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WASHINGTON PUBLIC POWER SUPPLY SYSTEM

P.O. Box 968 • 3000 George Washington Way • Richland, Washington 99352

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January 8, 1988

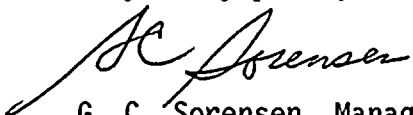
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Washington, D. C. 20555

Gentlemen:

Subject: NUCLEAR PROJECTS NOS. 1, 2 & 3
ANNUAL FINANCIAL REPORT

Enclosed for your information, as required by 10CFR 50.71, are three (3) copies of the Washington Public Power Supply System's 1987 Annual Report. The financial statements of the Supply System's Nuclear Projects are not certified by our auditor (Ernst & Whinney) in view of certain facts discussed in the Annual Report, with which the Nuclear Regulatory Commission is already familiar.

Very truly yours,



G. C. Sorensen, Manager
Regulatory Programs

Enclosures

cc: RM Boucher/PP&L*	LS Rubenstein/NRC
WJ Finnegan/PSP&L*	NS Reynolds/BCP&R
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ANNUAL REPORT

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THE COVER

 As a 30-year member of the public utility family, the Washington Public Power Supply System has played a vital role in the Pacific Northwest's energy supply. Electric generating plants, such as the Packwood Lake Hydroelectric Project, help supply the energy needs of eight million utility customers served by the Bonneville Power Administration.

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A significant increase in overall power production, with a corresponding decrease in the unit price of electricity, is evidence of the Supply System's sound financial condition in Fiscal Year 1987.

As of June 30
Dollars in millions

	FY 1987			FY 1986		
OPERATING PROJECTS	NUCLEAR PLANT NO. 2	HANFORD GENERATING PROJECT	PACKWOOD LAKE PROJECT	NUCLEAR PLANT NO. 2	HANFORD GENERATING PROJECT	PACKWOOD LAKE PROJECT
Total annual cost	\$432.3	\$33.5	\$1.1	\$421.5	\$36.0	\$0.9
Net generation/gWh	5520	1749	78	4364	2583	90
Cost mills/kWh	78.3	19.1	14.2	96.6	13.9	10.3
Plant availability (%)	73.2	99.6	100	74.5	100	100
Plant capacity (%)	57.6	23.2	32.2	45.5	34.5	37.5
NON-OPERATING PROJECTS	NUCLEAR PROJECT NO. 1	NUCLEAR PROJECT NO. 3	NUCLEAR PROJECTS NO.'S 4/5	NUCLEAR PROJECT NO. 1	NUCLEAR PROJECT NO. 3	NUCLEAR PROJECTS NO.'S 4/5
Total annual cost	\$204.3	\$171.0	\$20.6	\$192.6	\$169.8	\$19.8
TOTAL SUPPLY SYSTEM						
Investment income		\$62.3			\$75.1	
Rate of return (%)		7.8			9.1	

Financial and Operating Highlights

In Fiscal Year 1987, the Washington Public Power Supply System celebrated its 30th year as a member of the nation's public power family. National and international events continued to impact the operation and the future of the Supply System and its public utility partners. The historic Tax Reform Act of 1986, the aftermath of the nuclear power plant accident at Chernobyl, and the extended depression of petroleum prices all had a direct bearing on the Supply System.

Through it all, the Supply System Executive Board exercised its stewardship over an \$8 billion public investment in three operating plants and two deferred nuclear construction projects, while steadily working on pending legal matters including those resulting from the default in 1983 on bonds for WNP-4 and WNP-5.

We have also continued our efforts to achieve a major regional goal of refinancing a portion of the outstanding bonds for WNP-1, 2, and 3. Pacific Northwest ratepayers could save hundreds of millions of dollars on their electric bills if the higher interest bonds could be replaced with lower interest rate securities.

That is why the Supply System continues to have such keen interest in the Tax Reform Act passed by Congress in 1986. The bill places many new restrictions on issuing tax-free bonds. Under the law, the Supply System can issue tax exempt bonds for completing construction on WNP-1 and WNP-3 and for current refunding of WNP-2 bonds.

We were successful in having more favorable language inserted in the proposed technical corrections to the Tax Reform Act that allows the Supply System to current

refund bonds for Plant 2 and advance refund, prior to 1992, WNP-1 and WNP-3 bonds as long as the advance refunding bonds do not exceed \$2 billion.

Of course, current legal difficulties must be resolved before we can regain a credit-rating and return to the market to refinance this debt. An encouraging step was taken in the WNP-4/5 securities litigation when a partial settlement was reached with bond underwriters. I can only hope that this important milestone is the beginning of the end of this expensive and time-consuming lawsuit.

Additional progress was made in several cases where the Supply System has taken the lead in seeking to collect damages from some contractors associated with constructing the plants. The most important development during the past year was the filing of a complaint against the General Electric Company alleging violations of the Racketeer Influence and Corrupt Organizations Act (RICO). This expands our lawsuit filed in January 1985 over design and construction deficiencies at Plant 2 that were corrected at great expense prior to commercial operation.

In the aftermath of the nuclear accident at Chernobyl in the Soviet Union, the spotlight continues to focus on the U.S. Department of Energy's N Reactor and if it will be allowed to restart and continue operating. This is important to the Supply System because N Reactor supplies steam to operate our 860-megawatt Hanford Generating Project.

There is continued federal interest in possibly acquiring WNP-1 at Hanford as a replacement for N Reactor. The Supply System cooperated with the technical feasibility study, released in January,



that showed the government could convert the 63-percent complete project to a defense production reactor for one-third the cost and complete it in half the time required to build a new plant. Institutional studies are currently underway to determine the legal and contractual feasibility of acquiring the project to support national defense. The Executive Board remains fully cognizant of the responsibilities and legal obligations it has to the ratepayers of the Northwest and to the holders of WNP-1 bonds to preserve the plant for eventual completion.

In the worldwide energy picture, depressed oil and natural gas prices contributed to a weak domestic market for surplus electricity that strained the financial health of the Bonneville Power Administration. Although the Supply System again underran its overall budget, BPA's fiscal shortfall has resulted in isolated, but vocal, calls to reduce costs further by terminating WNP-1 and WNP-3.

The Executive Board is determined to reduce the cost of preserving these plants as low as is consistent with maintaining the construction permits and licensability. Significant cuts are being made in the budgets for WNP-1 and WNP-3, insuring that preservation costs are reduced to the absolute "rock bottom." The current fiscal year budget calls for annual preservation expenditures of \$8 million at WNP-1 and \$8.7 million at WNP-3. We plan to reduce these costs even further over the next 12 months, to about \$5 million a year for each plant.

We remain convinced that both projects should be preserved as the most cost-effective means of meeting the region's future energy needs. In the meantime, the Supply System, with funds from participating utilities through the Bonneville Power Administration, will continue to meet its financial commitments to the holders of bonds for WNP-1, 2, and 3.

At the same time, we are actively participating with other public utilities in finding a solution to the problems resulting from the WNP-4/5 default that is fair to our participating utilities, their ratepayers and the people who invested in our securities.

Carl M. Halvorson
Executive Board
Chairman

The Supply System's primary mission is operating its publicly owned generating facilities safely, dependably and efficiently for the region's public utilities and their ratepayers. In Fiscal Year 1987, we lived up to that responsibility by reliably generating more than 7.3 billion kilowatt-hours of reasonably priced electric power while remaining well under budget.

Increasing our overall power production by more than 1 billion kilowatt-hours over 1986 brought us closer to achieving the standards of excellence we have set for ourselves. The Supply System's drive to establish itself as a leader in the power generation industry is most evident at Plant 2, where the plant capacity factor was up more than 26 percent, while the unit cost of electricity dropped 19 percent.

These statistics are indicative of Plant 2's overall success, but do not illustrate our continuing efforts to boost efficiency in several areas. These efforts were best demonstrated during the spring refueling and maintenance outage. By any measure, the 60-day outage was large and complex, involving more than 850 workers. Major jobs included redesigning and rebuilding defective reactor recirculation pumps, which had limited plant output to 72 percent of capacity; dismantling, cleaning, inspecting and modifying two of the low-pressure turbines; placing new corrosion-resistant tube bundles in the moisture separator-reheaters; making a major modification to the circulating water system, and performing hundreds of corrective and preventive maintenance tasks.

Our workers met a tight schedule, working literally around the clock to wrap up the outage in

mid-June, but it was well into July before Plant 2 was again operating reliably. We had five unplanned, automatic shutdowns, or scrams, during one 10-day period, prompting me to order the plant to remain shut down pending a thorough review of plant operations. The review revealed that the five scrams were caused by an unfortunate sequence of equipment failures that, for the most part, could not have been anticipated. A thorough, self-critical examination led to several changes in operating procedures, resulting in a stronger operations organization and a more solid-running plant.

The performance-oriented attitude of Supply System employees was further demonstrated in achieving stringent safety goals. Guided by the philosophy that a safe workplace is an efficient one, we have implemented an ambitious program to minimize on-the-job radiation exposure to our own and to contractor employees. Last year, Plant 2 was at the head of its class with the best record of limiting worker radiation exposure of any U.S. boiling water reactor. Our recirculation pump problems led to higher-than-expected radiation exposures during this year's outage, but Plant 2 continues to stay well ahead of rapidly improving industry trends.

Our lost-time accident rate and recordable injury rate are much better than industry averages as our industrial safety program shows steady improvement towards a tough, but achievable goal.

Emergency planning is another area where our goals are being met. Annual emergency exercises demonstrate our ability to safeguard the health and safety



of the public in any kind of emergency. The Supply System, with excellent cooperation from local, state and federal officials, showed it is prepared to deal with an emergency at Plant 2 when these diverse agencies came together this year in a joint effort that won the praise of both the Federal Emergency Management Agency and the Nuclear Regulatory Commission.

Operations at the Supply System's other generating plants, the Packwood Lake Hydroelectric Project and the Hanford Generating Project, were curtailed by events beyond our control. A prolonged drought limited available water for generation at Packwood while the Hanford Generating Project, the electric generating arm of the federally-owned N Reactor at Hanford, ended FY 1987 with its future in doubt. Last year we commemorated 20 years of consistent and reliable power production at

HGP, which has maintained an enviable record of being available to generate electricity 99 percent of the time when steam was available from N-Reactor. Unfortunately, safety questions and political considerations have kept N Reactor in a prolonged shutdown since January 1987 and its future remains uncertain. HGP continues to be a reliable and valuable regional asset and preliminary studies are underway to find an alternate source of steam to keep the plant generating electricity well into the future.

At WNP-1 and WNP-3, we are completing the transition to a long-term preservation program that will give the region confidence that these valuable generating resources will be available when needed in the future.

The Supply System finished FY 1987 on solid financial and operational footing and is well equipped to meet the challenges of the future. We are serious about meeting our performance-based goals. Progress was made in 1987 and I am confident we will attain our ultimate goal of establishing the Supply System in the top 10 percent of the nation's electric utilities.

Donald W. Mazur
Managing Director

When Plant 2 joined the Hanford Generating Project and the Packwood Lake Hydroelectric Project three years ago as a publicly owned generating resource, the Supply System set out to become one of the top performers in the electric utility industry.

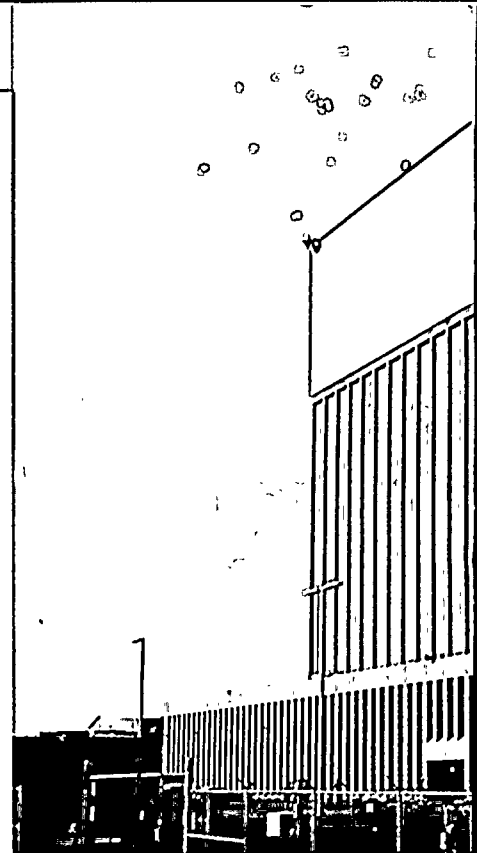
The Supply System staff is dedicated to achieving its operations goals. Plant 2 fuel costs remained among the lowest in the industry, while power generation in 1987 was up more than 26 percent due to steps taken to increase generating capacity and plant reliability.

The most important factor in the increased electricity production was the repair of a generic design defect in the plant's two reactor recirculation pumps, a problem that has plagued Plant 2 for most of its operating life. The defect was corrected during this spring's maintenance and refueling outage, when the pumps were rebuilt using newly designed components.

More than 850 workers took part in the annual outage, completing 6,000 preventive maintenance tasks and 1,200 plant modifications and improvements within a tight schedule. The largest job was removing the 100-ton rotors from two of the plant's three low-pressure turbines. The turbines, which convert the heat energy in the steam to the spinning motion needed to drive the electric generator, were modified to increase their performance and durability.

Other jobs ranged from the exotic, such as installing a process computer originally designed to track space satellites to help monitor and control plant opera-

The Pacific Northwest's public utilities receive the 1,100 megawatts of electricity generated by Plant 2.



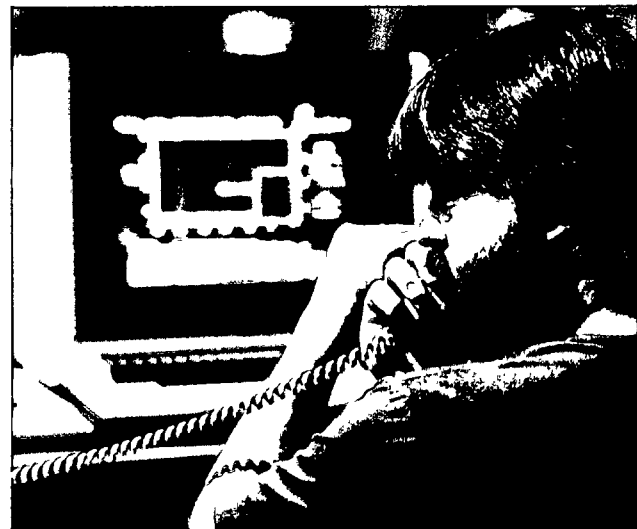
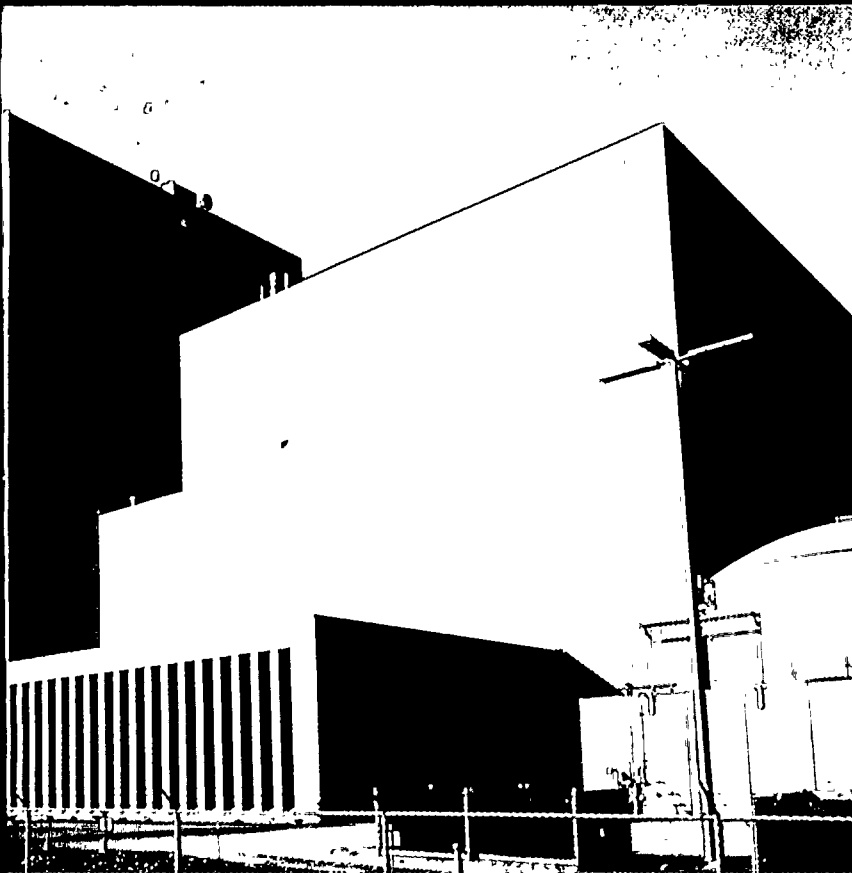
Our Goal:
To achieve a standard of excellence in safe, efficient and reliable operations.

tions, to the mundane, such as testing lubricating oil in thousands of electric motors.

In July, Plant 2 returned to operation at its full 1,100-megawatt capacity after eight months of operating at reduced power. The plant continues to run solidly at full power, setting new Supply System generation records.

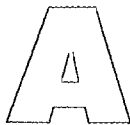
With the Department of Energy's N Reactor, which supplies steam to the Hanford Generating Project, shut down for safety improvements and the Packwood Project idling through a low water year, the people of the region are looking to Plant 2 to continue providing reliable, reasonably priced electricity.

The Supply System in 1987 lived up to its responsibility as a major supplier of electricity to the Pacific Northwest, while moving closer to realizing its goal of being recognized as an industry leader.



Above: Plant 2 safety and efficiency is enhanced by a new plant monitoring computer that helps operators identify trends that could lead to problems in plant systems.

This spring's maintenance and refueling outage included dismantling and inspecting two of Plant 2's low pressure turbines.



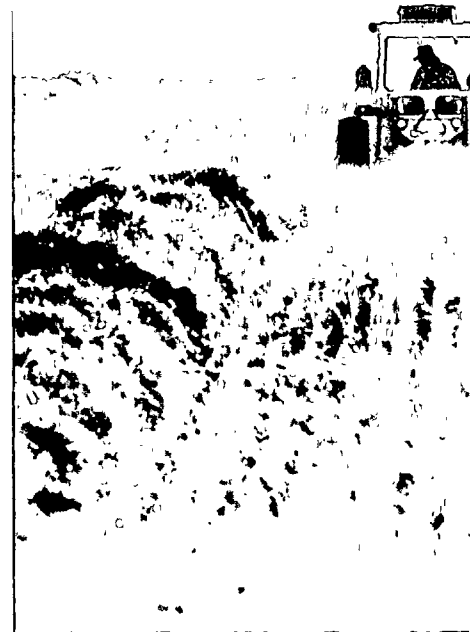
safe operation is an efficient one—that is the philosophy that guides the Supply System in its efforts to protect the health and safety of its workers and the public.

This responsibility is evident in the Supply System's "Fitness for Duty" program, that ensures employees work in an atmosphere free of alcohol and drugs. The program survived a court challenge this year, when the judge agreed that the program is fair and sensitive to the concerns of individual employees and is necessary to assure the public that our plants are operated by sound minds and steady hands.

The Supply System's regard for its employees is also evident in its ALARA program. ALARA, which stands for As Low As Reasonably Achievable, is the philosophy which governs the radiation protection program at Plant 2. Last year, Plant 2 workers had the lowest radiation exposure of any nuclear power plant of its type. While worker exposure increased in 1987 due to a greater-than-anticipated outage workload, the Supply System's record is still one of the best in the industry.

Being prepared for a potentially serious accident at Plant 2 is a responsibility shared with local, state and federal governments. It requires teamwork and cooperation to bring together more than 600 employees and representatives of outside agencies into one cohesive, effective organization that is capable of coping with all kinds of emergencies. The Nuclear Regulatory Commission and the Federal Emergency Management Agency continue to give the

Plant 2 is situated in Washington State's Columbia Basin, where abundant water and inexpensive electricity have helped transform millions of acres of arid desert into productive farmland.

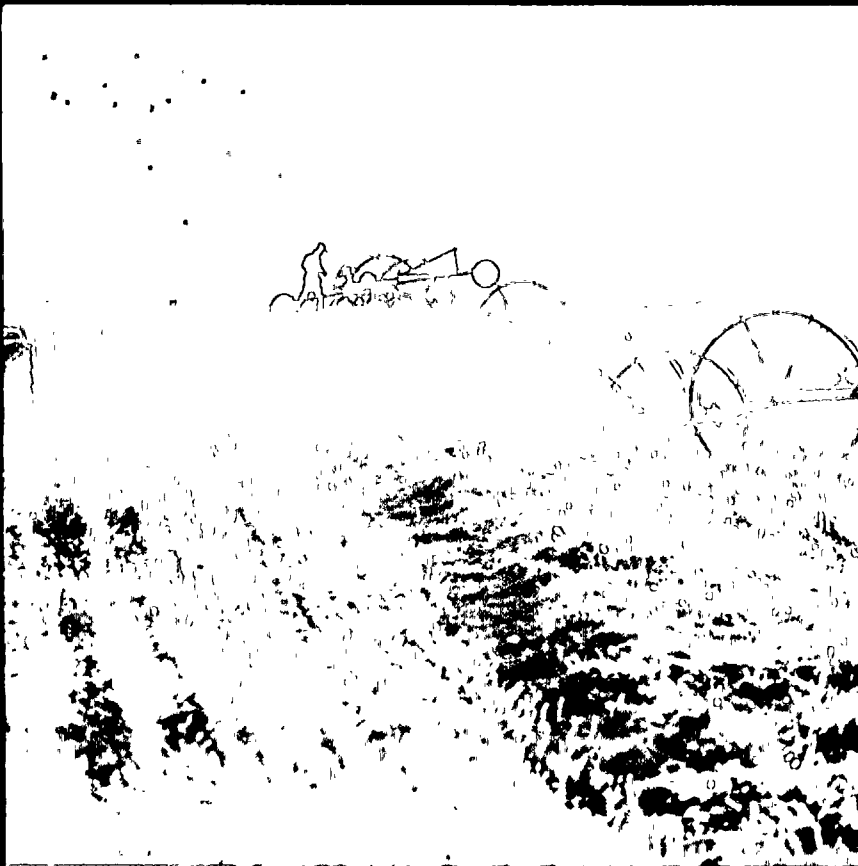


We are committed to maintaining a safe and healthy environment.

Supply System good marks for timely notification of the public and for successful recovery operations in annual plant emergency exercises.

The quality of life in the rural area surrounding Plant 2 is assured by constant monitoring by environmental scientists and biologists. Environmental studies in the surrounding area are routinely conducted on milk and farm crop samples, soil, vegetation, water from the nearby Columbia River, and aquatic and terrestrial animal life, to make sure plant operations have minimal impact on the environment.

The public places its trust in the Supply System and its employees. The Supply System is committed to doing everything possible to live up to its responsibilities to protect its neighbors and its employees.



Above: Worker exposure to radiation at Plant 2 is minimized through a program that is among the best in the industry.

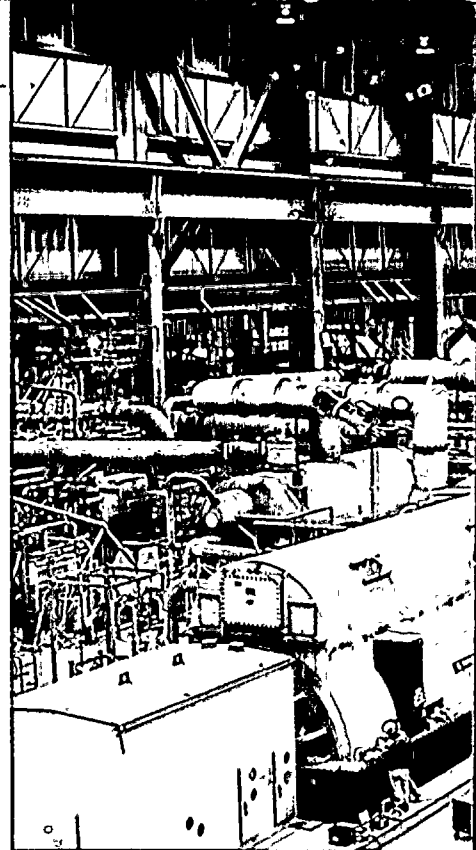
The nearby Columbia River and the surrounding countryside are routinely monitored to assure that Supply System operations have minimal impact on the environment.

Public utilities will face new challenges in the next 30 years as the industry evolves. Supply System initiatives in employee training, preserving WNP-1 and WNP-3 for future completion and extending the life of the Hanford Generating Project are evidence of the organization's commitment to the future.

The future of the Pacific Northwest's energy supply is being safeguarded by the Supply System's efforts to preserve Nuclear Projects 1 and 3 for eventual completion. Construction was halted at WNP-1 in 1982 and at WNP-3 in 1983, but the mostly completed plants are still in superb condition. A two-year design asset preservation program was begun in FY 1987 to protect the completed design work and to ensure that continuity is maintained in the engineering effort during the delay period. The readiness review program, a joint effort with the Nuclear Regulatory Commission to inspect and approve construction work done to date, was halted due to budget cuts, but the groundwork was laid to resume the program at a later date. The goal of the preservation program is to make sure WNP-1 and 3 are available when needed, since they remain the region's least expensive source of new electrical generation.

Another valuable regional resource, the Hanford Generating Project, remains in top working condition following 20 years of economical and reliable service. However, its steam source, the U.S. Department of Energy's N Reactor, is nearing the end of its operating life. Keeping HGP as a viable source of low-cost electricity is a high priority and efforts are underway to find a new, dependable heat source.

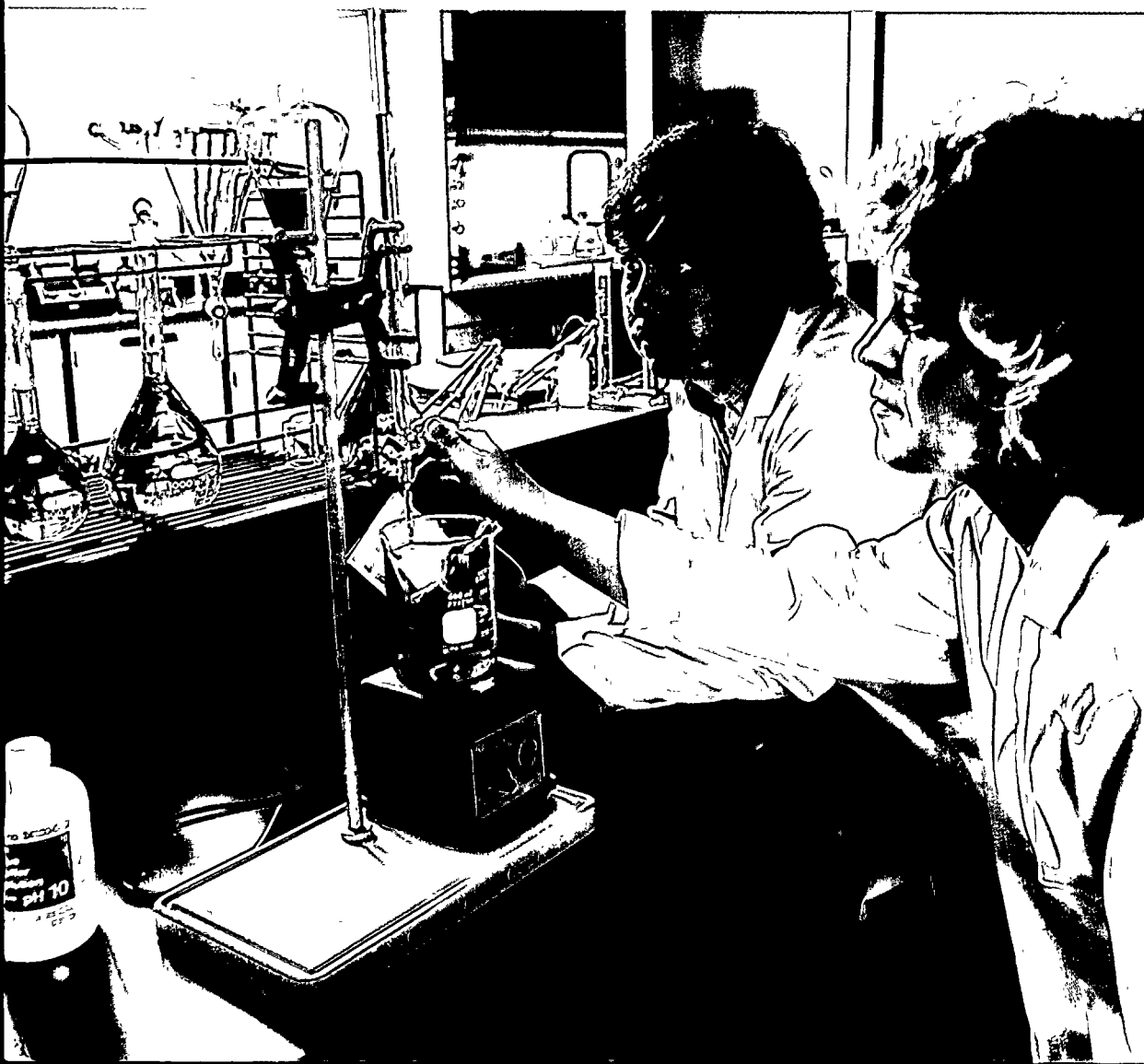
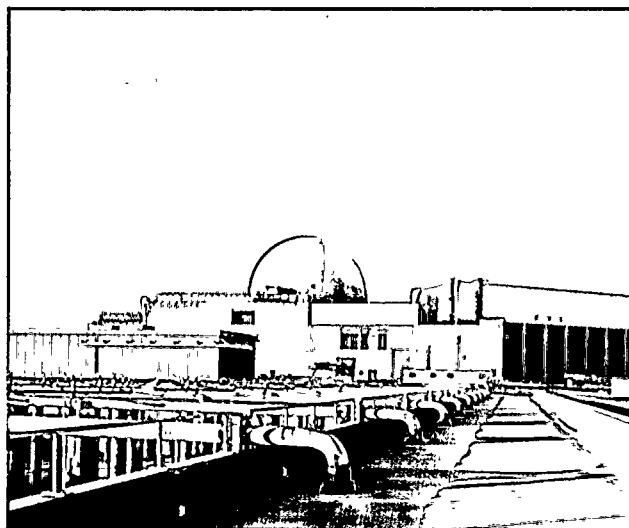
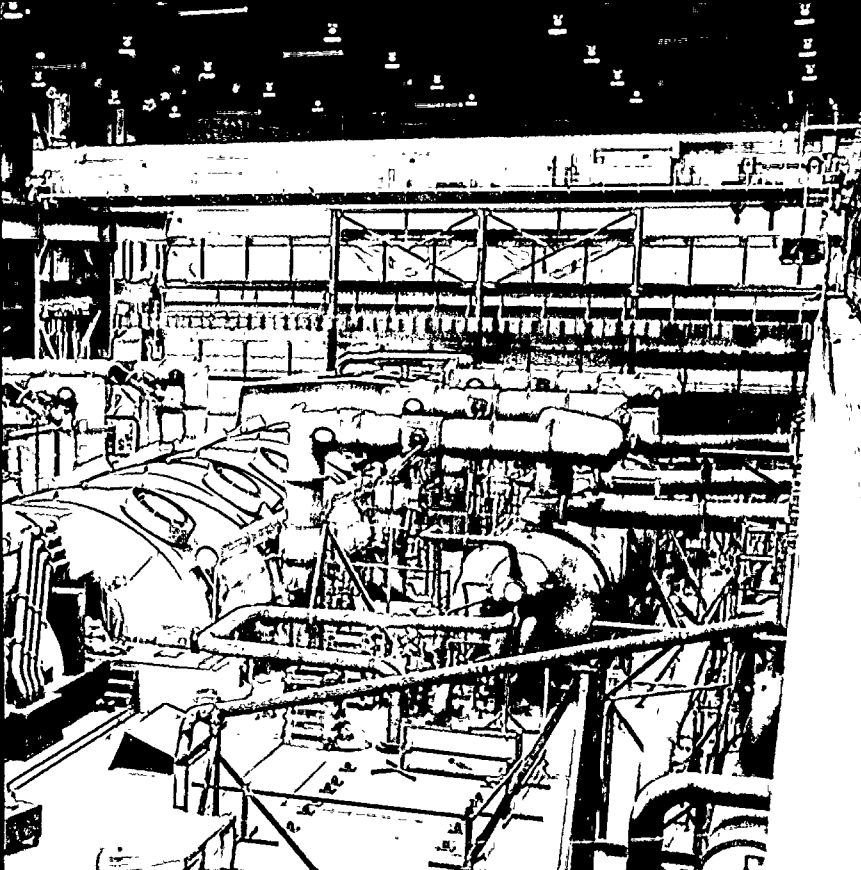
Long-term preservation of WNP-1 and WNP-3 is being achieved efficiently and economically.



The Supply System is poised to meet the challenges of the future.

The Supply System's most valuable resource is its employees. As a fully accredited member of the National Academy for Nuclear Training, the Supply System has developed training programs that ensure workers are motivated, qualified and skilled in their jobs. Performance-based training is continually conducted in reactor operations, health physics and chemistry, decontamination, maintenance, safety, first aid, fire protection, emergency procedures and security. With training programs complementing on-the-job experience, employees are kept abreast of new concepts and work practices.

The region's public utilities will be hard-pressed in the future to maintain the Pacific Northwest's supply of abundant, low-cost electricity. The Supply System is determined to help meet this challenge with reliable generation at its operating plants and responsible preservation of its deferred projects.



Above: Completion of WNP-1 and 3 is the most cost-effective means of supplying future needs.

The Supply System's training programs are fully accredited by the National Academy for Nuclear Training, ensuring that workers meet the highest standards.

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Raymond E. Colbert and Lois M. Powell served
on the Executive Board and Board of Directors
through 12/31/86.

Executive Board
Washington Public Power Supply System
Richland, Washington

We have examined the individual financial statements, as listed in the financial statements section of the table of contents, of Washington Public Power Supply System's Nuclear Plant No. 2, Hanford Generating Project, Packwood Lake Hydroelectric Project, Nuclear Project No. 1, Nuclear Project No. 3, Nuclear Projects No.'s 4 and 5, and the Agency Clearing Account for the year ended June 30, 1987. Our examinations were 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.

As discussed in Note E to the financial statements, Washington Public Power Supply System Nuclear Projects No.'s 1 and 3 are involved in disputes concerning costs shared with Washington Public Power Supply System Nuclear Projects No.'s 4 and 5. Additionally, disputes arising from the extended construction delay of Washington Public Power Supply System Nuclear Project No. 3 have been tentatively settled; however such settlement is subject to approval by the Court. The ultimate amount of additional costs, if any, to be borne by Nuclear Projects No.'s 1 and 3 due to these matters is not determinable at the present time.

As discussed in Note E to the financial statements, creditors of Nuclear Projects No.'s 4 and 5 have threatened to attempt to obtain payment from assets or funds held by other projects of the Supply System or the revenues pledged thereto. Supply System management is of the opinion that creditor

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Financial
Section

claims can only be realized from the assets, funds or revenues of the projects to which such claims relate. If it is found that creditors are not limited to payment of their claims from the project to which such claims relate, it will have a material adverse impact on the Supply System.

As explained in Note D, accrued liabilities have been reflected in the accompanying balance sheets for estimated contract settlement and termination costs. Due to the nature of the settlement process, the ultimate amounts owing to creditors are not fully determinable at the present time. In addition, as explained in Note E, there are various other matters of litigation for which the outcome is not presently known.

In view of the significance of the matters discussed in the preceding paragraphs, we are unable to express, and we do not express, an opinion on the financial statements of the Supply System's Nuclear Plant No. 2, Hanford Generating Project, Packwood Lake Hydroelectric Project, Nuclear Project No. 1, Nuclear Project No. 3, Nuclear Projects No.'s 4 and 5, and Agency Clearing Account referred to above.

Ernst & Whinney

Seattle, Washington
September 11, 1987, except as to the eighth
and ninth paragraphs of Note D as to which
the dates are October 21 and 8, 1987,
respectively.

BALANCE SHEETS

As of June 30, 1987 Dollars in thousands

ASSETS	NUCLEAR PLANT NO. 2	HANFORD GENERATING PROJECT	PACKWOOD LAKE PROJECT	NUCLEAR PROJECT NO. 1	NUCLEAR PROJECT NO. 3	NUCLEAR PROJECTS NO.'S 4/5	AGENCY CLEARING ACCOUNT
CURRENT ASSETS— OPERATING FUND							
Cash and investments	\$ 5,514	\$ 3,501	\$ 1,038	\$ 8,069	\$ 7,742		\$ 4,242
Accounts receivable	4,872						211
Inventories	18,592	382					847
Prepays and other assets	997	484	27				995
Due from participants	584	179	137	152	180		
Due from other projects and agency clearing account	854		29	1,430			
Due from other funds	29,246	898	14	29,195	30,568		
	<u>60,659</u>	<u>5,444</u>	<u>1,245</u>	<u>38,846</u>	<u>38,490</u>		<u>6,295</u>
RESTRICTED ASSETS Notes B and C							
Special funds							
Cash and investments	30,391	3,191	295	125,773	29,478	6,302	
Receivable from joint owners					7,035	138	
Due from other projects and agency clearing account				7,822	251	17,443	
Accounts receivable				3,431	4,002	593	
Prepays and other assets				68	49	19	
Due from other funds				614	15,795		
	<u>30,391</u>	<u>3,191</u>	<u>295</u>	<u>137,708</u>	<u>56,610</u>	<u>24,495</u>	
Revenue fund							
Cash and accounts receivable						844	
Due from other projects						349	
Chemical Bank fund accounts						2,687*	
Debt service funds							
cash and investments	114,534	4,272	712	229,718	181,813	105,637*	
	<u>144,925</u>	<u>7,463</u>	<u>1,007</u>	<u>367,426</u>	<u>238,423</u>	<u>134,012</u>	
UTILITY PLANT AND EQUIPMENT Note B							
In service	3,264,681	67,546	12,354	11,242			20,036
Improvements to U.S. government facilities		16,528					
Less allowance for depreciation and amortization	(274,369)	(61,350)	(6,047)	(1,612)			(12,183)
	<u>2,990,312</u>	<u>22,724</u>	<u>6,307</u>	<u>9,630</u>			<u>7,853</u>
Construction work in progress	7,268						
Construction work in progress— deferred projects				2,237,558	2,420,686		
Costs of terminated projects						3,118,530	
Nuclear fuel and prepaid enrichment services	104,108			260,837	53,967		
Less amount charged to joint owners					(622,154)	(87,468)	
Less allowance for estimated unrecoverable costs						(3,019,007)	
	<u>3,101,688</u>	<u>22,724</u>	<u>6,307</u>	<u>2,508,025</u>	<u>1,852,499</u>	<u>12,055</u>	<u>7,853</u>
OTHER ASSETS AND DEFERRED CHARGES							
Unbilled reimbursable costs			2,687				
Unamortized debt expense	3,169	81	19	3,264	2,386		
TOTAL ASSETS	<u>\$3,310,441</u>	<u>\$35,712</u>	<u>\$11,265</u>	<u>\$2,917,561</u>	<u>\$2,131,798</u>	<u>\$146,067</u>	<u>\$14,148</u>

* Assets under control of Chemical Bank

LIABILITIES	NUCLEAR PLANT NO. 2	HANFORD GENERATING PROJECT	PACKWOOD LAKE PROJECT	NUCLEAR PROJECT NO. 1	NUCLEAR PROJECT NO. 3	NUCLEAR PROJECTS NO.'S 4/5	AGENCY CLEARING ACCOUNT
CURRENT LIABILITIES— OPERATING FUND							
Accounts payable and accrued expenses	\$ 23,150	\$ 44	\$ 30	\$ 20	\$ 21	\$	\$ 8,838
Amounts withheld from contractors	1,408						
Advance payments from participants	1,388			3,162	2,037		
Due to other projects and agency clearing account	326	1,536					1,002
Amounts due power purchasers	31,387	364	1,100	32,050	13,398		
Amounts due other funds				614	20,035		
	57,659	1,944	1,130	35,846	35,491		9,840
LIABILITIES—PAYABLE FROM RESTRICTED ASSETS Notes B and C							
Special funds							
Accounts payable and accrued expenses	2,510			8,153	9,013	25,797	
Amounts withheld from contractors				3,143	8,434	6,303	
Due to other projects and agency clearing account					17,280	8,034	
Due to other funds	24,881	691	15	22,950	18,883		
	27,391	691	15	34,246	53,610	40,134	
Revenue fund accounts payable and accrued expenses						160	
Debt service funds							
Accrued interest payable		258	122	103,326	82,500	806,814	
Due to other funds—net	4,364	207		6,244	7,446		
	4,364	465	122	109,570	89,946	806,814	
Chemical Bank fund accounts							
Accounts payable and accrued expenses						100	
	31,755	1,156	137	143,816	143,556	847,208	
DEBT IN DEFAULT, CURRENTLY PAYABLE							
Revenue bonds payable						2,250,000	
Subordinated revenue notes						67,866	
						2,317,866	
LONG-TERM DEBT Note C							
Revenue bonds payable	2,233,775	23,820	9,978	2,109,560	1,583,830		
Less unamortized discount on bonds—net	(64,153)	(446)	(74)	(49,199)	(36,148)		
	2,169,622	23,374	9,904	2,060,361	1,547,682		
OTHER LIABILITIES AND DEFERRED CREDITS							
Unearned revenue	1,008,157	6,653					
Costs reimbursed under net billing				674,538	402,069		
Deferred gain on redemption of revenue bonds		1,185	94				
Advances and other	43,248	1,400		3,000	3,000		4,308
	1,051,405	9,238	94	677,538	405,069		4,308
TOTAL LIABILITIES	3,310,441	35,712	11,265	2,917,561	2,131,798	3,165,074	14,148
Deficiency in assets						(3,019,007)	
TOTAL LIABILITIES AND DEFICIENCY IN ASSETS	\$3,310,441	\$35,712	\$11,265	\$2,917,561	\$2,131,798	\$ 146,067	\$14,148

STATEMENTS OF OPERATIONS

For the year ended June 30, 1987 Dollars in thousands

	NUCLEAR PLANT NO. 2	HANFORD GENERATING PROJECT	PACKWOOD LAKE PROJECT
OPERATING REVENUES	\$432,271	\$33,540	\$1,101
OPERATING EXPENSES			
Nuclear fuel	23,387		
Waste disposal	5,499		
Decommissioning	941		
Reactor availability		31,485	
Depreciation and amortization	103,504	2,381	264
Operations and maintenance	75,630	3,132	508
Administrative and general	21,890	761	106
Taxes	1,967	(3,900)	3
	<u>232,818</u>	<u>33,859</u>	<u>881</u>
NET OPERATING REVENUE/(LOSS)	<u>199,453</u>	<u>(319)</u>	<u>220</u>
OTHER INCOME AND EXPENSE			
Investment income	16,639	1,239	151
Interest expense and discount amortization	(216,092)	(920)	(371)
NET REVENUE	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>

STATEMENT OF CHANGES IN DEFICIENCY IN ASSETS

For the year ended June 30, 1987 Dollars in thousands

	NUCLEAR PROJECTS NO.'S 4/5
BALANCE AT JULY 1, 1986	\$2,817,154
ADDITIONS/(DEDUCTIONS)	
Interest expense	198,194
Net increase in costs related to terminated nuclear projects	15,012
Administrative costs associated with asset disposition	3,075
Received from asset sales	(2,162)
Investment income	(8,289)
Increase in recoverable value estimates	(3,977)
BALANCE AT JUNE 30, 1987	<u>\$3,019,007</u>

STATEMENTS OF CHANGES IN FINANCIAL POSITION

For the year ended June 30, 1987 Dollars in thousands

	NUCLEAR PLANT NO. 2	HANFORD GENERATING PROJECT	PACKWOOD LAKE PROJECT
OPERATING PROJECTS			
SOURCE OF FUNDS			
Operations—net revenue	\$ -0-	\$ -0-	\$ -0-
Items not affecting working capital			
Depreciation and amortization	129,584	2,444	268
Increase/(decrease) in costs reimbursable from power purchasers	(59,863)	1,919	(10)
Less gain on redemption of revenue bonds		(445)	(72)
Total from Operations	69,721	3,918	186
TOTAL SOURCE OF FUNDS	\$ 69,721	\$3,918	\$186
USE OF FUNDS			
Construction and capital	\$ 21,611	\$ 31	\$ 4
Fuel	23,185		
Net improvements		(16)	
Cost of revenue bonds purchased and retired	24,925	6,616	111
Increase (decrease) in restricted assets	-0-	(2,713)	71
	69,721	3,918	186
Changes in working capital			
Cash and investments	(17,051)	(1,836)	(21)
Receivables and other	(10,696)	(520)	(85)
Payables and other	27,747	2,356	106
Net increase in working capital	-0-	-0-	-0-
TOTAL USE OF FUNDS	\$ 69,721	\$3,918	\$186
NON-OPERATING PROJECTS			
SOURCE OF FUNDS			
Collected under net billing	\$228,700	\$177,259	\$
Interest income	23,529	12,494	8,789
Charged to joint owners		5,129	(99)
Due from participants	4,926	3,438	
Received from asset sales			2,162
Net decrease in restricted funds	8,863		206,497
TOTAL SOURCE OF FUNDS	\$266,018	\$198,320	\$217,349
USE OF FUNDS			
Costs related to construction or termination	\$ 15,747	\$ 21,335	\$ (1,223)
Interest expense	206,652	165,001	198,194
Nuclear fuel	2,998	2,938	
Financing, trustee and paying agent expenses	127	25	16,804
Bonds redeemed	14,855	6,530	
Revaluation of investments	90	96	499
Net transfers to Hanford Generating Project	25,549		
Administrative costs associated with asset disposition			3,075
Net increase in restricted funds		2,395	
TOTAL USE OF FUNDS	\$266,018	\$198,320	\$217,349

OUTSTANDING LONG-TERM DEBT

Dollars in thousands

	SERIES	DATE OF SALE	EFFECTIVE INTEREST RATE(B)	OFFERING PRICES	COUPON RATE	SERIAL OR TERM MATURITIES	JUNE 30, 1987
NUCLEAR PLANT NO. 2							
Revenue Bonds	1973	6-26-73	5.66%	(A)	5.00—5.10%	7-1-88/1991	\$ 11,200
(excludes \$2,400,000 due July 1, 1987)				100	5.70	7-1-2012	124,400
							<u>135,600</u>
Revenue Bonds	1974	7-23-74	7.21	(A)	6.50—6.90	7-1-88/1994	16,200
(excludes \$1,800,000 due July 1, 1987)				100	7.00	7-1-1999	15,000
				100	7.375	7-1-2012	37,000
							<u>68,200</u>
Revenue Bonds	1974A	11-26-74	7.67	(A)	7.20	7-1-88/1994	14,000
(excludes \$1,500,000 due July 1, 1987)				100	7.40	7-1-1999	15,000
				100	7.75	7-1-2012	78,000
							<u>107,000</u>
Revenue Bonds	1975A	3-6-75	6.71	(A)	6.60	7-1-88/1994	12,800
(excludes \$1,500,000 due July 1, 1987)				100	6.60	7-1-1999	15,000
				100	6.875	7-1-2012	78,000
							<u>105,800</u>
Revenue Bonds	1976	6-3-76	6.63	(A)	5.50—6.25	7-1-88/1998	21,445
(excludes \$1,320,000 due July 1, 1987)				99.25	6.625	7-1-2006	42,300
				100	6.75	7-1-2012	49,860
							<u>113,605</u>
Revenue Bonds	1976A	11-18-76	5.87	(A)	5.50—5.875	7-1-88/2002	76,800
(excludes \$3,245,000 due July 1, 1987)				100	6.00	7-1-2007	44,815
				99.50	6.00	7-1-2012	60,990
							<u>182,605</u>
Revenue Bonds	1978	7-11-78	6.71	(A)	5.50—6.60	7-1-88/2000	55,540
(excludes \$2,535,000 due July 1, 1987)				100	6.80	7-1-2006	45,520
				100	6.875	7-1-2012	66,230
							<u>167,290</u>
Revenue Bonds	1979	3-13-79	6.49	(A)	5.50—6.00	7-1-88/1999	48,315
(excludes \$2,785,000 due July 1, 1987)				100	6.40	7-1-2004	33,490
				100	6.75	7-1-2012	83,605
							<u>165,410</u>
Revenue Bonds	1979A	10-17-79	7.69	(A)	6.60—7.30	7-1-88/1999	34,375
(excludes \$2,000,000 due July 1, 1987)				100	7.60	7-1-2004	23,050
				100	7.75	7-1-2012	57,000
							<u>114,425</u>
Revenue Bonds	1980	10-21-80	9.36	(A)	8.90—10.90	7-1-88/1997	31,675
(excludes \$1,855,000 due July 1, 1987)				100	9.30	7-1-2001	23,735
				100	9.60	7-1-2006	46,070
				(A)	9.25	7-1-2011	75,045
				(A)	8.25	7-1-2012	19,920
							<u>196,445</u>
Revenue Bonds	1981A	9-4-81	12.44	100	14.375	7-1-2001	30,000
				57.895	8.25	7-1-2003	100,000
				99	14.50	7-1-2006	30,000
				100	13.25	7-1-2012	50,000
							<u>210,000</u>
Revenue Bonds	1982A	2-11-82	14.76	100	10.50—13.75	7-1-88/1996	29,945
(excludes \$1,780,000 due July 1, 1987)				100	14.50	7-1-2002	51,665
				99.25	14.75	7-1-2012	215,000
							<u>296,610</u>

(A) Various Prices

(B) Based on original issue

	SERIES	DATE OF SALE	EFFECTIVE INTEREST RATE(B)	OFFERING PRICES	COUPON RATE	SERIAL OR TERM MATURITIES	JUNE 30, 1987
Revenue Bonds	1982B	5-20-82	13.82%	100	10.50—13.00%	7-1-88/1996	\$ 35,185
(excludes \$2,205,000 due July 1, 1987)				100	13.875	7-1-2012	<u>139,320</u>
							<u>174,505</u>
Revenue Bonds	1982C	5-20-82	13.89	100	13.50	7-1-2002	56,960
				100	13.875	7-1-2012	<u>139,320</u>
							<u>196,280</u>
							<u>\$2,233,775</u>
HANFORD GENERATING PROJECT							
Revenue Bonds	1963	5-8-63	3.26	98	3.25	9-1-1996	\$ 23,820
							<u>\$ 23,820</u>
PACKWOOD LAKE PROJECT							
Revenue Bonds	1962	3-20-62	3.66	99.425	3.625	3-1-2012	\$ 7,553
(includes \$190,000 due within one year at June 30, 1987)	1965	11-4-65	3.76	100.5	3.75	3-1-2012	<u>2,425</u>
							<u>\$ 9,978</u>
NUCLEAR PROJECT NO. 1							
Revenue Bonds	1975	9-18-75	7.73	(A)	6.25—7.40	7-1-87/2000	\$ 35,000
(includes \$1,500,000 due July 1, 1987)				100	7.70	7-1-2010	58,300
				100	7.75	7-1-2017	<u>74,700</u>
							<u>168,000</u>
Revenue Bonds	1976A	2-4-76	6.84	(A)	6.00—6.25	7-1-87/1998	28,710
(includes \$1,665,000 due July 1, 1987)				100	6.90	7-1-2010	66,485
				100	7.00	7-1-2017	<u>76,495</u>
							<u>171,690</u>
Revenue Bonds	1976B	8-31-76	6.37	(A)	5.00—5.90	7-1-87/1998	31,910
(includes \$1,940,000 due July 1, 1987)				100	6.50	7-1-2010	66,940
				99.50	6.50	7-1-2017	<u>71,235</u>
							<u>170,085</u>
Revenue Bonds	1978A	3-21-78	5.69	(A)	5.00—5.50	7-1-87/2002	57,635
(includes \$2,450,000 due July 1, 1987)				100	5.80	7-1-2010	50,920
				100	5.875	7-1-2017	<u>64,810</u>
							<u>173,365</u>
Revenue Bonds	1978B	12-5-78	6.61	(A)	5.50—6.00	7-1-87/1998	33,035
(includes \$1,980,000 due July 1, 1987)				100	6.35	7-1-2003	22,305
				100	6.60	7-1-2009	38,190
				99.50	6.80	7-1-2017	<u>81,150</u>
							<u>174,680</u>
Revenue Bonds	1979	6-19-79	6.64	(A)	6.00	7-1-87/1998	25,625
(includes \$1,435,000 due July 1, 1987)				100	6.40	7-1-2003	18,560
				100	6.70	7-1-2009	32,370
				100	6.80	7-1-2017	<u>69,685</u>
							<u>146,240</u>
Revenue Bonds	1980A	8-5-80	8.87	(A)	7.00—8.25	7-1-87/1995	51,000
(includes \$4,500,000 due July 1, 1987)				100	9.00	7-1-2002	37,000
				100	9.20	7-1-2005	16,950
				99.00	9.25	7-1-2013	70,550
				(A)	7.75	7-1-2017	<u>30,000</u>
							<u>205,500</u>

OUTSTANDING LONG-TERM DEBT

Dollars in thousands

	SERIES	DATE OF SALE	EFFECTIVE INTEREST RATE(B)	OFFERING PRICES	COUPON RATE	SERIAL OR TERM MATURITIES	JUNE 30, 1987
Revenue Bonds	1981A	4-13-81	11.30	(A) 100	11.30—13.00% 11.625	7-1-96/2003 7-1-2012	\$ 28,580 91,420 <u>120,000</u>
Revenue Bonds	1981B	4-13-81	11.30	(A)	10.00	7-1-2016	<u>40,000</u>
Revenue Bonds	1981C	4-13-81	10.29	100	10.25	7-1-2015	<u>40,000</u>
Revenue Bonds	1981D	9-4-81	14.78	100 57.895 100	14.375 8.25 15.00	7-1-2001 7-1-2003 7-1-2017	20,000 30,000 265,000 <u>315,000</u>
Revenue Bonds	1982A	2-11-82	14.79%	100 100 99.25	10.50—13.75 14.50 14.75	7-1-88/1996 7-1-2002 7-1-2017	29,355 50,645 305,000 <u>385,000</u> <u>\$2,109,560</u>
NUCLEAR PROJECT NO. 3							
Revenue Bonds (includes \$1,200,000 due July 1, 1987)	1975	12-3-75	7.87	(A) 100 100	6.00—7.25 7.875 7.875	7-1-87/1998 7-1-2010 7-1-2018	\$ 22,125 52,695 71,160 <u>145,980</u>
Revenue Bonds (includes \$965,000 due July 1, 1987)	1976	4-13-76	6.48	(A) 99.625 100	5.50—6.00 6.50 6.60	7-1-87/1998 7-1-2010 7-1-2018	16,230 35,100 45,295 <u>96,625</u>
Revenue Bonds (includes \$2,825,000 due July 1, 1987)	1977	9-12-77	5.71	(A) 99.50 99.50	5.00—5.50 5.70 5.80	7-1-87/2000 7-1-2009 7-1-2018	53,960 63,535 107,160 <u>224,655</u>
Revenue Bonds (includes \$1,910,000 due July 1, 1987)	1978	9-12-78	6.27	(A) 100 99	5.90—6.00 6.375 6.40	7-1-87/2004 7-1-2010 7-1-2018	62,955 42,985 90,630 <u>196,570</u>
Revenue Bonds (includes \$2,025,000 due July 1, 1987)	1981A	2-11-81	10.80	(A) 100 99.50 88.50 88.50	9.50—12.50 11.125 11.125 9.75 9.75	7-1-87/2001 7-1-2005 7-1-2010 7-1-2017 7-1-2018	64,375 40,535 80,310 18,950 20,830 <u>225,000</u>
Revenue Bonds	1981B	9-4-81	14.80	57.895 99 100	8.25 14.50 15.00	7-1-2003 7-1-2006 7-1-2018	20,000 20,000 185,000 <u>225,000</u>
Revenue Bonds	1982A	2-11-82	14.83	100 100 99.25	10.50—13.75 14.50 14.75	7-1-88/1996 7-1-2002 7-1-2018	6,055 10,445 148,500 <u>165,000</u>
Revenue Bonds	1982B	5-20-82	13.95	100 99.50	10.50—13.00 13.875	7-1-88/1996 7-1-2018	9,195 280,925 <u>290,120</u>
Revenue Bonds	1982C	5-20-82	13.63	100	13.50	7-1-2002	<u>14,880</u> <u>\$1,583,830</u>

(A) Various Prices

(B) Based on original issue

NOTE A—GENERAL

The Washington Public Power Supply System was organized in 1957 as a municipal corporation and joint operating agency of the State of Washington. It is empowered to acquire, construct and operate facilities for the generation and transmission of electric power. On June 30, 1987, its membership consisted of 13 public utility districts and three municipalities that own and operate electric systems within the state of Washington.

The Supply System constructed and is operating Nuclear Plant No. 2, the Hanford Generating Project, and the Packwood Lake Hydroelectric Project. Nuclear Project No. 1 is in the sixth year of an extended construction delay, Nuclear Project No. 3 is in the fifth year of an extended construction delay, and Nuclear Projects No.'s 4 and 5 were terminated on January 22, 1982.

Nuclear Plant No. 2, the Hanford Generating Project, the Packwood Lake Hydroelectric Project, and Nuclear Projects No.'s 1 and 4 are wholly owned by the Supply System. Nuclear Project No. 3 is jointly owned by the Supply System (70 percent) and four investor-owned utilities (30 percent). Nuclear Project No. 5 is jointly owned by the Supply System (90 percent) and one investor-owned utility (10 percent). Each joint owner is responsible for its share of the costs of construction, operation or termination, and is entitled to its share of the projects' operating capability.

The Supply System is currently unable to obtain additional financing through the sale of bonds due to pending litigation. Nuclear Project No. 1 preservation costs are currently funded by proceeds from bonds sold in February, 1982, while Nuclear Project No. 1 debt service is funded by project participants and Bonneville Power Administration under net-billing agreements (See Note C, Security—Agreements and Contracts). The Supply System's 70 percent share of Nuclear Project No. 3 preservation costs and debt service applicable to the Supply System's ownership share of Nuclear Project No. 3 are currently funded by project participants and Bonneville Power Administration under net-billing agreements. Nuclear Projects

No.'s. 4 and 5 termination costs are paid by Chemical Bank, bond fund trustee, from funds remaining at the time of project termination (See Note D) and from asset sales revenues.

NOTE B—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Supply System has adopted accounting policies and practices that are in accordance with generally accepted accounting principles applicable to utilities and governmental organizations. Separate books of account are maintained for each project, except that Nuclear Projects No.'s 4 and 5 are accounted for as a single entity, due to the legal separateness of each utility system as established by bond resolutions.

In addition, the Supply System maintains an Agency Clearing Account for centralized control and accounting of certain fixed assets, such as data processing equipment, and for payment and accounting of internal services, payrolls, benefits, administrative and general expenses, and certain common contracted services on a cost-reimbursable basis. Assets of the Agency Clearing Account are owned by Supply System projects and are held in trust by the Agency Clearing Account. Depreciation relating to fixed assets is charged to the appropriate projects directly or indirectly based on actual usage. Liabilities of the Agency Clearing Account represent accrued payrolls, vacation pay, employee benefits, and common accounts payable which have been charged directly or indirectly to projects and will be funded by projects when paid. Net amounts owed to or from Supply System projects are recorded under Current Liabilities—Due To Other Projects, or Current Assets—Due From Other Projects on the Agency Clearing Account balance sheet.

CURRENT MATURITY OF REVENUE BONDS

Current assets and liabilities in the accompanying balance sheets exclude current maturities of revenue bonds and accrued interest because debt service funds are provided for their payment.

RESTRICTED ASSETS

In accordance with project bond resolutions and related agreements, separate restricted funds are established for each of the projects. The assets held in these funds are restricted for specific uses including construction, debt service, capital additions, extraordinary operation and maintenance, termination, and decommissioning.

Cash and investments in the Operating Fund of Nuclear Plant No. 2 and in Special Funds of Nuclear Projects No.'s 1, 3, 4, and 5 include \$18,744,149 retained in escrow for contractors as of June 30, 1987.

CASH AND INVESTMENTS

Cash and investments for Nuclear Plant No. 2, the Hanford Generating Project, the Packwood Lake Hydroelectric Project, and Nuclear Projects No.'s 1 and 3 are maintained separately. Cash and investments for Nuclear Projects No.'s 4 and 5 are pooled. All investments are held in the Supply System's name by safekeeping agents.

The Supply System's deposits at year-end were entirely covered by federal depository insurance or by a pool of public funds through the Washington Public Deposit Protection Commission.

Statutes authorize the Supply System to invest in obligations of the United States Treasury, United States government agencies, banks, savings and loan corporations, and corporate mortgage companies. Supply System investment policies limit investment authority to obligations of the United States Treasury, Federal National Mortgage Association, Federal Home Loan Banks, and Federal Home Loan Mortgage Corporation.

Investments held in the Bond Fund Reserve Accounts (included in Debt Service Funds) and Reserve and Contingency Funds (included in Special Funds) are stated at the lower of purchase price, par value, amortized cost or market as required by bond resolutions. All other investments are stated at amortized cost and include accrued interest. The combined carrying value of investments for all projects at year-end (including accrued interest) approximates the market value.

INVESTMENT INCOME

Investment income consists of interest earned on investments, realized gains and losses resulting from the sale of investments, and unrealized losses applicable to certain investments. Investment income relating to operating plants is recorded as a credit to operating costs. With respect to Nuclear Projects No.'s 1 and 3, income earned on any construction fund investments is recorded as a credit to Construction Work in Progress—Deferred Projects, shown on the balance sheet, and income earned on investments held in all other funds is treated as a reduction of funding required under the net-billing agreements. Investment income relating to Nuclear Projects No.'s 4 and 5 is credited to Costs of Terminated Projects, shown on the balance sheet.

UTILITY PLANT AND EQUIPMENT— DEPRECIATION AND AMORTIZATION

Utility plant and equipment are stated at original cost, and are depreciated by the straight-line method over their estimated useful lives.

Improvements to U.S. government-owned facilities are amortized over the period covered by the contract for dual-purpose operation of the U.S. Department of Energy's New Production Reactor.

CAPITALIZATION OF CONSTRUCTION COSTS AND EXPENSES

During the normal construction phase of a project, it is the Supply System's policy to capitalize all costs relating to the project, including interest (net of interest income), administrative and general expense, amortized financing expense and certain other expenses. Interest expense (net) during construction is allocated to nuclear fuel and plant based on cumulative cash utilization. Administrative and general expenses and overhead expenses are allocated to projects on the basis of direct usage or direct salary cost.

As of July 1, 1984, the Supply System discontinued capitalizing interest expense (net) applicable to Nuclear Projects No.'s 1 and 3 because of the extended delay of these projects. The interest expense, which is funded by payments under net-

billing agreements, will not be capitalized during the delay period. Such net interest expense totaled \$191,147,375 and \$152,625,365 for Nuclear Projects No.'s 1 and 3, respectively, for the year ended June 30, 1987.

COSTS OF TERMINATED PROJECTS

For Nuclear Projects No.'s 4 and 5, the costs of construction through January 22, 1982, the date of termination, and the costs of termination and other related costs subsequent to that date are shown at their estimated net realizable value in the accompanying balance sheets as of June 30, 1987, based on Supply System staff estimates. The amount estimated for unrecoverable costs (\$3,019,007,240) has been reflected as Allowance for Estimated Unrecoverable Costs and as Deficiency in Assets in the accompanying balance sheets.

FINANCING EXPENSE AND BOND DISCOUNT

Financing expense and bond discount applicable to each project are amortized by the straight-line method over the period of each respective bond issue to project capital cost or operating cost, as appropriate, during plant construction or operation.

REVENUES

In accordance with covenants of bond resolutions, the Supply System is authorized to recover actual cash requirements for operations and debt service for each project over the life of the project. Accordingly, the Supply System records revenues equal to operating costs for each period. No income or loss is realized, and no equity is accumulated.

Payments received for debt service during construction under Nuclear Plant No. 2 net-billing agreements are recorded as Unearned Revenues on the balance sheet and will be reported as Revenues over the operating life of the project. Payments received during construction under Nuclear Projects No.'s 1 and 3 net-billing agreements have been reclassified as Costs Reimbursed Under Net Billing because of the uncertainty as to when these projects will be operational, as explained in Note E.

For Nuclear Plant No. 2, Hanford Generating Project and Packwood Lake Hydroelectric Project,

the difference between cumulative depreciation and amortization cost, and cumulative amounts received for payment of long-term debt is reflected as Unearned Revenue or Unbilled Reimbursable Costs, as appropriate, which will be amortized over the operating life of the project.

NUCLEAR FUEL EXPENSE

Nuclear Plant No. 2 capitalized nuclear fuel cost is amortized to nuclear fuel operating expense on the basis of quantity of heat produced for generation of electric energy. Current period operating expenses also include a charge for future spent nuclear fuel storage and disposal to be provided by the Department of Energy in accordance with the Nuclear Waste Policy Act of 1982. Such charge is based on energy generated.

DECOMMISSIONING

Estimated Nuclear Plant No. 2 decommissioning costs are being accrued and funded currently. Monthly payments are made into a sinking-fund which, with accumulated interest, will be adequate to fund decommissioning costs at the end of the 40-year plant operating life. Sinking-fund requirements are currently based on estimated decommissioning costs of \$114 million (in 1982 dollars). Payments to the decommissioning fund for Nuclear Plant No. 2 for fiscal year 1987 aggregated \$941,242.

RETIREMENT PLAN

The Supply System participates in the Public Employees' Retirement System of the State of Washington which provides for retirement benefits to eligible employees based on compensation and length of service. The cost of the plan to the Supply System is determined by the retirement system's board. The actuarially computed value of pension benefits exceeds the fund assets for the retirement system. However, because the retirement system is a multi-employer system, the amount of any excess that relates to the Supply System is not available. The Supply System's required contribution was \$5,114,396 during the year ended June 30, 1987.

NOTE C—LONG-TERM DEBT

Except for Nuclear Projects No.'s 4 and 5, which were financed together as one utility system, all Supply System projects are financed separately. The revenue bonds issued for each project are payable solely from the revenues of that project.

Outstanding revenue bonds of the various projects as of June 30, 1987, are presented on pages 20 through 22.

SECURITY—AGREEMENTS AND CONTRACTS

Project participants have purchased the Supply System's ownership share of project capability of Nuclear Plant No. 2, Nuclear Projects No.'s 1 and 3, and the Hanford Generating Project. The U.S. Department of Energy, acting by and through the Bonneville Power Administration (BPA), has in turn acquired the entire capability from the project participants under various net-billing and exchange agreements. BPA is obligated to pay the participants and the participants are obligated to pay the Supply System their pro rata share of the total annual costs of the projects, including debt service on the bonds, whether or not the projects are completed, operable or operating and notwithstanding the suspension, reduction or curtailment of the projects' output. See Note E for a discussion of the Hanford Generating Project and its relationship to Nuclear Project No. 1.

In connection with the issuance of the generating facilities revenue bonds for Nuclear Projects No.'s 4 and 5, the Supply System pledged the revenues to be derived under participants' agreements with 88 utilities operating principally in the Northwest. The participants' agreements provided that each participant pay its respective share of annual costs, including debt service on the bonds, whether or not the projects were completed, operable, or operating and notwithstanding the suspension, interruption, interference, reduction or curtailment of the projects' output. Payments from the participants for Nuclear Projects No.'s 4 and 5 termination costs and debt service were due beginning on January 25, 1983. Payments due under the participants' agreements have not been forthcoming

(see Note D) and an event of default, as defined in the bond resolution, occurred on July 22, 1983, and is continuing. In connection with the issuance of the Nuclear Projects No.'s 4 and 5 subordinated revenue notes (\$60,000,000 due July 1, 1984, and \$7,865,502 due June 30, 1983), the Supply System pledged to set aside money for payment of such obligations from funds to be accumulated in the Revenue Fund. Payments under the participants' agreements to be accumulated in the Revenue Fund were not made and therefore the subordinated revenue notes were not paid. See Note E for a discussion of default on Nuclear Projects No.'s 4 and 5 subordinated revenue notes.

NOTE D—TERMINATION OF NUCLEAR PROJECTS NO.'S 4 AND 5 AND DEFAULT UNDER BOND RESOLUTION

On January 22, 1982, the Supply System's Nuclear Projects No.'s 4 and 5 were terminated. Construction was 24 and 16 percent complete, respectively, at the time.

The participants' agreements (discussed in Note C under Security—Agreements and Contracts) provided that each participant pay its respective share of the debt service on the bonds and termination costs beginning January 25, 1983. Payments due under the participants' agreements were not made pending a judicial determination of the participants' authority and obligation to pay. On June 15, 1983, and again on November 6, 1984, the Washington State Supreme Court ruled that Washington municipal utilities did not have statutory authority to enter into the participants' agreements thus invalidating those agreements as to the cities and public utility districts of the state of Washington, which collectively hold approximately 68 percent of the participants' shares of Nuclear Projects No.'s 4 and 5. In addition, on November 6, 1984, the Washington State Supreme Court ruled that, because of the invalidity of the participants' agreements entered into by the Washington municipal utilities, all of the remaining participants' agreements were unenforceable.

as well. Chemical Bank and the Supply System petitioned the U.S. Supreme Court for grant of a writ of certiorari by which the state court decision might be reviewed by that court. Grant of the writ was denied by the U.S. Supreme Court on April 29, 1985.

On July 22, 1983, the Supply System acknowledged that it could not meet all Nuclear Projects No.'s 4 and 5 obligations as they became due. This admission represented an event of default under the Nuclear Projects No.'s 4 and 5 bond resolution.

On July 25, 1983, Chemical Bank, as bond fund trustee, demanded that all remaining project funds be transferred to it to be held in a special account. Under Section 11.4 of the Nuclear Projects No.'s 4 and 5 bond resolution, Chemical Bank, as bond fund trustee, or a duly constituted bondholders' committee, is entitled, to the extent permitted by law, to take possession of the business and properties of Nuclear Projects No.'s 4 and 5. At present, the Supply System is continuing to manage the contract termination and asset disposal activities. Chemical Bank disburses the funds for payment of Nuclear Projects No.'s 4 and 5 termination activities in accordance with the payment priorities established in the bond resolution. Since total obligations currently exceed available cash and revenues, certain lower priority obligations (as defined in the bond resolution) are not being paid.

On August 18, 1983, Chemical Bank declared the principal of all Nuclear Projects No.'s 4 and 5 revenue bonds and interest accrued thereon to be due and payable immediately.

Since the participants' agreements have been held to be invalid, the assets of Nuclear Projects No.'s 4 and 5 have been reduced to their estimated net recoverable value, resulting in a deficiency in assets. Such recoverable value is based on Supply System staff estimates. However, the ultimate recoverability cannot presently be determined.

The Supply System's current estimate of termination costs (\$22,850,720), including costs of contract settlements and other termination costs, has

been accrued as Accounts Payable and Accrued Expenses in the accompanying balance sheets. Although management of the Supply System is satisfied that its estimates are reasonable, the final settlement for termination costs and the cost of dismantling the projects cannot be determined at this time. Certain physical assets of Nuclear Projects No.'s 4 and 5 are being maintained for a period to maximize their sales value upon disposal.

In August 1983, Chemical Bank filed a lawsuit in U.S. District Court, Western District of Washington, which is now pending against the Supply System, all participants in Nuclear Projects No.'s 4 and 5 and Supply System member utilities. The lawsuit alleges violations of federal and state securities statutes, fraud, misrepresentation, bad faith, negligence, and unjust enrichment, and seeks monetary damages, rescission and restitution. In addition, numerous lawsuits have been brought against the Supply System and others alleging claims and seeking relief, similar to those alleged and sought in the Chemical Bank case. Certain of these cases have been transferred to the U.S. District Court, Western District of Washington, and most have been consolidated with the Chemical Bank case under the caption MDL 551: *In re WPPSS Securities Litigation*. Discovery in the consolidated cases is virtually complete and the court has set a September 1, 1988 trial date for these cases.

Another lawsuit has been filed against the Supply System and others in a state court of the state of Washington by a number of Nuclear Projects No.'s 4 and 5 bondholders alleging substantially the same allegations as have been made in the federal cases. The case is not yet in the discovery phase, and no trial date has yet been set.

The lawsuits described in the two preceding paragraphs seek to recover the bondholders' investment in the principal amount of \$2.25 billion, plus unspecified damages, interest, costs and attorneys' fees.

The Supply System cannot predict the outcome of the above litigation.

Pursuant to state law and resolutions of the Supply System's Executive Board, the Supply System has agreed to indemnify its directors for certain of the acts which have been alleged in complaints relating to the Nuclear Projects No.'s 4 and 5 securities litigation. The Supply System is obligated for associated costs (including legal defense costs) to the extent such costs are not covered by directors and officers insurance.

The primary carrier of directors and officers liability insurance has paid up to the limit of primary coverage for defense of Supply System directors. The excess carrier filed a suit in September 1985 seeking a declaration that it has no obligation under the policy because of the alleged failure of the Supply System to disclose facts known to it which, if known to the insurer, would have resulted in it not issuing the policy. The suit has been stayed pending trial of the securities litigation. The excess carrier has agreed to pay defense costs of Supply System directors during the period of stay.

No opinion can be given as to the ultimate outcome of this litigation.

NOTE E—COMMITMENTS AND CONTINGENCIES

HANFORD GENERATING PROJECT AND ITS RELATIONSHIP TO NUCLEAR PROJECT NO. 1

The U.S. Department of Energy (DOE) owns and operates the New Production Reactor (NPR), which provides by-product steam to the Hanford Generating Project. The Supply System's current agreement with the DOE provides for the continuation of the dual-purpose operation of the reactor through June 1993. In accordance with certain other project agreements, the operating costs of the project will be offset by payments from certain public and investor-owned utilities in return for the power generated. Public participants currently fund debt service and 72 percent of the operating costs and two investor-owned utilities fund 28 percent of the operating costs.

It was initially intended that Nuclear Project No. 1 be constructed next to the Hanford Generating Project to provide the energy source to operate the project when the DOE ceased operation of the New Production Reactor. To allow for construction of Nuclear Project No. 1, it would have been necessary to shut down the Hanford Generating Project on October 31, 1977. Because studies at that time indicated that generating resources in the Pacific Northwest would be inadequate in the late 1970s and early 1980s, the Supply System and BPA determined that the Hanford Generating Project should be kept available for power production. Therefore, the Nuclear Project No. 1 net-billing, exchange and project agreements were amended to provide for the separation of Nuclear Project No. 1 from the Hanford Generating Project. The amended agreements provide that Hanford Generating Project costs, to the extent not otherwise provided for, be treated as Nuclear Project No. 1 costs with Hanford Generating Project having a first claim on the revenues of that project.

The amended agreements provide for the payment of all debt service costs, net of investment income, of the Hanford Generating Project by Nuclear Project No. 1 participants, beginning July 1, 1980, regardless of continued operation of the reactor. If the reactor ceases operations, revenues to the Hanford Generating Project arising from these payments will nevertheless be recorded each year thereafter in amounts that will result in full realization of the carrying value of the plant.

The U.S. government has an option to acquire ownership of the Hanford Generating Project upon congressional approval. If the government exercises its option, it must assume all rights and obligations of the project, including the obligation to pay all revenue bonds.

The Hanford Generating Project Statement of Operations for the year ended June 30, 1987, reflects unusually low revenues of \$33,540,435 as a result of the NPR shut-down for safety modifications since January 1987. There is uncertainty as to when the NPR will be restarted due to certain budgetary and legal issues which are being

addressed by the DOE and are not within the control of the Supply System.

The Hanford Generating Project operating costs for the year reflect a credit of \$3,900,000 for public utility tax applicable to out-of-state sales of electricity. The tax had been assessed by the state of Washington and was accrued as a liability as of June 30, 1986. In 1987, this accrual was reversed because the United States Supreme Court has ruled that certain taxes relating to interstate commerce transactions, such as Hanford Generating Project out-of-state energy sales, are unconstitutional.

NUCLEAR PROJECTS NO.'S 1 AND 3 CONSTRUCTION DELAY

On April 29, 1982, the Supply System, upon the recommendation of BPA, approved an extended construction delay of Nuclear Project No. 1, and on July 8, 1983, the Supply System, also upon the recommendation of BPA, approved an extended construction delay of Nuclear Project No. 3. During the construction delay, the Supply System will endeavor to preserve plant assets and maintain project licenses.

On January 23, 1986, the Northwest Power Planning Council (Council) released its 1986 Northwest Conservation and Electric Power Plan (Plan). In the Plan, the Council indicated that Nuclear Projects No.'s 1 and 3 are cost effective. However, the Council did not include Nuclear Projects No.'s 1 and 3 in its resource portfolio, citing legal and other uncertainties. The Council does view Nuclear Projects No.'s 1 and 3 as energy options for the future after the current uncertainties are removed.

On May 1, 1987, BPA released its 1987 Resource Strategy. In the 1987 Resource Strategy, BPA focused on the economics and institutional questions surrounding Nuclear Projects No.'s 1 and 3. A significant part of the study sought a conclusion as to whether Nuclear Projects No.'s 1 and 3 should be preserved, terminated, or completed on a fixed schedule. BPA found that there is no compelling case for or against continued preservation on a net present value basis, and that preservation of both projects is somewhat favorable from the

standpoint of economic risk management. BPA concluded that preservation of both Nuclear Projects No.'s 1 and 3 is the prudent course of action at this time. This conclusion will be reviewed again pending the resolution of several critical issues. Continued funding of preservation costs is included in BPA's rates for their fiscal years 1988 and 1989.

The Supply System is currently unable to predict when Nuclear Projects No.'s 1 and 3 will be completed.

The U.S. Department of Energy is currently studying acquisition of all or a part of Nuclear Project No. 1 for completion as a strategic material production facility. Whether such an acquisition will occur, what the timing might be, and what form it might take, are unknown. Any such acquisition would require payment of just compensation to the Supply System for assets acquired. Payment of all outstanding Nuclear Project No. 1 obligations, including debt service on outstanding bonds, would continue to be made pursuant to the Nuclear Project No. 1 net-billing agreements.

NUCLEAR PROJECTS NO.'S 4 AND 5 SUBORDINATED REVENUE NOTES

In conjunction with the construction stoppage of Nuclear Projects No.'s 4 and 5 during 1981, certain project participants, investor-owned utilities and industrial customers of BPA agreed to loan Nuclear Projects No.'s 4 and 5 funds to underwrite a program to preserve the assets of those projects. These loans, called bridge loans, consisted of \$60,000,000 in subordinated revenue notes, bearing a stated maturity date of July 1, 1984, and bearing interest to due date at an annual rate of 15 percent.

Subsequently, when a decision was made to terminate Nuclear Projects No.'s 4 and 5, a number of project participants agreed to loan Nuclear Projects No.'s 4 and 5 funds to assist in avoiding an uncontrolled termination of the projects. These loans, called termination loans, consisted of \$7,865,502 in subordinated revenue notes bearing a stated maturity date of June 30, 1983, and bearing interest to due date at an annual rate of 15 percent.

Because Nuclear Projects No.'s 4 and 5 do not have sufficient funds to underwrite payment of the subordinated revenue notes, the notes have not been redeemed.

Sixteen participants and investor-owned utilities filed lawsuits against the Supply System for payment of the notes, with Chemical Bank named as codefendant in several of them; one case was dismissed. In 13 cases, summary judgments have been rendered against the Supply System, and in certain cases the judgments stated that the obligation to pay the notes was not restricted to the funds of Nuclear Projects No.'s 4 and 5. Some of these cases were subsequently appealed to the Washington State Supreme Court and on September 5, 1985, the Court upheld previous rulings that the Supply System must repay the bridge and termination loans, but ruled that repayment must be made only from funds of Nuclear Projects No.'s 4 and 5. Plaintiff's motions for reconsideration were denied, and modified judgments, restricted in collectibility, have been entered as to all but two plaintiffs. Proceedings are pending concerning the form of modified judgment to be entered in all other appealed cases.

In the *BPA v. Supply System* case, the three investor-owned utility lenders have moved for summary judgment on their bridge loans and for the right to set off a bridge loan judgment against any cost-sharing obligation to Nuclear Projects No.'s 4 and 5. No resolution has been reached as to the setoff issue and no opinion can be expressed as to the possible outcome of that matter.

NUCLEAR PROJECT NO. 5 OWNERSHIP AGREEMENT

Under the terms of the ownership agreement with Pacific Power and Light Company (Pacific), Pacific is obligated to fund its respective ownership share of Nuclear Project No. 5 termination costs beginning January 25, 1983, and continuing until all costs of termination have been paid. Ten percent of the funds received from sales of Nuclear Project No. 5 assets are applied as a reduction of Pacific's obligation for termination costs.

Pacific has stated to the Supply System that it considers the termination of Nuclear Project No. 5 to be a breach of the Nuclear Project No. 5 ownership agreement and has reserved its rights to pursue appropriate remedies with respect to such breach. On June 16, 1983, Pacific advised the Supply System that, due to the Washington State Supreme Court ruling that certain participants' agreements were invalid (as described in Note D) and other related actions by the Supply System, Pacific would no longer fund 10 percent of the Nuclear Project No. 5 termination costs.

It is the position of the Supply System that the termination of Nuclear Project No. 5 does not constitute a breach of the Nuclear Project No. 5 ownership agreement and that Pacific is responsible under the Nuclear Project No. 5 ownership agreement for payment of its 10 percent share of the costs of termination of such project.

Pacific has made payments prior to June 16, 1983, under the Nuclear Project No. 5 ownership agreement pursuant to reservations of rights to sue the Supply System for damages for failure to complete the project. Pacific's claim would presumably be about \$150 million—its investment in the project. Such a claim could be a general claim against the assets of the Supply System.

The claim is currently inactive. No opinion can be expressed as to the ultimate outcome of this claim.

INTER-PROJECT CLAIMS AND CLAIMS AGAINST GENERAL ASSETS

As discussed above, Nuclear Projects No.'s 4 and 5 are currently unable to meet Nuclear Projects No.'s 4 and 5 debts as they become due. Creditors have threatened to attempt to obtain payment from assets or funds held for the benefit of other projects of the Supply System or the revenues pledged thereto. Such creditors include those described in the Notes to Financial Statements and others who may assert claims in the future against the Supply System and/or its projects.

Bond counsel to the Supply System are of the opinion that neither holders of bonds issued to

finance the construction of Supply System's Nuclear Projects No.'s 4 and 5, nor creditors of the Supply System whose claims arose from the furnishing of goods or services with respect to Nuclear Projects No.'s 4 and 5, will be able to realize upon revenues or funds held in trust for Supply System Nuclear Projects No.'s 1, 2 and 3 or for holders of bonds issued by the Supply System to finance construction of such projects except to the extent they might obtain rights through a valid exercise of the sovereign police power of the state of Washington or of the constitutional powers of the United States of America, or by a voluntary bankruptcy of the Supply System.

Bond counsel also are of the opinion, based upon *Lampson Universal Rigging, Inc. v. Washington Public Power Supply System*, 105 Wash.2d.376, that a court should hold that neither holders of bonds issued to finance the construction of the Supply System's Nuclear Projects No.'s 4 and 5, nor creditors of the Supply System whose claims arose from the furnishing of goods or services with respect to Nuclear Projects No.'s 4 and 5, will be able to realize upon the assets of Supply System Nuclear Projects No.'s 1, 2 and 3 that are necessary for the purposes of such projects or the Supply System, except to the extent they might obtain rights through a valid exercise of the sovereign police power of the state of Washington or of the constitutional powers of the United States of America, or by a voluntary bankruptcy of the Supply System.

Bond counsel's opinion as to the ability of bondholders or other creditors to realize upon assets of Supply System Nuclear Projects No.'s 1, 2 and 3 is limited to those assets located within the state of Washington, or as to which a court would apply the law of the state of Washington, and the opinion excludes assets that are not necessary for the purposes of Supply System Nuclear Projects No.'s 1, 2 and 3 or the Supply System. Bond counsel is not able to determine at this time how a court of a state other than the state of Washington would treat assets of Supply System Nuclear Projects No.'s 1, 2 and 3 located outside the state of Washington, if such court were to apply the law of a state other than the state of Washington.

Bond counsel has not undertaken an investigation of the issues discussed above with respect to the Packwood or Hanford Generating Projects. However, they believe that upon full investigation the same opinions could be rendered with respect to assets of the Packwood and Hanford Generating Projects and revenues or funds held in trust or relating to such projects or for the holders of bonds issued by the Supply System to finance the construction of such projects.

Supply System management is of the opinion that creditor claims can only be realized from the assets, funds or revenues of the projects to which such claims relate. The Supply System will utilize all legal remedies to defend their position. If it is found that creditors are not limited to payment of their claims from the project to which such claims relate, it will have a material adverse impact on the Supply System.

SHARED COSTS

The termination of Nuclear Projects No.'s 4 and 5 creates an uncertainty as to how certain common services and facilities are to be shared with Nuclear Projects No.'s 1 and 3, respectively. In August 1982, the participants of Nuclear Projects No.'s 4 and 5 presented a claim to Nuclear Projects No.'s 1 and 3 to reimburse Nuclear Projects No.'s 4 and 5 for a portion of the costs of shared services and facilities paid by the projects before July 1, 1981. The claim requested immediate payments of \$75 million and \$86 million plus interest from Nuclear Projects No.'s 1 and 3, respectively, plus amounts that may be determined in the future. The claim is based on a method of calculating shared costs that is different from the method adopted by the Supply System.

The Supply System has reviewed its cost-sharing policy from inception of the projects to determine if costs were allocated properly. As of June 30, 1987, \$16,974,827 is due Nuclear Project No. 5 from Nuclear Project No. 3; \$8,112,268 is due Nuclear Project No. 1 from Nuclear Project No. 4; and \$162,975 is due Nuclear Project No. 4 from Nuclear Plant No. 2 for shared costs. These

liabilities have been recorded in the accompanying balance sheets as of June 30, 1987. An undetermined amount of interest may also be due. The results of the aforementioned review are subject to audit by BPA and the investor-owned utilities having ownership shares in Nuclear Projects No.'s 3 and 5 and are subject to the litigation described below.

On October 26, 1982, the Supply System filed a legal action against BPA, the four investor-owned utilities who are joint owners of Project No. 3, the participants of Nuclear Projects No.'s 4 and 5, (the court has since allowed Chemical Bank to intervene in this suit) and the construction fund trustee for Nuclear Project No. 1 seeking a judicial determination of past and future shared costs among Nuclear Projects No.'s 1 and 4 and Nuclear Projects No.'s 3 and 5. (The court has since restructured the case as *BPA v. Supply System, et al.*, wherein BPA is now the plaintiff and the Supply System and other aforementioned parties are defendants.) The lawsuit does not specify the amounts of money that the parties believe should be reallocated. The method used to calculate the aforementioned claim is an issue in the lawsuit.

On September 2, 1986, BPA, the four investor-owned utilities, and certain project participants of Nuclear Projects No.'s 1 and 3 moved for an order dismissing Chemical Bank's claims against them or, in the alternative, for summary judgment. On October 31, 1986, Chemical Bank moved for summary judgment against the Supply System. The motions were argued on May 13, 1987, and are presently under advisement.

The Supply System's position in this litigation is essentially neutral, considering the Supply System's fiduciary obligations to Nuclear Projects No.'s 1 and 3, as well as to Nuclear Projects No.'s 4 and 5. In the event the court should rule that Nuclear Projects No.'s 1 and 3 are obligated for costs shared and previously paid, in part, by Nuclear Projects No.'s 4 and 5 the potential liability to Nuclear Projects No.'s 1 and 3 is in excess of \$400 million.

The Supply System is unable to predict the outcome of this litigation.

NUCLEAR PROJECT NO. 3 CLAIMS

In July and August 1983, the four investor-owned utilities who own 30 percent of Nuclear Project No. 3 filed claims against BPA, the Supply System and Nuclear Project No. 3 participants arising out of the extended construction delay at Nuclear Project No. 3. The claims were filed in the action entitled *BPA v. Supply System, et al.* (See "Shared Costs"). Included are claims for injunctive and declaratory relief, damages, rescission of the Nuclear Project No. 3 ownership agreement and recovery of the total amount of payments made under the agreement to date. In October 1983, BPA amended its complaint to resolve the Nuclear Project No. 3 dispute.

Final agreements permitting settlement of the construction delay claims were executed by the Supply System on September 13, 1985, and by BPA and the investor-owned utilities on September 17, 1985. Pursuant to those agreements the parties exchanged covenants not to sue and asked the court to enter an order of dismissal of their delay claims. The court has not yet ruled on this matter.

A number of the Nuclear Project No. 3 participants oppose the settlement and have filed supplemental pleadings asserting challenges to the settlement agreements and have also filed complaints for direct review in the Ninth Circuit Court of Appeals invoking that court's original jurisdiction under the Northwest Regional Power Act. Certain participants have also filed amended pleadings asserting mothballing claims unrelated to the settlement.

The parties signing the settlement agreements filed motions in the district court to dismiss the claims attacking the settlement agreements for lack of jurisdiction, lack of indispensable party, and motions for summary judgment. On July 3, 1986, the court granted BPA's motion to dismiss the settlement claims for lack of jurisdiction for the reason that jurisdiction more properly lies in the Ninth Circuit. Certain settlement claims against the IOUs and mothballing claims not related to the settlement remain pending in the district court but further proceedings were stayed on July 3, 1986,

pending a resolution by the Ninth Circuit of the claims under its original jurisdiction.

The parties who signed the settlement agreements also filed motions in the Ninth Circuit cases to dismiss some of the claims of the Nuclear Project No. 3 participants for lack of jurisdiction. The motions have not yet been resolved. Subsequent to the court's resolution of the motions regarding jurisdiction, the Ninth Circuit will resolve some or all of the challenges to the settlement agreement.

If the settlement is overturned, the investor-owned utilities may renew their request for an order granting them the right to rescind the Project Ownership Agreement and possible termination of the project. The investor-owned utilities have waived any claim to monetary damages against the Supply System.

NET-BILLING AGREEMENTS

The parties to the net-billing agreements are BPA, the Supply System, and the participants of Nuclear Projects No's. 1, 2 and 3. The agreements provide that BPA is obligated to pay the participants, and the participants are obligated to pay the Supply System their pro rata shares of the total annual costs of the projects, including debt service on the bonds, whether or not the projects are completed, operable, or operating, and notwithstanding the suspension, reduction, or curtailment of the projects' output. However, the agreements also provide that they shall not be binding on any of the aforementioned parties if they are not binding on all the parties.

The validity of the net-billing agreements was challenged in November, 1982. In May 1983, the U.S. District Court of Oregon declared that the net-billing agreements were binding. In February 1985, this decision was upheld by the Ninth Circuit Court of Appeals, and in January 1986 the United States Supreme Court denied a petition for certiorari, ending proceedings in the case.

SECURITIES AND EXCHANGE COMMISSION INVESTIGATION

In January, 1984, the Securities and Exchange Commission commenced a formal investigation in-

to allegations of securities violations by the Supply System and others. Documents have been produced to the commission pursuant to subpoena, and the commission staff has taken depositions of numerous individuals, including present and former Supply System personnel. Further production of documentary and testimonial materials and submission to the commission may occur. The commission has not yet indicated what further action, if any, it may take in this matter.

LIABILITY INSURANCE

The Price-Anderson Act currently limits the public liability claims that could arise from a nuclear incident to \$710 million. The Supply System has purchased the maximum available private insurance of \$160 million and the excess of \$550 million of coverage is provided by secondary financial protection.

Under secondary financial protection, coverage would be funded by a mandatory program of retrospective premiums assessed against all owners of licensed reactors. In the event of nuclear incidents at facilities covered under the Price-Anderson Act, the Supply System could be assessed up to \$5 million per incident but not more than \$10 million in a calendar year. New legislation relating to nuclear liability insurance is pending. All proposals currently before Congress include substantially increased retrospective premium limits.

OTHER LITIGATION AND COMMITMENTS

The Supply System is involved in various claims, legal actions and contractual commitments not mentioned above as both a plaintiff and a defendant and in certain claims and contracts arising in the normal course of business for a large construction program. Although some suits, claims and commitments are significant in amount, final disposition is not determinable. In the opinion of management, the outcome of any such litigation, claims or commitments will not have a material adverse effect on the financial positions of the projects. The estimated cost of the projects may either be increased or decreased as a result of the outcome of these matters.

STATEMENT OF DEBT-SERVICE REQUIREMENTS

Dollars in thousands

FISCAL YEAR	NUCLEAR PLANT NO. 2*			HANFORD GENERATING PROJECT			PACKWOOD LAKE PROJECT		
	PRINCIPAL	INTEREST	TOTAL	PRINCIPAL	INTEREST	TOTAL	PRINCIPAL	INTEREST	TOTAL
1988	\$ 26,645	\$ 211,686	\$ 238,331	\$	\$ 774	\$ 774	\$ 190	\$ 362	\$ 552
1989	28,510	209,818	238,328	3,485	680	4,165	195	355	550
1990	30,555	207,778	238,333	3,455	567	4,022	265	347	612
1991	32,800	205,540	238,340	5,065	411	5,476	275	338	613
1992	35,260	203,080	238,340	5,585	233	5,818	290	327	617
1993	37,980	200,383	238,363	5,835	45	5,880	300	317	617
1994	40,950	197,445	238,395	395	2	397	315	305	620
1995	44,225	194,227	238,452				330	294	624
1996	47,825	190,678	238,503				340	282	622
1997	65,575	186,769	252,344				360	269	629
1998	71,955	180,399	252,354				380	256	636
1999	79,330	173,291	252,621				400	241	641
2000	85,795	166,572	252,367				465	226	691
2001	93,290	159,093	252,383				490	209	699
2002	101,635	150,766	252,401				515	191	706
2003	93,055	141,479	234,534				540	171	711
2004	97,375	133,671	231,046				565	151	716
2005	106,765	124,280	231,045				590	130	720
2006	117,225	113,821	231,046				615	109	724
2007	128,850	102,201	231,051				640	86	726
2008	141,675	89,370	231,045				665	62	727
2009	155,940	75,104	231,044				690	38	728
2010	171,820	59,226	231,046				353	17	370
2011	189,510	41,538	231,048				150	6	156
2012	209,230	21,814	231,044				60	2	62
2013									
2014									
2015									
2016									
2017									
2018									
	<u>\$2,233,775</u>	<u>\$3,740,029</u>	<u>\$5,973,804</u>	<u>\$23,820</u>	<u>\$2,712</u>	<u>\$26,532</u>	<u>\$9,978</u>	<u>\$5,091</u>	<u>\$15,069</u>

FISCAL YEAR	NUCLEAR PROJECT NO. 1*			NUCLEAR PROJECT NO. 3*			NUCLEAR PROJECTS NO.'S 4/5**	
	PRINCIPAL	INTEREST	TOTAL	PRINCIPAL	INTEREST	TOTAL	PRINCIPAL	TOTAL
1988	\$ 18,055	\$ 205,729	\$ 223,784	\$ 10,555	\$ 164,368	\$ 174,923	\$2,317,866	\$2,317,866
1989	18,970	204,564	223,534	11,315	163,579	174,894		
1990	21,465	203,320	224,785	12,145	162,760	174,905		
1991	22,560	201,877	224,437	13,050	161,901	174,951		
1992	23,755	200,326	224,081	14,045	160,961	175,006		
1993	25,560	198,647	224,207	15,125	159,932	175,057		
1994	26,985	196,784	223,769	16,310	158,798	175,108		
1995	28,550	194,767	223,317	17,615	157,546	175,161		
1996	30,745	192,580	223,325	19,045	156,163	175,208		
1997	38,080	190,049	228,129	22,595	154,637	177,232		
1998	41,565	186,562	228,127	24,605	152,628	177,233		
1999	45,455	182,673	228,128	26,810	150,427	177,237		
2000	49,465	178,663	228,128	29,020	148,218	177,238		
2001	53,920	174,204	228,124	31,475	145,773	177,248		
2002	58,885	169,242	228,127	34,180	143,068	177,248		
2003	51,135	163,703	214,838	37,095	140,057	177,152		
2004	55,430	159,406	214,836	42,730	136,746	179,476		
2005	60,600	154,237	214,837	45,995	132,503	178,498		
2006	66,320	148,515	214,835	49,615	127,908	177,523		
2007	72,665	142,171	214,836	49,675	122,946	172,621		
2008	79,705	135,131	214,836	54,485	118,136	172,621		
2009	87,525	127,313	214,838	59,810	112,810	172,620		
2010	96,220	118,618	214,838	65,710	106,909	172,619		
2011	105,855	108,983	214,838	72,265	100,355	172,620		
2012	116,610	98,229	214,839	80,365	92,250	172,615		
2013	128,635	86,204	214,839	89,490	83,126	172,616		
2014	142,155	72,680	214,835	99,770	72,846	172,616		
2015	157,820	57,014	214,834	111,370	61,252	172,622		
2016	175,395	39,441	214,836	124,455	48,165	172,620		
2017	194,005	20,831	214,836	139,235	33,382	172,617		
2018				154,950	17,665	172,615		
	<u>\$2,094,090</u>	<u>\$4,512,463</u>	<u>\$6,606,553</u>	<u>\$1,574,905</u>	<u>\$3,847,815</u>	<u>\$5,422,720</u>	<u>\$2,317,866</u>	<u>\$2,317,866</u>

* Excludes payments of bond principal and interest made on July 1, 1987.

** Refer to Note D—Termination of Nuclear Projects No.'s 4 and 5 and Default Under Bond Resolution, page 26 and Note E—Commitments and Contingencies, page 28.

The Supply System operates two visitors centers for the public, one at Plant 2, about 12 miles north of Richland, and another near Elma, Washington, at the WNP-3 project. Displays in the visitor centers illustrate how plant design, construction and operation have been planned with the public's well-being in mind.

The Plant 2 Visitors Center offers a videotape "arm-chair" tour

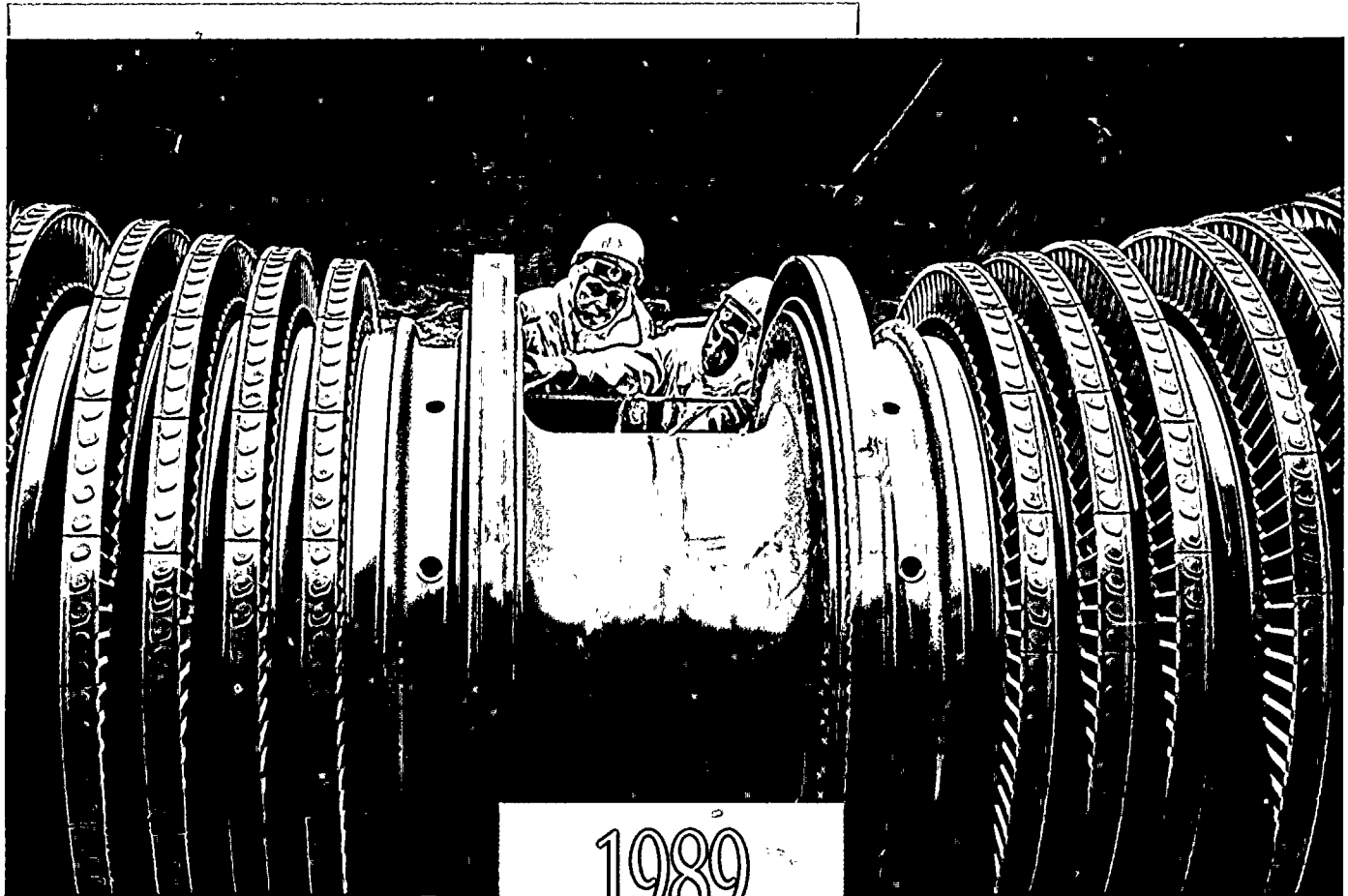
of the plant as well as information on nuclear power issues such as radiation, nuclear waste and plant operator training.

Tours of the WNP-3 construction site are offered by appointment by calling (206) 482-4428, ext. 5052. Tours of the WNP-1 site are available by appointment by calling (509) 372-5860.

TURBINE ROTORS
INCREASING PLANT 2'S OUTPUT

BOND SALE SUCCESS
REFINANCING PAYS DIVIDENDS

QUALITY IMPROVEMENT
EMPHASIZING PROBLEM PREVENTION



1989
ANNUAL
REPORT

WASHINGTON PUBLIC POWER SUPPLY SYSTEM

ON THE COVER:

*Boosting Plant 2's
1,100-megawatt output by
13.7 megawatts, increasing
reliability and cutting maintenance costs are the goals of a
\$23 million contract signed in
fiscal year 1989. Purchasing
and installing three new
low-pressure turbine rotors in
1991 will solve a major plant
maintenance problem by
replacing the current rotors,
which suffer from a generic
design defect.*

CONTENTS:

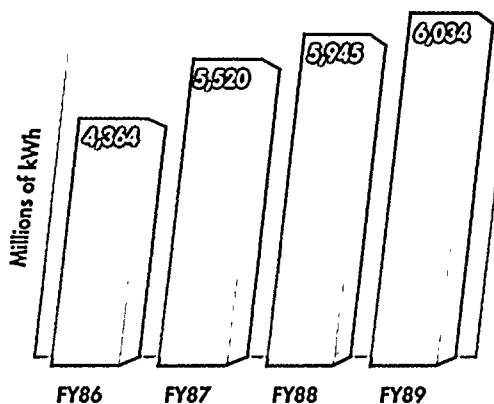
Letter from the Chairman of the Executive Board	2
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FINANCIAL AND OPERATING HIGHLIGHTS

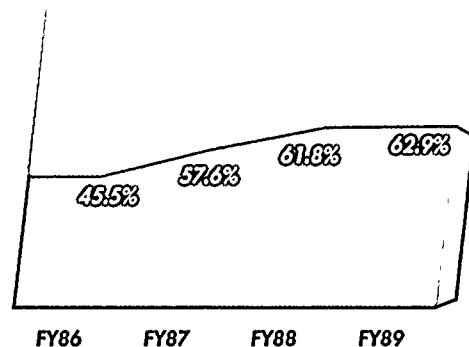
For the year ended June 30 Dollars in millions

	FY 1989		FY 1988	
	NUCLEAR PROJECT NO. 2	PACKWOOD LAKE PROJECT	NUCLEAR PROJECT NO. 2	PACKWOOD LAKE PROJECT
OPERATING STATISTICS				
Total annual cost	\$454.5	\$1.2	\$445.4	\$1.1
Net generation/gWh	6034	91	5945	74
Cost in mills/kWh	75.3	12.6	74.9	14.9
Plant availability	66.5%	100%	65.1%	100%
Plant capacity	62.9%	37.7%	61.8%	30.8%
INVESTMENT INCOME—ALL PROJECTS				
Total investment income	\$62.9		\$55.2	
Rate of return	8.5%		7.2%	

PLANT 2 NET ELECTRIC GENERATION



PLANT 2 CAPACITY FACTOR



**LETTER FROM THE
EXECUTIVE BOARD CHAIRMAN**



Since 1985, we have conscientiously been working on many fronts preparing to re-enter the bond market. This year that objective came to fruition in September when we had our first bond sale in seven years.

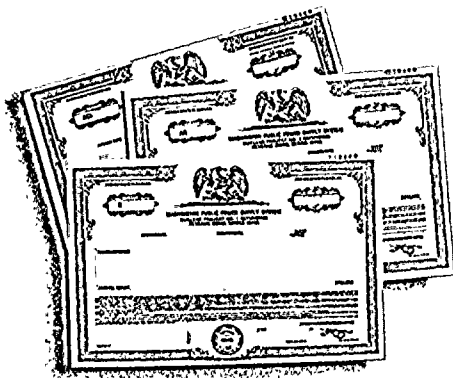
We originally contemplated a bond issue of \$450 million, but when a marketing tour prior to the sale indicated a much larger market, we raised the amount to \$612 million. Buyer acceptance of the bonds was very strong on the sale day, so we added an additional \$109 million, winding up with a sale of \$721 million.

The true interest cost for this first refinancing issue was less than 7.7 percent, a far cry from rates as high as 15 percent on the issues being refunded.

This sale will save the Bonneville Power Administration's ratepayers more than \$24 million in debt service annually for the next 20 years—a total of \$480 million. Our overall refunding program, which includes current refunding of Plant 2 bonds in 1991 and 1992, could potentially save \$70-to-\$80 million per year, for a total savings of about \$1.6 billion.

Refinancing is proceeding through a cooperative region-wide effort between the Supply System Executive Board, management and staff, the Bonneville Power Administration, and its public utility customers. The refinancing team, composed of investment bankers, bond counsel and financial representatives from both BPA and the Supply System, worked for more than a year assembling the required information and dealing with residual historical and legal problems so that this refinancing effort could be initiated.

Members of the Northwest Congressional Delegation were essential partners in our refinancing effort. They helped enact amendments to municipal bankruptcy laws last year that strengthened the legal wall between our projects, precluding the possibility of WNP-4/5 creditors acquiring the assets of the Supply System's net-billed projects. With this legislation in place, three rating agencies, Standard & Poors, Moody's, and Fitch Investor Service, reinstated investment grade ratings for all Supply System bonds, except WNP-4/5.



The Supply System returned to the bond market in September, when it sold \$721 million in bonds to refund high-interest Nuclear Project 1 and 3 bonds. The refunding is expected to save Pacific Northwest ratepayers \$25 million annually for the next 20 years.

Our Northwest Congressional Delegation was also instrumental in ensuring that Projects 1 and 3 were included in the tax corrections bill passed last fall by Congress. This legislation, amending the Tax Reform Act of 1986, authorizes the Supply System to issue up to \$2 billion in advance refunding bonds for WNP-1 and WNP-3 before 1992. Current refunding capability is in place for WNP-2 bonds.

All told, these efforts allowed us to take advantage of this summer's low interest rates and begin reducing the Supply System's annual \$578 million debt service payments. Reduced debt service payments will lower Supply System annual budgets and help lower BPA's total revenue requirements. The benefits of the program will be equitably spread to affected BPA ratepayers and, through the exchange agreement, to residential and small farm ratepayers of participating investor-owned utilities.

Much has been accomplished, but there is more to do to reach our \$2.8 billion refunding objective. We plan to return to the market before the end of 1989 for another major sale and conclude the advance refinancing of Projects 1 and 3 bonds in 1990.

We continue to value the close relationship between ourselves and the Bonneville Power Administration. Bonneville Administrator Jim Jura and his team have ever been supportive of the safe, efficient operation of our plants as well as the refinancing activity.

With the settlement of the MDL-551 litigation, we are close to putting the court-induced 1983 default on WNP-4/5 bonds behind us. We are all looking forward to bringing the remaining cost-sharing litigation to a close and to the sale of the remaining WNP-4/5 assets, ending a difficult chapter in the Supply System's history. As I look to the future, I see a bright road ahead.




Carl M. Halvorson
Executive Board Chairman

LETTER FROM THE MANAGING DIRECTOR



he Supply System is an ever-evolving organization. During the past several years, it has evolved from a construction entity to an operating utility. Having made that difficult transition, our highest priority is to operate Plant 2 safely, reliably and economically, while continuing efforts to reduce the cost of operation and increase plant availability.

We have continued to improve Plant 2's performance since it began operating five years ago. The Supply System's Executive Board has made hard decisions necessary to provide the resources we need to meet our high expectations for the plant. Those efforts are meeting with success. In every year of its operating life, Plant 2 has generated more electricity than in the previous year. In fiscal year 1989, we exceeded the six billion kilowatt-hour mark, generating 6.03 billion kilowatt-hours for the Bonneville Power Administration. That is enough electricity to provide the annual needs of about 350,000 all-electric Pacific Northwest homes. Plant availability and capacity were also up from previous years, and we have cut down significantly on the number of unplanned shutdowns.

Our improvement is the result of a renewed commitment to quality, manifested in a formal Quality Improvement Program that involves employees at all levels in achieving quality. The program stresses a style of management that encourages employee participation to assure that all components of the organization are supporting our overall efforts. It also encourages employees to be constantly on the lookout for ways to prevent and correct problems and make improvements.

All Supply System managers have attended Quality Improvement training to learn concepts of leadership, openness, teamwork and employee involvement. Employees are also being introduced to these concepts and are being formed into Quality Action Teams to address problems in selected areas, such as the organization's goals and objectives, access to vital areas of Plant 2 during maintenance outages, and accredited training of maintenance personnel.

The Quality Improvement program is not a quick fix or a magical road to our goal of continually improving operating performance. It is a long-range, strategic approach that will make the Supply System stronger,



The Supply System's Goals and Objectives program keeps employees informed about the organization's direction and priorities and reminds them that they are a vital link in the chain of success.

more quality-conscious, and more responsive to the demands and changes we will face in our quest to remain a competitive regional supplier of electricity. The bottom line is that the Quality Improvement process will make the Supply System a better regional asset, capable of providing solutions to regional energy problems.

Achieving our operating performance goal means consistently meeting high safety and quality standards. Recent assessments of the Supply System's performance show that progress is being made. The Nuclear Regulatory Commission's Plant 2 performance ratings indicate improved performance over last year in plant operations, engineering/technical support, and emergency preparedness while performance remained satisfactory in four other key areas. Another assessment by an industry peer group, the Institute of Nuclear Power Operations, also shows we are on the right track.

As we concentrate on fine-tuning the organization, we are keeping an eye to the future. Equipment reliability problems at Plant 2 have been disappointing, but decisions made in 1989 on long-range plant modifications and improvements will have a big payoff. The most significant is the signing of a \$23 million contract with Westinghouse Electric to replace Plant 2's three low-pressure turbine rotors. This action is the start of a major upgrade of Plant 2's turbine-generator that, when coupled with other plant improvements, will result in a minimum 100-megawatt increase in the plant's capacity over the next five-to-six years.

The work we are doing today will have a significant impact on the region as we get closer to electric load-resource balance. The same quality-improvement techniques being applied at Plant 2 are also being used in the preservation of Projects 1 and 3 and the Hanford Generating Project. As the Supply System evolves into a stronger organization, the value of these potential resources will be enhanced to the benefit of the Supply System's public power members and all BPA customers.



A handwritten signature of Donald W. Mazur in dark ink.

Donald W. Mazur
Managing Director



o business is more complex or scrutinized more thoroughly than the commercial nuclear power industry. In today's environment, where internal and external forces continually pressure utilities to do more and do it better, it is essential that the Supply System demonstrate sustained improvement in Plant 2 operations.

Operations are monitored and evaluated by a wide variety of entities, such as the Nuclear Regulatory Commission, the state Energy Facility Site Evaluation Council, the Bonneville Power Administration, Northwest Power Planning Council, member utilities and utilities participating in Supply System projects, industry peer groups, such as the Institute of Nuclear Power Operations, and members of Congress and the state legislature.

THE SUPPLY SYSTEM: HERE FOR THE LONG RUN

These entities use "performance indicators" to gauge progress. The most important of these, the amount of electricity delivered to the Bonneville Power Administration's transmission grid from Plant 2, was 6.03 billion kilowatt-hours (net) in fiscal year 1989, an increase of about two percent over 1988, and the fourth consecutive year that generation has increased. That is enough electricity to supply the needs of about 350,000 all-electric Pacific Northwest homes.

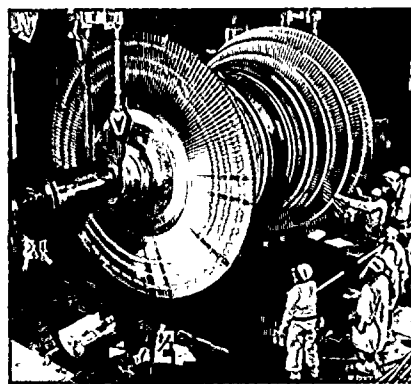
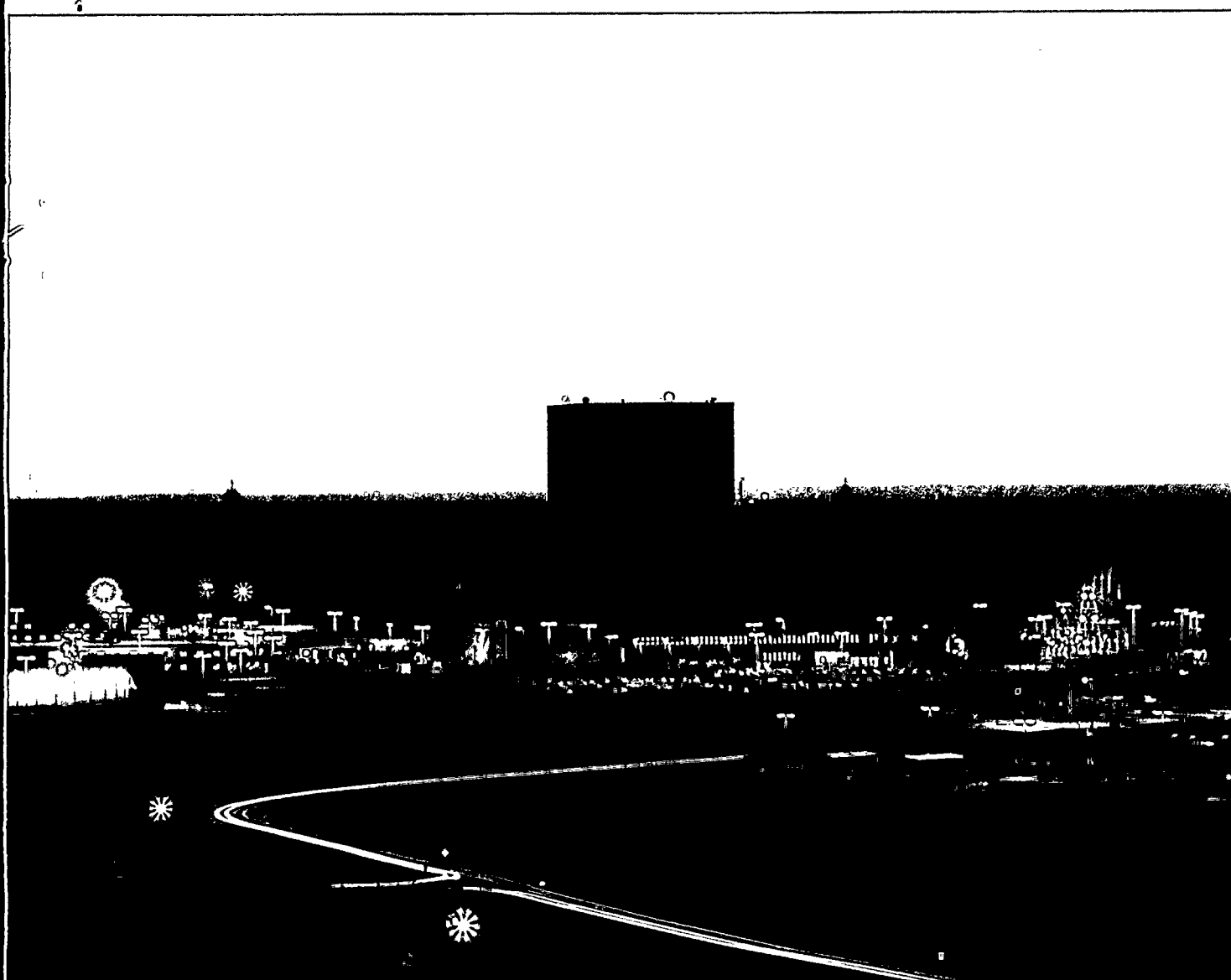
We also made progress in boosting Plant 2's capacity factor—the ratio of how much power the plant produced relative to how much could have been generated had it run continuously at full power, was 62.9 percent in fiscal year 1989, up from 61.8 percent in 1988.

The increase in the plant's capacity factor was helped by our efforts to limit the number of automatic shutdowns or unplanned "scrams". There were two unplanned scrams at Plant 2 in fiscal year 1989. The annual goal was to have no more than three scrams per year. *(continued)*

PLANT 2'S IMPACT ON THE PACIFIC NORTHWEST is not limited to its role as a major generator of electric power. It also has a great impact on Washington state tax revenues.

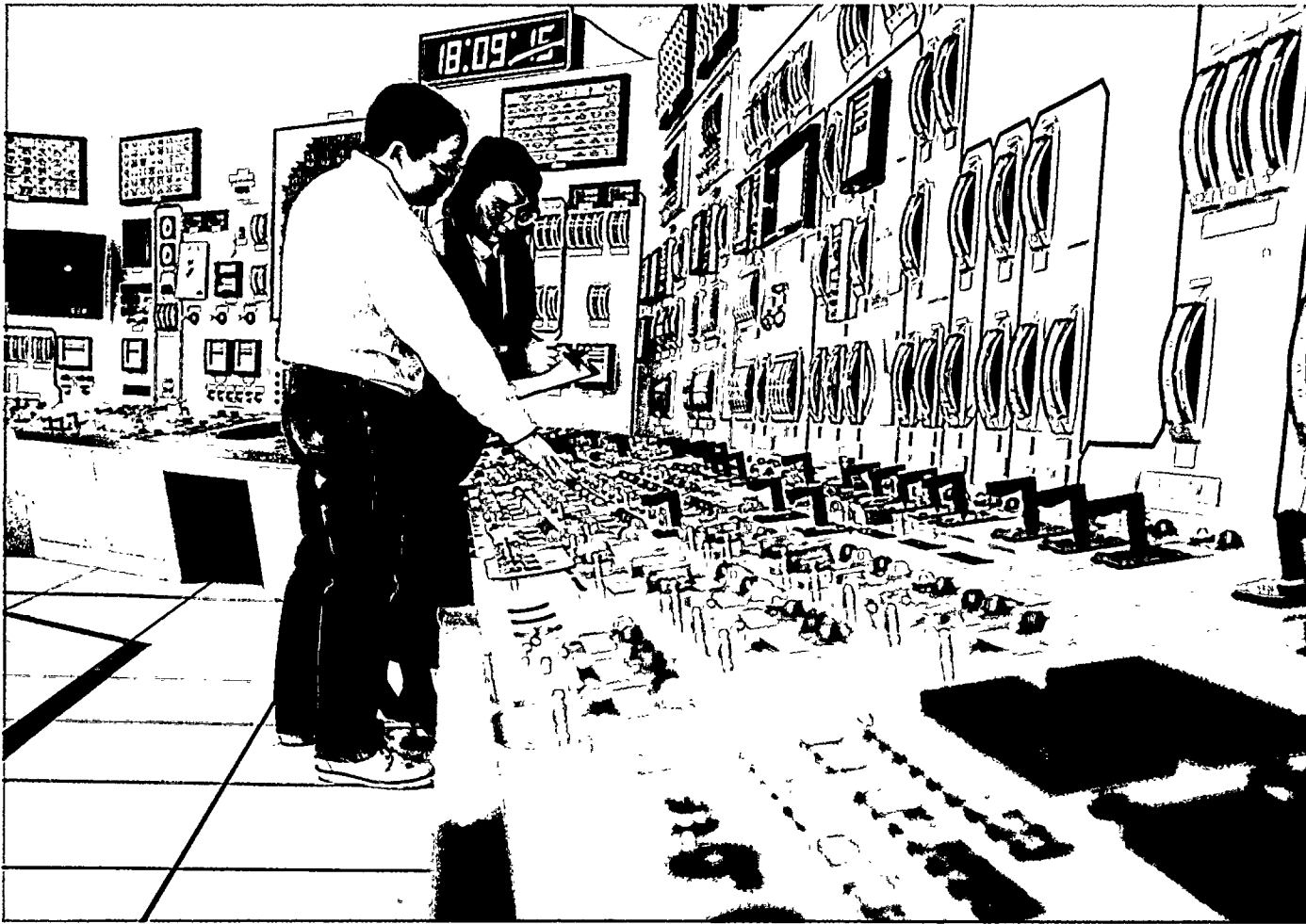
The Supply System paid nearly \$2.3 million in generation taxes in fiscal year 1989 on the value of electricity generated by the plant. Since the plant began operation in 1984, the state has received \$8.1 million in generation taxes, which is shared with statewide schools and local taxing entities in the vicinity of Plant 2.

The state also receives sales and use taxes on nuclear fuel, materials and services purchased by the Supply System, generating \$3.2 million for state coffers in fiscal year 1989. These taxes, in addition to a \$66 million annual payroll, make the Supply System an important economic force in Washington state.



Nearly 1,000 workers took part in Plant 2's annual maintenance and refueling outage. The planned 65-day outage was 83 days due to increased work on a low-pressure turbine and two emergency electrical systems. The outage put the plant in condition to operate efficiently and reliably during the coming year. Accomplished were:

- 2,000 maintenance tasks
- 136 of 764 fuel assemblies replaced
- Four main steam isolation valves overhauled
- Two reactor feedwater pump turbines overhauled



Operation and maintenance costs are another important indicator. Plant 2's operating and maintenance costs in 1988 were about eight percent less than the industry average for U.S. boiling water reactors, and the Supply System paid less than half what the average plant did in fuel costs.

These indicators show that Plant 2 is moving in the right direction. The Supply System's challenge is to keep improving. Several initiatives are under way in training, plant improvements, and overall organization that are expected to foster this trend.

The Supply System is recognized throughout the nuclear industry as having a highly qualified staff. Management's task is to help employees, and the organization, realize their potential. A Quality Improvement program was instituted in fiscal year 1989 that recognizes the individual skills and talents of each employee and encourages them to use those talents to better the overall performance of the organization. The Quality

Improvement program is a long-range, strategic approach that will help build mutually supportive relationships among all employees and help the Supply System meet the needs and expectations of its customers, whether that customer is BPA, the region's ratepayers, or another Supply System employee.

Plans are in place to further strengthen these relationships by improving the facilities housing the plant's highly trained technical and engineering support personnel. The new Plant 2 Support Facility, a steel-and-concrete, two-story building of approximately 100,000 square feet that will be completed in 1991, will house technical and engineering department employees. The \$10.5 million Support Facility will house the team that provides technical support for plant modifications and maintenance activities, and will contain a technical library, computer facilities,

conference rooms and a security control point for access to Plant 2. Keeping technical and engineering personnel readily available for testing, reporting and design modification programs will help increase plant reliability and keep maintenance costs down.

The Supply System's Executive Board made a major commitment to reactor operator training in 1989 when it approved a \$14.7 million contract with Westinghouse Electric Corp. to build a new Plant 2 control room simulator. A full-scale computerized mock-up of the plant's actual control room, the new simulator will meet Nuclear Regulatory Commission 1991 certification requirements and enhance the Supply System's training capabilities by providing a more realistic training arena. The long-range benefits of this upgrade will be increased reliability and safety.

Another major commitment made by the Executive Board this year is the decision to replace Plant 2's three

REACTOR OPERATOR TRAINING was bolstered in 1989 with the signing of a \$14.7 million contract with Westinghouse Electric Corp. for a new Plant 2 control room simulator.

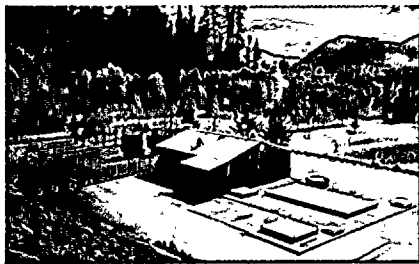
The simulator, a full-scale, computerized replica of the plant's control room, provides hands-on training in an environment that closely mimics the control room. It responds exactly as the plant would to normal and abnormal operating procedures during reactor startup, increasing and decreasing reactor power, and plant shutdown.

The Nuclear Regulatory Commission uses control room simulators to examine reactor operator candidates and to give annual requalification examinations to licensed operators. Simulator training is conducted one week out of every five to keep their knowledge and skills fine-tuned.

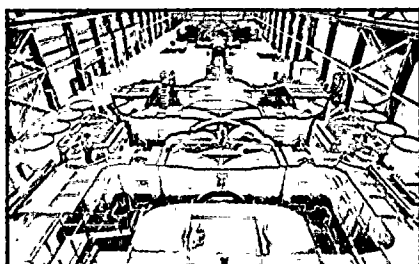
The Supply System is replacing its present simulator in 1991 to keep its training program up to date and maintain the accuracy and realism of simulator training scenarios.



Being prepared for an emergency at Plant 2 is a responsibility the Supply System shares with local, state and federal governments. It requires teamwork and cooperation to bring together more than 600 employees and representatives of outside agencies into one cohesive, effective organization that is capable of coping with all kinds of emergencies. The Nuclear Regulatory Commission, in its annual assessment of the Supply System's performance, gave the highest grade possible to emergency planning, citing timely notification of the public and successful recovery operations in annual plant emergency exercises.



The Packwood Lake Hydroelectric Project has been a reliable, low-cost power generator for 25 years. In 1989, it recovered from several years of drought and generated nearly 20 percent more electricity than it did the previous year, far exceeding budget forecasts.



The Hanford Generating Project remains in top working condition following 20 years of economical and reliable service, generating 860 megawatts of electricity from steam supplied by the U.S. Department of Energy's N-Reactor. Maintaining the Hanford Generating Project as a viable future resource now that the N-Reactor is closed remains a high priority.

low-pressure turbine rotors. Plant 2's turbine, which converts the heat energy of steam produced in the nuclear reactor to the spinning motion to drive the 1,100-megawatt (net) electric generator, consists of a single high-pressure stage and three low-pressure stages. A contract was signed with Westinghouse Electric Corp. in 1989 to supply and install new low-pressure turbine rotors at a cost of \$23 million. Installation of the new turbine rotors in 1991 will solve a major plant maintenance problem by replacing the current rotors, which suffer from a generic design defect. Millions of dollars have been spent inspecting and repairing the low-pressure turbine rotors since the plant began operation in 1985. The new turbine rotors will cut maintenance costs, increase plant reliability and increase Plant 2's electrical output by 13.7 megawatts. Future turbine improvements, including replacing the high-pressure turbine, will further increase reliability and electrical output.

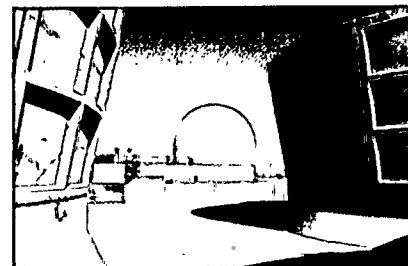
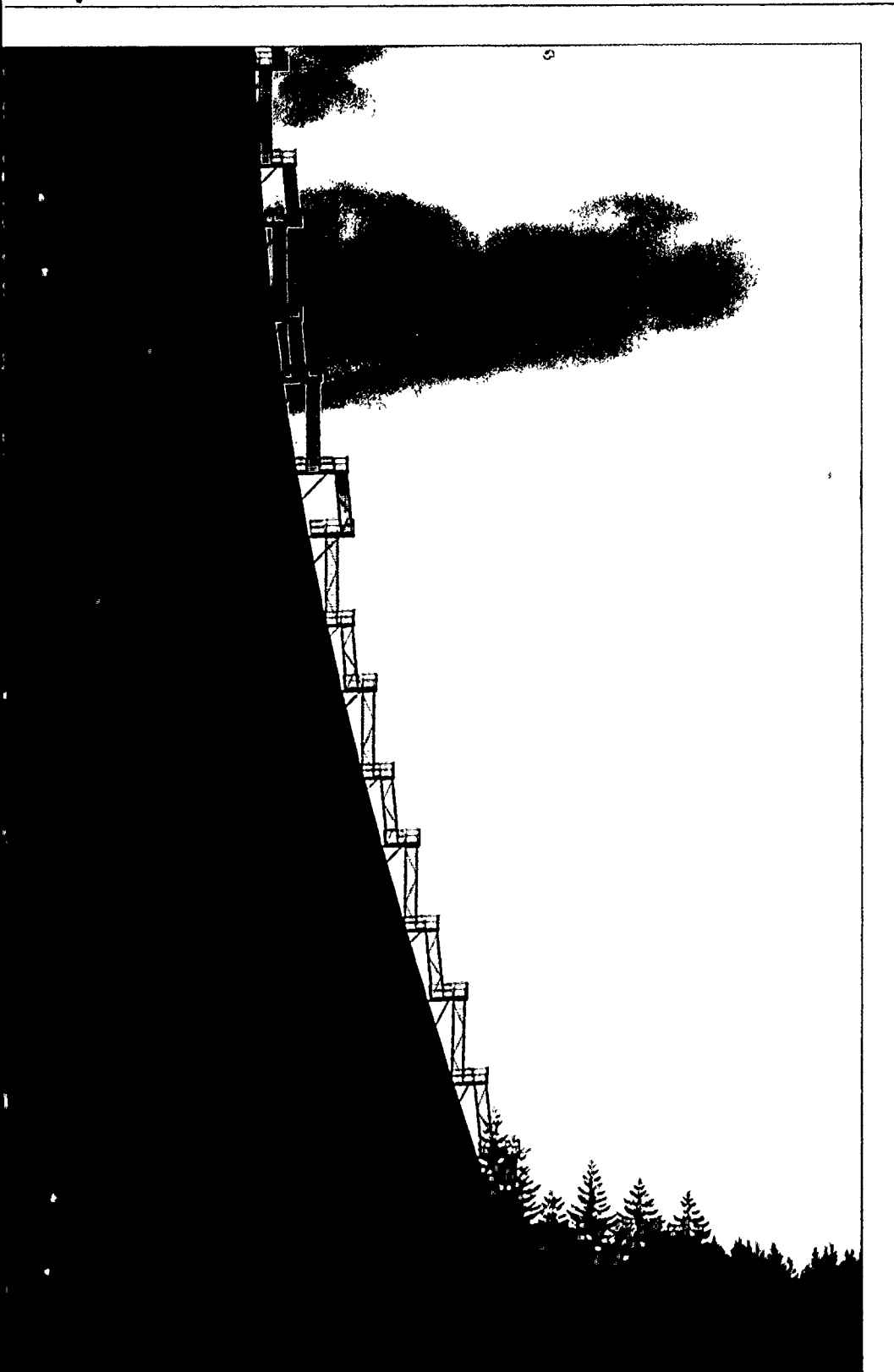
Other 1989 initiatives included reviewing, updating and rewriting operations and maintenance procedures; creating a new planning and scheduling group to schedule and prioritize plant work; cross-training of managers and supervisors; and placing additional emphasis on employee safety.

Evaluations made the past year by regulatory agencies and industry peer groups show that progress is being made in several areas. Major improvements have been made in employee performance and equipment reliability, but continued improvement is needed. Downtime must be reduced and the capacity factor boosted during Plant 2's 10-month operating cycle if the Supply System is to meet its goals. The Supply System will continue to support the Bonneville Power Administration's efforts to maintain low electric rates for its public utility customers while ensuring the safe, reliable and cost-effective operation of Plant 2.

PRESERVATION OF NUCLEAR PROJECTS 1 AND 3 is one of the ways the Supply System is helping safeguard the Pacific Northwest's energy future.

Although construction on the two 1,200-megawatt plants was halted in 1982 and 1983, Nuclear Projects 1 and 3 remain in sound condition. The mostly completed projects were maintained in fiscal year 1989 for a total cost of \$10.5 million. The design and physical assets of the projects are being preserved using a Nuclear Regulatory Commission-approved program that is a model for the rest of the nuclear industry. The preservation programs are funded at a minimum level, but constant monitoring and budget adjustments are preventing deterioration of plant structures and equipment.

As the Bonneville Power Administration and the region's public utilities begin looking for new sources of electric generation, they can be confident that their \$5 billion investment in WNP-1 and WNP-3 has been protected at the lowest possible cost to the consumer and the projects will be available when needed to meet their energy needs.



Nuclear Projects 1 and 3 have been in extended construction delay since 1982 and 1983 respectively. WNP-1 is 65 percent complete and WNP-3 is 75 percent complete.

EXECUTIVE BOARD

Vera Claussen (*Assistant Secretary*)
Commissioner
Grant County PUD

Kenneth Cochrane
Commissioner
Franklin County PUD

John Cockburn (*Secretary*)
Investor/Consultant
Seattle

Sam Farmer
Consultant
Battelle Memorial Institute
Seattle

Ray Foleen
Consultant
Portland

Carl Halvorson (*Chairman*)
President
HalvorsonMason Corporation
Portland

Parker Knight
Commissioner
Skamania County PUD

Paul Nolan (*Vice Chairman*)
Attorney
Tacoma

William Scott
Commissioner
Chelan County PUD

Sydney Steinborn
Consultant
Seattle

Frank Ward
Commissioner
Klickitat County PUD

Cornelius Duffie, a Portland consultant served on the Executive Board through Dec. 31, 1988.

BOARD OF DIRECTORS

Don Carter
Energy Services Director
City of Richland

Tom Casey
Commissioner
Grays Harbor County PUD

Vera Claussen (*Secretary*)
Commissioner
Grant County PUD

Donald Clayhold
Manager
Benton County PUD

Edward Coates
Director
Department of Public Utilities
City of Tacoma

Kenneth Cochrane
Commissioner
Franklin County PUD

Randall Hardy
Superintendent
Seattle City Light

Parker Knight (*Vice President*)
Commissioner
Skamania County PUD

William Kuehne
Commissioner
Ferry County PUD

James Rowland
Commissioner
Okanogan County PUD

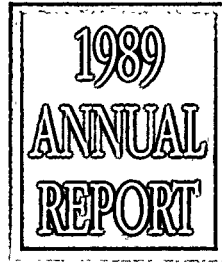
William Scott
Commissioner
Chelan County PUD

Roger Sparks (*President*)
Commissioner
Kittitas County PUD

Arne Torget (*Asst. Secretary*)
Commissioner
Wahkiakum County PUD

Frank Ward
Commissioner
Klickitat County PUD

Clark County PUD resigned its membership in the Supply System in Dec. 1988 and Pacific County PUD resigned in June 1989.



FINANCIAL INFORMATION

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MANAGEMENT REPORT ON RESPONSIBILITY FOR FINANCIAL REPORTING

The management of the Supply System is responsible for preparing the accompanying financial statements and for their integrity. The statements were prepared in accordance with generally accepted accounting principles applied on a consistent basis, and include amounts that are based on management's best estimates and judgements.

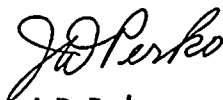
The financial statements have been audited by Ernst & Young, the Supply System's independent auditors. Management has made available to Ernst & Young all financial records and related data, and believes that all representations made to Ernst & Young during its audit were valid and appropriate.

Management has established and maintains a system of internal control that provides reasonable assurance as to the integrity and reliability of the financial statements, the protection of assets from unauthorized use or disposition, and the prevention and detection of fraudulent financial reporting. The system of internal control provides for appropriate division of responsibility and is documented by written policies and procedures.

The Supply System maintains an ongoing internal auditing program that provides for independent assessment of the effectiveness of internal controls, and for recommendations of possible improvements thereto. In addition, Ernst & Young has completed a study and evaluation of selected internal accounting controls. Management has considered recommendations made by the internal auditor and Ernst & Young concerning the system of internal control and has taken appropriate action to respond to the recommendations. Management believes that as of June 30, 1989, the system of internal control is adequate.



D. W. Mazur
Managing Director



J. D. Perko
Chief Financial Officer

AUDIT, LEGAL AND FINANCE COMMITTEE CHAIRMAN'S LETTER

The Executive Board's Audit, Legal and Finance Committee is composed of five independent directors. Members of the Committee are: Sam J. Farmer, Chairman; Vera Claussen; Paul J. Nolan; William D. Scott; John F. Cockburn; and Carl M. Halvorson, Ex Officio. The committee held twelve meetings during the fiscal year ended June 30, 1989.

The Committee oversees the Supply System's financial reporting process on behalf of the Executive Board. In fulfilling its responsibility, the Committee recommended to the Executive Board the selection of the Supply System's independent auditors, discussed with the internal auditor and the independent auditors the overall scope and specific plans for their respective audits, and reviewed the Supply System's financial statements and the adequacy of the Supply System's internal controls.

The Committee met regularly with the Supply System's internal auditor and independent auditors to discuss the results of their examinations, their evaluations of the Supply System's internal controls, and the overall quality of the Supply System's financial reporting. The meetings were designed to facilitate any private communication with the Committee desired by the internal auditor or independent auditors.



Sam J. Farmer
Chairman, Audit, Legal and Finance Committee

REPORT OF INDEPENDENT AUDITORS

Executive Board
Washington Public Power Supply System
Richland, Washington

We have audited the accompanying individual balance sheets of Washington Public Power Supply System's Nuclear Project No. 2, Hanford Generating Project, Packwood Lake Hydroelectric Project, Nuclear Project No. 1, Nuclear Project No. 3, and Nuclear Projects Nos. 4 and 5 as of June 30, 1989, and the related statements of operations for Nuclear Project No. 2, Hanford Generating Project, and Packwood Lake Hydroelectric Project, the statement of terminated project costs and deficiency in assets for Nuclear Projects Nos. 4 and 5, and the statements of changes in financial position for all individual projects for the year then ended. These financial statements are the responsibility of Washington Public Power Supply System's management.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes an assessment of the accounting principles used and significant estimates made by management, as well as an evaluation of the overall financial statement presentation.

As further discussed in Note E to the financial statements, Washington Public Power Supply System Nuclear Projects Nos. 1 and 3 are involved in disputes concerning costs shared with Washington Public Power Supply System Nuclear Projects Nos. 4 and 5. The ultimate amount of additional costs, if any, to be borne by Nuclear Projects Nos. 1 and 3 due to this matter is presently indeterminable.

As further discussed in Note E to the financial statements, some creditors of Nuclear Projects Nos. 4 and 5 have attempted to obtain payment from assets or funds held by other projects of the Supply System or the revenues pledged thereto. Supply System management is of the opinion that creditor claims can only be realized from the assets, funds, or revenues of the projects to which such claims relate. If it is found that creditors are not limited to payment of their claims from the project to which such claims relate, it will have an impact on the individual projects of the Supply System in amounts which are presently indeterminable.

As further discussed in Note E, there are various claims and matters of litigation, the outcome of which is presently indeterminable.

Because of the possible material effects on the individual projects' financial statements referred to above of the matters described in the three preceding paragraphs, we are unable to, and do not, express an opinion on these financial statements.

Ernst & Young

Seattle, Washington
September 1, 1989, except as to the
thirteenth paragraph of Note D, as
to which the date is September 5,
1989.

BALANCE SHEETS

As of June 30, 1989 Dollars in thousands

	NUCLEAR PROJECT NO. 2	HANFORD GENERATING PROJECT	PACKWOOD LAKE PROJECT	NUCLEAR PROJECT NO. 1	NUCLEAR PROJECT NO. 3	NUCLEAR PROJECTS NOS. 4/5
ASSETS						
UTILITY PLANT (NOTE B)						
In service	\$3,308,001	\$ 67,624	\$12,409	\$ 12,086	\$ 2,060	
Improvements to U.S. government facilities		22,922				
Allowance for depreciation and amortization	(495,506)	(72,490)	(6,780)	(2,875)	(1,362)	
	2,812,495	18,056	5,629	9,211	698	
Nuclear fuel	159,459			257,492	34,831	
Allowance for nuclear fuel amortization	(72,087)					
	87,372			257,492	34,831	
Construction work in progress	7,563					
Construction work in progress— deferred projects				2,249,018	2,447,931	
Costs of terminated projects						\$ 3,559,725
Amount charged to joint owners					(622,230)	(87,395)
Allowance for estimated unrecoverable cost						(3,467,270)
	2,907,430	18,056	5,629	2,515,721	1,861,230	5,060
RESTRICTED ASSETS (NOTE B)						
Special funds						
Cash and investments	37,939	3,181	280	122,934	23,181	586
Receivable from joint owners					5,679	65
Due from other projects				8,113		18,530
Accounts receivable				1,263	1,684	1,242
Prepayments and other				76	77	16
Due from other funds				452	13,906	
	37,939	3,181	280	132,838	44,527	20,439
Debt service funds cash and investments	113,311	4,348	698	231,987	180,648	61,483
	151,250	7,529	978	364,825	225,175	81,922
CURRENT ASSETS						
Cash and investments	10,909	2,999	1,185	7,621	7,161	
Accounts receivable	2,623					
Materials and supplies	30,813	374				
Prepayments and other	1,776	4	3			
Due from participants			307			
Due from other projects	716	21	4	1,660		
Due from other funds	29,539	1,133	35	29,711	23,614	
	76,376	4,531	1,534	38,992	30,775	
DEFERRED CHARGES						
Unbilled reimbursable costs			2,823			
Unamortized debt expense	2,915	45	16	3,044	2,230	
	2,915	45	2,839	3,044	2,230	
TOTAL ASSETS	\$3,137,971	\$ 30,161	\$10,980	\$2,922,582	\$2,119,410	\$ 86,982

	NUCLEAR PROJECT NO. 2	HANFORD GENERATING PROJECT	PACKWOOD LAKE PROJECT	NUCLEAR PROJECT NO. 1	NUCLEAR PROJECT NO. 3	NUCLEAR PROJECTS NOS. 4/5
LIABILITIES						
DEFICIENCY IN ASSETS (NOTE B)						\$ (3,467,270)
UNEARNED REVENUE	\$ 863,668	\$ 8,630				
COSTS REIMBURSED UNDER NET BILLING				\$ 716,911	\$ 430,162	
ADVANCES FROM PARTICIPANTS	43,248	400		3,000	3,000	
LONG-TERM DEBT (NOTE C)						
Revenue bonds payable	2,178,620	17,105	\$ 9,390	2,076,035	1,564,350	
Unamortized discount on bonds-net	(59,021)	(250)	(64)	(45,874)	(33,796)	
	2,119,599	16,855	9,326	2,030,161	1,530,554	
DEBT IN DEFAULT, CURRENTLY PAYABLE (NOTE D)						
Revenue bonds payable						2,250,000
Subordinated revenue notes						66,652
						2,316,652
LIABILITIES-PAYABLE FROM RESTRICTED ASSETS (NOTE B)						
Special funds						
Accounts payable and accrued expenses	8,541			3,689	2,739	24,705
Amounts withheld from contractors				515	1,138	389
Due to other projects				321	18,639	8,113
Due to other funds	26,398	682		23,654	19,011	
	34,939	682		28,179	41,527	33,207
Debt service funds						
Accrued interest payable		185	114	102,282	81,789	1,201,641
Accounts Payable						2,752
Due to other funds	3,141	451	35	6,057	4,603	
	38,080	1,318	149	136,518	127,919	1,237,600
CURRENT LIABILITIES						
Accounts payable and accrued expenses	37,119	42	46	1	16	
Amounts withheld from contractors	492					
Advance payments from participants	2,696			3,370	3,008	
Due to other projects	291	1,680				
Due to power purchasers	32,778	309	1,373	32,169	10,845	
Due to other funds				452	13,906	
	73,376	2,031	1,419	35,992	27,775	
DEFERRED CREDITS						
Deferred gain on redemption of revenue bonds		927	86			
COMMITMENTS AND CONTINGENCIES (NOTE E)						
TOTAL LIABILITIES	\$3,137,971	\$30,161	\$10,980	\$2,922,582	\$2,119,410	\$ 86,982

STATEMENTS OF OPERATIONS

For the year ended June 30, 1989 Dollars in thousands

	NUCLEAR PROJECT NO. 2	HANFORD GENERATING PROJECT	PACKWOOD LAKE PROJECT
OPERATING REVENUES	\$ 454,537	\$2,352	\$1,151
OPERATING EXPENSES			
Nuclear fuel	25,231		
Fuel disposal fee	6,052		
Decommissioning	1,057		
Depreciation and amortization	104,712	2,465	421
Operations and maintenance	93,143	134	454
Administrative and general	26,476	72	110
Taxes	2,286		3
	<u>258,957</u>	<u>2,671</u>	<u>988</u>
NET OPERATING REVENUE/(LOSS)	<u>195,580</u>	<u>(319)</u>	<u>163</u>
OTHER INCOME AND EXPENSE			
Investment income	18,850	1,024	190
Interest expense and discount amortization	(212,511)	(705)	(353)
Other	(1,919)		
NET REVENUE	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>

STATEMENT OF TERMINATED PROJECT COSTS AND DEFICIENCY IN ASSETS

For the year ended June 30, 1989 Dollars in thousands

	NUCLEAR PROJECTS NOS. 4/5
TERMINATED PROJECT COSTS	
Interest expense	\$- 198,313
Net increase in costs related to terminated nuclear projects	25,132
Administrative costs associated with asset disposition	3,174
Receipts from asset sales	(3,872)
Investment income	(5,207)
Decrease in recoverable value estimates	4,460
TOTAL TERMINATED PROJECT COSTS	<u>\$ 222,000</u>
DEFICIENCY IN ASSETS	
Balance July 1, 1988	<u>\$3,245,270</u>
Balance June 30, 1989	<u>\$3,467,270</u>

STATEMENTS OF CHANGES IN FINANCIAL POSITION

For the year ended June 30, 1989 Dollars in thousands

	NUCLEAR PROJECT NO. 2	HANFORD GENERATING PROJECT	PACKWOOD LAKE PROJECT
OPERATING PROJECTS			
SOURCE OF FUNDS			
Operations—net revenue	\$ 0	\$ 0	\$ 0
Items not affecting working capital:			
Depreciation and amortization	132,636	2,514	425
Increase/(decrease) in unearned revenue	(70,285)	973	(155)
Gain on redemption of revenue bonds		(103)	(56)
TOTAL SOURCE OF FUNDS	\$ 62,351	\$3,384	\$214
APPLICATION OF FUNDS			
Additions to utility plant	\$ 11,905	\$ (77)	\$ (5)
Nuclear fuel purchases	21,936		
Cost of revenue bonds purchased and retired	28,510	3,759	176
Advances returned to power purchasers		1,000	
Increase/(decrease) in restricted assets		(298)	43
	62,351	4,384	214
Changes in working capital:			
Cash and investments	(6,371)	(830)	286
Materials and supplies	8,487	(1)	
Receivables and other	1,787	28	(15)
Payables and other liabilities	(3,903)	(197)	(271)
Decrease in working capital	0	(1,000)	0
TOTAL APPLICATION OF FUNDS	\$ 62,351	\$3,384	\$ 214
	NUCLEAR PROJECT NO. 1	NUCLEAR PROJECT NO. 3	NUCLEAR PROJECTS NOS. 4/5

PROJECTS IN DELAYED CONSTRUCTION AND TERMINATED PROJECTS

SOURCE OF FUNDS

Collections under net-billing agreements	\$147,345	\$167,556	
Collections under exchange agreements	67,573		
Investment income	24,573	13,963	\$ 4,985
Revaluation of investments			222
Sales of equipment			3,872
Charged to joint owners		1,712	184
Net decrease in restricted funds			218,754

TOTAL SOURCE OF FUNDS

\$239,491 \$183,231 \$228,017

APPLICATION OF FUNDS

Costs related to construction or termination	\$ 6,368	\$ 6,484	\$ 1,798
Interest expense	204,564	163,579	198,313
Nuclear fuel additions/(deletions)	(3,155)	105	
Trustee and paying agent expenses	1,352	1,349	23,518
Bonds redeemed	18,055	10,555	1,214
Net transfers to Hanford Generating Project	2,568		
Administrative costs associated with asset disposition			3,174
Increase in amounts due from participants	3,584	399	
Net increase in restricted funds	6,155	760	

TOTAL APPLICATION OF FUNDS

\$239,491 \$183,231 \$228,017

OUTSTANDING LONG-TERM DEBT

As of June 30, 1989 Dollars in thousands

	SERIES	DATE OF SALE	EFFECTIVE INTEREST RATE (B)	INITIAL OFFERING PRICES	COUPON RATE	SERIAL OR TERM MATURITIES	AMOUNT
NUCLEAR PROJECT NO. 2							
Revenue Bonds	1973	6-26-73	5.64%	(A)	5.10%	7-1-90/1991	\$ 5,900
(excludes \$2,700,000 due July 1, 1989)				100	5.70	7-1-2012	124,400
							<u>130,300</u>
Revenue Bonds	1974	7-23-74	7.80	(A)	6.70-6.90	7-1-90/1994	12,200
(excludes \$2,100,000 due July 1, 1989)				100	7.00	7-1-1999	15,000
				100	7.375	7-1-2012	37,000
							<u>64,200</u>
Revenue Bonds	1974A	11-26-74	7.67	(A)	7.20	7-1-90/1994	10,700
(excludes \$1,700,000 due July 1, 1989)				100	7.40	7-1-1999	15,000
				100	7.75	7-1-2012	78,000
							<u>103,700</u>
Revenue Bonds	1975A	3-6-75	6.98	(A)	6.60	7-1-90/1994	9,700
(excludes \$1,600,000 due July 1, 1989)				100	6.60	7-1-1999	15,000
				100	6.875	7-1-2012	78,000
							<u>102,700</u>
Revenue Bonds	1976	6-3-76	6.63	(A)	5.70-6.25	7-1-90/1998	18,520
(excludes \$1,485,000 due July 1, 1989)				99.25	6.625	7-1-2006	42,300
				100	6.75	7-1-2012	49,860
							<u>110,680</u>
Revenue Bonds	1976A	11-18-76	5.86	(A)	5.50-5.875	7-1-90/2002	69,820
(excludes \$3,580,000 due July 1, 1989)				100	6.00	7-1-2007	44,815
				99.50	6.00	7-1-2012	60,990
							<u>175,625</u>
Revenue Bonds	1978	7-11-78	6.71	(A)	5.60-6.60	7-1-90/2000	49,845
(excludes \$2,955,000 due July 1, 1989)				100	6.80	7-1-2006	45,520
				100	6.875	7-1-2012	66,230
							<u>161,595</u>
Revenue Bonds	1979	3-13-79	6.49	(A)	5.50-6.00	7-1-90/1999	42,310
(excludes \$3,075,000 due July 1, 1989)				100	6.40	7-1-2004	33,490
				100	6.75	7-1-2012	83,605
							<u>159,405</u>
Revenue Bonds	1979A	10-17-79	7.69	(A)	6.75-7.30	7-1-90/1999	30,050
(excludes \$2,220,000 due July 1, 1989)				100	7.60	7-1-2004	23,050
				100	7.75	7-1-2012	57,000
							<u>110,100</u>
Revenue Bonds	1980	10-21-80	9.63	(A)	8.90-10.90	7-1-90/1997	27,430
(excludes \$2,215,000 due July 1, 1989)				100	9.30	7-1-2001	23,735
				100	9.60	7-1-2006	46,070
				(A)	9.25	7-1-2011	75,045
				(A)	8.25	7-1-2012	19,920
							<u>192,200</u>
Revenue Bonds	1981A	9-4-81	14.67	100	14.375	7-1-2001	30,000
				57.895	8.25	7-1-2003	100,000
				99	14.50	7-1-2006	30,000
				100	13.25	7-1-2012	50,000
							<u>210,000</u>
Revenue Bonds	1982A	2-11-82	15.04	100	11.50-13.75	7-1-90/1996	25,765
(excludes \$2,205,000 due July 1, 1989)				100	14.50	7-1-2002	51,665
				99.25	14.75	7-1-2012	215,000
							<u>292,430</u>

(A) Various prices

(B) Based on original issue

	SERIES	DATE OF SALE	EFFECTIVE INTEREST RATE (B)	INITIAL OFFERING PRICES	COUPON RATE	SERIAL OR TERM MATURITIES	AMOUNT
Revenue Bonds (excludes \$2,675,000 due July 1, 1989)	1982B	5-20-82	13.92%	100 100	11.50-13.00% 13.875	7-1-90/1996 7-1-2012	\$ 30,085 139,320 <u>169,405</u>
Revenue Bonds	1982C	5-20-82	14.11	100 100	13.50 13.875	7-1-2002 7-1-2012	56,960 139,320 <u>196,280</u> <u>\$2,178,620</u>
HANFORD GENERATING PROJECT							
Revenue Bonds	1963	5-8-63	3.26	98	3.25	9-1-1996	<u>\$17,105</u> <u>\$17,105</u>
PACKWOOD LAKE PROJECT							
Revenue Bonds (includes \$70,000 due within one year at June 30, 1989)	1962 1965	3-20-62 11-4-65	3.66 3.76	99.425 100.5	3.625 3.75	3-1-2012 3-1-2012	\$7,120 2,270 <u>\$9,390</u>
NUCLEAR PROJECT NO. 1							
Revenue Bonds (includes \$1,700,000 due July 1, 1989)	1975	9-18-75	7.73	(A) 100 100	6.40-7.40 7.70 7.75	7-1-89/2000 7-1-2010 7-1-2017	\$ 31,900 58,300 74,700 <u>164,900</u>
Revenue Bonds (includes \$1,870,000 due July 1, 1989)	1976A	2-4-76	6.84	(A) 100 100	6.00-6.25 6.90 7.00	7-1-89/1998 7-1-2010 7-1-2017	25,285 66,485 76,495 <u>168,265</u>
Revenue Bonds (includes \$2,145,000 due July 1, 1989)	1976B	8-31-76	6.37	(A) 100 99.50	5.00-5.90 6.50 6.50	7-1-89/1998 7-1-2010 7-1-2017	27,935 66,940 71,235 <u>166,110</u>
Revenue Bonds (includes \$2,740,000 due July 1, 1989)	1978A	3-21-78	5.70	(A) 100 100	5.00-5.50 5.80 5.875	7-1-89/2002 7-1-2010 7-1-2017	52,590 50,920 64,810 <u>168,320</u>
Revenue Bonds (includes \$2,215,000 due July 1, 1989)	1978B	12-5-78	6.60	(A) 100 100 99.50	5.50-6.00 6.35 6.60 6.80	7-1-89/1998 7-1-2003 7-1-2009 7-1-2017	28,960 22,305 38,190 81,150 <u>170,605</u>
Revenue Bonds (includes \$1,640,000 due July 1, 1989)	1979	6-19-79	6.64	(A) 100 100 100	6.00 6.40 6.70 6.80	7-1-89/1998 7-1-2003 7-1-2009 7-1-2017	22,660 18,560 32,370 69,685 <u>143,275</u>
Revenue Bonds (includes \$4,500,000 due July 1, 1989)	1980A	8-5-80	9.15	(A) 100 100 99.00 (A)	7.00-8.25 9.00 9.20 9.25 7.75	7-1-89/1995 7-1-2002 7-1-2005 7-1-2013 7-1-2017	42,000 37,000 16,950 70,550 30,000 <u>196,500</u>

OUTSTANDING LONG-TERM DEBT

As of June 30, 1989 Dollars in thousands

	SERIES	DATE OF SALE	EFFECTIVE INTEREST RATE (B)	INITIAL OFFERING PRICES	COUPON RATE	SERIAL OR TERM MATURITIES	AMOUNT
Revenue Bonds	1981A	4-13-81	11.92%	(A) 100	11.30-13.00% 11.625	7-1-96/2003 7-1-2012	\$ 28,580 91,420 <u>120,000</u>
Revenue Bonds	1981B	4-13-81	11.67	(A)	10.00	7-1-2016	<u>40,000</u>
Revenue Bonds	1981C	4-13-81	10.41	100	10.25	7-1-2015	<u>40,000</u>
Revenue Bonds	1981D	9-4-81	15.42	100 57.895 100	14.375 8.25 15.00	7-1-2001 7-1-2003 7-1-2017	20,000 30,000 265,000 <u>315,000</u>
Revenue Bonds (includes \$2,160,000 due July 1, 1989)	1982A	2-11-82	15.13	100 100 99.25	10.50-13.75 14.50 14.75	7-1-89/1996 7-1-2002 7-1-2017	27,415 50,645 305,000 <u>383,060</u> <u>\$2,076,035</u>
NUCLEAR PROJECT NO. 3							
Revenue Bonds (includes \$1,390,000 due July 1, 1989)	1975	12-3-75	7.87	(A) 100 100	6.15-7.25 7.875 7.875	7-1-89/1998 7-1-2010 7-1-2018	\$ 19,635 52,695 71,160 <u>143,490</u>
Revenue Bonds (includes \$1,075,000 due July 1, 1989)	1976	4-13-76	6.48	(A) 99.625 100	5.50-6.00 6.50 6.60	7-1-89/1998 7-1-2010 7-1-2018	14,250 35,100 45,295 <u>94,645</u>
Revenue Bonds (includes \$3,065,000 due July 1, 1989)	1977	9-12-77	5.71	(A) 99.50 99.50	5.00-5.50 5.70 5.80	7-1-89/2000 7-1-2009 7-1-2018	48,190 63,535 107,160 <u>218,885</u>
Revenue Bonds (includes \$2,195,000 due July 1, 1989)	1978	9-12-78	6.27	(A) 100 99	5.90-6.00 6.375 6.40	7-1-89/2004 7-1-2010 7-1-2018	58,995 42,985 90,630 <u>192,610</u>
Revenue Bonds (includes \$2,445,000 due July 1, 1989)	1981A	2-11-81	11.18	(A) 100 99.50 88.50 88.50	9.50-12.50 11.125 11.125 9.75 9.75	7-1-89/2001 7-1-2005 7-1-2010 7-1-2017 7-1-2018	60,125 40,535 80,310 18,950 20,830 <u>220,750</u>
Revenue Bonds	1981B	9-4-81	15.43	57.895 99 100	8.25 14.50 15.00	7-1-2003 7-1-2006 7-1-2018	20,000 20,000 185,000 <u>225,000</u>
Revenue Bonds (includes \$445,000 due July 1, 1989)	1982A	2-11-82	15.22	100 100 99.25	10.50-13.75 14.50 14.75	7-1-89/1996 7-1-2002 7-1-2018	5,655 10,445 148,500 <u>164,600</u>
Revenue Bonds (includes \$700,000 due July 1, 1989)	1982B	5-20-82	14.24	100 99.50	10.50-13.00 13.875	7-1-89/1996 7-1-2018	8,565 280,925 <u>289,490</u>
Revenue Bonds	1982C	5-20-82	13.85	100	13.50	7-1-2002	<u>14,880</u> <u>\$1,564,350</u>

(A) Various prices

(B) Based on original issue

Note A — General

ORGANIZATION

The Washington Public Power Supply System (Supply System), a municipal corporation and joint operating agency of the State of Washington, was organized in 1957. It is empowered to finance, acquire, construct and operate facilities for the generation and transmission of electric power. Its membership consists of 10 public utility districts and the cities of Richland, Seattle, and Tacoma. All members own and operate electric systems within the state of Washington. The Supply System has no taxing authority.

SUPPLY SYSTEM PROJECTS

The Supply System is currently operating Nuclear Project No. 2, a 1,100 MWe generating plant completed in 1984, and the Packwood Lake Hydroelectric Project (Packwood), a 27.5 MWe plant completed in 1964.

The Hanford Generating Project (HGP), a 860 MWe plant which utilizes byproduct steam from the Department of Energy's dual-purpose New Production Reactor (N-Reactor), was completed in 1966 and was in normal operation through 1986. In January 1987, the N-Reactor was shut down for safety improvements. In February 1988, the Department of Energy placed the N-Reactor in standby status for an undetermined length of time, eliminating the HGP's present energy source.

Nuclear Project No. 1, a 1,250 MWe plant, is 65 percent complete and is in the eighth year of a construction delay. Nuclear Project No. 3, a 1,240 MWe plant, is 75 percent complete and is in the seventh year of a construction delay. Nuclear Project No. 1 is wholly owned by the Supply System. Nuclear Project No. 3 is jointly owned, 70 percent by the Supply System and 30 percent by four investor-owned utilities (Pacific Power & Light Company, Portland General Electric Company, Puget Sound Power & Light Company, and The Washington Water Power Company).

Nuclear Projects Nos. 4 and 5 were terminated on January 22, 1982 and are currently in an asset sales phase. The asset sales program is expected to be completed by June 30, 1990. Nuclear Project No. 4 is

wholly owned by the Supply System. Nuclear Project No. 5 is jointly-owned, 90 percent by the Supply System and 10% by Pacific Power & Light Company, an investor-owned utility.

Each Supply System project is financed and accounted for as a utility system separate from all other current or future projects, with the exception of Nuclear Projects Nos. 4 and 5 which are treated as one utility system.

Over 100 Northwest utilities participating in Nuclear Projects Nos. 1, 2 and the Supply System's 70 percent ownership share of Nuclear Project No. 3 have purchased all project capability of the Supply System's ownership share of each project. Pursuant to the terms of their purchase agreements, they are obligated to pay the annual costs of each project, including debt service, whether or not the project is completed, operable or operating and notwithstanding the suspension, reduction or curtailment of project output. These project participants have resold such capability to the Bonneville Power Administration (BPA) and in return BPA is obligated to pay annual costs of these projects, including debt service, by a procedure referred to as net-billing. Under net-billing, project participants pay the Supply System their respective shares of annual costs and BPA pays project participants identical amounts by reducing amounts due to BPA by participants under power sales agreements.

Eighty-eight project participants in Nuclear Projects Nos. 4 and 5 were originally obligated by contract to pay annual costs of Nuclear Projects Nos. 4 and 5, including debt service, whether or not the projects were completed. However, these contracts have been declared invalid. BPA has no obligation with respect to annual costs of Nuclear Projects Nos. 4 and 5.

The Supply System does not own electrical distribution facilities. All electrical energy produced by Supply System projects is delivered to electrical distribution facilities owned and operated by BPA as part of the Federal Columbia River Power System. BPA in turn distributes the electricity to electric utility systems throughout the Northwest, including participants in Supply System projects, for ultimate distribution to consumers. BPA is obligated by law to establish rates for electric power which will recover the cost of acquisition (including all payments under net-billing agreements), and its other costs.

*Note B—Summary of
Significant Accounting Policies*

BASIS OF ACCOUNTING

The Supply System has adopted accounting policies and practices that are in accordance with generally accepted accounting principles applicable to utilities and governmental organizations. Accounts are maintained in accordance with the uniform system of accounts of the Federal Energy Regulatory Commission, even though the Supply System is not a regulated rate-making utility. Separate books of account are maintained for Nuclear Projects Nos. 1, 2, 3, HGP and Packwood as separate utility systems, and for Nuclear Projects Nos. 4 and 5 as one utility system. Financial statements are issued separately for each utility system and are not consolidated. Bond resolutions require that funds be maintained separately for each utility system. Payment of obligations of one utility system with funds of another utility system is prohibited, and would constitute violation of bond resolution covenants.

UTILITY PLANT IN SERVICE

Utility plant is stated at original cost, and is depreciated by the straight-line method over the estimated useful lives of the various classes of plant in service. Improvements to U.S. government-owned facilities are amortized over the period covered by the contract for dual-purpose operation of the U.S. Department of Energy's N-Reactor.

**CAPITALIZATION OF CONSTRUCTION COSTS
AND EXPENSES**

During the normal construction phase of a project, it is the Supply System's policy to capitalize all costs relating to the project, including interest (net of interest income), administrative and general expense, and certain other expenses. Interest expense during construction is allocated to nuclear fuel and plant based on cumulative cash utilization. Administrative, general and overhead expense are allocated to projects on the basis of direct usage or direct salary cost.

As of July 1, 1984, the Supply System discontinued capitalizing interest expense (net) applicable to Nuclear Projects Nos. 1 and 3 because of the extended delay of these projects. The interest expense, which is funded by payments under net-billing agreements, will not be capitalized during the delay period. Such net interest expense totaled \$187,033,261 and

\$149,620,565 for Nuclear Projects Nos. 1 and 3, respectively, for the year ended June 30, 1989.

COSTS OF TERMINATED PROJECTS

Due to the termination of Nuclear Projects Nos. 4 and 5, the asset values of these projects have been reduced to estimated net realizable values, which are based on Supply System staff estimates. Such revaluation, totaling \$3,467,269,848 at June 30, 1989, has created a negative equity position, reflected as deficiency in assets on the balance sheet.

Contractor claims liabilities totaling \$21,859,364 including interest, are accrued as of June 30, 1989. No source of funds is available to pay these obligations.

NUCLEAR FUEL

Nuclear fuel is stated at cost. Nuclear Project No. 2 nuclear fuel cost is amortized to nuclear fuel operating expense on the basis of quantity of heat produced for generation of electric energy. Current period operating expenses also include a charge for future spent nuclear fuel storage and disposal to be provided by the Department of Energy in accordance with the Nuclear Waste Policy Act of 1982. Such charge is based on energy generated.

RESTRICTED ASSETS

In accordance with project bond resolutions and related agreements, separate restricted funds are established for each of the projects. The assets held in these funds are restricted for specific uses including construction, debt service, capital additions, extraordinary operation and maintenance, termination, and decommissioning.

CASH AND INVESTMENTS

Cash and investments for Nuclear Projects Nos. 1, 2 and 3, HGP, and Packwood are maintained separately. Cash and investments for Nuclear Projects Nos. 4 and 5 are pooled. All investments are held in the Supply System's name by safekeeping agents.

The Supply System's deposits are entirely covered by federal depository insurance or by a pool of public funds through the Washington Public Deposit Protection Commission.

Statutes authorize the Supply System to invest in obligations of the United States Treasury, United States government agencies, banks, savings and loan corporations, and corporate mortgage companies. Supply System investment policies limit investment authority

to obligations of the United States Treasury, Federal National Mortgage Association, Federal Home Loan Banks, and Federal Home Loan Mortgage Corporation.

Investments held in the Bond Fund Reserve Accounts (included in Debt Service Funds) and Reserve and Contingency Funds (included in Special Funds) are stated at the lower of purchase price, par value, amortized cost or market as required by bond resolutions. All other investments are stated at amortized cost and include accrued interest. The combined carrying value of investments for all projects at year-end (including accrued interest) approximates market value.

CURRENT MATURITY OF REVENUE BONDS

Current maturities of revenue bonds payable are reflected in Long-Term Debt, Revenue Bonds Payable. Funding of current maturities is reflected in Restricted Assets-Debt Service Funds.

FINANCING EXPENSE AND BOND DISCOUNT

Financing expense and bond discount applicable to each project are amortized to project capital cost or operating cost, as appropriate, by the straight-line method over the period of each respective bond issue.

REVENUES

In accordance with covenants of bond resolutions, the Supply System is authorized to recover actual cash requirements for operations and debt service for each project over the life of the project. Accordingly, the Supply System's revenues equal its operating costs for each period. No income or loss is realized, and no equity is accumulated.

Payments received during construction under Nuclear Project No. 2 net-billing agreements were recorded as Unearned Revenues on the balance sheet and will be recognized as Revenues over the operating life of the project. Payments received during construction under Nuclear Projects Nos. 1 and 3 net-billing agreements have been reclassified from Unearned Revenues to Costs Reimbursed Under Net Billing because of the uncertainty as to when these projects will be operational, as explained in Note E.

DECOMMISSIONING

Decommissioning costs are charged to operations over the operating life of each project, starting at the time of commercial operation.

Estimated Nuclear Project No. 2 decommissioning costs are being accrued and funded currently. Monthly payments are made into a sinking fund which, with accumulated interest, is expected to be adequate to fund decommissioning costs at the end of the 40-year plant operating life. Sinking-fund requirements through June 30, 1989 have been based on estimated decommissioning costs of \$114 million (in 1982 dollars). Payments to the decommissioning fund for Nuclear Project No. 2 for the year ended June 30, 1989 aggregated \$1,057,287. Effective July 1, 1989, sinking fund requirements will be based on revised estimates of decommissioning costs of \$403 million (in 1987 dollars).

INVESTMENT INCOME

Investment income consists of interest earned on investments, realized gains and losses resulting from the sale of investments, and unrealized losses applicable to certain investments. Investment income relating to operating plants is recorded as a credit to operating costs. With respect to Nuclear Projects Nos. 1 and 3, income earned on construction fund investments, if any, is recorded as a credit to Construction Work in Progress—Deferred Projects, and income earned on investments held in all other funds is treated as a reduction of funding required under the net-billing agreements. Investment income relating to Nuclear Projects Nos. 4 and 5 is credited to Costs of Terminated Projects.

RETIREMENT PLAN

Substantially all the Supply System's full-time employees participate in the statewide local government Public Employees' Retirement System (PERS). PERS is a contributory multi-employer cost-sharing retirement system administered by the State of Washington through the Department of Retirement Systems. In addition to the state itself, there are approximately 1,200 local government employer members in the system.

PERS contains two plans. Plan I members (employed on or before September 30, 1977) may retire with full benefits at age 60 with at least five years of credited service, at age 55 with 25 years of service, or upon reaching 30 years of service regardless of age. Plan II members (employed after September 30, 1977) may retire with full benefits at age 65 with at least five years of credited service, or with actuarially reduced benefits at age 55 with 20 years of service. Pension plan provisions have been established by statute.

NOTES TO FINANCIAL STATEMENTS

The Office of the State Actuary, using methods prescribed by statute, determines actuarially required contribution rates. However, the rates actually levied are determined by the legislature. Contribution rates are not necessarily adequate to fully fund the plan. While the Supply System's contributions for the year ended June 30, 1989 of \$3,878,414 on a covered payroll of \$64,734,739 represent its full liability under the system, any unfunded future pension benefit obligation could be reflected in future years as higher contribution rates. As of December 31, 1987 (the latest actuarial valuation date), the pension benefit obligation of PERS, which is the actuarial present value of credited projected benefits adjusted for the effects of projected salary increases, was \$5.9 billion. As of the same date the value of net assets available to satisfy present and future pension benefit obligations was \$4.9 billion. Historical trend information showing PERS progress in accumulating sufficient assets to pay benefits when due is presented in the State of Washington's June 30, 1988 comprehensive annual report.

Contributions for the year ended June 30, 1989 were as follows:

	Plan I		Plan II	
	Rate	Amount	Rate	Amount
Employer Contributions:				
Actuarially determined requirement	8.19%	\$1,161,068	6.79%	\$3,432,894
Actual Supply System contribution	5.96%	\$ 844,929	6.00%	\$3,033,485
Employee Contributions:				
Actuarially determined requirement			4.67%	\$2,361,062
Actual Supply System contribution	6.00%	\$ 850,621	4.90%	\$2,477,535

Note C—Long-Term Debt

Except for Nuclear Projects Nos. 4 and 5, which were financed together as one utility system, all Supply System projects are financed separately. The resolutions of the Supply System authorizing issuance of revenue bonds for each project provide that such bonds are payable solely from the revenues of that project.

Outstanding Long-Term Debt of the various projects as of June 30, 1989 is presented on pages 20 through 22.

SECURITY—NUCLEAR PROJECTS NOS. 1, 2 AND 3

Project participants have purchased all of the project capability of Nuclear Projects Nos. 1 and 2 and the Supply System's 70 percent ownership share of project capability of Nuclear Project No. 3. The U.S. Department of Energy, acting by and through BPA, has in turn acquired the entire project capability from the project participants under contracts referred to as net-billing agreements. Under the net-billing agreements for each of the projects, project participants are obligated to pay the Supply System their pro rata share of total annual costs of the respective projects, including debt service on bonds relating to each project, and BPA in turn is obligated to pay the participants identical amounts by reducing amounts due to BPA by participants under BPA power sales agreements. The net-billing agreements provide that project participants and BPA are obligated to make such payments whether or not the projects are completed, operable or operating and notwithstanding the suspension, interruption, interference, reduction or curtailment of the projects' output. The validity of the net-billing agreements was challenged in November 1982. In May 1983, the U.S. District Court of Oregon declared that the net-billing agreements were binding, and this decision was upheld on appeal.

SECURITY—NUCLEAR PROJECTS NOS. 4 AND 5

In connection with the issuance of the generating facilities revenue bonds for Nuclear Projects Nos. 4 and 5, the Supply System pledged the revenues to be derived under participants' agreements with 88 utilities operating principally in the Northwest. The participants' agreements provided that each participant pay its respective share of annual costs, including debt service on the bonds, whether or not the projects were completed, operable, or operating and notwithstanding the suspension, interruption, interference, reduction or curtailment of the projects' output. Payments from the participants for Nuclear Projects Nos. 4 and 5 termination costs and debt service were due beginning on January 25, 1983. As a result of a ruling by the Washington State Supreme Court declaring the participants' agreements invalid, payments due under the participants' agreements were not made and an event of default, as defined in the bond resolution, occurred on July 22, 1983 (see Note D).

SECURITY—HANFORD GENERATING PROJECT

It was initially intended that Nuclear Project No. 1 be constructed next to HGP to provide the energy source to operate the project when the DOE ceased operation of the N-Reactor. To allow for construction of Nuclear Project No. 1, it would have been necessary to shut down HGP on October 31, 1977. Because studies at that time indicated that generating resources in the Pacific Northwest would be inadequate in the late 1970s and early 1980s, the Supply System and BPA determined that HGP should be kept available for power production. Therefore, the Nuclear Project No. 1 net-billing, exchange and project agreements were amended to provide for the separation of Nuclear Project No. 1 from HGP.

The amended agreements provide for the payment of all debt service costs, net of investment income, of HGP by Nuclear Project No. 1 participants, beginning July 1, 1980, regardless of continued operation of the reactor, and that other costs, to the extent not otherwise provided for, be treated as Nuclear Project No. 1 costs with HGP having a first claim on the revenues of that project.

SECURITY—PACKWOOD HYDROELECTRIC PROJECT

Under power sales agreements, 12 member purchasers have purchased all of the project capability of Packwood. The member purchasers are obligated to pay annual costs of the project, including debt service, whether or not the project is operable, until outstanding bonds are paid or provision is made for their retirement in accordance with provisions of the bond resolution.

Note D—Nuclear Projects Nos. 4 and 5 Termination, Bond Default, and Litigation

In January 1982, the Supply System's Nuclear Projects Nos. 4 and 5 were terminated when construction was 24 percent and 16 percent complete, respectively. The Supply System had previously issued \$2.25 billion of bonds to pay costs of the projects.

The participants' agreements (discussed in Note C under Security—Nuclear Projects Nos. 4 and 5) provided that each participant pay its respective share of the debt service on the bonds and termination costs beginning January 25, 1983. Payments due under the participants' agreements were not made pending a judicial determination of the participants' authority and obligation to pay. On June 15, 1983, and again on November 6, 1984, the Washington State Supreme

Court ruled that Washington municipal utilities did not have statutory authority to enter into the participants' agreements, thus invalidating the agreements. The Supply System and Chemical Bank, trustee for Nuclear Projects Nos. 4 and 5 bondholders, petitioned the U.S. Supreme Court for grant of a writ of certiorari by which the state court decision might be reviewed by that court. Grant of the writ was denied by the U.S. Supreme Court on April 29, 1985.

On July 22, 1983, the Supply System acknowledged that it could not pay Nuclear Projects Nos. 4 and 5 obligations as they became due. This admission represented an event of default under the Nuclear Projects Nos. 4 and 5 bond resolution. On July 25, 1983, Chemical Bank, as bond fund trustee, demanded that all remaining project funds be transferred to it to be held in a special account. On August 18, 1983, Chemical Bank declared the principal of all Nuclear Projects Nos. 4 and 5 revenue bonds and interest accrued thereon to be due and payable immediately.

In early 1983, a number of securities fraud class actions were filed in federal courts on behalf of purchasers of Nuclear Projects Nos. 4 and 5 bonds. Other suits by plaintiffs on their own behalf were filed in federal and state courts. The defendants named included the Supply System, its member utilities, and Nuclear Projects Nos. 4 and 5 participants. The lawsuits alleged violations of federal and state securities law, fraud, misrepresentation, negligence and breach of contract, and sought monetary damages, rescission and restitution. The federal actions were consolidated in a single multidistrict proceeding in the United States District Court for the Western District of Washington under the caption *In re WPPSS Securities Litigation, MDL 551 (MDL 551)*.

In August 1983, Chemical Bank filed a lawsuit in United States District Court for the Western District of Washington, on behalf of all Nuclear Projects Nos. 4 and 5 bondholders, against the Supply System, all Nuclear Projects Nos. 4 and 5 participants, and Supply System member utilities. The lawsuit alleged claims and sought relief similar to that alleged and sought in the *MDL 551*.

Another lawsuit, *Haberman v. WPPSS, et al. (Haberman)*, was filed against the Supply System and others in Washington State Superior Court by a number of Nuclear Projects Nos. 4 and 5 bondholders alleging substantially the same matters as were made in the federal cases.

The lawsuits described above sought to recover the bondholders' investment in the principal amount of

\$2.25 billion, plus unspecified damages, interest, costs and attorneys' fees.

In September 1988, the Supply System's Executive Board approved an agreement in principle to settle claims against the Supply System in *MDL 551*, the Chemical Bank litigation, and related litigation including the *Haberman* action. A definitive agreement has been executed. The agreement provides for entry of judgment dismissing with prejudice any and all claims which have been, could have been, or might in the future be asserted against the Supply System by members of the classes in *MDL 551*, by Nuclear Projects Nos. 4 and 5 bondholders represented by Chemical Bank, or by bond purchasers in any other action arising out of the subject matter of *MDL 551*.

The agreement calls for the Supply System to consent to future entry of a judgment on the contract claim on the Nuclear Projects Nos. 4 and 5 bonds brought by *MDL 551* class plaintiffs and Chemical Bank. All other claims against the Supply System are to be dismissed. The amount of said judgment shall be equal to the aggregate unpaid principal amount of the Nuclear Projects Nos. 4 and 5 bonds and accrued interest thereon at the time the judgment is entered. As of July 1, 1989, the amount of such accrued interest was approximately \$1.127 billion. That judgment shall be entered only upon a final judgment or final settlement of all claims in *MDL 551* and the Chemical Bank litigation. Recourse for satisfaction of the judgment is expressly limited as provided in the Nuclear Projects Nos. 4 and 5 bond resolution to the funds and assets of the Supply System pledged to secure the Nuclear Projects Nos. 4 and 5 bonds.

All defendants in *MDL 551* and the Chemical Bank litigation have reached agreements to settle claims against them. The total amount to be paid under these settlements in *MDL 551* approximates \$650 million, not including past payments by the Supply System and future payments from the proceeds of asset sales of Nuclear Projects Nos. 4 and 5, and not including proceeds of certain insurance claims assigned by defendants to plaintiffs.

In April 1989, certain present holders of Nuclear Projects Nos. 4 and 5 bonds served the Supply System and others with notice of a suit, entitled *Heerey v. Supply System (Heerey)*, in New York State Supreme Court for the County of New York which seeks \$750 million and other relief. The plaintiffs in *Heerey* allege that the Supply System and other defendants are liable to the plaintiffs for nonpayment of interest

and principal on the Nuclear Projects Nos. 4 and 5 bonds, based on common law fraud and other theories. The district court in *MDL 551* and the Chemical Bank litigation has previously ruled that Chemical Bank represents all of the holders of Nuclear Projects Nos. 4 and 5 bonds.

In another lawsuit entitled *Hoffer v. State of Washington*, certain purchasers of Nuclear Projects Nos. 4 and 5 bonds have filed claims on behalf of all bondholders against the State of Washington, the state auditor and other elected officials, asserting that the state is liable to the plaintiffs for damages. The State of Washington has advised the Supply System that if the litigation against the State of Washington is not resolved, it will file crossclaims against the Supply System and the other *MDL 551* defendants.

All of the settlements were approved by the court on September 5, 1989. The court's ruling permanently bars Chemical Bank and all Nuclear Projects Nos. 4 and 5 bond purchasers from commencing, prosecuting, or continuing any action against the Supply System arising out of or relating to the allegations or subject matter of the litigation. The ruling, however, will not preclude Chemical Bank from continuing with the cost sharing litigation described in Note E below. The court further found that Chemical Bank represented all Nuclear Projects Nos. 4 and 5 bondholders in the litigation.

The court's ruling is subject to appeal and the Supply System anticipates that one or more appeals will be filed. In the opinion of Supply System Special Counsel and Chief Counsel, the court's ruling, unless modified or reversed on appeal, would bar the *Heerey* litigation and the *Haberman* litigation, and would provide for the release of claims asserted in the *Hoffer* litigation.

If the Supply System's settlement is modified or reversed, or if the district court's ruling that the Chemical Bank represents all of the Nuclear Projects Nos. 4 and 5 bondholders is not upheld, the Supply System is unable to predict the outcome of *MDL 551*, the Chemical Bank litigation, *Haberman*, *Heerey*, or *Hoffer*.

The excess carrier of directors' and officers' liability insurance filed a lawsuit in September 1985, seeking a declaration that it has no obligation under the insurance policy because of the alleged failure of the Supply System to declare facts which if known to the insurer, would have resulted in it not issuing the policy. The court in *MDL 551* has approved a settlement between the Supply System's directors and the

plaintiffs in *MDL 551*, which dismisses all claims against the directors in return for a payment by the carrier. The court's approval is subject to appeal. When finalized, this settlement will end the litigation involving the insurance carrier and the directors.

Note E—Commitments and Contingencies

NUCLEAR PROJECTS NOS. 4 AND 5 BRIDGE AND TERMINATION LOANS

In conjunction with the construction stoppage of Nuclear Projects Nos. 4 and 5 during 1981, certain project participants, investor-owned utilities and industrial customers of BPA agreed to loan Nuclear Projects Nos. 4 and 5 funds to underwrite a program to preserve the assets of those projects. These loans, called bridge loans, consisted of \$60,000,000 in subordinated revenue notes bearing a stated maturity date of July 1, 1984, and bearing interest to due date at an annual rate of 15 percent.

Subsequently, when a decision was made to terminate Nuclear Projects Nos. 4 and 5, a number of project participants agreed to loan Nuclear Projects Nos. 4 and 5 funds to assist in avoiding an uncontrolled termination of the projects. These loans, called termination loans, consisted of \$7,865,502 in subordinated revenue notes bearing a stated maturity date of June 30, 1983, and bearing interest to due date at an annual rate of 15 percent.

The Supply System defaulted on all of the loans at the same time it defaulted on Nuclear Projects Nos. 4 and 5 bonds in 1983.

Most of the lenders have sued the Supply System and all but three of the suits have been reduced to judgment. Some of the lenders obtained general judgments against any Supply System assets, whether for Nuclear Projects Nos. 4 and 5 or another project. The Supply System appealed these judgments, and in 1985 the Washington State Supreme Court reversed, holding that the terms of the loans limited recovery to funds and assets of Nuclear Projects Nos. 4 and 5.

INTER-PROJECT CLAIMS AGAINST REVENUES AND OTHER ASSETS

Some creditors of Nuclear Projects Nos. 4 and 5 have attempted, and others have threatened to attempt, to obtain payment from the physical assets of other projects of the Supply System or from the revenues pledged as security for the Supply System bonds issued in connection with, and revenues pledged for

the payment of costs of, such other projects. Such creditors include present and former holders of the Nuclear Projects Nos. 4 and 5 bonds and others who may assert claims in the future against the Supply System and/or its projects.

Bond Counsel and Chief Counsel to the Supply System are of the following opinions with respect to the ability of various classes of claimants, creditors, and future creditors to realize upon the revenues or physical assets of Nuclear Projects Nos. 1, 2 and 3.

First, with respect to the revenues, income, receipts, profits, and other moneys held under each of the net-billed resolutions and pledged thereby for the payment of the related net-billed bonds and for the payment of all other costs of the related net-billed project (collectively, the "Pledged Revenues"), Bond Counsel and Chief Counsel to the Supply System are of the opinion that holders of Nuclear Projects Nos. 4 and 5 bonds, creditors of the Supply System whose claims arose from the furnishing of goods or services with respect to Nuclear Projects Nos. 4 and 5, and creditors whose judgments derived from other contract claims against the Supply System that do not arise from actions or failures to act relating directly or indirectly to such net-billed project will not be able to realize upon such pledged revenues.

Second, with respect to the pledged revenues relating to a particular net-billed project, while the specific issue has not been decided by the Supreme Court of the State of Washington, Bond Counsel and Chief Counsel to the Supply System are of the opinion that creditors of the Supply System whose judgments derive from tort claims against the Supply System that do not arise from actions or failures to act relating directly or indirectly to such net-billed project will not be able to realize upon such pledged revenues and Bond Counsel and Chief Counsel to the Supply System believe that, if presented with the question, a court would so hold.

Third, with respect to the physical assets of the net-billed projects that are necessary for the purposes of such projects, while the specific issue has not been decided by the Washington State Supreme Court, Bond Counsel and Chief Counsel to the Supply System are of the opinion that holders of Nuclear Projects Nos. 4 and 5 bonds, creditors of the Supply System whose claims arose from the furnishing of goods or services with respect to Nuclear Projects Nos. 4 and 5, and creditors whose judgments derive from other contract or tort claims against the Supply

System that do not arise from actions or failures to act relating directly or indirectly to the net-billed projects will not be able to realize upon such assets; and Bond Counsel and Chief Counsel to the Supply System believe that, if presented with the question, a court should so hold. The above opinion as to the ability of bondholders or other creditors to realize upon the physical assets of the net-billed projects is limited to those assets located within the State of Washington, or as to which a court would apply the law of the State of Washington.

The above opinions exclude claims against the Supply System arising from a valid exercise of the sovereign police power of the State of Washington or of the constitutional powers of the United States of America.

In order to express the legal conclusions set forth in the foregoing opinions, Bond Counsel and Chief Counsel to the Supply System have assumed that the activities giving rise to the claims described in such opinions were not directly or indirectly related to any net-billed project. In any given suit or proceeding, however, the questions of whether a particular activity does or does not relate to a net-billed project is a factual matter to be determined by the judge or jury, as the case may be. No assurance can be given that in any such suit or proceeding there will not be a finding that the complained-of activity relates to one or more of the net-billed projects. If such a finding is made, the claimant may be able to realize on the pledged revenues or physical assets of one or more of the net-billed projects.

If it were determined that a claim is an obligation of one or more of the net-billed projects, the claim would be paid in the same manner as other obligations of those projects.

Bond Counsel and Chief Counsel to the Supply System have not undertaken an investigation of the issues discussed above with respect to the Packwood Lake Hydroelectric Project or Hanford Generating Project. However, they believe that upon full investigation the same opinions could be rendered with respect to assets of the Packwood Lake Hydroelectric Project and Hanford Generating Project and revenues or funds held in trust or for the holders of bonds issued by the Supply System to finance the construction of such projects.

If it is found that creditors are not limited to payment of their claims from the project to which such claims relate, it will have a material adverse impact on the Supply System.

COST SHARING LITIGATION

Nuclear Projects Nos. 1 and 4 are of substantially the same design and are referred to as "twin units." Nuclear Projects Nos. 3 and 5 are also twin units of substantially the same design. Architect-engineer services, construction management, and certain common equipment used in construction of twin units benefited both units and costs are sharable by the twin units. The Supply System allocated such shared costs on the basis of respective benefit to the projects involved.

In August 1982, the Participants' Committee for Nuclear Projects Nos. 4 and 5, on behalf of the project participants, demanded that the Supply System reallocate \$161 million, plus interest, in shared costs previously paid by Nuclear Projects Nos. 4 and 5, based on a revised formula for sharing of costs. The demand indicated this was not the total extent of claims which could be made by the Nuclear Projects Nos. 4 and 5 participants. The investor-owned utilities (IOUs) owning 30 percent of Nuclear Project No. 3 have asserted that they are entitled to set off the amounts owed by the Supply System on loans made for Nuclear Projects Nos. 4 and 5 in 1981, totaling \$12 million plus interest, against any cost-sharing obligation.

In October 1982, the Supply System filed a complaint for declaratory judgment in United States District Court for Western Washington, naming the participants in Nuclear Projects Nos. 1, 2, 3, 4 and 5, BPA, the four IOUs owning shares of Nuclear Project No. 3, and the bond fund trustees for Nuclear Projects Nos. 1 and 3 as defendants, and asking the court to declare the rights and obligations of the parties with regard to the allocation of costs among the projects.

In May 1983, the court designated BPA as the plaintiff and all other parties as defendants. The case is captioned *BPA v. Supply System, et al.* Certain other claims have been filed as part of this action.

In June 1983, Chemical Bank filed a motion to intervene as bond fund trustee on behalf of the Nuclear Projects Nos. 4 and 5 bondholders. The motion was granted. Chemical Bank's position is that the Supply System's allocations of costs among the twinned projects were improper and that repayment to the Nuclear Projects Nos. 4 and 5 bond fund is required for such costs allegedly improperly allocated.

In May 1989, the court ruled that Chemical Bank has a lien on any funds which may be determined in the

are to have been improperly expended as a result of costs misallocated to Nuclear Projects Nos. 4 and 5, but the court stated that any enforcement of the lien must await resolution of the issue of whether there was any improper allocation.

By agreement among the Supply System, BPA and Chemical Bank signed August 29, 1989 and approved by the court, BPA agreed that any final, nonappealable judgment entered in cost sharing litigation granting relief to Chemical Bank for costs misallocated from Nuclear Projects Nos. 1, 2 or 3 to Nuclear Projects Nos. 4 or 5 would be payable by BPA under net-billing agreements. In return, Chemical Bank released the lien on proceeds of any Nuclear Projects Nos. 1, 2 or 3 refunding bonds to be issued in the future, and any other funds disbursed to pay amounts properly payable prior to a judgment in the cost sharing litigation. However, the release by Chemical Bank does not apply to any funds disbursed after a judgment in the cost sharing litigation. If, after such judgment in the cost sharing litigation Chemical Bank seeks to enforce a lien on the Nuclear Projects Nos. 1, 2 or 3 bond funds or revenue funds, Bond Counsel and Chief Counsel to the Supply System are of the opinion that a court should hold that any such lien would be subordinate to the lien of Nuclear Projects Nos. 1, 2 or 3 bondholders.

Counsel for Chemical Bank has estimated the potential recovery for Nuclear Projects Nos. 4 and 5 at \$1 billion, including interest. If a judgment were awarded in favor of Chemical Bank, and costs previously allocated to Nuclear Projects Nos. 4 and 5 were allocated to other Supply System projects, such amounts would be construction costs of such projects.

The Supply System is unable to predict the outcome of this litigation.

NUCLEAR PROJECT NO. 5 TERMINATION CLAIM

Under the terms of the Nuclear Project No. 5 ownership agreement between the Supply System and Pacific Power and Light Company (Pacific), Pacific is obligated to fund its respective 10 percent ownership share of Nuclear Project No. 5 termination costs beginning January 25, 1983, and continuing until all costs of termination have been paid. Ten percent of the funds received from sales of Nuclear Project No. 5 assets are applied as a reduction of Pacific's obligation for termination costs.

Pacific has refused to pay its share of Nuclear Project No. 5 termination costs since June 1983. In August

1983, Pacific filed a counterclaim in *BPA v. Supply System, et al* asserting that termination of Nuclear Project No. 5 was a breach of the ownership agreement between Pacific and the Supply System. Pacific seeks damages in an unspecified amount. Such amount would presumably be approximately \$150 million and could be a general claim against assets of the Supply System. Actions on that claim have been stayed since 1983. The Supply System is unable to predict the outcome of this litigation.

NUCLEAR PROJECTS NOS. 4 AND 5 SITE RESTORATION

No provisions have been made for site restoration of Nuclear Projects Nos. 4 and 5, which is governed by the site certification agreement between the Supply System and the State of Washington and regulations adopted by the Washington State Energy Facility Site Evaluation Council (EFSEC). It is not known at this time what actions will be necessary to comply with EFSEC's requirements. Because the site certification agreement for Nuclear Project No. 1 also covers Nuclear Project No. 4, and the agreement for Nuclear Project No. 3 also covers Nuclear Project No. 5, EFSEC might assert that Nuclear Projects Nos. 1 and 3 are obligated to pay the cost of site restoration for Nuclear Projects Nos. 4 and 5. Such costs are estimated to be in the range of \$45 million to \$77 million (in 1989 dollars).

NUCLEAR PROJECTS NOS. 1 AND 3 CONSTRUCTION DELAY

In April 1982, the Supply System commenced a construction delay of Nuclear Project No. 1, and in July 1983, it commenced a construction delay of Nuclear Project No. 3. These projects are currently in an extended delay mode. Plant assets are being preserved and project licenses are being maintained during the delay period in order to enable the Supply System to resume construction of the projects at such time as that action is determined appropriate.

In the 1986 Northwest Conservation and Electric Power Plan, issued by the Northwest Power Planning Council (Council) in January 1986, the Council indicated that Nuclear Projects Nos. 1 and 3 can be cost-effective for the region and should be preserved as potential resource options. However, the Council did not include Nuclear Projects Nos. 1 and 3 in its resource portfolio due to legal and other uncertainties. In April 1989, the Council stated that it would reassess the status of Nuclear Projects Nos. 1 and 3 during 1989 for its 1990 resource portfolio.

In its May 1987 Resource Strategy, BPA indicated that a study of Nuclear Projects Nos. 1 and 3 options found that there was no compelling case for or against continued preservation of Nuclear Projects Nos. 1 and 3 on a net present value basis, and that preservation of both projects was somewhat favorable from the standpoint of economic risk management. BPA concluded that preservation of Nuclear Projects Nos. 1 and 3 was the prudent course of action at that time. In its July 1988 Resource Program, BPA indicated that its assessment of the need for the projects remains essentially the same as indicated in the 1987 Resource Strategy. BPA is monitoring current issues relating to Nuclear Projects Nos. 1 and 3, and will undertake a new study when appropriate. Continued funding of preservation costs is included in BPA's rates for fiscal year 1990, and is expected to be included in BPA's proposed rates for fiscal years 1991 and 1992.

The Supply System is currently unable to predict whether or when Nuclear Projects Nos. 1 and 3 will be completed.

NUCLEAR PROJECT NO. 3 DELAY LITIGATION

In July and August 1983, the four IOUs owning 30 percent of Nuclear Project No. 3 filed claims against BPA, the Supply System and the Nuclear Project No. 3 participants asserting that they suffered damages as a result of the extended construction delay of Nuclear Project No. 3. The claims were filed in United States District Court for Western Washington in the pending action entitled *BPA v. Supply System, et al.* (See "Cost Sharing Litigation" above.) Included are claims for injunctive and declaratory relief, damages, rescission of the Nuclear Project No. 3 ownership agreement and recovery of the total amount of payments made under the Nuclear Project No. 3 ownership agreement to date.

The Supply System executed agreements to dismiss the construction delay claims with BPA and with each of the IOUs owning shares of Nuclear Project No. 3 on September 17, 1985. Pursuant to those agreements, the Supply System and each of the other parties exchanged covenants not to sue with respect to the construction delay. BPA also executed settlement agreements with each of the IOUs. Pursuant to the various agreements, the Supply System, BPA and the IOUs asked the court to enter an order dismissing their construction delay claims. A number of the Nuclear Project No. 3 participants have opposed the settlement and dismissal of claims. In October 1985,

the participants filed supplemental pleadings in the Federal district court asserting challenges to the Nuclear Project No. 3 settlement agreements between BPA and the IOUs. None of the agreements executed by the Supply System has been challenged. However, the supplemental pleadings filed by some participants also include claims against the Supply System, the IOUs and BPA unrelated to the validity of the settlement. In July 1986, the district court dismissed for lack of subject matter jurisdiction the claims challenging BPA's authority to enter into the Nuclear Project No. 3 settlement agreements with the IOUs and stayed all other claims relating to or arising out of the construction delay or the settlement.

These participants also filed an original proceeding in the United States Court of Appeals for the Ninth Circuit, challenging BPA's settlements with the IOUs as exceeding BPA's statutory authority. In January 1989, the United States Court of Appeals for the Ninth Circuit rejected all statutory challenges to BPA's settlements, affirmed BPA's authority to enter the settlements, and dismissed other claims, including claims against the IOUs and the Supply System, for lack of jurisdiction.

In May 1989, the district court dismissed the claims of all but nine of the Nuclear Project No. 3 participants against the Supply System, BPA, and the IOUs relating to or arising out of the construction delay of Nuclear Project No. 3 or the settlement, pursuant to a stipulation of the parties. The claims of the nine participants who did not enter into the stipulation include, among others, claims that the settlement agreements between BPA and the IOUs are invalid and unenforceable because performance of the Nuclear Project No. 3 settlement agreement would breach contractual rights of the participants under the Nuclear Project No. 3 net-billing agreements, ownership agreement and project agreements and because the settlement contravenes public policy of the State of Washington; a demand that the Supply System give notice of termination of Nuclear Project No. 3; and a claim for a declaratory judgment that construction costs for Nuclear Project No. 3 cannot be net-billed on a current basis.

In May 1983, the Nuclear Project No. 3 IOUs filed complaints in state courts in King County, Washington, and Multnomah County, Oregon, seeking similar declarative and equitable relief and damages because of the Nuclear Project No. 3 construction delay as claimed by them in *BPA v. Supply System, et al.* They

filed these cases as a precaution against any determination that the federal District Court lacked jurisdiction to try the Nuclear Project No. 3 construction delay claims. Proceedings in these state court cases have been stayed by stipulation of the parties.

In the settlement agreements between the Supply System and each of the IOUs, the parties agreed not to proceed further against each other on the claims in the state court cases, and agreed to dismiss these state court cases after final dismissal of the parallel claims in the federal court and the final dismissal of any claims challenging the Nuclear Project No. 3 settlement agreements.

If the settlement agreements between BPA and the IOUs are determined to be invalid or unenforceable, the IOUs might renew their claim that they are entitled to rescission of the Nuclear Project No. 3 ownership agreement. However, the IOUs have agreed in their settlement agreements with the Supply System not to assert any claim against the Supply System for money damages, restitution or injunctive relief.

The Supply System is unable to predict what results will be reached with respect to these claims.

HANFORD GENERATING PROJECT

HGP has generated power from steam supplied by the Department of Energy (DOE) N-Reactor since 1966. In January 1987, the N-Reactor was shut down for safety improvements, and in February 1988 the DOE placed the N-Reactor in a cold standby status for an undetermined length of time, while maintaining the capability to restart within a two-to-three year period.

It is not known whether or when the N-Reactor will resume operations. In 1989, the Supply System and DOE entered into a supplemental agreement that provided for DOE to pay certain Supply System operating costs in exchange for the Supply System maintaining HGP in a condition capable of accepting steam energy from the N-Reactor within two years after notice by the DOE that the N-Reactor would resume operation. The term of this agreement continues through September 30, 1991.

The U.S. government has an option to acquire ownership of HGP upon Congressional approval. If the government exercises its option, it must assume all rights and obligations of the project, including the obligation to pay all outstanding revenue bonds.

The Supply System has completed a review of alternative steam sources and BPA has completed a study to determine if conversion to an alternative steam source warrants preservation of HGP. Results of the BPA study indicate that from a risk management standpoint, it would not be prudent to terminate this project unless there was a substantial indication that it had no value as a power resource.

Debt service costs of HGP are paid by Nuclear Project No. 1 participants and BPA under net-billing agreements, regardless of continued operation of the project. See Note C—Long-Term Debt, Security—Hanford Generating Project.

For accounting purposes, HGP was treated as an operating project for the year ended June 30, 1989.

NUCLEAR LIABILITY INSURANCE

Based on current provisions of the Price-Anderson Act, public liability claims that could arise from a nuclear incident are limited to \$7.807 billion. The Supply System has purchased the maximum available private insurance of \$200 million and the excess of \$7.607 billion of coverage is provided by secondary financial protection. Under secondary financial protection, coverage would be funded by a mandatory program of retrospective premiums assessed against all owners of licensed reactors (currently 115). In the event of nuclear incidents at facilities covered under the Price-Anderson Act, the Supply System could be assessed up to \$63 million per incident, payable at a rate not to exceed \$10 million per year for each incident.

OTHER LITIGATION AND COMMITMENTS

The Supply System is involved in various claims, legal actions and contractual commitments not mentioned above as both a plaintiff and a defendant and in certain claims and contracts arising in the normal course of business. Although some suits, claims and commitments are significant in amount, final disposition is not determinable. In the opinion of management, the outcome of such litigation, claims or commitments will not have a material adverse effect on the financial positions of the projects or the Supply System as a whole. The estimated cost of the projects, however, may either be increased or decreased as a result of the outcome of these matters.

STATEMENT OF DEBT-SERVICE REQUIREMENTS

As of June 30, 1989 Dollars in thousands

FISCAL YEAR	NUCLEAR PROJECT NO. 2*			HANFORD GENERATING PROJECT			PACKWOOD LAKE PROJECT		
	PRINCIPAL	INTEREST	TOTAL	PRINCIPAL	INTEREST	TOTAL	PRINCIPAL	INTEREST	TOTAL
1990	\$ 30,555	\$ 207,778	\$ 238,333		\$ 556	\$ 556	\$ 70	\$ 343	\$ 413
1991	32,800	205,540	238,340	\$ 5,065	419	5,484	275	337	612
1992	35,260	203,080	238,340	5,585	240	5,825	290	327	617
1993	37,980	200,383	238,363	5,835	52	5,887	300	316	616
1994	40,950	197,445	238,395	620	3	623	315	305	620
1995	44,225	194,227	238,452				330	294	624
1996	47,825	190,678	238,503				340	281	621
1997	65,575	186,769	252,344				360	269	629
1998	71,955	180,399	252,354				380	255	635
1999	79,330	173,291	252,621				400	241	641
2000	85,795	166,572	252,367				465	226	691
2001	93,290	159,093	252,383				490	209	699
2002	101,635	150,766	252,401				515	190	705
2003	93,055	141,479	234,534				540	171	711
2004	97,375	133,671	231,046				565	151	716
2005	106,765	124,280	231,045				590	130	720
2006	117,225	113,821	231,046				615	108	723
2007	128,850	102,201	231,051				640	86	726
2008	141,675	89,370	231,045				665	62	727
2009	155,940	75,104	231,044				690	37	727
2010	171,820	59,226	231,046				340	17	357
2011	189,510	41,538	231,048				150	6	156
2012	209,230	21,814	231,044				65	2	67
2013									
2014									
2015									
2016									
2017									
2018									
2019									
	<u>\$2,178,620</u>	<u>\$3,318,525</u>	<u>\$5,497,145</u>	<u>\$17,105</u>	<u>\$1,270</u>	<u>\$18,375</u>	<u>\$9,390</u>	<u>\$4,363</u>	<u>\$13,753</u>

FISCAL YEAR	NUCLEAR PROJECT NO. 1*			NUCLEAR PROJECT NO. 3*			NUCLEAR PROJECTS NOS. 4/5**	
	PRINCIPAL	INTEREST	TOTAL	PRINCIPAL	INTEREST	TOTAL	PRINCIPAL	TOTAL
1990	\$ 21,465	\$ 203,320	\$ 224,785	\$ 12,145	\$ 162,760	\$ 174,905	\$2,316,652	\$2,316,652
1991	22,560	201,877	224,437	13,050	161,901	174,951		
1992	23,755	200,326	224,081	14,045	160,961	175,006		
1993	25,560	198,647	224,207	15,125	159,932	175,057		
1994	26,985	196,784	223,769	16,310	158,798	175,108		
1995	28,550	194,767	223,317	17,615	157,546	175,161		
1996	30,745	192,580	223,325	19,045	156,163	175,208		
1997	38,080	190,049	228,129	22,595	154,637	177,232		
1998	41,565	186,562	228,127	24,605	152,628	177,233		
1999	45,455	182,673	228,128	26,810	150,427	177,237		
2000	49,465	178,663	228,128	29,020	148,218	177,238		
2001	53,920	174,204	228,124	31,475	145,773	177,248		
2002	58,885	169,242	228,127	34,180	143,068	177,248		
2003	51,135	163,703	214,838	37,095	140,057	177,152		
2004	55,430	159,406	214,836	42,730	136,746	179,476		
2005	60,600	154,237	214,837	45,995	132,503	178,498		
2006	66,320	148,515	214,835	49,615	127,908	177,523		
2007	72,665	142,171	214,836	49,675	122,946	172,621		
2008	79,705	135,131	214,836	54,485	118,136	172,621		
2009	87,525	127,313	214,838	59,810	112,810	172,620		
2010	96,220	118,618	214,838	65,710	106,909	172,619		
2011	105,855	108,983	214,838	72,265	100,355	172,620		
2012	116,610	98,229	214,839	80,365	92,250	172,615		
2013	128,635	86,204	214,839	89,490	83,126	172,616		
2014	142,155	72,680	214,835	99,770	72,846	172,616		
2015	157,820	57,014	214,834	111,370	61,252	172,622		
2016	175,395	39,441	214,836	124,455	48,165	172,620		
2017	194,005	20,831	214,836	139,235	33,382	172,617		
2018				154,950	17,665	172,615		
	\$2,057,065	\$4,102,170	\$6,159,235	\$1,553,035	\$3,519,868	\$5,072,903	\$2,316,652	\$2,316,652

* Excludes payments of bond principal and interest made on July 1, 1989.

** Refer to Note D-Nuclear Projects Nos. 4 and 5 Termination, Bond Default, and Litigation, page 27, and Note E-Commitments and Contingencies, page 29.

VISITOR FACILITIES

The Supply System operates two visitors centers for the public, one at Plant 2, about 12 miles north of Richland, and another near Elma, Washington, at the WNP-3 project. Displays in the visitors centers illustrate how plant design, construction and operation have been planned with the public's well-being in mind.

The Plant 2 Visitors Center offers a videotape "armchair" tour of the plant as well as information on nuclear power issues such as radiation, nuclear waste and plant operator training.

Tours of the WNP-3 construction site are offered by appointment by calling (206) 482-4428, ext. 5052. Tours of the WNP-1 site are available by appointment by calling (509) 372-5860.