuclear Project

Press Intelligence, Inc.
WASHINGTON, D.C. 20005

Front Page Edit Page Other Page

NEW YORK, N.Y.
TIMES MAY 28 1983

MORNING - 941,890
SUNDAY -1,403,077

Special to The New York Times

SEATTLE, May 27 — The Washington Public Power Supply System will lay off nearly 1,400 craftsmen and begin to "demobilize and preserve" yet another of its nuclear projects on Monday because of a lack of financing. The action leaves only one of five scheduled nuclear plants in its $24 billion program.

The power system's executive board took the action today on the 74 percent completed project, known as Unit No. 3, after its investment advisers said they could not float $953 million in bonds necessary to complete the project. Board members said the power system's looming default Tuesday on $2.25 billion in bonds sold to construct two now-terminated nuclear units had made it impossible to secure additional financing.

Financing Is Sought

Over the next 30 days, the power system will continue to seek financing. If it is not forthcoming, it will take the final step to preserve the plant for three years and lay off another 540 workers. A year ago, the power system also mothballed for financial reasons a 60 percent completed unit, known as Unit No. 1.

Immediately after the announcement that the No. 3 plant would be mothballed for three years, traders dropped the price they were willing to pay for the power system's bonds by one to two points. Light trading occurred at the lower level and then trading quickly came to a standstill.

"The street did not panic because they were already aware of the problems," one bond trader said.

However, the action was greeted by whoops and cheers by rate-payer activists who popped champagne corks and toasted the phasing down of Unit 3.

Bonds on Unit No. 3 are 70 percent backed by the Bonneville Power Administration, a Federal agency that markets 50 percent of the electricity consumed in the Northwest. Four of the region's largest investor-owned utilities own 30 percent of the project. Bonneville is backing 100 percent of the bonds on mothballed Unit 1 and also of the 98 percent completed Unit 2 for which fuel will be delivered next week. By comparison, 88 Northwest utilities have backed bonds on the abandoned units.

Peter Johnson, Bonneville adminis-

Continued on Page 44

Continued From First Business Page

trator, predicts that the four private utilities will sue to prevent Unit 3 preservation. G. Eldon Drennan, the chairman of Pacific Power and Light Company of Portland, Ore., for example, said this week in a letter to the power system that it considers its failure to obtain financing a breach of its ownership agreement.

Analysts view the preservation with caution. "But construction on Unit 3 has a better chance of restarting than on Unit 1 because of Unit 3's 30 percent bond backing by investor-owned utilities," said Eileen Austen, vice president of municipal research for Drexel Burnham Lambert, a brokerage house.

But Mr. Johnson will not discuss whether Unit 3 at some point will be terminated. "That subject is not even justifiable for thought, let alone for consideration," he said in an interview.

Many analysts, however, also question the need for Unit 3. The Northwest is in the throes of an electricity surplus that is expected to continue into the mid-1980's. It is unlikely the region will need power from Unit 3 in 1986 if the reactor were completed on schedule, Mr. Johnson said. The only power buyers in view are Southwest Utilities but they are not willing to pay only 30 mills per kilowatt-hour. Yet Unit 3's fully allocated costs are 60 to 70 mills. Mr. Johnson questions whether it "is prudent" to run a plant in which "we would not be recovering our costs."

The Bonneville administrator said that if his agency was forced to finance construction of Unit 3, Bonneville would need to raise rates regionwide by 20 percent. This would also have an impact on Bonneville's financial stability. Bonneville is highly leveraged, with 87 percent of its revenues currently going to pay fixed costs, including interest financing on the $6.2 billion in bonds sold so far on Units 1, 2 and 3.

Although the power system officially will be in default on the bond debt for Units 4 and 5 on Tuesday, Judge H. Joseph Coleman of King County Superior Court issued a written order today restraining bondholders and Chemical Bank, bondholder trustee, from declaring the power system in default pending the settlement of some legal questions. This prevents bondholders from demanding that that power system pay overdue debt within 60 days and from accelerating the total $2.25 billion debt and making it due and payable Aug. 30.

The Seafirst Corporation, Unit 3 bond trustee, said it was inappropriate for them to comment on the Unit 3's preservation at this time.

Press Intelligence, Inc.
WASHINGTON, D.C. 20005
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WALL STREET JOURNAL
--EASTERN EDITION--
MAY 31 1983
MORNING - 610,064

WPPSS Heads Into Battle With 4 Utilities Over Plan to Suspend Work on Plant No. 3

By Norman Thorpe

Staff Reporter of The Wall Street Journal

SEATTLE -- Washington Public Power Supply System is heading toward a major clash with four big utilities that oppose its plans to mothball its No. 3 nuclear power plant.

In addition, WPPSS may face another round of litigation to keep from being declared in default on $2.25 billion of bonds issued for its Nos. 4 and 5 nuclear generating units that were canceled last year.

At a special meeting here Friday, WPPSS's executive board voted to halt construction of the No. 3 plant for three years because it can't raise funds for more building.

It would be the fourth of WPPSS's five partially built plants to be canceled or suspended, if the decision is approved by an 80% vote of the plant's owners committee. Four investor-owned utilities, which together hold a 30% interest in the plant, oppose the construction halt, and some have threatened legal action to block it.

"We may never get approval," said Carl Halvorson, executive board president. "But we're going to go through the process that's required." He added that WPPSS hasn't any alternative but to mothball the plants because "we're not in a position to sell bonds."

If the owners committee can't agree, the dispute would probably be submitted to arbitration, a WPPSS lawyer said. "It could be time-consuming; it's a complicated process," he said.

Separately, on Friday, a judge here prohibited trustees and holders of bonds for WPPSS Nos. 4 and 5 projects from declaring the power supply system in default for missing interest payments on those bonds. But a lawyer for Chemical Bank, the bond trustee, said the bank is likely to appeal the ruling.

A WPPSS spokesman said there also are worries that bond holders might seek a default declaration in some other court, prompting more litigation.

In another action Friday, WPPSS's executive board declared its intent to start selling off some assets from the canceled Nos. 4 and 5 plants about June 30, to bring in much-needed cash. But WPPSS officials said they expect to take in only a fraction of the about $200 million invested in the power-station equipment because the market is glutted. Sale of the equipment would make it unlikely that WPPSS could revive the projects.

Today, WPPSS is expected to miss a $15.6 million monthly interest payment to Chemical Bank for bonds on its Nos. 4 and 5 plants. The bank had said it would declare the payment in default if that happened, but H. Joseph Coleman, Washington State Superior Court judge for King County, last week enjoined the bank from doing so.

On Friday, Judge Coleman expanded on his Tuesday ruling, prohibiting the bank or bondholders from declaring WPPSS in default for missed payments as long as a trial involving units 4 and 5 continues or unless the injunction is lifted. If upheld, the order would avert the likelihood of WPPSS falling into default before the end of the trial.

But Michael Mines, a lawyer representing Chemical Bank, said the bank is likely to appeal the order, but it won't decide until early this week.

The trial before Judge Coleman concerns the responsibility for repaying the $2.25 billion of bonds issued for units 4 and 5. Because the plants were canceled, many of the 88 utilities that participated are contesting their liability to repay the bonds. Until the issue is resolved, most also have refused to make monthly interest payments to WPPSS, paying instead into escrow.

As a result, funds in project accounts have dwindled. WPPSS has said that unless it receives an infusion of cash, it will set aside today most of the remainder for legal and administrative expenses. That won't leave enough for the interest payment, but because the escrow funds would cover the interest Judge Coleman ruled WPPSS can't be declared in default.

But before his ruling, Wall Street was concerned that WPPSS might be forced to file under Chapter 9 of the federal Bankruptcy Code, which deals with municipal bankruptcies. Standard & Poor's Corp. felt the possibility was great enough that on May 13 it suspended its rating on $6 billion of bonds issued for WPPSS projects 1, 2 and 3.

The uncertainty surrounding projects 4 and 5 has made it impossible for WPPSS to raise additional funds to continue construction of project No. 3. On Friday, WPPSS officials said that No. 3 is about 74% completed, but that they have only about $91 million of about $1 billion required to complete it.

The executive board voted to slow construction for 30 days and to maintain it at a level that would allow construction to resume. During that period it will continue to search for financing and will seek approval from utilities and the owners committee to mothball the projects.

The recommendation to suspend construction of the plant came from the Bonneville Power Administration, the big federal power marketing agency. Bonneville has a contract to use electricity from the No. 3 plant, and to repay the plant's construction bonds from Bonneville power revenue. But the federal agency said it couldn't provide funds to continue construction while awaiting another bond issue.

But four investor-owned utilities, which aren't represented on WPPSS's executive board, are expected to oppose the mothballing when the owners committee considers it. Pacific Power & Light Co. and Portland General Electric Co., both of Portland, Ore., each hold a 10% interest in the plant. Puget Sound Power & Light Co., Bellevue, Wash., and Washington Water Power Co., Spokane, Wash., hold 5% each. WPPSS holds the remaining 70%, but it splits its vote with Bonneville on the owners committee.

At the executive board meeting, WPPSS officials said WPPSS No. 2 project is 37.2% complete and is scheduled for fuel loading in September. WPPSS still needs about $150 million to complete the plant, but on Friday Bonneville repeated an early promise to provide the funds.

However, Bonneville's administrator, Peter T. Johnson, acknowledged that he expects Congress to examine the decision. He said that Bonneville hasn't yet found a firm market for power from the plant but that it is negotiating with several potential users in the Southwest.

WPPSS canceled its projects 4 and 5 in January 1982 because of reduced forecasts of power demand in the region, and in April 1982 it suspended its project No. 1 for as long as five years for the same reason.

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Press Intelligence, Inc.
WASHINGTON, D.C. 20005

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NEW YORK, N.Y.
TIMES JUN 8 1983

MORNING - 941,890
SUNDAY -1,403,077

Northwest Utilities in Warning

Threaten Suit To Save Plant

Special to The New York Times

SEATTLE, June 7 — Private utilities that have invested $800 million in abandoned or mothballed nuclear plants told the Washington Public Power Supply System Monday that they would take drastic steps — including legal action — to protect another $700 million they have poured into a plant that they fear might also be terminated by the supply system.

Craftsmen were laid off at the planned plant, designated as Unit 3, last week and the utilities' executives say that if new financing cannot be secured to resume construction, they will sue the supply system for violating an ownership agreement.

"We will instigate some type of legal action, although we are not sure what form it will take," said Robert Stringer, a spokesman for Washington Water Power, a Spokane utility.

The four investor-owned utilities own 30 percent of Unit 3. The Bonneville Power Administration, a Federal agency that owns the other 70 percent, wanted work slowed because it could not borrow on the bond market the final $963 million needed to complete the plant by December 1986.

The supply system already has permanently abandoned two other nuclear plants — Units 4 and 5 — and its failure last week to meet a payment on $2.25 billion in supply system bonds that had been floated to finance those plants had turned bond investors away from the remaining Washington Public Power projects, they said.

'We Need the Output'

"It is a real tragedy to have a construction delay or to potentially cancel the project," said Robert V. Myers, vice president of the Puget Sound Power and Light Company of Bellevue, Wash. "We are convinced we need the output of this plant."

The utilities have formed a subcommittee, led by Puget Power, to find money if the supply system cannot. "We hope we can finance construction through loans from banks worldwide, insurance companies, oil money, anything we feel comfortable with," said Jack Vogel, spokesman for the Pacific Light and Power Company of Portland, Ore.

The four utilities have already put $800 million into nuclear projects that were halted in the planning stages because of antinuclear sentiment.

Termination of Unit 3 would strain the financial health of the utilities. Currently they are raising money to finance their 30 percent ownership share. "We issue first-mortgage bonds and sell stock backed by Puget Power assets and potential revenues," Mr. Myers said.

But terminated plants raise no revenues, and Oregon has refused to allow Pacific Light and Portland General Electric to pass on current construction costs to ratepayers. The costs must come out of debt and equity instead. The State of Washington allows ratepayers to shoulder only a small portion of interest debt, not principal.

Bonneville's administrator, Peter T. Johnson, has rejected the utilities' pleas to complete Unit 3, saying that if the agency paid the remaining $963 million it would need to raise its rates 20 percent. Bonneville has raised rates tenfold in four years, while power demand has dropped, he said.

Press Intelligence, Inc.
WASHINGTON, D.C. 20005

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ST. LOUIS, MISSOURI
POST-DISPATCH
MAY 28 1983
EVENING -- 252,198
SUNDAY -- 433,317

The Whoops Disaster

Congress is still wrestling with the question of whether the federal government should make a major commitment to financing the clean-up of the crippled nuclear power plant at Three Mile Island. But that $1 billion-plus problem could begin to look cheap compared with the financial mess nuclear power has created for the Washington Public Power Supply System.

The system, otherwise known as Whoops, is a consortium of public and private utilities organized in conjunction with the Bonneville Public Power Authority. In the early 1970s, Whoops launched a nuclear building boom that has gone completely bust. It began work on five nuclear power plants, which together were to cost something over $6 billion. Today, over $6 billion in debt later, it is expected to cost $17 billion more to complete the building program. Because of the huge cost overruns and because the anticipated demand for power has failed to materialize, all of the units have been canceled or put on hold; only one facility is near completion, and the consortium is on the verge of defaulting on its bonds.

Rep. George V. Hansen, Idaho Republican, wants the nation's taxpayers to join with the BPA, Whoops and their customers in fashioning a bail-out, lest default give a bad name to utilities in general and nuclear power in particular. We doubt that Congress will want to rush to the rescue. Nor should it. The interesting question now is what position the Reagan administration will take, given that Donald Hodel, the Secretary of Energy, was a major force in pushing Whoops into its nuclear program when he was Bonneville Power's administrator.

Daily News
New York, N. Y.

MAY 24 1983

As Shoreham future flickers, Lilco rating dims

By MICHAEL HANRAHAN

Standard and Poor's yesterday lowered the credit rating of the Long Island Lighting Co., for the second time in two months, citing the uncertainty of the operation of Shoreham as the reason for the downgrading.

The Wall Street analysts also expressed concern over the future of Shoreham, noting the lack of visible support on the part of Gov. Cuomo for nuclear power and the position taken by the Nuclear Regulatory Commission two weeks ago in declaring that it was willing to close down existing plants at Indian Point in the absence of suitable local evacuation plans for the areas surrounding the plant.

The governor yesterday said: "Standard and Poor's is interested in dollars and cents. We're interested in bodies and souls—then dollars and cents. Lilco is in the business of making money. They're not in the business of saving lives."

A Lilco spokesman said yesterday that the last time Standard and Poor's and Moody lowered Lilco's bond and stock ratings there was little immediate impact on the company.

Martha Lipfert, the spokesman, said yesterday, however, it should be realized that there is an overall impact on the company's ability to raise funds and interest investors, which in time will be reflected in higher utility rates.

The latest Standard and Poor's ratings came in conjunction with Lilco's attempt yesterday to market $150 million in general revenue and refunding bonds. The rating on the issue was lowered to a double B rating. When Lilco's rating was dropped in March, the utility had entered the market to sell $75 million in general revenue issues and those sales went through on schedule, said Lipfert.

On other issues, Standard and Poor's set the rating on Lilco's preferred stock at double B minus, down from double B plus; the commercial paper rating was lowered to B, from A minus three, and the first mortgage bonds went to double B plus, from triple B minus.

In releasing the ratings, Standard and Poor's said its action is a reflection of increased concern about potential delay in the commercial operation of Shoreham, which is an investment equal to more than half the company's capital. 300

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State news briefs

Millstone II shut for refueling

WATERFORD (UPI) — The Millstone II nuclear power plant was taken out of service Friday for a 16-week refueling and maintenance program, Northeast Utilities said.

Northeast said all of the fuel assemblies will be removed from the reactor for inspection and testing and there will be an in-service inspection of the reactor vessel and associated components.

When fuel is reloaded into the reactor, about one-third of the 217 fuel assemolies will be replaced with fresh assembles, said Northeast, which owns and operates the atomic generator.

Northeast said the steam generators in the nuclear power plant also will be inspected and repaired and the low pressure turbine will be overhauled.

Connecticut has two other nuclear power plants — Millstone I, also at Waterford, and Connecticut Yankee at Haddam.

Press Intelligence, Inc.
WASHINGTON, D.C. 20005

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NEW HAVEN, CONN.
REGISTER MAY 28 1983
EVENING - 101,263
SUNDAY - 142,616

Press Intelligence, Inc.
WASHINGTON, D.C. 20005

Front Page	Edit Page	Other Page

MINNEAPOLIS, MINN.
STAR & TRIBUNE
MORNING - 227,392
TRIBUNE MAY 29 1983
SAT & SUN - 593,527

Feds shouldn't bail out Whoops

Now comes the Washington Public Power Supply System seeking a federal handout. The system, appropriately nicknamed Whoops, is a Pacific Northwest consortium of public and cooperative electric utilities. Whoops is near default on $2.25 billion in bonds sold to finance five nuclear power plants. Rep. George Hansen, R-Idaho, wants the federal treasury to contribute $1 billion toward retiring the debt. Congress should decline. Whoops is a regional mess; the region should clean it up.

Whoops officials rightly argue that they were pressured into the nuclear program by the Bonneville Power Administration, the agency that operates the federal hydroelectric-dam system on the Columbia River. Secretary of Energy Donald Hodel, then Bonneville administrator, used his power as regional energy czar to push the nuclear plants. Citing inflated energy-use projections, Hodel warned utilities that Bonneville could not ensure future energy delivery. The message was clear: Build the nuclear plants or else. More than 80 utilities bought into the project. Whoops officials authorized five plants.

Calamity followed. Energy demand dropped while the project's cost rose from $4 billion to $25 billion. Two plants were canceled in the middle of construction — after billions had already been spent. A third plant, two-thirds complete, has been mothballed, and a decision is pending on mothballing the fourth. The single plant not in doubt has yet to generate a kilowatt.

Hansen also proposes that all Bonneville ratepayers share the Whoops debt through higher electrical rates. Given Bonneville complicity in the fiasco, he has a good case. The burden would not be extreme. Because of the region's cheap hydropower, Bonneville customers' electrical rates still would be lower than in many parts of the country.

There's great irony in all this: Bonneville's low-cost hydropower goes principally to customers of public and cooperative utilities, such as those that make up Whoops. Bonneville and its utility customers fought hard against sharing the cheaper power with Northwest homeowners and farmers served by investor-owned utilities. Now that Whoops has gone sour, they're eager that U.S. taxpayers share the misfortune. Congress should have none of it.

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WPPSS' Plan for Loan Faces Uphill Battle As Bonneville, Banks Question Proposal

By a WALL STREET JOURNAL *Staff Reporter*

SEATTLE — Washington Public Power Supply System faces an uphill battle trying to arrange the $960 million credit line it has decided to seek from major commercial banks.

WPPSS wants to secure the credit with a promise of repayment by the federal Bonneville Power Administration, but Bonneville has misgivings about such a guarantee. In addition, commercial banks appear less than enthusiastic about WPPSS' proposed borrowing.

WPPSS, construction arm of Washington state's public utility districts, needs the money to continue work on its No. 3 nuclear power project, which is about 74% complete. Normally, WPPSS finances its construction projects by issuing revenue bonds, but uncertainties raised by lawsuits on two other projects have made it impossible to issue more bonds for project No. 3. As a result, WPPSS has decided to seek money from commercial banks.

Convertible Credit Line

WPPSS wants guarantees from Bonneville because Bonneville has contracted to market 70% of the power from the plant. Bonneville previously guaranteed that bonds issued for the plant would be repaid from power-sales revenue. The remaining 30% of the plant's electricity would go to four investor-owned utilities, which hold a 30% interest in the project and are financing their share separately.

Eventually WPPSS hopes to refinance the bank borrowing with a bond issue, but that can't be ensured. So to make the loan attractive, WPPSS wants backing from Bonneville, the big federal marketer of electricity. But Bonneville is concerned about some aspects of the plan. "I'm not prepared to say we would accept it," says Bonneville deputy administrator Robert E. Ratcliffe.

When WPPSS issues bonds, they usually are for repayment over as many as 40 years, but WPPSS envisions receiving from banks a three-year credit line that can be converted to five-year notes for a maximum of eight years. "We understand that commercial banks don't normally consider anything longer than about eight years," says Louis H. Winnard, chairman of WPPSS' executive board's audit, legal and finance committee.

But that would mean that Bonneville, the loan's backer, could have to repay the entire $960 million face amount at the end of eight years. Bonneville would have to collect such funds from its power-sales revenue, so "that causes us some concern," says Mr. Ratcliffe. "What that could do to our rates makes us very uncomfortable. If you can't roll over or refinance that, as a consequence it's too costly."

But Mr. Ratcliffe says Bonneville isn't rejecting the proposal until WPPSS has had a chance to present it to banks. Details won't be worked out until WPPSS and the banks try to negotiate a loan, "and I think we've got to have more details," he says. "We're eager to find out if there are some sources that can be tapped. The major thrust of this exercise is seeing the interest of some of the major banks."

WPPSS plans to send letters to a handful of major banks today, asking if they would be interested in lending, said James D. Perko, WPPSS chief financial officer and treasurer. He said WPPSS hasn't contacted banks about the proposal. But Mr. Ratcliffe says, "I've been told there have been some contacts and the banks are sufficiently interested to talk."

Press Intelligence, Inc.
WASHINGTON, D.C. 20005

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WALL STREET JOURNAL
--EASTERN EDITION--
JUN 13 1983
MORNING - 640,064

Bankers' Reactions

But bankers apparently haven't expressed any enthusiasm about the proposal. "I wouldn't recommend this bank to lend them money," said the utilities specialist at a major Midwest bank. "I think they're going to have a real hard time of it."

The bankers fear that the Washington utility can't offer sufficient collateral to protect lenders if WPPSS were unable to repay. "They need to come up with security for the credit line in the event of bankruptcy," said one banker. "We certainly don't want to be stuck with a nuclear power plant."

In San Francisco, Crocker National Corp., and Wells Fargo & Co. said they haven't been approached by WPPSS and wouldn't comment on whether they might extend credit to WPPSS. BankAmerica Corp. also wouldn't comment.

WPPSS' executive board voted May 27 to suspend construction on plant No. 3 for three years if it can't obtain additional funds. It ordered an immediate construction slowdown, but said that for 30 days activity should continue at a level that would allow a full resumption. Since May 27, WPPSS has laid off 1,350 of the project's 3,380 workers.

SPOKANE, WASHINGTON
SPOKESMAN-REVIEW
MAY 29 1983
MORNING - 71,603
SUNDAY - 121,474

Latest cut at WPPSS: What are the costs?

By JIM CAMDEN
Staff writer

Putting a nuclear plant on hold is an expensive proposition — but just how expensive depends on who is analyzing the cost of the mothballs.

The Washington Public Power Supply System board voted Friday to put another nuclear power plant on hold, after the Bonneville Power Administration insisted that the cost of that delay would not be "significant."

Average ratepayers worry when their rates change three zeroes to the right of a decimal point — the number of mills per kilowatt hour. So, they might find it difficult to judge the significance of figures that have eight zeroes to the left of the decimal point.

Compounding the confusion are the ways WPPSS and BPA represent the cost of the nuclear plant's delay.

WPPSS officials estimate a three-year delay on plant No. 3 will add $758 million to the cost of the project, supply system spokesman John Britton said.

That figure takes into account inflation for construction costs, payments of interest when no revenue comes in, maintenance of the suspended-but-not-terminated project, administration and the cost to maintain the various licenses, Britton said.

Although the plant without mothballs carries a pricec tag of $4.9 billion, $758 million for the delay is still significant by any measure of accounting.

BPA, however, views the cost of the mothballing plant No. 3 as part of it's entire system cost — all the power plants that the agency uses to provide electricity to utilities and manufacturers in the Northwest.

It argues that some savings of unpaid workers salaries and unused fuel should be added into the equation along with expected losses for higher construction costs and interest paid on investments that are not returning money through power sales.

BPA believes the net cost of mothballing No. 3 will be $42 million in 1983, and $73 million in 1984. In 1985, however, it believes the delay actually will save $89 million, said BPA spokesman Ed Mosee.

BPA now has more power than it can sell.

Administrator Peter Johnson said Friday the agency is negotiating some short-term contracts — in the range of two years — with Southwestern utilities. Mothballing No. 3 would not effect the agency's needs under those contracts, he added.

(Continued on page 5)

(Continued from page 1)

So BPA adds into its estimate of savings the costs of power that No. 3 would generate but that the agency would not be able to sell.

That's the reason BPA contends the project can be put on hold for three years but not longer.

Both BPA and WPPSS believe any delay of more than three years will cost even more, but again the figures they quote are different.

A five-year delay would add $1.1 billion to the cost of the plant by WPPSS accounting, with losses for the same items it uses to compute the shorter delay, Britton said. An eight-year delay would cost $1.9 billion.

BPA believes it will need the power from No. 3 within five years and therefore adds the cost of not having that power into its equation. But it says the net loss to the entire BPA system would be about $150 million with a five-year delay, and around $400 million after eight years, said power supply analyst Walt Pollock.

Figures from both agencies are estimates.

Washington Water Power Co., which owns 5 percent of No. 3 and plans to fight the mothballing, does not yet have its own estimates on the costs of the delay.

Joe Piedmont, WWP vice president for public relations, said he has seen figures from outside sources in the $100 million range, and "I would consider that significant."

The decision to mothball No. 3 ended what may have been one of the worst months in the history of WPPSS.

Two weeks earlier, the executive board had agreed to accept default on bonds for plants No. 4 and 5, and one of the country's major bond-rating companies suspended ratings for bonds on the other three plants.

The Legislature refused to pass a law that would allow WPPSS to declare separate bankruptcy on individual plants, and the rating suspension remains in effect.

But gloom did not permeate Friday's meeting, as ratepayer groups sent salvos at board members, who seemed willing to let most of their barbs slide.

One member of the Seattle Light Brigade affected the palsied movements of a senile matron, and, flower in hand, bemoaned the passing of No. 3 which "never had a chance to electrify our lives."

Cynthia White, another Light Brigade member, asked board members to spend some of the $500 each receives for attending meetings to buy an advertisement in the organization's publication. Other utilities have purchased such ads, she said.

"We'll see if we can work it into our budget," said Chairman Carl Halvorson.

Carol Dobbins, Light Brigade president, later presented Halvorson a jar of red pingpong balls which she said were barracuda eggs.

The gift was a ribbing for Halvorson's statement two weeks previously that WPPSS would not "walk barefoot among the barracudas" by spending all of its dwindling funds for Nos. 4 and 5 on bond payments.

Press Intelligence, Inc.
WASHINGTON, D.C. 20005

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SEATTLE, WASHINGTON
TIMES MAY 27 1983
EVENING - 246,690
SUNDAY — 331,060

WPPSS to decide fate of N-Project 3

by Bob Lane
Times staff reporter

WPPSS directors today are considering a resolution to halt construction on Nuclear Project 3, its shining example of the right way to build a power plant.

But they may order an aggressive search for funds from "unconventional" sources to permit construction of the plant, which is 76 percent complete, to resume within a few months at Satsop, Grays Harbor County.

Executive-board members of the Washington Public Power Supply System, meeting in committees yesterday, obviously were reluctant to accept what others offered as simple truth — that WPPSS' Plant 3 account is nearly broke and that no investor will lend WPPSS additional money because of its tangle of legal and political problems.

The Bonneville Power Administration emphasized those points in a report to board committees Wednesday and suggested WPPSS consider postponing completion of the plant for three years.

Peter Johnson, BPA administrator, reportedly was ready to insist today that WPPSS mothball Plant 3.

But yesterday, some WPPSS board members instead urged a search for unusual sources of money — bypassing WPPSS' normal financial advisers, bond counsel and underwriters, who have said WPPSS cannot borrow now.

Louis Winnard, board member, asked for a staff report contrasting the cost of paying higher interest on unconventional financing with the cost of mothballing the plant for several years.

Another board member, C.M. Berry, retired president of Seattle-First National Bank, said "there's a great deal of money available" and that WPPSS won't know if it can't borrow unless it tries.

Board members didn't specify what kinds of unconventional financing they would seek, other than to say the money would come from investors willing to take a chance — and charge a premium rate of interest in return.

Robert Ratcliffe, deputy BPA administrator, said his agency — which is paying interest and principal on the project debt — "has looked for money in many places and has had inquiries from money peddlers, but none had substance."

He warned that the Snohomish County Public Utility District, unable to arrange long-term financing because of its relationship with WPPSS, got in trouble by borrowing $215 million on short-term notes to pay for a hydropower project.

"We can't be in that position," he said. "We've got to be able to demonstrate that it can be paid back."

BPA has offered to continue to pay debt service on the $1.6 billion WPPSS has borrowed so far to build Project 3, plus mothballing costs. But BPA can't provide the $900 million WPPSS needs to finish paying for its 70 percent share of the plant, Ratcliffe said.

Four Northwest private utilities own the remaining 30 percent. They have warned that mothballing Plant 3 would be a breach of contract and have hinted they will sue if work is halted.

WPPSS' new managing director, Don Mazur, said he had ordered the drafting of a resolution to take the first formal step toward shutting down Plant 3. If more money is found within two months, WPPSS still could resume construction and complete the project on schedule, he said.

Plant 3 has established nuclear industry records. Scheduled for completion in 1986, it is about seven months ahead of schedule.

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WASHINGTON, D.C. 20005
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CINCINNATI, OHIO
POST MAY 27 1983
EVENING - 190.303

Whoops!

Congress ought to put up the "no bailout" sign for the Washington Public Power Supply System, the Northwest utility that is on the financial rocks.

The troubled utility has been nicknamed "Whoops" and a better name could hardly be found.

To be truthful, the trouble followed some bad federal advice along the way. The Bonneville Power Administration, created by the U.S. government in 1937 to market electricity from federal dams along the Columbia River, urged local utilities to undertake the nuclear power development plan that has fallen on its face.

But that doesn't excuse the poor planning and mismanagement on the local level. One Seattle financial analyst was quoted the other day as laying the problems to "ambition, politics and no business sense" by persons connected with the project.

Five nuclear power plants were supposed to be built. Two have been canceled, two are under construction and the fifth is close to completion but hasn't become operative.

The plants were supposed to cost $4 billion but the estimate has soared to $23 billion. The demand for electricity in the Pacific Northwest that the planners saw 10 years ago has not developed.

The upshot is that the consortium of public and private electric utilities that joined in the project are threatening to default on the municipal bonds that have been sold to finance it.

Now comes Rep. George Hansen, R-Idaho, with a plan for the federal government to bail out the bondholders and utility customers who seem likely to get stuck with soaring bills.

Why should American taxpayers rescue bondholders who bought the municipal bonds in the first place largely because the earnings from them are exempt from federal taxes?

Why should American taxpayers bail out utilities and utility customers who let politicians and managers from their area lead them down a garden path?

Hansen is asking U.S. taxpayers to pay for a regional folly and Congress ought to say no.

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Court bars WPPSS bond trustee from crying 'default'

By JOHN GILLIE

A King County Superior Court judge's ruling apparently has staved off the threat that WPPSS will default on some $2.25 billion worth of bonds sold to build two terminated nuclear power plants.

Judge H. Joseph Coleman, acting on a motion by Tacoma attorney Albert Malanca, late yesterday issued an order prohibiting the bond trustee, the Chemical Bank of New York, or any of the bond holders from issuing a default notice to the Washington Public Power Supply System.

WPPSS' treasury for the two plants now stands nearly exhausted, and the supply system had warned it would be unable to make its payments this month to the bond fund being held by Chemical Bank, thus triggering the default notice.

Malanca, who represents the largest group of the terminated plants' owners, praised the judge's ruling.

"This was a very significant, tremendously important, sensible thing the judge has done," he said. "It's what the utilities have been saying, 'For God's sakes, freeze everything in place 'til we can get a ruling.' "

Chemical Bank and the plant owners have been locked in a legal battle for months before Coleman and the state Supreme Court over the question of the bond agreements' validity.

The judge's ruling yesterday is valid until the courts can decide if the utilities are obliged to pay those debts.

Coleman, in putting default on hold, also refused to give the supply system access to a multi-million dollar escrow fund the court set up to receive payments from the 88 utilities that own the plants.

Malanca said Coleman recognized that if he released those funds to the supply system, the utilities would never get their money back even if the bond agreements were later ruled invalid.

WPPSS has been warning for months it would soon have to step over the brink of default.

The supply system's executive board is conducting a series of special meetings this week in Seattle that could have led to a default on the two plants' bonds.

With the default question apparently handled by Coleman's order, the board still faces two major decisions.

It apparently will decide whether to mothball its plant 3 construction project at Satsop. It also is scheduled to consider whether to permanently forego any possibility of restarting construction on the terminated plants 4 and 5.

Plant 3, which has been on a slowed construction schedule for several months, will run out of money soon unless the supply system can sell more bonds or unless the plant construction is halted.

The plant 3 project, plagued by cost overruns and delays during its initial years, now is setting industry records for construction progress. The plant is 74 percent complete. The shadow of the plants 4 and 5 termination, however, has made it unlikely that bonds could be sold to continue construction until the court cases over the two terminated plants are resolved.

The board is also set to decide whether to put the two terminated plants into "phase 2 termination." Under that program, the supply system would begin selling off even critical mechanical equipment to raise money to pay bills. Once that critical equipment is sold, it may be virtually impossible to restart plant construction.

The Northwest Power Planning Council has predicted those two plants won't be necessary to meet the region's power needs for at least 20 years.

Press Intelligence, Inc.
WASHINGTON, D.C. 20005

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TACOMA, WASHINGTON
NEWS-TRIBUNE
EVENING - 100,757
TRIBUNE-LEDGER
SUNDAY - 104,676

MAY 25 1983