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FEB 24 1982

Docket No. STN 50-397

MEMORANDUM FOR: Albert Schwencer, Chief
Licensing Branch No. 2, DOL
Office of Nuclear Reactor Regulation

FROM: Jerome Saltzman, Assistant Director
State and Licensee Relations
Office of State Programs

SUBJECT: FINANCIAL QUALIFICATIONS OF WASHINGTON PUBLIC POWER SUPPLY SYSTEM TO OPERATE AND DECOMMISSION WASHINGTON PUBLIC POWER SUPPLY SYSTEM NUCLEAR PROJECT, UNIT NO. 2

Enclosed is an analysis prepared by Jim C. Petersen of my staff regarding the financial qualifications of Washington Public Power Supply System to operate and decommission WNP-2. It is intended for inclusion in the staff's Safety Evaluation Report in this proceeding.

Jerome Saltzman, Assistant Director
State and Licensee Relations
Office of State Programs

Enclosure:
As stated

cc: R. Auluck, DOL w/encl.
M. Service, DOL w/encl.

OFFICE	OSP	OSP	OSP
NAME	J. Petersen/bh	D. Nash	J. Saltzman
DATE	2/23/82	2/ /82	2/ /82

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20 FINANCIAL QUALIFICATIONS

The NRC requirements for the determination of an applicant's financial qualifications for an Operating License are stated in 10 CFR 50.33(f) and Appendix C to 10 CFR Part 50. The former regulation states: "[If] the application is for an Operating License, such information shall show that the applicant possesses the funds necessary to cover estimated operating costs or that the applicant has reasonable assurance of obtaining the necessary funds, or a combination of the two." Appendix C Subsection I(B) restates the former with the additional proviso: "For purposes of the latter requirement, it will ordinarily be sufficient to show at the time of filing of the application, availability of resources sufficient to cover estimated operating costs for each of the first five years of operation plus the estimated costs of permanent shutdown and maintenance of the facility in a safe condition." This subsection concludes with the expectation that: "In most cases, the applicant's annual financial statements contained in its published annual reports will enable the Commission to evaluate the applicant's financial capability to satisfy this requirement."

In response to a staff request submitted pursuant to Appendix C(IV), the applicant submitted the necessary financial information. This information addresses the applicant's financial plans to operate, shutdown (if necessary), and maintain Washington Public Power Supply System Nuclear Project, Unit No. 2 (WNP-2) in a safe condition. The financial information provided by the applicant states the required financial data regarding estimated facility operating expenses, shutdown costs, and projected maintenance expenses to keep the facility in a safe shutdown condition.

The following analysis constitutes the staff evaluation of the applicant's submittal and addresses the financial qualifications of the applicant to operate the WNP-2 facility, shut it down (if necessary), and maintain it in a safe condition. The cost estimates and other financial data presented are the most current figures available to the staff at the time of preparation of this analysis. Although these estimates and figures may be revised or updated over time, the staff has no reason to expect that the relative magnitudes as measured against the applicant's resources will vary significantly enough to affect the conclusions herein.

20.1 Business of Applicant

WPPSS is a joint operating agency and a municipal corporation of the State of Washington organized under Chapter 43.52 of the Revised Code of Washington, as amended. The Supply System is composed of 19 operating public utility districts of the State of Washington and the cities of Richland, Seattle, Tacoma, and Ellensburg, Washington. Pursuant to its statutory authority, WPPSS is empowered to acquire, construct, and operate plants and facilities for the generation and transmission of electrical power and energy. WPPSS is reimbursed, pursuant to the provisions of the WNP-2 Net Billing Agreements, by the participants for all WNP-2 costs, whether or not the project is completed, operable, or operating.

20.2 Estimated Operating Costs of Facility

For the purpose of estimating the facility's operating costs, the applicant has assumed that the first year of commercial operation for WNP-2 will be 1984 (5 months only). Estimates of the total annual cost of operating the plant for 5 months of 1984 and for each of the following years are presented in Table 20.1. WPPSS assumes that the plant capacity factors will be 60 percent for the first 12 months of operation, 65 percent for the second 12 months, and 70 percent thereafter. As an element of conservatism operating costs are also presented in Table 20.1 based upon alternative capacity factors of 50 and 60 percent, respectively. Operating costs include all costs associated with the capital investment and operation and maintenance including nuclear fuel. Total estimated expenses also include a provision for full recovery from customers of eventual decommissioning costs.

Table 20.1 Estimate of total annual cost of operation of WNP-2 ($ millions)

	Fiscal Years Ending June 30							
	1984*	1985	1986	1987	1988	1989	1990	1991
Capacity Factor								
60% 1st year 65% 2nd year 70% thereafter	$96	$243	$240	$249	$263	$280	$300	$317
50% all years	89	223	222	222	229	241	253	266
60% all years	96	240	231	235	247	260	276	292

* 1984 Cost Estimate Data is for 5 months only.

20.3 Estimated Costs To Decommission Facility

Although an applicant is not required to commit to a particular mode of decommissioning when applying for an OL, WPPSS is presently planning to decommission WNP-2 by placing the facility in protective storage at the end of its operating life and then dismantle it after 50 years. The applicant estimates the total cost for placing WNP-2 in passive safe storage to be $26.8 million (1978 dollars) and estimates that subsequent annual protective maintenance costs will total $75 thousand (1978 dollars) prior to final dismantlement. WPPSS further estimates that eventual dismantlement costs will total $30.2 million (1978 dollars).

Under contract for the NRC, the Pacific Northwest Laboratory operated by Battelle Memorial Institute issued its report "Technology, Safety, and Cost of Decommissioning a Reference Boiling Water Reactor Power Station" - NUREG/CR-0672 (June 1980). In this report the Pacific Northwest Laboratory (PNL) estimated the costs of decommissioning a boiling water reactor power station under various types of decommissioning methods. The PNL estimates (in 1978 dollars) corresponding to the decommissioning methods and time frame assumed by WPPSS are as follows:

Preparation for passive safe storage	-	$26.8 million
Annual protective maintenance	-	$68 thousand
Dismantlement costs after 50 years of passive safe storage	-	$26.4 million

The WPPSS estimates are comparable or slightly higher than the PNL estimates for each decommissioning activity. As an element of conservatism, the higher estimates are assumed for the purpose of this analysis.

20.4 Reasonable Assurance of Funds, General

The staff evaluation of the financial qualifications of the applicant included consideration of the Commission's decision on Public Service Company of New Hampshire, et al., 7 NRC 1, at 18, (1978), (Seabrook Station, Units 1 and 2), affirmed sub nom. New England Coalition on Nuclear Pollution vs. NRC 582.F, 2d 87 (1st Cir. 1978), which states: "...the applicant must have a reasonable financing plan in light of relevant circumstances." The reasonable assurance standard, cited above, must be viewed in light of the potentially long period of commercial utilization of the facility. Consequently, one must necessarily assume that there will be rational regulatory policies over this period with respect to the setting of rates. This implies that rates will be set to at least cover the cost of service, including the cost of capital. In consideration of the foregoing cost estimates, the following analysis will evaluate the reasonableness of the applicant's financial plans in covering the various costs that will result from operation of the facility.

In general, an evaluation of the financing plans of the applicant to meet operational expenses and decommissioning costs can only reasonably be considered in relation to the applicant's nature of business, size in revenue, assets, net income, and overall financial strength. Because the applicant is an ongoing entity, such an evaluation requires a review

of the financial results of the operation of the entity over a sustained period of time. Emphasis is placed upon recent performance. The near term financial outlook of the entity is also given consideration.

Long-term financial considerations are also important in the financial review because some costs will occur over a long time. However, as noted in Seabrook, the number of variables such as interest rates, the state of the stock and bond markets, inflation, and the costs of fuel and labor, among many others, make long-term financial forecasting inherently uncertain. Therefore, for long-term forecasts, the staff places primary reliance on recent performance and current characteristics of the applicant's financial condition. In consideration of those relevant circumstances, the following evaluates the reasonableness of the applicant's financial plan.

20.5 Reasonable Assurance of Funds, Costs of Operation

The applicant and its member public utility systems plan to recover all costs of operation of WNP-2 in the same manner in which they have historically recovered such costs; i.e., through revenues derived from customers in system-wide sales of electricity. The sole purpose of the WNP-2 facility will be the production of electricity for the service of the member systems' customers. Because such capability will qualify the facility as a productive asset, from an accounting viewpoint such property will reasonably be expected to qualify as "property used and useful in public utility service" for ratemaking purposes. As a consequence of this, the facility's costs

of construction will be included in the utilities' rate bases for rate-making purposes in the amount of the investment in it. Rate base inclusion of the facility will allow the applicant to recover the capital costs associated with facility construction. The same regulatory treatment also allows recovery of all fixed and variable operation and maintenance expenses necessary for the production of power. As would be expected, review of the applicant's long-term statements of operation shows consistent recovery of historical costs of operation.

Because the applicant has demonstrated the ability historically to achieve consistent recovery of capital and operating costs for other facilities it has constructed and operated, it is reasonable to conclude that the plan to finance the facility's operation through revenues derived from rates charged to customers for utility service represents a reasonable financing plan in light of relevant circumstances.

WNP-2 will be used for the generation of electrical energy. It will be financed, constructed, operated, and owned by the Supply System. Net Billing Agreements between the Supply System, the Bonneville Power Administration (BPA), and the utility customers provide for the payment of project costs and the allocation of project capability.

Under the Net Billing Agreements, each participant will assign its share of the project capability to BPA. BPA's purchase of the capability of WNP-2 was authorized and approved by Congress in the Public Works Appropriations Acts of 1970 and 1971. BPA is obligated under the Net Billing Agreements to pay the participants of WNP-2, and such participants are obligated to pay the Supply System, the total annual costs of WNP-2, including debt service on the bonds issued on the project, less amounts paid from other sources, whether or not WNP-2 is completed, operable, or operating and not withstanding the suspension, reductions, or curtailment of WNP-2's output. Payments of project costs by the participants to the Supply System will be credited against the billing made by BPA to the participants for power and certain services. Each participant has covenanted that it will establish, maintain, and collect rates or charges for power and energy and other services furnished through its electric utility properties which shall be adequate to provide revenues sufficient to make required payments to cover all WNP-2 costs of the Supply System.

20.6 Reasonable Assurance of Funds, Decommissioning of Unit

The applicant plans that decommissioning costs of WNP-2 will be recovered in the rate process, and through the use of a decommissioning sinking fund. Payments into the fund during operation of the plant, together with investment income thereon, will result in the accumulation of monies to finance the subsequent decommissioning. Periodically, at intervals no longer than five years during commercial operations, the decommissioning technology and regulatory climate will be reviewed to determine if the payments will be adjusted accordingly.

The applicant maintains and the staff concurs that there is reasonable assurance of financing the decommissioning of WNP-2 at the expiration of its serviceable life. This opinion is based on the applicant's nature of business, in combination with its historical and present financial strength. Additionally, because the NRC requires that any operating reactor be safely decommissioned when it is retired (for the protection of the public health and safety), it is reasonable to assume that those amounts will be allowed in customer rate charges as necessary and reasonable expenses. Accordingly, the staff has conluded that the applicant's plan to finance these expenses from customer revenues constitutes a reasonable financing plan in light of relevant circumstances.

Moreover, although the NRC requires no specific plan to fund decommissioning expenses, the staff believes that the applicant's plan to fund such amounts provides the necessary element of assurance in that it constitutes a reasonable method for obtaining the necessary amounts of proceeds to meet decommissioning costs. As stated earlier, utilities customarily adjust their charges for decommissioning on a periodic basis to compensate for changes in the decommissioning cost estimates. This constitutes an additional level of assurance that decommissioning funds will be available when necessary. Furthermore, should additional amounts be needed over and above those accumulated in the sinking funds, the applicant has two other traditional sources of funds available to meet any such amounts. The first source is internal cash generation attributable to depreciation expenses for all utility plants. The second source of funds is the

external capital market. As public utilities constitute the most capital-intensive industry in the United States, they have long had access to funds in the public securities market.

20.7 Conclusion

In accordance with the regulations cited herein, an applicant must demonstrate that it has reasonable assurance of obtaining the necessary funds to cover the estimated costs of the activities contemplated under the license. As stated earlier, the Commission has determined in Seabrook that the reasonable assurance requirement for financial qualifications is a reasonable financing plan in light of relevant circumstances. Based upon the preceding analysis of its proposed financing plan, the staff concludes that the applicant has a reasonable financing plan in light of relevent circumstances to operate, shut down (if necessary), and maintain the WNP-2 facility in a safe condition.

Accordingly, the staff has determined that the applicant has reasonable assurance under 10 CFR 50.33(f) of obtaining the necessary funds to cover estimated operating costs of the facility. As a consequence, the staff finds the applicant financially qualified to operate and decommission the WNP-2 facility.

trade and technical schools. Service enterprises also include one large Veteran's hospital and 19 other hospitals.

Although the City has been a frequent borrower in recent years, its well arranged debt structure and increased tax base has kept the debt load within moderate limits. A considerable portion of debt is deemed self-supporting and general bonds require only a modest portion of general revenues. Finances have been maintained in a favorable manner over the years, strengthened by a broad revenue base; revenues of the general fund as of June 30, 1974 totaled $95.9 million of which 52% was derived from local taxes, 11% from State taxes, 7% from licenses and permits, 13% from charges for services and the remaining 17% from utility systems, State grants and fines.

Moody's is maintaining the **Aa** rating on the City's general obligation bonds. The rating reflects an improving financial position, good tax collections, moderate debt load, average payout of principal and a sound economic base.

Washington Public Power Supply System—Nuclear Project No. 2

The Washington Public Power Supply System (WPPSS), a municipal corporation and joint operating agency of 18 operating public utility districts and three cities, is offering for public sale on March 6, 1975, a total of $125,000,000 Nuclear Project No. 2 Revenue Bonds, Series 1975A. These bonds will provide moneys for continued construction of Nuclear Project No. 2, a 1,100 mw. plant located on the Hanford Reservation of the U. S. Energy Resources Development Agency (formerly the AEC). This project's commercial operation date is presently estimated for June 1978, as compared with an original date in 1977. Work on the project began in 1972, the AEC construction permit was obtained in 1973, and while construction and other costs have increased over 1973 and early 1974 estimates, almost three-fourths of the dollar amount of equipment and construction contracts have been awarded. Additional bond financing will be needed for the Project No. 2; total bond financing is estimated at $614,000,000, of which a total of $355,000,000 was issued in 1973 and 1974.

Outstanding and offered bonds are payable on a parity from a first claim on pledged revenues. Pledged revenues comprise revenues from Nuclear Project No. 2 including all payments to be made pursuant to Net Billing Agreements. The entire output of Nuclear Project No. 2 will be sold to 94 public power systems who are all statutory preference customers of Bonneville Power Administration (BPA) with output assigned by preference customers to BPA under the net billing agreements. Net billing agreements provide that each preference customer is obligated to pay to WPPSS its share of project annual costs, including debt service on WPPSS bonds for Project No. 2, and BPA is obligated to credit the amounts paid against amounts owed to BPA by the preference customers for the power and services it provides, whether or not the Project is completed, operational, and notwithstanding the suspension, interruption, reduction, or curtailment of Project output. Payments are to begin in 1977, and each participant has agreed to maintain electric rates to provide revenues sufficient to make the required payments to WPPSS. Before BPA entered into net billing agreements, it determined that its estimated aggregate billings to each of the participants would be not less than 1.15 times BPA's net billing obligations to the respective participants under all agreements providing for net billing.

WPPSS has achieved a commendable record of developing, constructing, and operating electric production facilities whose output is delivered over the regional transmission network of BPA and sold to utilities in the Pacific Northwest. Pacific Northwest utilities have a demonstrable record of coordination and cooperation in planning to meet their area's power needs, and Nuclear Project No. 2 will be an important component of the first phase of a hydro-thermal power program which will result in large-sized thermal units planned for operation into the early 1980's. The net billing concept is one that is common in the Pacific Northwest and in addition to Nuclear Project No. 2, will also be in effect for WPPSS's share of capability of two other nuclear plants and for Eugene, Oregon's share of the Trojan Nuclear Project, other components of the first phase of the hydro-thermal power program. Disposition of the output of these generating units is assured by the extensive transmission grid of BPA.

An additional and significant factor of security for these bonds of WPPSS is the ability of BPA to use its revenues to pay any costs billed to preference customers which are not offset under the net billing agreements. BPA, a bureau of the Department of Interior, builds transmission lines and markets power from the Federal hydro-electric projects in the Pacific Northwest. Under Federal legislation enacted in October 1974, BPA now has the authority to use its revenues, without further appropriation of Congress, to make expenditures for any purpose to carry out its duties. Amounts to be paid to participants not paid through net billing will be on a parity with other BPA operating expenses, and prior to payments by BPA to the Treasury for repayment of the Federal investment in the Federal Columbia River power system and of any of the $1.2 billion bonds authorized by the Act to be issued by BPA for financing additions to its regional transmission system. BPA revenues are projected at levels, which reflect rate increases, sufficient to meet its operating expenses and net billing requirements, including those for Nuclear Project No. 2, and provide ample amounts to service their future bonds. Earning capability is aided by the approval of a 27% power rate increase in late December 1974.

The availability of BPA revenues to this Project, the importance of this Project for meeting area power and energy needs, and the net billing agreements combine to support an upward revision in the rating of WPPSS bonds for Nuclear Project No. 2 from **A**r to **Aaa**. Plans now call for only the limited application of the net billing concept to certain publicly-financed components of the first phase of the power program; no net billing is contemplated for projects to be built under the second phase of the program.

With this additional security, lent by the BPA financial participation, we are also revising the rating on Eugene, Oregon, Trojan Nuclear Project Revenue Bonds from **A** to **Aaa**.

MOODY'S MUNICIPAL BOND YIELD AVERAGES

	Feb. 27	Feb. 19	Feb. 13	Feb. 6	-Monthly- Feb.	Jan.	—1974-75— High	Low
Composite	6.51	6.43	6.31	6.36	6.40	6.89	7.14	5.16
Aaa	6.10	6.00	5.85	5.90	5.96	6.39	6.80	4.90
Aa	6.25	6.15	6.00	6.05	6.11	6.57	6.90	5.00
A	6.60	6.55	6.45	6.50	6.53	7.13	7.20	5.25
Baa	7.10	7.05	6.95	7.00	7.03	7.45	7.55	5.45
Ten-Year								
Aaa	5.30	5.00	4.90	4.70	4.98	5.22	6.15	4.15
Aa	5.40	5.10	5.00	4.80	5.08	5.34	6.25	4.25

For explanation of construction of the averages, see page 1709 of January 27, 1975, BOND SURVEY.

HANFORD #2

1,110,000 KW

1977

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AUDITED FINANCIAL STATEMENTS AND OTHER FINANCIAL INFORMATION

WASHINGTON PUBLIC POWER SUPPLY SYSTEM
NUCLEAR PROJECT NO. 2
KENNEWICK, WASHINGTON

December 31, 1971

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C O N T E N T S

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ERNST & ERNST
2700 SEATTLE-FIRST NATIONAL BANK BUILDING
SEATTLE, WASH. 98154

Board of Directors
Washington Public Power Supply System
Kennewick, Washington

We have examined the balance sheet of the Washington Public Power Supply System Nuclear Project No. 2 as of December 31, 1971 and the related statement of funds for the period February 2, 1971 (inception) to December 31, 1971. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying balance sheet and statement of funds present fairly the financial position of the Washington Public Power Supply System Nuclear Project No. 2 at December 31, 1971, and the results of fund activity for the period February 2, 1971 to December 31, 1971 in conformity with generally accepted accounting principles.

Ernst & Ernst

Seattle, Washington
February 4, 1972

BALANCE SHEET

WASHINGTON PUBLIC POWER SUPPLY SYSTEM
NUCLEAR PROJECT NO. 2

December 31, 1971

ASSETS

Preliminary costs relating to future construction of utility plant - Note B:	$ 3,631,142
Special funds - consisting of cash - $322,358, and United States Government and other investment securities at amortized cost - $11,369,335 (market value - $11,434,396) and accrued interest thereon of $95,196 and prepaid insurance and advances from or to other funds:	
Preliminary Construction Fund	10,717,325
Note Interest Fund - Note C	1,143,750
	11,861,075
Deferred charge - unamortized financing costs	283,871
Special cash deposit - matured interest	228,750
	$16,004,838

LIABILITIES

Nuclear Project No. 2 Revenue Notes, 3.05% maturing July 1, 1974 - Note C	$15,000,000
Preliminary Construction Fund:	
Accounts payable and accrued expenses	763,173
Amounts withheld from contractors	12,915
	776,088
Matured interest on revenue notes	228,750
Commitments - Notes B and D	
	$16,004,838

See notes to financial statements.

STATEMENT OF FUNDS

WASHINGTON PUBLIC POWER SUPPLY SYSTEM
NUCLEAR PROJECT NO. 2

From February 2, 1971 (inception) to December 31, 1971

	SPECIAL FUNDS				
	Preliminary Construction Fund	Note Interest Fund	Total Special Funds	Special Deposit-Interest	Total of all Funds
Issuance of Revenue Notes, including accrued interest from January 1, 1971 of $39,396 - Notes A and C	$13,438,146	$1,601,250	$15,039,396	$ -o-	$15,039,396
Additions:					
Interest earned on United States Government and other qualifying investment securities	433,895	64,774	498,669		498,669
Transfer of interest earned on investments in Note Interest Fund to Preliminary Construction Fund	64,774	(64,774)	-o-		-o-
Transfer from Preliminary Contruction Fund				457,500	457,500
	13,936,815	1,601,250	15,538,065	457,500	15,995,565
Deductions:					
Preliminary costs relating to future construction of utility (including reimbursement of preliminary planning cost of prior years - $344,279) exclusive of capitalized financing costs	3,609,187		3,609,187		3,609,187
Debt discount on issuance of note - Note C	224,900		224,900		224,900
Expenses in connection with issuance of notes - Note C	161,491		161,491		161,491
Disbursement of interest on revenue notes to noteholders				228,750	228,750
Transfer of interest currently payable to Special Deposit - Interest Account		457,500	457,500		457,500
	3,995,578	457,500	4,453,078	228,750	4,681,828
	$ 9,941,237	$1,143,750	$11,084,987	$228,750	$11,313,737
Balance consists of:					
Cash	$ 312,295	$ 10,063	$ 322,358	$228,750	$ 551,108
United States Government securities, other qualifying investment securities and accrued interest thereon	10,301,087	1,163,444	11,464,531		11,464,531
Amounts due from other funds	99,029		99,029		99,029
Prepaid insurance	4,914		4,914		4,914
Amounts due to other funds		(29,757)	(29,757)		(29,757)
Accounts payable and amounts withheld from contractors	(776,088)		(776,088)		(776,088)
	$ 9,941,237	$1,143,750	$11,084,987	$228,750	$11,313,737

See notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

WASHINGTON PUBLIC POWER SUPPLY SYSTEM
NUCLEAR PROJECT NO. 2

December 31, 1971

Note A - Organization

The Washington Public Power Supply System is a municipal corporation of the State of Washington and was organized in January 1957. The System is composed of public utility districts and two municipalities which own and operate electric systems within the State of Washington. It is empowered to acquire, construct and operate facilities for the generation and transmission of electric power and energy. During 1971 the System obtained interim financing of $15,000,000 by issuance of Revenue Notes to pay for preliminary costs and studies preparatory to construction of the Nuclear Project No. 2 generating plant and associated facilities. It is estimated that the cost of the Project will aggregate approximately $400,000,000. Fund accountability was established on February 2, 1971 upon receipt of the proceeds from the issuance of the Revenue Notes. In addition, the System is operating the Hanford Project, consisting of a steam electric generating plant, utilizing by-product steam energy from the New Production Reactor owned and operated by the United States Atomic Energy Commission, located near Richland, Washington, and the Packwood Lake Hydroelectric Project. Separate books of account for the projects are maintained by the System.

Note B - The Project

It is contemplated that the Nuclear Project No. 2, which is now in the preliminary design stage, will consist of a nuclear energy generating station and a nuclear steam supply system located within the United States Atomic Energy Commission's Hanford Reservation near Richland, Washington. The generating plant will be constructed on land which is leased from the Commission. The lease agreement provides, among other things, that its term shall continue in effect for a period in excess of the estimated life of the Project and be subject to renewal thereafter. The lease contains termination provisions which, among other things, provides for cancellation in the event the System is unable to obtain necessary permits and licenses from regulatory agencies.

The lease, commencing on January 1, 1972, includes provisions for annual rentals of approximately $4,000 for the first five years, approximately $8,000 for the second five years and rentals subject to revision for each five year period thereafter. Any taxes or assessments which may be imposed upon the leasehold will be borne by the System.

Note C - Revenue Notes (Continued)

The System and Bonneville Power Administration have entered into the Project Agreement, the term of which extends for the life of the Project. That Agreement, among other things, provides standards for design, licensing, financing, construction, fueling, operation and maintenance of the Project, and for making of any replacements, repairs or capital additions thereto.

Under terms of the Agreement, the System shall cause the Project to be salvaged, discontinued, decommissioned and disposed of or sold in whole or in part to the highest bidder or bidders, or disposed of in such other manner as the parties may agree when:

a. The Supply System determines it is unable to construct, operate or proceed as owner of the Project due to licensing, financing, or operating conditions, or other causes which are beyond its control,

b. The parties determine the Project is not capable of producing energy consistent with prudent utility practice or, if the parties disagree, the Project Consultant so determines, or

c. The Bonneville Power Administration directs the end of the Project if the estimated cost of a replacement or repair or capital addition required by a governmental agency exceeds 20 percent of the then depreciated value of the project.

As other security, provisions of the Note Resolution established the trustee-administered Note Interest Fund in an amount ($1,601,250) equal to the interest to accrue on the Notes from January 1, 1971 to July 1, 1974. The Fund shall be used to pay interest on the notes during such period. The balance in the Note Interest Fund at December 31, 1971, was $1,[illegible]0,750, representing the remaining interest due on the Notes for the period January 1, 1972 to July 1, 1974.

Costs of issuance of the Revenue Notes composed of debt discount ($224,900) and various expenses ($161,491) are being amortized on a straight line basis over the life of the Revenue Notes. Amortization for 1971 aggregated $102,520 and was charged to preliminary costs relating to future construction of utility.

Note D - Commitments

At December 31, 1971, the System had entered into certain significant contracts which aggregate approximately $155,000,000 to provide for services relating to financing, design of the plant, and the supply of nuclear fuel and reactor components.

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OTHER FINANCIAL INFORMATION

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ERNST & ERNST
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SEATTLE, WASH. 98154

ACCOUNTANTS' REPORT ON OTHER FINANCIAL INFORMATION

Washington Public Power Supply System
Kennewick, Washington

The audited financial statements of Washington Public Power Supply System Nuclear Project No. 2 and our report thereon are presented in the preceding section of this report. The information presented hereinafter, excepting comments regarding funds, was derived from the accounting records tested by us as part of the auditing procedures followed in our examination of the aforementioned financial statements, and in our opinion it is fairly presented in all material respects in relation to the financial statements taken as a whole; however, it is not necessary for a fair presentation of the financial position of the Project.

The information shown in the comments regarding funds was obtained from nonaccounting records of the Systems. We compared this information with the note resolution from which it was prepared, and found it to be in agreement therewith.

Ernst & Ernst

Seattle, Washington
February 4, 1972

COMMENTS REGARDING FUNDS

WASHINGTON PUBLIC POWER SUPPLY SYSTEM
NUCLEAR PROJECT NO. 2

December 31, 1971

The note resolution requires that two special funds be established, held, and administered in trust for the protection of the noteholders. Both funds described below may invest in government obligations of the United States and certain of its agencies. Additionally, the Preliminary Construction Fund may invest in certain bank time deposits evidenced by certificates of deposit and secured at all times in the manner provided by the laws of the State of Washington, subject to certain restrictions relative to the amount of capitalization of the Bank issuing such certificates. The note resolution also provides for the semi-annual transfer from the Note Interest Fund to the Interest Paying Agent Account of amounts equal to the interest installments due on January 1 and July 1 of each year to July 1, 1974.

Other funds will be established in the future pursuant to the proposed bond resolution.

Preliminary Construction Fund

Note proceeds reduced by the original amount of the Note Interest Fund were deposited to the credit of the Preliminary Construction Fund for the purpose of paying a part of the cost of planning for the acquiring and constructing of the Project and placing it into operation. The unexpended balance in the Fund was $9,941,237, at December 31, 1971.

Note Interest Fund

The Note Interest Fund is required to contain cash and value of investments aggregating the amount of note interest accrued since the last semi-annual interest payment to July 1, 1974. Transfers are made on a semi-annual basis to the Interest Paying Agent for purposes of paying the interest to noteholders. The balance in the Fund at December 31, 1971 was $1,143,750.

Special Cash Deposit - Interest Paying Agent

Pursuant to provisions of the note resolution, the Project is to transfer from the Note Interest Fund to the paying agent on the 27th day of each month preceeding the interest due dates an amount equal to the interest due. The Project has met these provisions and at December 31, 1971, the Special Cash Deposit account contained $228,750 of cash with which to pay interest due on January 1, 1972.

SCHEDULE OF PRELIMINARY COSTS RELATING TO FUTURE CONSTRUCTION
OF UTILITY PLANT

WASHINGTON PUBLIC POWER SUPPLY SYSTEM
NUCLEAR PROJECT NO. 2

December 31, 1971

Engineering Services:		
Architect engineer	$2,282,707	
Nuclear fuel consultant	180,294	
Consulting engineer	81,564	$2,544,565
Legal Services		135,657
Preliminary site studies - Roosevelt Beach		110,369
Administrative and General:		
Salaries	393,303	
Office supplies and expenses	142,906	
Regulatory expenses	56,396	
Outside services	54,834	
Employee benefits	43,940	
Bond performance	42,890	
Rents	14,273	
Office furniture and equipment	10,181	
Miscellaneous	59,873	818,596
		3,609,187
Capitalized finance costs charged to construction:		
Interest payments on Revenue Notes	457,500	
Less accrued interest received on sale of Revenue Notes	(39,396)	
	418,104	
Amortization of debt discount and expense	102,520	520,624
		4,129,811
Less interest earned on United States Government and other qualifying investment securities		498,669
PRELIMINARY COSTS RELATING TO FUTURE CONSTRUCTION OF UTILITY PLANT AT DECEMBER 31, 1971		$3,631,142

CSX Might Offer One-Stop Shipping If It Wins Takeover Bid for Texas Gas

By Bill Paul
Staff Reporter of The Wall Street Journal

NEW YORK—If CSX Corp. succeeds in the contest to acquire Texas Gas Resources Corp., it may take a giant step toward becoming the nation's first transportation company to offer one-stop shipping.

Richmond, Va-based CSX already is the parent of two railroads, a trucking company and an aircraft maintenance and services concern. It also owns rights-of-way over which it has said it may build coal-slurry pipelines. The purchase of Texas Gas would add, unless barred by the federal government, a barge company and a natural-gas pipeline.

The Justice Department yesterday indicated that the government won't oppose CSX's friendly $52-a-share bid for all Texas Gas shares, or Coastal Corp.'s rival, two-part offer. Houston-based Coastal pledged to make its $1.05 billion offer "superior" to CSX's $1.07 billion bid, and Texas Gas's board approved a $45-a-share offer for as many as 10 million of its own shares, a move Coastal conceded "would jeopardize" its $55-a-share offer for the same number of shares.

If CSX is the victor, the company might be able to offer shippers a variety of transportation routes and modes. For example, coal, grain or chemicals might be shipped by barge alone, by barge and rail, or by rail alone. The shipper would have to deal with only one company—presumably a more efficient and less costly approach.

May Be a Disadvantage

But one-stop shipping, some shippers believe, could also be a disadvantage, reducing competition for their business.

"This is something we're going to have to look at" said James Bartley, executive vice president of the National Industrial Transportation League, a shippers' group. The 1,800 member organization, he said, might be concerned with a "lack of competitive balance" among types of transportation.

A CSX-Texas Gas combination analysts railroads may go hunting for their own barge lines.

But even if CSX acquires Texas Gas, it won't have a clear title to the concern's Owensboro, Ky.-based barge unit until it convinces the Interstate Commerce Commission that the combination won't lessen competition. Until then, the barge line would be placed in a voting trust.

'It's a Bad Deal'

Archie Wilson, president of Dixie Carriers Inc., Houston, expects the barge industry to fight CSX. "It's a bad deal," he said. "Railroads have always wanted to eliminate competition and I don't think this is any different."

But many observers expect CSX to win ICC approval because of prevailing attitudes in Washington that support deregulation.

CSX Beckett Aviation Inc. possibly could pursue some air-express business as part of a package of transportation services; the unit manages the world's largest fleet of executive aircraft and also provides general aviation services at 10 major U.S. airports. But just where CSX's aircraft-services business would fit into the total-transportation concept isn't clear yet.

In addition, CSX recently announced plans to develop a telecommunications system with Southern New England Telephone Co. that would transmit data over rights-of-way owned by CSX to financial centers or offices of corporate clients.

Texas Gas said yesterday that its own tender offer is designed to destroy the financing Coastal has arranged for its offer. Texas Gas said it could spend as much as $450 million of the assets that it believes Coastal has pledged as security to obtain bank financing for the $550 million cash part of its offer. Thus, Texas Gas hopes the possibility that Coastal's offer could collapse will prompt Wall Street speculators to tender their stock to CSX.

Coastal is offering $55 a share for 52% of Texas Gas, and then would provide securities equivalent to about $48 a share for the rest. Coastal management said yester-

WPPSS Court Hearing

SEATTLE—Lawyers for Chemical Bank of New York asked a county court to lift an order that has prevented default by the Washington Public Power Supply System on $2.25 billion of debt. If it is lifted, WPPSS could plunge into the largest municipal bond default in history.

A hearing has been set tentatively for July 5 before King County Superior Court Judge H. Joseph Coleman. Chemical Bank told the court that the restraining order, entered May 27, should be lifted because of a recent Washington state supreme court decision freeing that state's utilities from paying their share of the WPPSS debt on abandoned nuclear power plants Nos. 4 and 5. Chemical Bank is the bond fund trustee for bondholders of debt on the two canceled plants.

Meanwhile, in Portland, Ore., the Bonneville Power Administration restated its commitment to pay the cost of WPPSS's share of nuclear power plants Nos. 1, 2 and 3.

Potlatch Sees Growth In Second-Quarter Net

By a Wall Street Journal Staff Reporter

SAN FRANCISCO—Potlatch Corp. said it expects earnings for the current quarter to exceed the $8.1 million, or 38 cents a share, posted in the 1982 second quarter but said they are likely to fall below the $9.7 million, or 48 cents a share, posted in the 1983 first quarter.

The paper and lumber products company cited increasing plant start-up and interest costs. Results for its Northwest Paper division will trail the year-earlier period because of a seven-week shutdown for rebuilding at a Minnesota plant, Potlatch said.

Based on current economic conditions, 1983 second-half performance should be "substantially ahead of 1982," said Richard B. Madden, chairman and chief executive officer.

Commission.

Pursuant to the Atomic Energy Act of 1954, as amended, the regulations in Title 10, Code of Federal Regulations, Part 2—Rules of Practice and the notice of hearing referred to above, notice is hereby given that the Commission has designated Dr. Lawrence R. Quarles as the third member of the Appeal Board in this proceeding.

Dated at Germantown, Md., this 26th day of January 1972.

W. B. McCool,
Secretary of the Commission.

[FR Doc.72-1492 Filed 2-1-72;8:47 am]

[Docket No. 50-397A]

WASHINGTON PUBLIC POWER SUPPLY SYSTEM

Notice of Receipt of Advice and Time for Filing of Petitions to Intervene on Antitrust Matters

The Commission has received, pursuant to section 105c of the Atomic Energy Act of 1954, as amended, a letter of advice from the Attorney General of the United States, dated January 24, 1972, a copy of which is attached as Appendix A.

Any person whose interest may be affected by this proceeding may, pursuant to § 2.714 of the Commission's rules of practice, 10 CFR Part 2, file a petition for leave to intervene and request a hearing on the antitrust aspects of the application. Petitions for leave to intervene and requests for hearing shall be filed within thirty (30) days after publication of this notice in the FEDERAL REGISTER, either (1) by delivery to the AEC Public Document Room at 1717 H Street NW., Washington, DC, or (2) by mail or telegram addressed to the Secretary, U.S. Atomic Energy Commission, Washington, D.C. 20545, Attention: Chief, Public Proceedings Branch.

For the Atomic Energy Commission.

Lyall Johnson,
Director, Division of State and Licensee Relations.

APPENDIX A

JANUARY 24, 1972.

Washington Public Power Supply System, Hanford No. 2 Nuclear Unit, AEC Docket No. 50-397A, Department of Justice File No. 60-415-46.

You have requested our advice pursuant to the provisions of section 105 of the Atomic Energy Act of 1954, as recently amended by Public Law 91-560 (December 19, 1970) in regard to the above-cited application.

The Hanford No. 2 Nuclear Unit, with a generating capacity of approximately 1,100 mw., will be located on the U.S. Atomic Energy Commission's Hanford Reservation on the Columbia River near the city of Richland in southeastern Washington. It will be constructed and operated by Washington Public Power Supply System (WPPSS) which presently owns and operates an 860 mw. steam-electric generating plant for which steam is supplied from a nuclear reactor owned and operated by the AEC on the Hanford Reservation. The estimated cost of construction, operation scheduled to commence in September 1977.

WPPSS is a municipal corporation and a joint operating agency of the State of Washington and is composed of 18 public utility districts of the State of Washington and the cities of Richland and Seattle. WPPSS has the statutory authority to acquire, construct, and operate plants and facilities for the generation and transmission of electric power.

The power produced by Hanford No. 2 will be distributed by the Bonneville Power Administration (Bonneville) within the Federal Columbia River Power System in accordance with so-called "Net Billing Agreements" entered into between Bonneville, WPPSS, and 95 statutory preference customers of Bonneville which will actually purchase the power generated by the unit.[1] These 95 utilities, referred to as "Participants," consist of 28 municipal electric systems, 22 public utility districts, and 45 REA cooperatives. These 95 utilities constitute the vast majority of the approximately 105 publicly owned utilities in the Pacific Northwest.[2]

Each of the 95 participants has a contract for the purchase of its power requirements from Bonneville. Under "Net Billing" the entire generating capacity of Hanford No. 2 will be assigned to Bonneville. Each of the 95 Participants will pay to WPPSS a certain percentage of the annual costs of the unit. This entitles each Participant to receive from Bonneville an amount of power equivalent to the same percentage of the unit's capacity. Bonneville then credits each Participant, each year, for the amount which it paid to WPPSS as its share of the unit's annual costs. Bonneville deducts this sum from the amount which each Participant otherwise must pay under its power contract with Bonneville and the balance owed is called the "net billing." In effect, by participating in Hanford No. 2, these 95 utilities will receive increased amounts of power from Bonneville at Bonneville's rates.

Bonneville, which markets power from several hydroelectric plants built by the Federal Government, is the dominant supplier of power at wholesale to publicly owned utilities in the Pacific Northwest and has the lowest wholesale rates in the Nation. Bonneville also supplies wholesale power to privately owned utilities in the area. There has been substantial cooperation and planning among the public and private utilities in the Pacific Northwest. For many years the various utilities in the area voluntarily coordinated operations of their facilities through the Northwest Power Pool. In 1964 Bonneville, the Corps of Engineers and 14 of the area's public and private generating utilities agreed to coordinate their operations on the basis of a formal contract called the Pacific Northwest Coordination Agreement.

In the early 1960's it became evident that the Pacific Northwest would soon need more firm power than could be supplied by the hydroelectric projects in the area. As a result, Congress in 1963 authorized construction of an 860 mw. nuclear unit at Hanford. Half of the output of this unit was sold to 71 owned utilities and the four major privately owned utilities in the Pacific Northwest jointly developed a plan for the construction of thermal plants to augment the production from existing and future hydroelectric plants in the area. This plan, referred to as the "Hydro-Thermal Power Program," constitutes an effort by all the utilities in the Pacific Northwest to meet their load growth requirements at the lowest possible cost. Under this plan, thermal plants—both fossil fuel and nuclear—are to be built by both public and private utilities with access to such plants open to any utility which needs power.

The first result of the Hydro-Thermal Power Program was that a group of public and private utilities planned and jointly financed the construction of two coal-fired 700 mw. units at Centralia, Wash., scheduled to begin commercial operation in September 1971 and September 1972. The second plant to be constructed in accordance with this program is the Trojan Nuclear Plant on the Columbia River near Portland, Oreg. This plant is jointly owned by two private utilities, Portland General Electric Co. and Pacific Power & Light Co., and by the city of Eugene, Oreg., Water & Light Board which through the "net billing" procedure actually provided the means whereby 13 other publicly owned utilities in the area could participate in the plant.[3] The third project in the program is the construction of two 500-mw. coal-fired units in Wyoming at the Jim Bridger Plant by Pacific Power & Light Co. Hanford No. 2 is the fourth project—and second nuclear unit—to be built in accordance with the Hydro-Thermal Power Program.

There has been and continues to be substantial cooperation and coordination in bulk power supply among the various utilities, large and small, in the Pacific Northwest. Hanford No. 2 is one of several generating units resulting from a program in which all utilities in the same area have been invited to participate. Pursuant to this program both public and private utilities have planned and coordinated the addition of new generating capacity in the area. The vast majority of small publicly owned utilities in the Pacific Northwest will participate in Hanford No. 2 and thereby obtain access to low cost power. It does not appear that the issuance of the proposed license for Hanford No. 2 will create or maintain a situation inconsistent with the antitrust laws and we see no need for an antitrust hearing.

[FR Doc.72-1493 Filed 2-1-72;8:48 am]

[Docket No. 50-298]

NEBRASKA PUBLIC POWER DISTRICT

Order Extending Provisional Construction Permit Completion Date

By application dated December 7, 1971, the Nebraska Public Power District requested an extension of the latest completion date specified in Provisional Construction Permit No. CPPR-42. The permit authorizes the construction of a single cycle, forced circulation boiling water nuclear reactor, known as the Cooper Nuclear Station, on the applicant's site on the west bank of the

[1] The Bonneville Act specifies that "preference customers" such as municipally owned electric systems and REA Cooperatives shall have priority in obtaining low-cost power marketed by Bonneville.

[2] The 95 Participants are located predominantly in the four States of Washington, Oregon, Idaho, and Montana, although a few of the REA cooperatives operate partially in small segments of northern California, Nevada, and Utah and Western Wyoming.

[3] The Department, by letter dated July 8, 1971, advised the AEC that issuance of the proposed license for the Trojan Nuclear Plant would not create or maintain a situation inconsistent with the antitrust laws.