

MINUTES OF THE  
 WASHINGTON PUBLIC POWER SUPPLY SYSTEM  
 SPECIAL EXECUTIVE BOARD MEETING  
 GLENN C. WALKLEY ROOM, MULTIPURPOSE FACILITY  
 RICHLAND, WASHINGTON  
 APRIL 23, 1982 - 9:00 A.M.

The Special Meeting of the Executive Board of Washington Public Power Supply System was called to order by Chairman Stanton H. Cain at 9:00 a.m. There was a quorum present. Chairman Cain stated this was an open public meeting of the Supply System. Mr. G. E. C. Doupe', Acting Chief Counsel, reported that an environmental analysis of the April 23, 1982 Executive Board agenda had been prepared which showed that all items on the agenda were categorically exempt from procedural requirements of the State Environmental Protection Act.

ROLL CALL

Stanton H. Cain, Chairman  
 Ed Fischer  
 Jack Welch  
 Donald R. Clayhold  
 C. Stanford Olsen  
 Howard B. Richman  
 Paul J. Nolan  
 Joe Recchi

Board Members Present: Robert O. Keiser, Chelan County PUD; A. E. Fletcher, Clallam County PUD; Howard Prey, Douglas County PUD; William G. Kuehne, Ferry County PUD; Kenneth R. Cochran, Franklin County PUD; Harold F. Nelson, Grant County PUD; Roger C. Sparks, Kittitas County PUD; Marion C. Babb, Klickitat County PUD; John Kostick, Lewis County PUD; Robert C. Olsen, Mason County PUD No. 3; John E. Dunsmoor, Pacific County PUD; Parker Knight, Skamania County PUD; David L. Myers, Wankiakum County PUD; Larry Nickel, City of Ellensburg; and Thomas Logston, City of Richland.

Others Present: Peter T. Johnson, E. Willard, R. Ratcliffe, J. Curtis, Ed Sienkiewicz, J. R. Lewis, Bonneville Power Administration; Ray Foleen, Consultant to the WNP-4/5 Participants' Committee; J. A. Hare, Administrative Auditor; Frank Hensley, Legislative Budget Committee; Francis Coleman, Goldman Sachs; Jim Seagraves, R. W. Beck & Associates; J. P. Laspa, Bechtel Power Corporation; Gordon Culp, Bud Krogh and Robert Marritz, Culp, Dwyer, Guterson & Grader; T. S. Hundal, United Engineers and Constructors, Inc.; Congressman Sid Morrison; Senator Max E. Benitz; Washington State Representatives Shirley Hankins, Ray Isaacson and Doc Hastings; Senator Sue Gould; Glenn Walkley and John Goldsbury, past Presidents of the Board of Directors; D. S. Spellman, Puget Power & Light; David De Lorenzo, Hanford High School; Nancy De Lorenzo, Columbia Basin Apartment Association; B. James, Energy Fair 1983; Susan Boothe, Pasco City Council; Dean Sundquist, Seattle City Light; William Barnes, Okanogan County PUD; Al Pflugrath, Chelan County PUD; Harold Beckemeier,

Mr. Welch continued that on Wednesday, April 21, 1982, the Executive Board had sent a letter to the four investor-owned utilities who have an ownership share in WNP-3. The purpose of the letter was to establish the investor-owned utilities' position with respect to a possible slowdown of construction at WNP-3. Mr. Welch read the letter which had been sent to the investor-owned utilities as well as the response to his letter. The letter received from the investor-owned utilities stated, in part, as follows:

"You ask whether, as owners of WNP No. 3, we would resist a proposal to defer continued construction on that project. The answer is yes. We will vigorously resist any such efforts...Answering the two specific questions posed in your letter, our responses are as follows: (1) Deferral of construction of WNP No. 3 would be very detrimental to our customers, and we would exercise our contractual and legal remedies to prevent such deferral; and (2) We continue to be, as we always have been, interested in pursuing any arrangement which is in the interests of the region and our customers and would, of course, be willing to work with the Supply System, BPA and others to determine alternative solutions."

Mr. Welch also stated that a letter had been received from Peter Johnson, dated April 23, 1982. Mr. Welch read the letter which stated, in part, as follows:

"On April 19, 1982 at the meeting of the Washington Public Power Supply System Executive Board, Howard Richman of your Committee posed the question to me regarding the implication of the recommendation I made to that group. I responded that I would take your question under advisement and provide an answer to you at an early date. I will now express my intention as fully and completely as time will permit..."

The selection of the WNP-1 Project as the project to be delayed pending identification of both the financial markets and the means of assessing those markets was dictated by many factors, including, among others, the fact that the delay of either WNP-1 or WNP-3 would result in some reduction in the size of the BPA 1983 rate increase with some margin favoring delay of WNP-1; the proximity of WNP-3 to the region's major load centers providing increased transmission reliability and significant reduction of transmission losses; the delay of WNP-1 results in a greater reduction of surplus in both amount and timing, the circumstance of joint ownership of the WNP-3 Project...so that the output will be shared between Bonneville and the other joint owners; the enhanced opportunity for a more expeditious restart of WNP-1 because the geography and the pool of technical skills within the Hanford Reservation area; and, perhaps most

May 1, 1982 at which time the Project's commitments would exceed the cash available. Mr. Doupe' replied that this question had not been put before the court; however, such an issue should be placed before the court on or before May 1, 1982.

Following this discussion, Mr. Welch pointed out that a copy of R. W. Beck & Associates' report was included in the Board members' folders. Mr. Welch asked Mr. Johnson to comment on the letter which he had delivered to the Executive Board prior to this meeting. Mr. Johnson stated that his recommendation was a result of responding to a request from the Executive Board with respect to future financing for the projects. Mr. Johnson continued that BPA, together with other decision makers and leaders throughout the Northwest, set the following objectives: (1) to further the best interests of current and future ratepayers of the region; (2) to minimize the financial risks and maximize the fiscal integrity of the Bonneville Power Administration and the region as a whole; (3) to preserve the region's economic ability to deliver the benefits of the Pacific Northwest Electric Power Planning & Conservation Act; (4) to bring greater certainty, stability and predictability to rates and resource decisions; (5) to provide a maximum opportunity for the region's economy to recover and to remain prosperous; (6) to identify the most effective strategy for marketing the bonds needed to finance the completion or preservation of the Supply System's projects; (7) to maximize the region's flexibility to accommodate changing loads; and (8) to identify a choice which ensures a healthy and positive construction environment within the Supply System in order that maximum efficiencies can be achieved.

Mr. Johnson stated that the recommendation which he had presented to the Supply System Board was difficult because of its impact on the Tri-Cities area and the State of Washington. However, the recommendation had to be made in consideration of the interests of eight million citizens and ratepayers of the Pacific Northwest. Mr. Johnson stated, as he had on numerous other occasions, that Bonneville strongly believed that all three of the projects under construction by the Supply System were needed by the region. He continued that a multitude of circumstances prevented the Supply System from continuing with construction on this basis. He stated that the recommendation made by the Bonneville Power Administration was reached after weeks of exhaustive analysis and extensive consultation with a wide range of federal, State and local government officials, utility directors and managers and Supply System management. He continued that Bonneville's recommendation was driven by two pressing circumstances: financial uncertainties and ratepayer reaction to escalating rates caused significantly by the Supply System's construction program. Mr. Johnson continued that fortunately, projected near-term surpluses of electricity would allow the region to deal effectively and responsively with these two circumstances. He continued that the determining factor and decision faced on construction of these plants was that sufficient funds were not available to continue all three projects on the current construction schedules. He stated that there was not enough money prudently available to the Supply System to protect Project 2 and continue the construction of both



conducted under Option B for an extended construction delay indicated that there would be a net benefit to the region of \$212 million. On that basis, Mr. Sienkiewicz said it could be argued that that option has a benefit for the ratepayers in the region both in the short term and the long term. It is expected that there would be a 1 mil per kilowatt hour decrease in the rates for the first five to seven years. Following that, there would be .5 mil per kilowatt hour increase. Following further discussion on the effect of the construction slowdown on future rates, Mr. Sparks asked what provisions had been made for financing an extended construction delay of WNP-1. Mr. Johnson replied that adequate funds were available to demobilize and cover maintenance costs through September 1983. Mr. Sparks asked what funding would be available after September 1983. Mr. Johnson replied that if funds were not available after September 1983, it would be his desire to provide the funding from BPA revenue. It is estimated that the cash required would be approximately \$2.5 million per month.

Mr. Myers observed that it was the perception of Wahkiakum County PUD and others that the nuclear power plant construction program had been undertaken for the benefit of the entire region, including the private utilities, industrial customers and public power agencies. He stated that it appeared that with the termination of Projects 4 and 5 and the recommended extended construction delay for WNP-1, the public utilities were primarily bearing the burden of risk and uncertainty in the construction of these nuclear power plants. For this reason, among others, Wahkiakum County PUD strongly opposed the recommended construction delay of WNP-1 instead of WNP-3. He continued that he was disappointed in the timing of BPA's recommendation, because it removed from the Board the consideration of options which might be available. Mr. Myers presented two resolutions from Wahkiakum County PUD which identified Wahkiakum's position in this matter.

Mr. Fletcher stated that he believed the region needed the power which would be produced from all five of the Supply System's plants. He urged that construction be continued on the three remaining plants until such time as further financing was no longer available, if this were the case.

Mr. Clayhold stated that he felt if a directive were not received from Peter Johnson as to the extended construction delay for WNP-1, he would recommend an alternative to Mr. Johnson's recommendation. Mr. Clayhold referred to Peter Johnson's April 23, 1982 letter which stated: "I could not, in good conscience, approve a budget presentation or a financing plan inconsistent with this program." Mr. Clayhold stated that although this did sound like a directive from the Administrator, he had heard Mr. Johnson indicate earlier in the meeting that he would consider other alternatives. He stated that short of a directive, he would encourage the Executive Board to implement Mr. Johnson's recommendation with respect to Projects 2 and 3. However, with respect to WNP-1, Mr. Clayhold submitted an alternative to Mr. Johnson's recommendation which would provide that the bond issue for WNP-1 be of a sufficient amount to carry construction forward at the current pace either through the



Mr. Johnson stated that he would stand with his recommendations as they were set forth in his April 23, 1982 letter to Mr. Welch, Chairman of the Finance Committee. He continued that if there was a recommendation supported by the Executive Board, he would take such a recommendation under advisement. Mr. Johnson continued that the two concerns which had driven BPA's decision and recommendation were the financial uncertainties and the ratepayers' reaction throughout the region. He stated that the BPA forecast was nothing more than an enabling circumstance to deal with the two concerns. Following further comments, Mr. Johnson stated that it was believed it would require a financing of \$875 million to proceed with construction of WNP-1 through November 1982. He continued that consideration must be given to the difficulty this increase would present for financing, as well as the fact that a financing of this size would result in a modest rate increase, rather than the proposed rate decrease.

Following a considerable amount of discussion regarding the financing of the projects, Mr. Clayhold reviewed the reasons for shifting the operation of the Supply System from operating on a cash basis to operating on a commitment basis. He continued that prior to the time that Initiative 394 had been approved by the voters of the State, the Supply System had operated on a cash basis. Under this plan, it was possible for the Supply System to go forward with a bond sale when cash was needed for construction of the projects. However, with the passage of Initiative 394, it was necessary to begin operating on a commitment basis. He continued that if the voters were to vote against further financing of the project, the Supply System would have sufficient funds to bring the project to an orderly halt when operating in a commitment mode. However, if the voters were to approve the future financing of the project, the Supply System could immediately go back to operating on a cash basis which would require less funding.

Mr. Nolan referred to Mr. Johnson's recommendation and analysis concerning the construction schedule for WNP-1. Mr. Nolan continued that it appeared to him that Mr. Johnson's analysis had been presented with no alternative but to accept the recommendation. He continued that following the review of Mr. Johnson's April 23, 1982 letter, it appeared to him that the letter was a directive. He asked if this was a wrong interpretation of the comments contained in the letter. Mr. Johnson urged that the Executive Board review this matter with counsel. As indicated earlier, Mr. Johnson stated that if for very compelling reasons, the Executive Board were to request Bonneville to change their recommendation, he would have to take such a request under advisement. In conclusion, he stated that his letter had been quite clear, and he urged the Board to seek the advice of their counsel as to the interpretation of the letter. Mr. Nolan asked how much time was being allowed in the decision making process for the Board to make such recommendation. Mr. Johnson deferred to Mr. Welch or a staff member as to the current status on the remaining funds available. Mr. J. D. Perko, Acting Chief Financial Officer, replied that on a commitment basis, the latest analysis indicated that available funds would be depleted on or about June 1, 1982 for Projects 1, 2 and 3. Mr. Johnson added that the recommendation of the financial advisors was that actions necessary to hold a bond sale in the near future needed to commence on April 26, 1982.

to assure that funding for the projects is available. He continued that the financial advisors had indicated that due to the uncertainties of Initiative 394, there would be a risk on a cash basis. Therefore, the Bonneville Power Administration would feel it would be imprudent to proceed on other than a commitment basis. Following further discussion, Mr. Johnson stated that BPA could not proceed forward, given the uncertainties surrounding the financing of the projects, on other than a commitment basis. He continued that Mr. Clayhold had requested that consideration be given to proceeding on all three units on a commitment basis through November; this approach would require a larger amount of financing. Mr. Johnson continued that if the Board came forward with this type of a recommendation, he would take the recommendation under advisement.

Robert Olsen stated that he felt the financing problem which was being discussed at this meeting should have been foreseen at an earlier date. He stated that he was representing Mason County PUD No. 3, and it was his duty to make wise and prudent decisions on their behalf. However, he did not feel that there was sufficient information or time to make such a prudent decision. He stated that he did not feel the Executive Board was controlling the Supply System's destiny, but rather, that Peter Johnson was controlling its destiny. He stated that he felt the Board should consider Bonneville's recommendation. However, after studying such a recommendation, he felt that the Board should come to their own conclusions and decisions. If BPA chose to override the Board's decision, it would then become BPA's decision and responsibility.

Following further discussion, Mr. Welch called on James Seagraves, R. W. Beck & Associates, for comments concerning their review of BPA's forecast of energy consumption. Mr. Seagraves reported that R. W. Beck & Associates had examined the assumptions, methodology and conclusions of BPA's report. In reviewing the document, it was determined that significant judgment had been used by the staff on the range of assumptions, input variables and the types of models used. None were felt to be unreasonable. He continued that it was felt the economic analysis was believed to be theoretically correct. C. Stanford Olsen asked, if in Mr. Seagraves' professional judgment, he felt that the assumptions and conclusions reached by Bonneville Power Administration were correct. Mr. Seagraves replied that due to the way the economic analyses were presented, there would be no way to show either an economic benefit or cost to the region. In conclusion, Mr. Seagraves stated that the draft BPA report contained no major errors which R. W. Beck & Associates had discovered.

Following a considerable amount of discussion concerning the appropriate body to act on Peter Johnson's recommendation, Mr. Doupe' stated that the Board of Directors under the existing law had the power to make final decisions on budgets and bond sales; however, determining the construction schedules of the projects was the responsibility of the Executive Board. He concluded that the subject which was being discussed was a divided function and responsibility. Following further discussion, Mr. Nelson suggested that plans for a bond sale

Mr. Mazur then reviewed the program goals for the extended construction delay plan for WNP-1. These program goals included preserving the plant assets, not precluding plant licensability, providing for an orderly cessation of activities and a minimum cash flow and closing out contracts and paying off bills as rapidly as possible. He pointed out that many of the contractors were being tolerant with respect to receiving payment for their contract work under Project 4 due to active contracts on Project 1. However, with the construction delay plan being discussed, it was felt that the contractors' tolerance level would dissipate. Mr. Clayhold asked for assurance that management would be sensitive to the WNP-4 Termination Program when contracting matters were closed down on WNP-1. Mr. Mazur replied that although the Supply System would be sensitive to this area, he was unsure as to the latitude and flexibility which would be available. Mr. Clayhold suggested that this subject be addressed in the goals for the extended construction delay program. Mr. Clayhold stated that it appeared from the response that if the construction on WNP-1 was closed down, the risk of WNP-4 not being able to meet their commitments was increased. Mr. Mazur replied that there would be such an increased risk.

Following a review of the assumptions which had been developed, Mr. Mazur reviewed the proposed decrease in staffing which would occur if the extended delay plan were implemented. Mr. Mazur stated that the 6,375 personnel would be decreased within 30 days to 2,100 people. This staffing level would be reduced to 1,000 within three months and 300 within one year. This staffing level would be sustained for the two to three-year period, depending upon the ultimate determination for restart of construction. Following further discussion concerning the staffing levels and the resulting impact on funds which totaled \$970 million without interest, including the loss of schedule improvement of seven months, Mr. Mazur stated that the 1983 budget would be completed based on the present construction plan. He stated that initially, 90 percent of the construction contracts would be terminated; the remaining ten percent would be suspended. He also stated that selectively, the prepurchased contracts would be completed. Following a review of the objectives of the extended construction delay program, as well as the ramp-up of the program, Mr. Mazur reviewed his concerns with respect to the extended construction delay.

One of the major concerns would be the loss of project momentum. He stated that regaining this momentum, especially in cost and schedule control, would be difficult. He also indicated that the loss of key personnel would be extremely difficult to overcome. In addition, it would be extremely difficult to rehire quality people for the restart program. Other concerns included (1) ability to sustain adequate maintenance over a prolonged time period; (2) impact of safety and licensability environment; (3) erosion of the nuclear industry capability to support restart; and (4) significant estimate at completion impact which would result in higher utility rates.

Several questions concerning Mr. Mazur's presentation were raised by the Board members. Following this question and answer period, Chairman Cain requested comments from members of the public.



NUCLEAR PROJECT 1

Executive Board Resolution 63 entitled "A RESOLUTION APPROVING THE EXECUTION OF MODIFICATION 'FDG' TO CONTRACT NO. 9779-218, MAIN ELECTRICAL CONTRACT, WITH FOLEY/WISMER & BECKER, A JOINT VENTURE, AND AUTHORIZING DELETION OF A PORTION OF THE WORK AND FINAL ACCEPTANCE OF CONTRACT NO. 9779-218 AND THE EXECUTION OF CONTRACT NO. 9779-218A WITH FOLEY/WISMER & BECKER, A JOINT VENTURE, FOR THE WORK WHICH WAS DELETED FROM CONTRACT NO. 9779-218 - WASHINGTON PUBLIC POWER SUPPLY SYSTEM NUCLEAR PROJECT 1" was presented for consideration. Mr. Welch reviewed the resolution and reported that the realignment of Contract 9779-218 would provide maximum flexibility for the Supply System to directly control the orderly phase down of work under the contract which would ensure controlled completion of documentation for all work to be completed. It would also ensure that all work and documentation was preserved in a manner which would best support a subsequent restart. Following further review of the resolution, Mr. Welch stated that based upon the Finance Committee's review and evaluation, the Committee recommended approval of Executive Board Resolution 63. Mr. Welch moved that the resolution be adopted. Mr. Olsen seconded the motion.

Mr. Recchi asked for assurance that the adoption of this resolution would not be in contempt of the previously discussed restraining order relating to WNP-1. Mr. Doupe' pointed out that this realignment of the contract had been proposed prior to the recommendation and consideration of the extended construction delay of the project. Mr. Doupe' referred to Finding No. 1 of the resolution which stated, in part, as follows: "The purpose of this modification is to allow maximum flexibility for the early completion, slowdown or extended construction delay of the project, if necessary, and ultimate restart of the project, as may be later determined by the Executive Board to be in the public interests". Mr. Doupe' continued that his legal analysis of the realigned contracts leads to the conclusion that it gives the Supply System total flexibility to manage the contract in the best interests of the project. He stated that in his opinion, passage of this resolution would not only allow a construction slowdown, but it would also expedite the improved management of the contract if the project were not slowed down. For this reason, Mr. Doupe' stated he did not feel that the adoption of the resolution would be inconsistent with the order.

Mr. Recchi asked if the realignment of this contract was within the 1982 budget. Mr. Welch replied that the funds were available within the 1982 budget. Mr. Squire added that Mr. Clayhold had previously expressed concern regarding the possible impact which the slowdown of WNP-1 might have on the termination of WNP-4. He stated that the realignment of this contract reduced the likelihood of an impact on WNP-4. Following this discussion, the question was called for. EXECUTIVE BOARD RESOLUTION 63 ADOPTED BY UNANIMOUS VOTE.

NUCLEAR PROJECT 3

Executive Board Resolution 64 entitled "A RESOLUTION ACCEPTING THE BID OF AND AUTHORIZING THE EXECUTION OF AN AGREEMENT WITH GEA POWER COOLING SYSTEMS, INC. FOR HEAT TRANSFER COMPONENTS FOR TWO DRY COOLING TOWERS, CONTRACT NO.

10607543

Executive Board Resolution 70 entitled "A RESOLUTION APPROVING THE EXECUTION OF PROJECT CHANGE PROPOSAL NO. 35500637, CONSOLIDATION OF MISCELLANEOUS STEEL ERECTION TO ONE CONTRACT, WITH MORRISON-KNUDSEN COMPANY, INC. - WASHINGTON PUBLIC POWER SUPPLY SYSTEM NUCLEAR PROJECT 3" was presented for consideration. Mr. Welch reported that this project change proposal would consolidate remaining miscellaneous steel erection in the WNP-3 Reactor Building from Contract 3240-265 to Contract 3240-263. He pointed out that the value of Contract 3240-263 would be increased by \$710,000 for the transferred work and would be funded by decreasing the value of Contract 3240-265. Following further review of the resolution, Mr. Welch stated that based upon the Finance Committee's review and evaluation, the Committee recommended approval of Executive Board Resolution 70. Mr. Welch moved that the resolution be adopted. Mr. Recchi seconded the motion. EXECUTIVE BOARD RESOLUTION 70 ADOPTED BY UNANIMOUS VOTE.

Chairman Cain recessed the Special Executive Board meeting at 3:15 p.m. The meeting was reconvened at 4:05 p.m.

#### REPORT BY THE AUDIT COMMITTEE

Mr. Nolan, Chairman of the Executive Board Audit Committee, reported that the Audit Committee had reviewed the report of the Internal Auditor and the proposed report of the Administrative Auditor. The Committee was satisfied with the progress of the audits. Mr. Nolan urged that the Managing Director employ eight additional internal auditors to provide the necessary staffing for the office of the Internal Financial Auditor.

#### APPROVAL OF CLAIM VOUCHERS

Mr. Recchi moved that the following claim vouchers be ratified: GENERAL FUND - #119034 through 120428; NUCLEAR PROJECT NO. 1 CONSTRUCTION REVOLVING FUND - #3004 through 3008; NUCLEAR PROJECT NO. 1 CONSTRUCTION FUND - #5380 through 5585; NUCLEAR PROJECT NO. 1 CONSTRUCTION FULL FUND - #127 through 130; NUCLEAR PROJECT NO. 2 CONSTRUCTION FUND - #14986 through 15389; NUCLEAR PROJECT NO. 2 CONSTRUCTION FUEL FUND - #96 through 98; NUCLEAR PROJECT NO. 2 REVENUE FUND - #155 through 157; NUCLEAR PROJECT NO. 3 CONSTRUCTION TRUST ACCOUNT - #8770 through 8948; NUCLEAR PROJECT NO. 3 CONSTRUCTION FUND - #484 through 515; NUCLEAR PROJECT NO. 3 CONSTRUCTION FUND - Wire Transfers 11-82 through 14-82. Mr. Welch seconded the motion. Mr. Olsen asked for assurance that no claim vouchers were included in this listing which were for the payment of Bond Fund Trustees' litigation costs with respect to Initiative 394. Mr. Doupe' replied that the claim voucher list had been reviewed, and no vouchers were included for the payment of these fees. Following this discussion, the question was called for. MOTION CARRIED.

Chairman Cain recessed the Special Executive Board meeting at 4:10 p.m., stating the the meeting would be reconvened at 2:00 p.m. on April 28, 1982 in the Lopez Room, Seattle Center, Seattle, Washington. The Notice of Adjournment which was posted at the meeting place is attached hereto and made a part of these Minutes.

10607545



April 19, the Executive Board Finance Committee asked the Bonneville Power Administration to make a recommendation concerning future financing of the net billed projects. On April 19, the Bonneville Power Administrator recommended an extended construction delay of Nuclear Project 1. On April 23, the Finance Committee received a letter from the Administrator which answered questions previously posed by Board members regarding the BPA recommendation. These questions were discussed by the Board on April 23, 1982. Chairman Cain pointed out that this meeting was a continuation of the discussions held on April 23.

Chairman Cain stated that he had been advised by counsel that the injunction had been lifted and that a reconsideration motion had been heard in Benton County Superior Court on the morning of this meeting; however, that motion was denied. Chairman Cain continued that a decision must be made quickly by the Bonneville Power Administration and the members of the Board. He pointed out that this decision would have an effect on an eight-state region in the Pacific Northwest. He stated that the Board was meeting at this time to allow additional public comment prior to making that decision.

Chairman Cain then called on Jack Welch, Chairman of the Executive Board Finance Committee, for comments relating to this issue. Mr. Welch stated that at the April 23, 1982 Board meeting, a motion had been passed which directed the staff to develop possible options to the construction and financing proposals which were recommended by the Bonneville Power Administration and to present these options to the Finance Committee. The staff started immediately to prepare such options and worked throughout the weekend. The staff produced working papers which showed several variations regarding the management of the net billed projects. The alternatives had been reviewed by the Finance Committee and the Bonneville Power Administrator. Mr. Welch stated that many people had appeared at this meeting to present public comment. He requested that these comments be heard prior to the Board taking action in this matter.

The Executive Board then heard public comments during the next two and one-half hour period from a number of interested individuals. The following citizens presented their views and support of the Supply System's projects: John Poyner, Richland Mayor Pro Tem; Charlie Silvernail, Business Manager, IBEW Local 77; Mark Naulty, Pipefitter at WNP-1; Chuck Keenan, Director, Western Environmental Trade Association; Michael Hartfield, Northwest Council for Adequate Electricity; John Boland, Concerned Citizen of the Northwest; Jay Maidment, Operations Research Consultant; State Representatives Shirley Hankins and Ray Isaacson; Senator Max Benitz; Sue Watkins, Port of Kennewick; Bill Sebero, Benton County Commissioner; Neal Shulman, Richland City Manager; Sheila Renberger, Kennewick City Council; Dr. Tom Ables; Dan Ashburn, Northwest Energy Coalition; Kelly Grubb and Charles Witt, Laborers Local 374; Steve Lattin, Port of Grays Harbor, Grays Harbor Opportunities 80's and Grays Harbor Chamber of Commerce; Russell Peters, Secretary, Pierce County Building Trades Council; Clancy Pirtel, Teamsters Union; James Myton, Tacoma Plumbers and Steamfitters Local; William Grostick, President, Pierce County Building Trades Council; Claude Oliver, Benton County Treasurer; Harold Matthews, Franklin County Commissioner; Jay Holman, Port of Benton; Bill Sarver, Teamsters Union;



Chairman Cain called on Mr. Welch, Chairman of the Executive Board Finance Committee, for a report. Mr. Welch reviewed the history of the issue which was being discussed. He stated that at the direction of the Executive Board, the staff had prepared a number of options and alternatives to the Bonneville Power Administration proposal. The Finance Committee considered these proposals and reviewed them with the staff of the Bonneville Power Administration. A response to these alternatives had been received in the form of a letter addressed to Stanton H. Cain. Mr. Welch called on Mr. A. Squire, Deputy Managing Director, to provide a general summary of the options which were presented to the Finance Committee and the Bonneville Power Administration.

Mr. Squire reported that the basic approach which had been taken was directed at how the Supply System could reduce the required cash flow for Projects 1 and 3 between this time period and the early part of November and to maximize funding. He said that during the review, it was determined that the cash flow requirements for the five months between May 1 and November 1 could be reduced by ten percent without prejudice to the target schedules. It was determined that a 20 percent cash flow reduction at WNP-1 would not only prejudice the target schedules, but also the official schedule for WNP-1. It was determined that a 15 percent cash flow reduction at WNP-3 could be accomplished without prejudice to the target schedule. A reduction of cash flow at WNP-2 was not considered due to the overriding importance of completing Project 2. Mr. Squire continued that the investment bankers had been contacted and had indicated that a bond offering in the area of \$700 million could be accomplished. Other possible sources of funding were examined, including selling approximately \$100 million of uranium oxide. Following a review of 15 possible alternatives, these alternatives were reduced to the two most preferred alternatives.

Mr. Squire then reviewed the two preferred alternatives which had been discussed with the Finance Committee and the Bonneville Power Administration. One alternative provided for construction at the present rate for Projects 1 and 3 until November 1, 1982. This alternative would require a bond sale of \$720 million and would include BPA funding of \$200 million, as well as \$100 million from fuel sales. The other alternative provided for 90 percent of the present cash flow on Projects 1 and 3 until November 1982. This alternative provided for a bond offering of \$750 million and contemplated funding in the amount of \$200 million to be received from BPA.

Following further discussion, Chairman Cain read the letter which had been received from Peter Johnson, Bonneville Power Administrator, dated April 29, 1982. The letter stated, in part, as follows:

"I have reviewed with the staff of the Bonneville Power Administration each of the alternatives to my recommendation of April 19, 1982 which have been presented to me. In addition, I have taken into account the many public statements included in your Board meeting of April 28, 1982.

He continued that it would be necessary to make a detailed review of the engineering which needed to be continued and that which could be discontinued. He indicated that a question existed as to how much of the engineering would need to be reexamined or redone following a construction delay of up to five years.

In summary, Mr. Squire stated that the funds available would allow for an orderly slowdown of WNP-1 and to maintain the project in a maintenance level until November 1983. Mr. Johnson added that this type of construction slowdown activity was being experienced across the country due to the change in load forecasts. He urged that the Supply System seek the advice and counsel from others who have had a similar experience so that the best procedure could be developed to save the resource and so the resource could be restarted at the least cost in the shortest possible time. He continued that he felt this resource was one which was needed in the region.

Mr. Nelson stated that the Executive Board had received a briefing from D. W. Mazur, Director of Projects, on April 23, 1982 concerning the problems and related costs on a rampdown and subsequent ramp-up of the project. Mr. Nelson asked if it would be economically viable to complete the project if it were to be slowed down for two or more years. If it was not economically viable, the Supply System would have a 60 percent completed project which could not be finished, due to the fact it was no longer economically viable. Mr. Johnson responded that BPA had made an economic analysis on this subject. On a present value basis, it was believed that the actual additional cost of ramping down and ramping back up would be approximately \$250 million to \$300 million. This would be the only additional cost above the cost of the project which could not be recovered. This additional cost would not render the resource to be cost ineffective.

Mr. Cochrane asked what Mr. Johnson felt the possibility would be of completing No. 3 if WNP-1 was placed in an extended construction slowdown. Mr. Johnson replied that the Bonneville Power Administration had purchased the output of Projects 1, 2 and 3 and he felt them to be economical, viable resources which would be needed in the future to serve the needs of the region. Mr. Johnson stated it was his hope that at some future time, Projects 4 and 5 could also be determined to be viable resources for the region and could be acquired by the Bonneville Power Administration.

Mr. Recchi asked what the investment community's reaction would be to the fact that the Supply System had made a determination to proceed with construction on two plants, rather than three. He asked if this announcement would cause concern in the investment community and result in a higher interest rate on future bond sales. Mr. Johnson replied that construction slowdowns of this type were becoming more common throughout the country. When discussing this matter with the investment community, Mr. Johnson stated that he had been told by the investment bankers to do what was prudent and responsible. Following further discussion, Mr. Nelson pointed out that within two months, the restructured Executive Board would be assuming the responsibilities of the present Board of Directors and Executive Board. Mr. Nelson stated that it appeared to him that by taking action on this matter at this time, the Board

that a delay which would result in major cost increases would do nothing more than increase electrical rates for the future and play into the hands of the antinuclear advocates who are constantly criticizing the Supply System for what they perceive to be cost overruns. Mr. Logston stated that the people of the Pacific Northwest needed the power which would be generated by WNP-1, the ratepayers of the Pacific Northwest needed the savings which would result if WNP-1 was finished on schedule, and the citizens of the State of Washington needed the economic stability which would be lost if the project was delayed. Following further remarks, Mr. Logston urged the Board not to vote as a result of political pressure.

Mr. Recchi asked for input from legal counsel as to the ownership of Project 3 and the arrangements which would be necessary for the transfer which had been suggested by Robert Olsen. Mr. Rob Marritz, Culp, Dwyer, Guterson & Grader, replied that such an arrangement would be very difficult to accomplish, inasmuch as the Net Billing Agreements require that in order to assign an interest in any of the plants, the consent of the participants would have to be secured. Therefore, all of the parties to the project would have to agree to the assignment. Even if such an agreement were secured, the arrangements for such a transfer of ownership would be very complex.

Mr. Welch delivered a number of letters which he had received from individuals in the Grays Harbor area. He continued that two of the letters were from the City Councils of the Cities of Elma and Montesano. The letters represented the citizens of those areas and expressed a strong desire for the continuation of construction of Project 3.

Executive Board Resolution 71 entitled "A RESOLUTION DIRECTING A FINANCING AND CONSTRUCTION PROGRAM FOR PROJECTS 1, 2 AND 3 AND AN EXTENDED CONSTRUCTION DELAY FOR PROJECT 1" was presented for consideration and read in its entirety by Mr. Doupe'. Mr. Welch moved that the resolution be adopted. C. Stanford Olsen seconded the motion.

Chairman Cain called on Jack Tamagni of Lazard Freres, the Supply System's financial advisor, for further comments. Mr. Tamagni stated that the Supply System staff, his firm and the bankers had put together a tentative timetable for the next financing. This timetable called for the Executive Board to approve the distribution of the Official Statement on Thursday, May 6, 1982. The draft Official Statement would then be distributed no later than May 8 or 9, 1982. The timetable also called for a meeting with the rating agencies on May 10 and information meetings with the investors on May 10 and 11, 1982. Preliminary pricing of the issue would be made on May 17, with a scheduled bond sale to be held on May 20, 1982. He continued that in order to prepare an Official Statement, a credible financing plan was needed. To develop such a credible financing plan, it would be necessary to know what the Board would approve in terms of projects and financing. Therefore, no action or no decision would in fact be a decision, inasmuch as only 60 days remained before Initiative 394 went into effect and inasmuch as all three of the projects required major financing in order to continue construction. He continued that



At 3:25 p.m., Mr. Lambert indicated that he would be serving as an alternate to Mr. Runyan from Clark County PUD. Chairman Cain asked if this was permissible. Mr. Doupe' advised that if the principal member of the Board of Directors was available and present at the meeting, his alternate could not serve in his behalf. Chairman Cain advised that Mr. Lambert could, however, make a statement. Mr. Lambert asked if the Executive Board was legally required to accept BPA's recommendation. Mr. Doupe' replied that the Executive Board was not totally required to accept such a recommendation. However, a recommendation had been made and alternatives to the recommendation had been suggested. The Administrator did not approve the alternatives. The Administrator had indicated that there was only one course of action which he would consider. Therefore, the Board, in accordance with their duties to carry out completion of the net billed projects, had only one course of action available to them and that was to concur with the Administrator's recommendation. He continued that the Administrator had the power to not approve further financing. One alternative available to the Board would be to not concur with the Administrator's recommendation and therefore not go forward with the financing. Such action would result in stopping construction on all three net billed projects. This would be in breach of the agreements between the Supply System, the Bonneville Power Administration, the owners and the bondholders. Mr. Lambert asked if the Board members would be relieved from legal liability in view of the Administrator's recommendation. Mr. Doupe' replied that the Board members did have legal responsibility to use prudent business judgment within the confines of the alternatives available to them.

Mr. Lambert stated that Clark County PUD objected to the fact that the alternatives which had been developed by the Finance Committee had not been submitted to the utilities for their review.

Following a considerable amount of discussion, C. Stanford Olsen stated that he had many concerns about the need for energy and the reliability and accuracy of the forecasts concerning the energy needs. He stated that he was also concerned about the responsibility of the regional council balancing the resources against the load demands. He stated that the BPA Administrator had reviewed these areas and had offered BPA's forecast. Mr. Olsen continued that the Board did not have a forecasting responsibility. He stated that the Board had a definite responsibility to ensure that the facilities under construction had adequate cash to move forward in a prudent fashion.

Mr. Nickel stated that he realized a cost effectiveness study was necessary in order to have the issue of continued financing on the November ballot and that the necessary actions were occurring to prepare the study. He asked if the cost effectiveness study would include WNP-1. Mr. Squire replied that he saw no reason to include WNP-1 in the cost effectiveness study if there was not a need for a bond sale for WNP-1 in the near future. He stated that the consultant conducting the study had included WNP-1 up to this point, assuming completion on the present schedule. Mr. Nickel stated that he would hope that if the Board took action at this meeting to proceed with the extended construction delay for WNP-1, actions would continue to include WNP-1 in the cost effectiveness study so that the issue of WNP-1 financing could be addressed on

Power Administration. He stated that the Board members were being forced, pursuant to legal agreements, to concur in a decision to mothball Project 1, which he believed to be the most cost effective resource. Mr. Olsen continued that in his opinion, the Board was being forced to concur in a recommendation which would place before the voters, under Initiative 394, the project which he believed to be the most costly, the furthest from completion and in the "backyard" of those who most adamantly opposed it. Mr. Olsen stated that his vote at this meeting was a vote of a "virtual hostage". He continued that the Board was being held hostage by the Net Billing Agreements which had been entered into with the Bonneville Power Administration several years ago. He stated that he was voting as he felt he was compelled to vote.

Mr. Richman stated that after hearing all the discussions, reports, public input and instructions from the Bonneville Power Administration in the form of the letters presented to the Board on April 23 and 29, 1982, it was patently clear to him that the plan presented by the Bonneville Power Administration by their letter of April 19, 1982 was an instruction to the Board to implement that plan. He continued that it had also been made very clear that the Bonneville Power Administration had the contractual authority to instruct the Board to implement this plan. To not implement the plan as instructed by BPA would put the Supply System at risk of litigation and would also, in his opinion, jeopardize the integrity of the Net Billing Agreements. He stated that whatever course of action he personally preferred was of no consequence in this decision, because such choices were not available to him. Because of these facts, Mr. Richman stated that he firmly believed it was in the best interests of the ratepayers of the region, as well as the Supply System, to vote in favor of the BPA recommendation.

Mr. Recchi stated that his personal feeling was that the Supply System should keep all of their options open. He stated a draft power load forecast from the Bonneville Power Administration was available. The Board did not have the benefit of the cost effectiveness study which was being developed. Mr. Recchi also stated that the Board did not have the benefit of the determination regarding the impact which the fisheries enhancement would have on the federal hydro system. Mr. Recchi continued that he had been under the impression that the Supply System could continue with all three projects until the November election and that this could be done within the financial guidelines which had been established by Mr. Johnson. He stated that it was his understanding that at least one of the alternatives would have provided for such continuation of the projects, with a financing in the \$700 million range. He continued that he did not believe this was the time for either public power or the Board to consider abrogation of the contracts. He stated that he believed the contracts which had been entered into in good faith must be upheld, and the obligations of the parties must be fulfilled. In the absence of Mr. Johnson looking favorably upon the options which had been presented, he, too, would have to vote in concurrence with the directive which had been given by BPA.

Mr. Babb stated that he, too, would have little choice but to reluctantly vote for the resolution as presented.

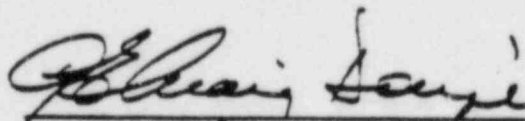
**Washington Public Power Supply System**

P.O. Box 968 3000 George Washington Way Richland, Washington 99352 (509) 372-5000

NOTICE OF ADJOURNMENT  
OF  
SPECIAL EXECUTIVE BOARD MEETING  
OF  
WASHINGTON PUBLIC POWER SUPPLY SYSTEM

Notice is hereby given that the Special Meeting of the Executive Board of Washington Public Power Supply System scheduled for 9:00 a.m. on April 23, 1982 is adjourned to 2:00 p.m. on April 28, 1982 in the Lopez Room, Seattle Center, Seattle, Washington.

Dated this 23rd day of April, 1982.

  
Secretary

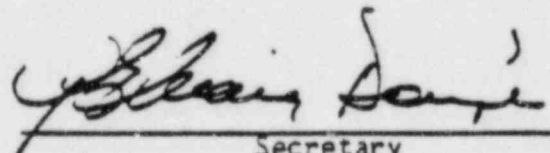
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NOTICE OF ADJOURNMENT

Notice is hereby given that the Special Meeting of the Executive Board of the Washington Public Power Supply System commenced on April 23, 1982, at 3000 George Washington Way, Richland, Washington at 9:00 a.m., and adjourned to Seattle Center, Seattle, Washington, at 2:00 p.m. on April 28, 1982, is further adjourned to 17930 Pacific Highway, South, Suite 400, on April 29, 1982, at 2:00 p.m.

Dated this 28th day of April, 1982.

  
Secretary

10607560

April 30, 1982  
GO1-82-0169  
Docket No. 50-460

Mr. Harold R. Denton, Director  
Office of Nuclear Reactor Regulation/NRC  
Phillips Bldg., Room P-404A  
9720 Norfolk Avenue  
Bethesda, Maryland 20014

Dear Mr. Denton:

Subject: STATUS OF WNP-1

The purpose of this letter is to provide you with current information regarding the status of activities related to continued construction of WNP-1.

On April 19, 1982, the Administrator of Bonneville Power Administration (BPA) recommended to the Supply System's Board of Directors that construction of WNP-1 be delayed for a period of "from 2 to 5 years" (see attached letter). On Wednesday (April 21) an order was issued by the Benton County Superior Court restraining the Board from taking any action to slowdown or terminate construction on WNP-1 for a two week period, until a show-cause hearing could be held. The Supply System Board met in Portland on Friday (April 23) to review the BPA recommendation with the Administrator and to receive further input from the Supply System staff and the public. Because of the existence of the restraining order, and to provide time for the Board to evaluate alternatives presented at the meeting, no action was taken by the Board at the April 23 meeting. As a result of a court hearing held on Monday (April 26) the restraining order against Board action on WNP-1 was lifted.

Several alternatives to the BPA recommendation were presented at the April 23 meeting, and others were prepared subsequent to that. The Board met again on Wednesday (April 28) in Seattle to hear further public comment on the BPA recommendation. At the conclusion of the April 28 meeting, the Board deferred their decision until Thursday (April 29) to provide time to review the alternatives and consider public comments. At the Thursday meeting, the BPA Administrator stated

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H. R. Denton  
Page 2  
April 30, 1982  
Status of WNP-1

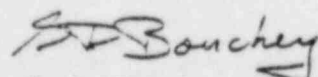
that none of the alternatives would be acceptable to BPA and that a construction delay on WNP-1 was required. Because BPA support is essential to the financing of all three Supply System projects, the Board voted to accept the BPA recommendation.

A ramp down of construction activities at WNP-1 will begin immediately. Activities essential to maintaining the Construction Permit will continue throughout the construction delay. This will include supporting NRC review of the FSAR as required, and processing of the OL Application. We would like to meet with the staff in the near future to discuss details of the WNP-1 licensing review schedule in light of the planned construction delay.

It should be noted that the most recent "need for power" study performed by BPA (attached), which was the basis for the recommendation to delay WNP-1, shows a clear need for all three of the Supply System projects. The only item being questioned is the time of the need. Therefore, the action taken on WNP-1 is only a deferral and ~~not~~ termination. Because WNP-1 is approximately 63% complete at this time and represents a valuable resource to the region, termination of the plant at this stage is not being considered. We firmly believe that construction will be resumed in the 2 to 5 year period discussed by BPA. For this reason, we believe it will be to our mutual benefit for the Commission to proceed with the docketing of the WNP-1 FSAR. The FSAR was submitted for acceptance review in November 1981, and it is our understanding that the staff has found it acceptable for docketing. Copies of the FSAR are now being prepared for docketing and it is our intent to submit those copies to the staff by May 14, 1982. Docketing of the Operating License Application at this time would avoid the need to repeat the acceptance review process when construction resumes.

We will continue to keep you apprised of the situation as further information is developed.

Very truly yours,



G. D. Bouchey, Deputy Director  
Safety & Security

GCS/sm

Attachments

cc: CR Bryant      BPA  
    RW Hernan      NRC  
    AD Toth        NRC  
    DG Eisenhut   NRC  
    RH Engelken    RO. V





Department of Energy  
Winnemucca Power Administration  
P. O. Box 3621  
Winnemucca, Oregon 97208

OFFICE OF THE ADMINISTRATOR

April 19, 1982

Reply refer to: A2

Mr. Stanton H. Cain  
Chairman, Executive Board  
Washington Public Power Supply System  
7930 Pacific Highway South  
Suite 400  
Seattle, Washington 98138

Dear Mr. Cain:

In accordance with my commitment to express my recommendation regarding the construction schedules to be maintained for the WNP 1, 2, and 3 projects, I am hereby notifying you of the conclusions which have been reached. It is necessary that these recommendations be fully understood by you and the members of your Board in the development of the Washington Public Power Supply System's 1982 budget and in the development of a future financing plan. To assist in this understanding, members of my staff and I will be available at the Executive Board meeting of April 19, 1982 to review the factors leading to this recommendation and will be available thereafter to respond to any further inquiries which you or members of your Board may develop.

I am recommending to the Board and staff of the Supply System that:

1. The construction of WNP #2 and WNP #3 proceed at full pace to maintain or improve the existing construction schedules for these projects.
2. The construction completion schedule of WNP #1 be delayed for a period of from 2 to 5 years; and
3. The Board instruct the staff of the Supply System to prepare a budget and financing plan consistent with these recommendations.

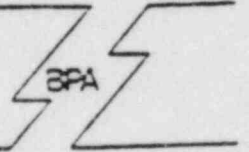
This recommendation is the result of careful consideration of many factors and, in view of the significant impact it will have on the region, was not an easy choice. However, I believe that as you and the other members of your Board become more fully acquainted with all of the financing, economic, marketing and load/resource balance studies and investigations which have preceded this recommendation you will share my belief that adherence to the proposal is the prudent action to be taken.

Sincerely,

Administrator

# Analysis of Resource Alternatives

Bonneville Power Administration  
U.S. Department of Energy



*dup*

April 19, 1982

~~82-0512-0226~~

## ANALYSIS OF RESOURCE ALTERNATIVES

BONNEVILLE POWER ADMINISTRATION  
April 19, 1982

### SUMMARY

This paper presents the details of a decision which will have a significant impact on the future of the Pacific Northwest. Circumstances which are largely economic have placed in jeopardy major regional energy programs, the financial health of many of the region's electric utilities, and possibly the region's fiscal credibility. The incomes and employment of thousands of the region's citizens are being impacted by these circumstances.

The decision announced in this paper was made following extensive analysis of complex power financing and supply issues. There was wide consultation with regional leaders, concerned individuals, and experts inside and outside the region. The final decision was based upon the judgment of the Bonneville Power Administration (BPA), which is charged with the responsibility of providing electrical energy to the region on a "prudent and businesslike" basis.

The decision BPA has been addressing is what its recommendation should be to the Washington Public Power Supply System (Supply System) on future financing alternatives for the Supply System's projects #1, #2, and #3. Because of the need for additional financing in May 1982 to continue construction of these plants, decisions must be made immediately to provide as much certainty as possible about the future of these projects. The managers of the financing group which markets the Supply System's construction bonds for the projects have advised BPA that existing circumstances could make the next bond sale, scheduled for May 1982, more difficult and perhaps more expensive than past sales. The costs of these plants, as a result of long-term contracts called net-billing agreements, became the ultimate responsibility of BPA and its customers several years ago. The status and scheduling of these plants, therefore, inescapably affect every person and every consumer of electricity in the region.

In reaching a decision on the scheduling of resources needed in the region, a number of realities other than economics must be addressed. Not the least of these is the State of Washington Initiative 394 which signals a serious voter concern. BPA respects this concern and understands that the decision it makes regarding the Supply System projects, and other energy facilities, must be in the best interests of BPA's ultimate constituents--the ratepayers throughout the Pacific Northwest.

Actions taken now must provide sufficient flexibility for the region to respond to future load/resource imbalances and changes in power marketing conditions. Because of the enormous regional investment in the three Supply System projects, means must be found to realize the maximum value of these important regional assets.



In all of the analyses BPA performed, it was apparent that the on-schedule completion of WNP #2 is a critical event in the region from the standpoint of both power production and the economic benefits of the revenues it will produce. The advanced stage of completion of the project (it is about 90 percent complete), the large capital investment (more than \$2 billion already committed), and the near-term availability of the power and revenues (about 22 months away) make the early completion and operation of WNP #2 an economic imperative for the region.

On the basis of these analyses, BPA has concluded that from the viewpoint of need-for-power, economics, and financing, it will be feasible to extend the construction schedule of WNP #1 for a period of up to 5 years. Near-term funding options appear to be adequate to continue WNP #2 and WNP #3 on their current schedules and extend construction of WNP #1. A forecasted near-term power surplus supports extension of the WNP #1 construction schedule by up to 5 years. Construction can be restarted earlier if circumstances dictate.

Given the uncertainties involved, no one element of the BPA analyses is, by itself, persuasive. What is persuasive is the reinforcing consistency with which all factors--load/resource uncertainties, resource economics, and financial planning--point to the same conclusion. It is a matter of business prudence that BPA reduce its financial risk and not leverage itself further by incurring additional debt to support surplus-capability.

Considering the interests of the ratepayers and the region as a whole, continuing WNP #2 and #3 on current schedules and extending the construction of WNP #1 best preserves and protects the economic and financial integrity of BPA and the region. It has fewer disadvantages and more advantages than any of the other options, and provides flexibility for the region in meeting future load/resource balances and in responding to rapid changes and contingencies.

#### OBJECTIVES

The principal objectives BPA used in performing the analyses and testing the decisions were:

1. To further the best interests of current and future ratepayers of the region.
2. To minimize the financial risks to, and maximize the fiscal integrity of, BPA and the region as a whole.
3. To preserve the region's economic ability to deliver the benefits of the Pacific Northwest Electric Power Planning and Conservation Act (Regional Act), including conservation and renewable resource development.
4. To bring greater certainty, stability, and predictability to rates and resource decisions.
5. To provide a maximum opportunity for the region's economy to recover and remain prosperous.

6. To identify the most effective strategy for marketing the bonds needed to finance the completion or preservation of the Supply System projects.
7. To maximize the region's flexibility to accommodate changing load and economic conditions.
8. To identify a choice which assures a healthy and positive construction environment within the Supply System in order that maximum efficiencies can be achieved.

#### LOAD/RESOURCE ANALYSIS

Recent demand forecasts, including BPA's preliminary forecast, show that the region, while needing additional electricity supplies in the 1990's, now faces possible surpluses of generating capacity in the 1980's. BPA's forecast shows annual average percentage load increases of .8, 1.7, and 2.5 percent as its low, base, and high case forecasts. Under the Regional Act, the Regional Power Planning Council has responsibility for forecasting future loads and resource requirements. It will be several months before the Regional Council can publish for comment its first load forecast which, in April 1983, will become a part of the official regional power plan. In this interim period BPA has been working closely with the Regional Council, and has reviewed the BPA preliminary forecast with the Council as well as other regional public and private utilities.

BPA also arranged to have its preliminary forecast independently reviewed by National Economic Research Associates (NERA), consulting economists from outside the region with an international reputation for expertise in electric energy demand forecasting. That firm suggested that the BPA range of load growth is too narrow and recommended that a higher range "would provide a more defensible guide to policy." A number of utility executives and experts believe it is prudent utility practice to plan resources to meet loads in the high portion of the forecasting range. Under these circumstances, and using the high range recommended, all three net-billed projects could prove to be needed on schedule. However, a driving element in the situation is that financial and other constraints preclude this option.

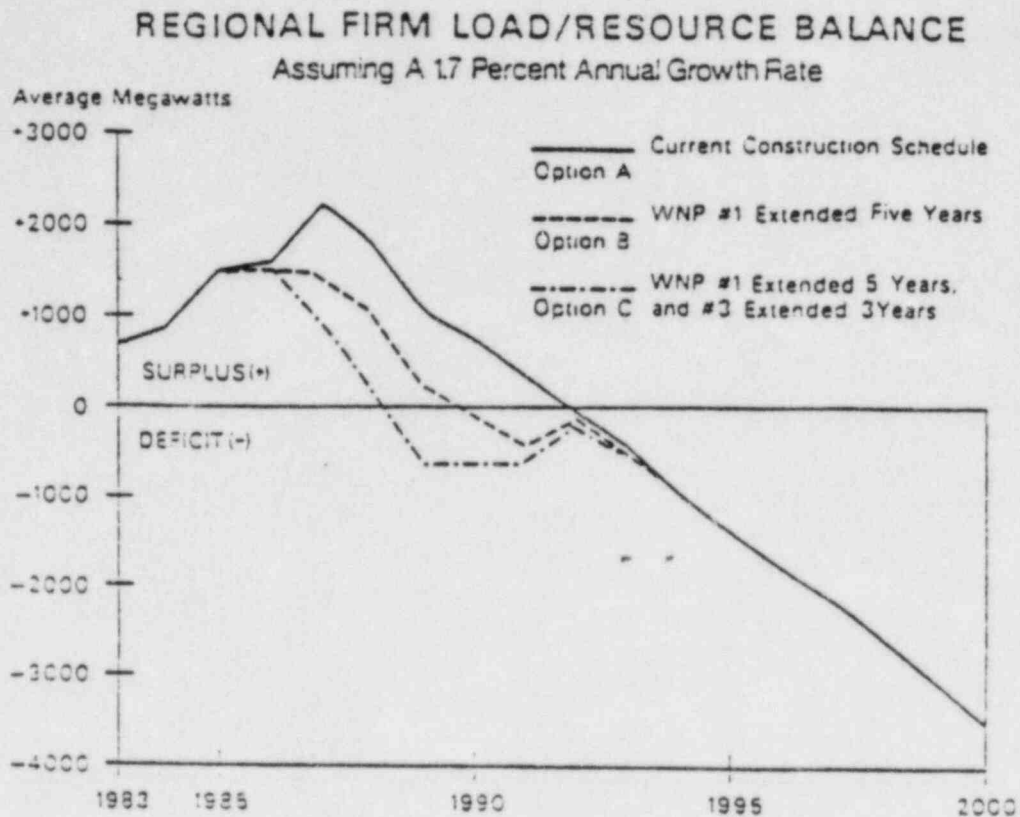
WNP #2 is currently scheduled to become commercially operational in February 1984, WNP #1 in June 1986, and WNP #3 in December 1986. Although numerous alternatives for revising the completion schedules were examined, in the following analysis only the three most likely options are depicted:

Option A - Continue the current schedule for completing all three plants.

Option B - Complete WNP #2 and #3 on schedule and extend completion of WNP #1 up to 5 years.

Option C - Complete WNP #2 on schedule and extend completion of WNP #1 up to 5 years and #3 up to 3 years.

The following chart shows the effect of these options on the load/resource balance:



This chart suggests the following:

1. Clearly, all three plants are needed by the region since there will be significant firm deficits in the early 1990's. The questions are "When are they needed?" and "Should construction of any of the plants be extended?"
2. Under the current construction schedule for the three net-billed plants, there will be some significant surpluses in the mid- and late 1980's.
3. If construction is extended on two projects, there will be some significant firm load deficits in the late 1980's and early 1990's.
4. If the loads turn out to be greater, as some of the forecasts indicate, then the point at which deficits occur is moved up in time. For example, the upper forecast of 2.5 percent combined with all three plants on schedule would show a deficit in 1987 instead of the 1990 shown on the chart.



## CONSERVATION AND RENEWABLE RESOURCES

The region's future power needs, forecasting uncertainties, and the desirability of having additional resources near-at-hand dictate that BPA's existing and announced conservation and small (under 5 average megawatts) renewable resources programs should continue to operate during the period of surplus. BPA considers these programs to be valuable, unfinished resources and will make an aggressive effort to complete them.

BPA has estimated that, at most, 450 average megawatts are achievable by 1990 in conservation and renewables in addition to the savings from programs already underway or included in BPA's preliminary forecast, at costs less than the incremental cost to complete and operate the Supply System projects.

The cost-effectiveness test for conservation and small renewables in this period will reflect the reduced value of the resources during the probable near-term surpluses.

BPA will continue to emphasize its residential conservation programs which have been offered to all regional utilities and which are underway in 96 utility service areas. The programs offer increased energy efficiency to qualifying households with electric space or water heat in these service areas at little or no cost to the homeowner.

Commitments to large renewable resources will be made on the basis of an extended planning horizon showing need for new power in the post-1990 period. BPA must continue to develop its policy, program, and organizational capability in renewables in order to be able to address this need effectively.

The principles of cost-effectiveness and the protection of the ratepayers' interest in assuring an adequate and reliable power supply will continue to be paramount in BPA's decisions and actions on conservation and renewable resources development.

## ECONOMIC ANALYSIS OF ALTERNATIVES FOR SUPPLY SYSTEM PROJECTS #1, #2, AND #3

BPA's economic analysis examined a large number of resource alternatives including the alternative of completing all three plants on schedule but not operating WNP #1 and #3 until they are needed. The analysis then focused on the economic impact of the alternatives on revenues from power sales, including the examination of the most likely outlook for marketing any excess power. BPA estimated the construction costs, operating costs, fuel costs, the costs which would be incurred if the plants stood idle waiting to serve, and financing costs.

The net economic impacts of the three alternatives, when compared with the current schedules for completing and operating the three plants were found to be:

1. Completing all three plants on schedule but deferring the operation of WNP #1 and #3 (letting them sit idle) in the event of surplus would create

a net economic disadvantage of about \$128 million (compared with completing the plants on their current schedule, operating them and selling the surplus).

2. Constructing WNP #2 and #3 on schedule, but extending construction of WNP #1 up to 5 years would have an economic advantage of about \$212 million compared with bringing all the plants in on schedule (about \$340 million advantage over alternative 1).
3. Constructing WNP #2 on schedule, but extending construction of WNP #1 up to 5 years and #3 up to 3 years would also present a slight economic advantage of about \$20 million compared with completing all the plants on schedule (roughly \$200 million less advantage than option 2).

#### FINANCIAL ANALYSIS

In BPA's financial analysis, performed concurrently with the two analyses described previously, an equally large number of alternatives were examined. In order to fully assess the alternatives, BPA considered the following:

- a. The financing requirements for each plant.
- b. The revenue/rate impacts of the construction and operational alternatives.
- c. The limits of BPA's flexibility in financing the plants.
- d. The constraints of the financial markets (amounts that can be raised at reasonable interest rates).
- e. The impacts on the credit worthiness of BPA, the region's utilities, and states.
- f. The legal and political implications of the alternatives, including the possible impacts of Initiative 194.

Based on advice provided by underwriters (the people who market the bonds to individual investors) and financial advisors, it was determined that \$550 to \$650 million would be a reasonable amount for the bond offering this May. Therefore, BPA realistically has only two financing options available: (1) to fund WNP #2 to a level which will permit completion while continuing construction of one of the other two plants, or (2) to delay both other plants while applying all the proceeds of the bond sale toward completion of WNP #2.

Because the load/resource, resource economic, and financial analyses indicate the feasibility and prudence of continuing WNP #2 plus one other plant on their current schedules, a choice must be made between proceeding with WNP #1 or #3.

### CHOICE OF WNP #1 OR WNP #3

There are several valid arguments for selecting WNP #1 over WNP #3 for on-schedule completion. WNP #1 would be in commercial operation about 6 months earlier than WNP #3; the power would be about 9 mills per kWh cheaper (or about 10 percent); and WNP #1 is located on the Hanford, Washington, nuclear reservation, near WNP #2.

However, since WNP #1 is located on the Hanford reservation, it is near numerous DOE nuclear programs and a skilled nuclear labor force. When a startup is required, remobilization of the work force should occur more rapidly at the WNP #1 plant at Hanford than at Satsop, Washington, location of WNP #3. Such an edge might prove to be a significant economic advantage in view of the rapid changes which have occurred in regional load/resource balances. This could result in significant cost savings to regional ratepayers.

WNP #3's location is west of the Cascade Range and closer to the major Pacific Northwest load centers than WNP #1, resulting in shorter transmission distances. This reduces line losses and increases transmission reliability--an additional potential cost savings to regional ratepayers.

In terms of the total financing required to complete all of WNP #1 and the Supply System's 70-percent share of WNP #3, there is little to distinguish between the projects. Roughly \$1.5 billion in additional Supply System financing is required to complete each plant.

It is of significance that the capability of WNP #1 has been wholly assigned to BPA. WNP #3 is jointly owned by the Supply System and four investor-owned utilities (IOU's) with only 70 percent of its capability assigned to BPA. A decision to extend the construction schedule of WNP #3 would require the agreement of the other owners and it now appears they may need that power earlier than BPA. Additionally, the other owners will assist BPA in furnishing oversight to the Supply System.

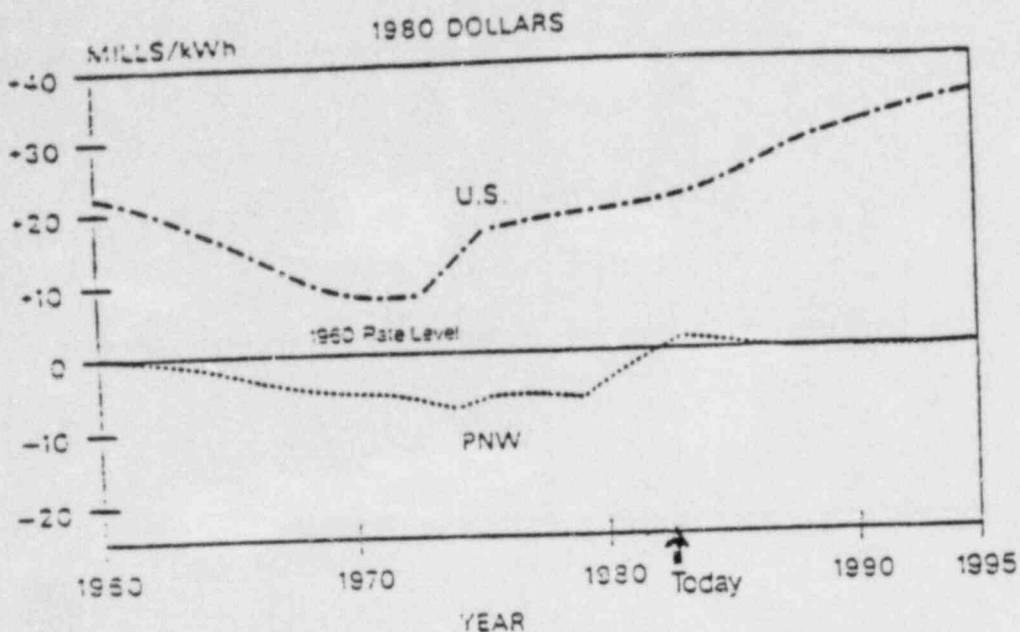
Finally, extending construction on WNP #1 will result in a slightly lower BPA rate increase next October than if WNP #3 construction schedules were extended instead.

### RATE IMPACTS

During a period when rates are rising rapidly, it is difficult to find cause for optimism. However, the future outlook is for stabilization of electricity rates in view of an estimated reduction in the need for expensive new resources. Also, the anticipated temporary resource surplus will allow the region to take advantage of time in anticipation of lower inflation and interest rates when it may meet its needs at reduced borrowing rates which will produce lower cost resources. Most importantly, the region will continue to enjoy electricity prices which, as a whole, are significantly lower than the national average, as shown on the chart on the following page.



**AVERAGE RETAIL ELECTRICITY RATES**  
 IN COMPARISON TO 1960 PNW RATES  
 PNW vs. U.S.



In addition, the results of our economic analysis and our review of the debt service BPA would have to pay on bonds yet to be issued for the construction of the Supply System projects #1, #2, and #3, indicate that:

1. Failing to go forward with WNP #2 would result in increased power purchases and higher rates both in the near- and long-term.
2. Going forward with all three projects would result in the need for a higher rate increase planned for next October.
3. If we proceed with WNP #2 and #3 on current schedules and extend construction of WNP #1 for 5 years, 1983 rates will be reduced by about \$90 million.
4. Finally, while extending construction schedules for all three projects could result in a short-term decrease in rates, it would result in much higher rates in the mid- and long-term.

Consequently, proceeding with current construction on WNP #2 and WNP #3, and extending the construction for WNP #1 will benefit ratepayers in both the short- and long-term while providing power supply flexibility necessary to support the regional economy.

NOTE: THE BONNEVILLE POWER ADMINISTRATION WELCOMES QUESTIONS AND COMMENTS ON THE INFORMATION PROVIDED IN THIS PAPER.

Docket No. 50-460  
January 11, 1983  
G01-83-0012

Mr. Harold R. Denton, Director  
Office of Nuclear Reactor Regulation  
U.S. Nuclear Regulatory Commission  
Washington, D.C. 20555

Subject: NUCLEAR PROJECT NO. 1  
CONSTRUCTION PERMIT EXTENSION - WNP-1

By letter dated July 21, 1981, the Washington Public Power Supply System filed a request with the NRC for an amendment to the construction permit (CPPR-134) for the Supply System's Nuclear Project No. 1 to extend the earliest and latest dates for completion of construction. That amendment request sought an extension to June 1, 1986 for the latest construction completion date.

Subsequent to the filing of that amendment request, the Bonneville Power Administration ("BPA") recommended to the Supply System that construction on WNP-1 be delayed for a period of from two to five years. In view of that recommendation, the Supply System's Board of Directors voted to suspend construction on WNP-1 temporarily. The Board has determined that construction on WNP-1 will be delayed for at least two years, and that it is possible that the delay could be for as long as five years. The actual length of the delay will depend on regional energy demand considerations.

In view of these developments, the Supply System requests that its pending amendment request be modified to include the following earliest and latest completion dates:

Earliest date for construction completion - June 1, 1988  
Latest date for construction completion - June 1, 1991

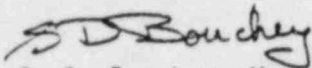
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We understand that this modification to the pending amendment request will not be treated by the Staff as a new amendment request. This point is of significance to us, and we ask that we be notified prior to further Staff action if this understanding is incorrect.

Very truly yours,



G. D. Bouchey, Manager  
Nuclear Safety and Regulatory Programs

cc: NS Reynolds, D&L  
M. Thadani, NRC  
CR Bryant, BPA