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WASHINGTON PUBLIC POWER SUPPLY SYSTEM

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January 19, 1993
G02-92-016

Docket Nos: 50-508
50-397
50-460

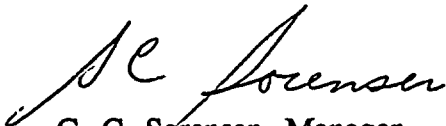
U. S. Nuclear Regulatory Commission
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Gentlemen:

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

Enclosed for your information, as required by 10 CFR 50.71, are three (3) copies of the Washington Public Power Supply System's 1992 Annual Report.

Sincerely,



G. C. Sorensen, Manager
Regulatory Programs (Mail Drop 280)

GCS/bk
Attachments

cc: MM Mendonca, NRC
DP Steinberg, PP&L
WL Bryan, WWP
RE Dyer, PGE
JW Clifford, NRC

JR Lauckhart, PP&L
JB Martin, NRC RV
NS Reynolds, W&S
DL Williams, BPA (399)
NRC Site Inspector, (901A)

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WASHINGTON PUBLIC POWER SUPPLY SYSTEM



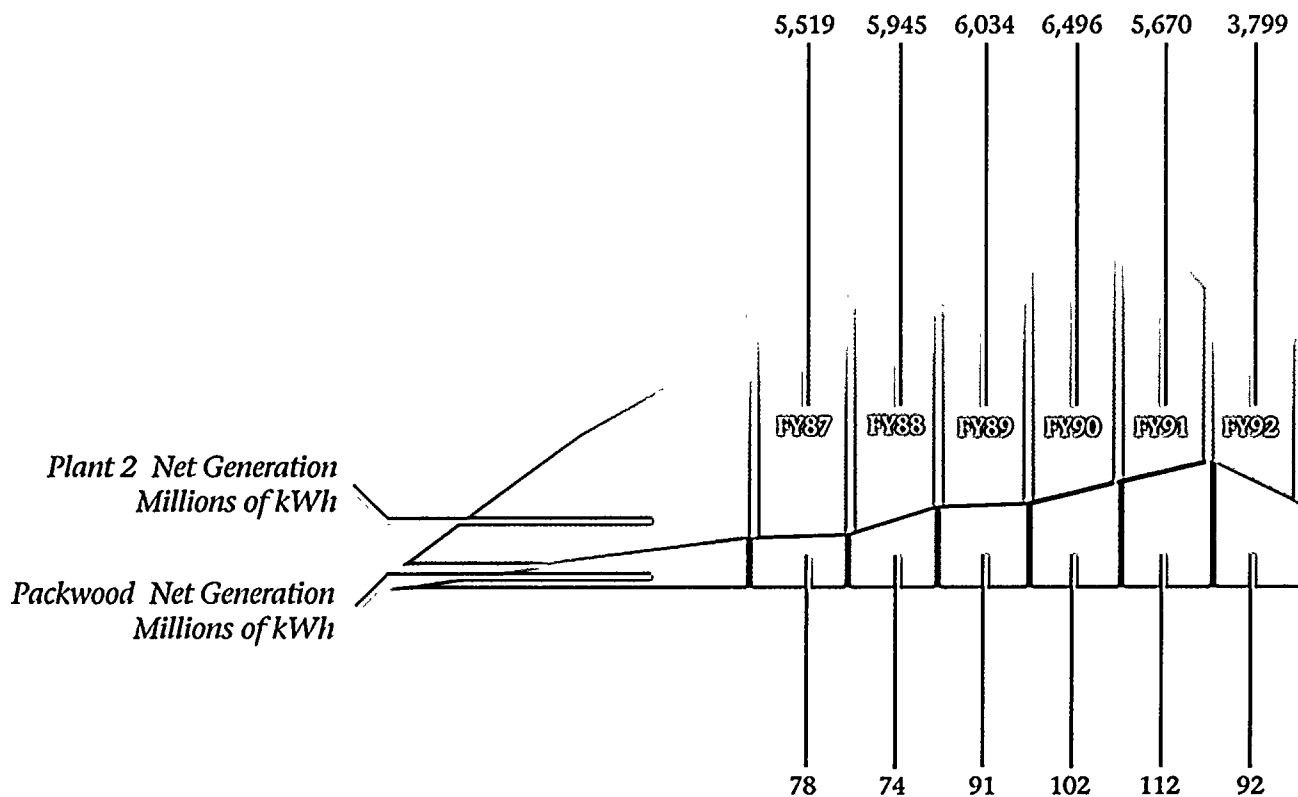
(Dollars in millions)

	FY 1992		FY 1991	
	NUCLEAR PROJECT NO. 2	PACKWOOD LAKE PROJECT	NUCLEAR PROJECT NO. 2	PACKWOOD LAKE PROJECT
OPERATING STATISTICS				
Power generation costs*	\$ 428.6	\$ 1.4	\$ 416.5	\$ 1.2
Net generation (millions of kWh)	3799	92	5670	112
Total cost in mills/kWh*	112.8	15.2	73.5	10.7
Operating cost in mills/kWh	43.3	8.3	29.7	5.0
Plant availability	43.3%	100.0%	62.5%	100.0%
Plant capacity	39.9%	38.1%	59.1%	46.5%

*Excludes litigation related costs and extraordinary items.

FINANCIAL AND OPERATING HIGHLIGHTS

For the year ended June 30, 1992



Several years ago, the Supply System's Executive Board adopted a strategic plan in which we defined criteria for Supply System success. Our major activity is production of electricity, with 98 percent of that energy coming from our nuclear power plant—Plant 2—situated near Richland, Washington State. One criterion for Supply System success is that we operate Plant 2 safely, reliably, and in such a manner that the price of the electricity it generates is competitive. And competition there is, in increasing variety and number of alternate resources.

The Executive Board's emphasis on keeping Plant 2's output competitively priced was reinforced frequently during fiscal year 1992 by representatives of the Bonneville Power Administration (BPA), the federal agency that purchases all of Plant 2's generation. The unmistakable message we received from BPA is that our goal to generate reliable, cost-effective power at Plant 2 is on target, and that it is very important to our future to achieve this goal.

Reflecting on the events of FY 1992, I would say that the Supply System's progress toward meeting our strategic plan goals, particularly regarding cost of Plant 2 electricity, was decidedly mixed. We had some large successes, and a large disappointment during the year.

Successes included installation of replacement rotors in the three low-pressure sections of Plant 2's turbine-generator during the plant's spring and summer 1992 maintenance and refueling outage; Executive Board authorization of two major components of the Megawatt Improvement Program that will increase Plant 2's electrical output and efficiency of nuclear reactor operation; and the March 1992 settlement of the Supply System's litigation with General Electric Company involving modifications to the Plant 2 reactor containment system. This settlement ends seven years of litigation. In general terms, it requires GE to provide certain goods and services to Plant 2 at no charge to the Supply System. Additional designated goods and services will be provided at substantial discounts. Benefits of the settlement will include an increase of about 50 megawatts in Plant 2 power production. New equipment and hardware also will significantly improve the plant's reliability.

Another Executive Board initiative that will help the Supply System achieve its strategic plan goals is the Organizational Efficiency Study that was conducted for

us by Tenera L.P. during the first half of FY 1992. In its report to the Executive Board in December 1991, the contractor made recommendations that, when implemented during the next three to five years, will result in an increasingly efficient organization. The Supply System now is implementing recommended work process efficiencies, applying more discipline to prioritizing incoming work, and planning resource changes.

The Executive Board on April 23, 1992, approved a total of \$773 million in Supply System budgets for FY 1993. The Plant 2 portion of this total reflects our



Carl M. Halvorson
Executive Board Chairman

strategy for reducing the cost of power from this plant by keeping costs relatively constant, while boosting the electrical output through the Megawatt Improvement Program, and improving reliability of operation to boost plant capacity factor.

My biggest disappointment for FY 1992 is the nearly three months (July, August, and September) that Plant 2 did not operate because reactor operating crews did not pass their operator requalification exams. Spreading our fixed costs over fewer kilowatt-hours sent our cost of power for the fiscal year in the wrong

direction. My expectation is that, with this situation behind us, we will continue the downward trend toward our goal for cost of Plant 2 power.

Another high priority in the Supply System's strategic plan is that we be prepared to meet new energy and other resource needs of our member utilities and other utilities. We took action to do that in June 1991 when we submitted a formal proposal to BPA to locate a new natural-gas fired combustion turbine (CT) power plant on our Satsop site in western Washington State. This project was not selected for negotiation. However, in May 1992, we submitted a new, unsolicited proposal to BPA to place a 160-average-megawatt natural-gas fired CT at the Satsop site. The proposal includes a firm gas-supply contract that guarantees fuel prices for the life of the proposed operating agreement, and an option for a second CT at the same site. It was accepted in June by BPA for an in-depth review.

Another of our strategic plan priorities is efficient management of our assets and debt. In the latter category, in September 1991, we completed the seventh bond sale of the refinancing program that began two years earlier, selling \$550 million in advance refunding bonds. This brought to \$4.45 billion the amount of refunding bonds sold to refund \$3.3 billion in outstanding bonds for projects 1, 2, and 3. The total debt service savings to BPA to date are: gross nominal savings of \$1.2 billion, and net present value savings of \$1 billion.

Finally, there were some changes in Executive Board members during FY 1992. Mark Crisson, superintendent of the City of Tacoma's (WA) electrical utility, joined the Executive Board on Oct. 11 to fill the unexpired term of former Seattle City Light Supt. Randy Hardy, who was appointed earlier in the year to be the BPA Administrator. And Washington Gov. Booth Gardner in March 1992 appointed Stephen Williams to the Board to replace Sydney Steinborn, whose term had expired. Williams is a project coordinator for the City of Seattle's Department of Administrative Services, and a former Tacoma Utility Board member.

Change is inherent in our business. We will continue to examine the changing needs of our customers and to be aware of changes in economics, technology, regulation, and other public concerns. We will respond to these changes in ways that will keep our product—electricity—competitively priced.

My primary focus during fiscal year 1992 was to ensure that the Supply System kept progressing toward its goal of becoming an electricity supplier of choice for the Pacific Northwest. To meet our goal, the Supply System has established three main strategic initiatives: reducing the cost of power from Plant 2; improving organizational performance; and improving regulatory performance.

The cornerstone of our plan is ensuring the cost of power from Plant 2 is competitive with alternative resources available to the Bonneville Power Administration. I am disappointed to report that our progress toward that goal was hampered by our failure to meet critical Plant 2 production goals in FY 1992. Several unplanned interruptions in operation during the year kept Plant 2 generation at about 3.8 million megawatt-hours for FY 1992.

Our commitment to achieve our stated goal is no less firm in the coming years as we focus harder on meeting productivity and regulatory goals as part of our plan. Costs are being controlled quite well at the Supply System as our emphasis on reliability of our plant operation increases.

Management made a painful decision to keep Plant 2 out of operation most of the first three months of the fiscal year while operator emergency response procedures were revised and the plant's reactor operators underwent additional training. That decision was made after some of our highly skilled, licensed reactor operator crews had difficulty passing Nuclear Regulatory Commission (NRC) requalification exams. Supply System management accepts full responsibility for the crew failures.

When faced with the choice of giving our operators a crash course to enable them to pass an exam, or sticking to a conservative, safety-first philosophy on which we've based six years of safe Plant 2 operation, we chose the latter.

The NRC, in its Systematic Assessment of Licensee Performance (SALP) report, noted the problems our operating crews encountered as reason to give Plant 2 operations the NRC's lowest acceptable rating. I am confident that the next SALP report will reflect the improvements we have made that have put the Plant 2 licensed operator training program at the forefront of the nuclear industry.

Organizational performance is continuing a transition that began several years ago. In FY 1992, several management changes were made, including hiring a new assistant managing director of Operations and a new director of Quality Assurance from two of the nation's best

performing nuclear power plants. They have brought new ideas and methods to the Supply System. Further efficiencies are expected as we implement the recommendations of the Organizational Efficiency Study completed in December 1991.

A team of Supply System managers was formed in the spring of 1992 to develop plans to implement specific efficiency recommendations in five major areas: integrated work schedules; systems to prioritize work; simplified processes to reduce resource expenditures; cleaner lines of responsibility and accountability; and improved goals and



Donald W. Mazur
Managing Director

performance indicators to manage processes. The restructuring of processes will be completed in FY 1993.

The Organizational Efficiency Study complements several programs already in place. These include training employees to use teamwork to increase the quality of their work; developing an integrated information management system; conducting cost-benefit analyses as part of our business practices; and using "structure trees," a planning and communication tool that uses logic diagrams to relate key priorities to actions.

These initiatives are paying off. The longest and most complex annual main-

tenance and refueling outage ever conducted at Plant 2 was successfully completed in July 1992. The outage was scheduled to coincide with the spring runoff that increases water flow in the region's rivers, fills the reservoirs, and makes possible maximum generation at the region's numerous hydroelectric facilities. Resumption of Plant 2 operation in July was scheduled to help the Bonneville Power Administration cope with a year in which the water available for hydroelectric generation is expected to be less than 70 percent of normal.

Although the outage extended into late July, I was pleased with the amount of work accomplished. The outage was completed within budget, and the most complex task of the outage, replacing Plant 2's three low-pressure turbine rotors, was completed ahead of schedule. The original Westinghouse turbine rotors were replaced with new fully integral rotors which will reduce turbine maintenance and downtime by requiring less frequent turbine inspections and settle our claim against Westinghouse for the design defect in the original equipment.

The new rotors have also boosted the plant's 1,100-megawatt net electrical output by an estimated 20-plus megawatts, which is in excess of the minimum Supply System/Westinghouse settlement value. That's enough additional generating capacity to supply the annual needs of at least 6,000 homes served by a typical Pacific Northwest public utility district, at about 10-15 mills/kilowatt-hour.

Further increases in Plant 2's generating capacity will be achieved in the coming years as our Megawatt Improvement Program is implemented and the plant reaps the benefits of the March 1992 legal settlement with the General Electric Company. These capacity and reliability improvements will supply the Bonneville Power Administration with much-needed, cost-effective power.

The Supply System is also helping ensure the region's future energy supply by continuing to responsibly preserve the assets of Nuclear Projects 1 and 3. These mostly completed projects represent a \$5 billion investment by Pacific Northwest ratepayers. The total of \$10.5 million spent each year for preservation ensures that these projects will be ready for resumption of construction and eventual generation of electricity when needed by Bonneville.

I believe that the initiatives we have put in place, both short-term and long-term, and the commitment of our organization to improve, will ensure that the Supply System continues to have an important role in the region's energy future.

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WASHINGTON PUBLIC POWER SUPPLY SYSTEM



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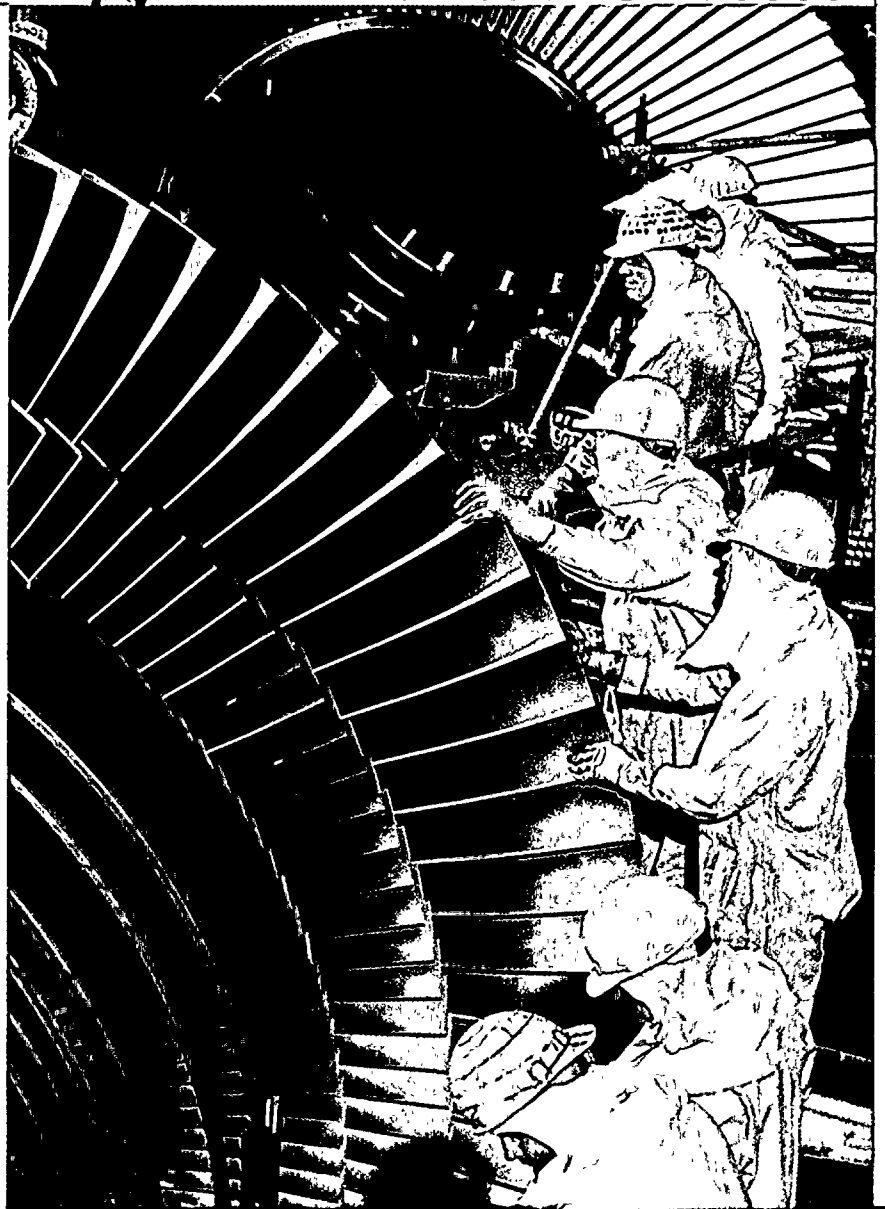
STEPHEN J. WILLIAMS
City of Seattle Facilities Div.
Dept. of Admin. Services
Seattle, WA



Improving Generation....

Replacing the original Westinghouse low-pressure turbine rotors with rotors of a more efficient design was one of several projects the Supply System has undertaken to enhance the safety, reliability, and power output of Plant 2. The turbine rotor replacement during the April - July 1992 outage — the longest and most complex outage ever conducted at the 1,100-megawatt nuclear power plant — completed a three-year, \$30 million project.

The three new "ruggedized" rotors, in which the shaft and collars are a one-piece machined forging, will require less frequent inspections, reducing turbine maintenance and downtime. The improved efficiency of the rotors will boost the plant's electrical output by an additional 20-plus megawatts, enough electricity to supply the annual needs of at least 6,000 homes served by a typical Pacific Northwest public utility district.



During its seven-and-a-half years of operation, the 1,100 net megawatts of power from the Supply System's Nuclear Plant 2 have been a significant source of electricity for the Bonneville Power Administration (BPA).

The Supply System is committed to operating Plant 2 safely, reliably and economically. The cornerstone of our strategy to generate competitively priced power at Plant 2 is to achieve an operating cost of power of 21.8 mills per kilowatt-hour (in constant 1989 dollars). That includes operation, maintenance, and nuclear fuel expenses, and waste disposal fees. Not included are fixed costs such as net debt service, depreciation and decommissioning.

Cost of power from Plant 2 averaged about 43 mills per kilowatt-hour in fiscal year 1992 (in 1992 dollars). This was due primarily to a three-month delay in getting Plant 2 into operation following the 1991 maintenance and refueling outage. The FY 1997 target of 21.8 mills per kilowatt-hour will be achieved by improving the plant's capacity factor (the ratio of how much power the plant produces in a year compared to how much it could generate if it operated continuously at full power), increasing the net generating capacity from 1,100 megawatts to 1,164 megawatts, and controlling costs.

In February 1992, the federal regulatory agency for Plant 2--the Nuclear Regulatory Commission--issued an evaluation of Plant 2 performance between Sept. 1, 1990, and Dec. 31, 1991. The NRC assigned its lowest rating of "3" to the Plant operations functional area, largely due to the inability of a number of licensed operators to properly implement the emergency operating procedures during requalification examinations and operational evaluations administered by the NRC in the spring and summer of 1991. The problems delayed restart from the Plant's refueling outage from June until the end of September 1991. Supply System management made significant changes in the Operator Requalification training program during the summer of 1991, including adding trainers with operations experience to the program staff, and expanding the review process that assures examination materials meet current nuclear industry standards.

As part of the effort to meet its cost of power goal, the Supply System, in conjunction with BPA, has implemented the Plant 2 Megawatt Improvement Program to increase the plant's power output and the amount of time it operates each year. The six-year program includes numerous projects in four general categories: energy recovery projects designed to eliminate inefficiencies in systems and equipment; conservation projects to reduce the amount of electricity used for "in-house" electric loads; new projects that produce additional power from the existing plant; and energy enhancement projects designed to improve the plant capacity factor.

Although not a part of the Megawatt Improvement Program, the replacement

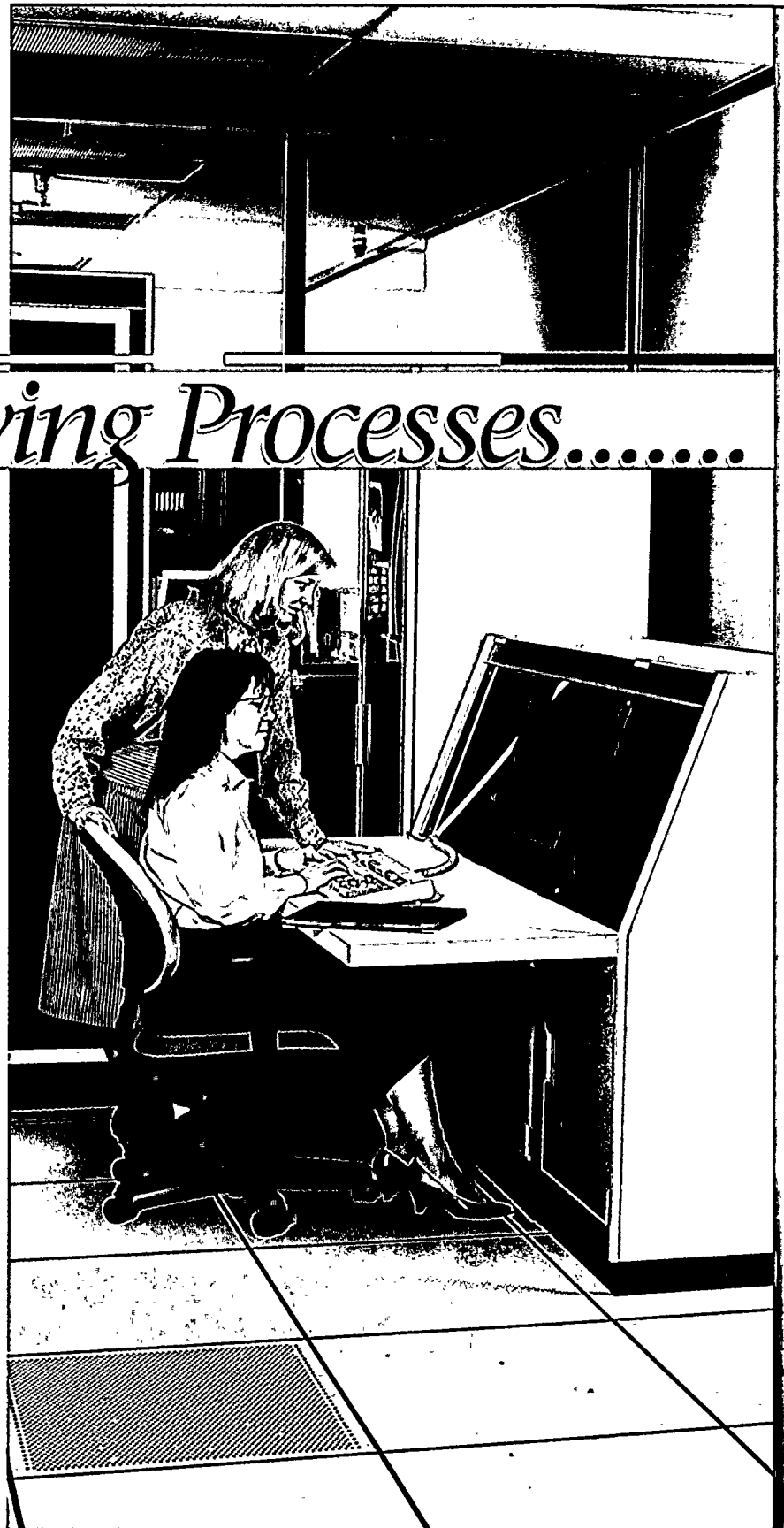


of the low-pressure turbine rotors is expected to boost Plant 2's 1,100-megawatt net electrical output by an additional 20-plus megawatts.

*Quality
Quality
Quality
Quality*

Improving Processes.....

The Supply System's Local Area Network (LAN) provides the physical link allowing integration of computer hardware and software. A combination of copper cable, fiber optics and electronics is being installed to transmit the information. At the end of FY 1992, 500 LAN work stations were part of the communication system linking more than 650 employees.



The combined efforts of more than 1,700 Supply System employees contributed to the successful completion in FY 1992 of many projects that are improving the way work is done. These successes reflect employees' commitment to the Quality Improvement Program, initiated at the Supply System in 1987.

Quality Improvement at the Supply System is being furthered through a specialized training program and a formal problem-solving process. The training program includes Quality Management Skills for managers and The Quality Advantage for all employees. The training is designed to set a foundation for educating every employee on the values of quality and the methods for incorporating quality improvement tools and techniques into the work place. Quality training is an ongoing process as new staff are hired and as strategic initiatives and new opportunities evolve. Quality Action Teams of employees from all levels have been formed to examine issues or problems which need explicit improvement or solutions.

In an effort to improve quality and enhance the Supply System's efficiency as an organization, Tenera L.P., a consultant with nuclear industry expertise, was hired last year. Tenera reviewed the organization and its major work processes and recommended improvements in an Organizational Efficiency Study published in December.

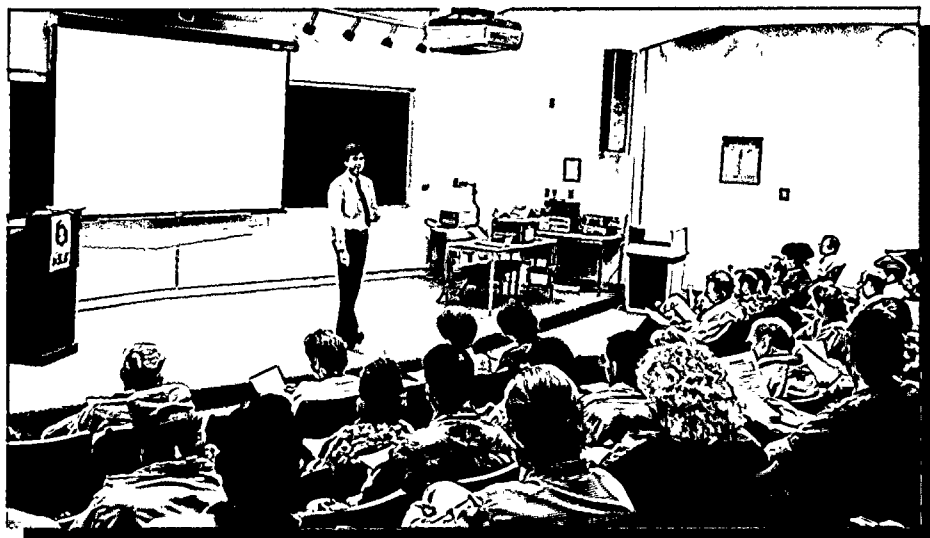
The study noted five major themes that are incorporated in specific recommendations: develop integrated work schedules; improve systems to prioritize work; simplify processes to reduce resource expenditures; assign clear responsibility and accountability; and improve goals and performance indicators to manage processes.

A team of Supply System managers was formed in January 1992 to develop plans to implement Tenera's recommendations. Restructuring of processes should be completed by 1993, with benefits being fully realized beginning in 1994.

The Organizational Efficiency Study complements several programs already under way. These include the Quality Improvement Program; the Core Integration Project, which applies

modern computer technology to an integrated information management system; Cost Effectiveness Analysis, which requires a cost-benefit analysis as part of business practices; and Structure Trees, a planning and communication tool that uses logic diagrams to relate key priorities to actions.

Another project that has improved the organization's efficiency is the expansion of the Local Area Network (LAN) to nearly 400 more work stations during FY 1992. A LAN is a system that gives employees who connect to it access to a common communications network, enabling them to share information and quickly gain access to various resources such as mainframe computers, high speed printers and plotters, and external communications.



With the number of personal computers at the Supply System having grown to more than 1,000, the LAN has become a vital communications link.

*Quality
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Quality*

Our Involvement.....

Our employees are involved in their communities through participation in local events, as members of service organizations, and by volunteering time to help others. A number serve as spokespersons for the Supply System while participating in the organization's speakers' bureau and educational outreach programs.

As an organization, the Supply System's commitment to the community is reflected in its membership in the Tri-City Industrial Development Council, Grays Harbor Economic Development Council, and local Chambers of Commerce. The Supply System is also an active participant in annual events such as the Products Industrial Exposition in Pasco, Grays Harbor County Fair, and Earth Day celebrations.



As the population of the Pacific Northwest continues to grow, the additional homes, schools, and businesses add to the number of electric power customers. As the operators of both a nuclear and a hydroelectric facility, the Supply System is looking toward the future and how it can continue to help fulfill regional power needs.

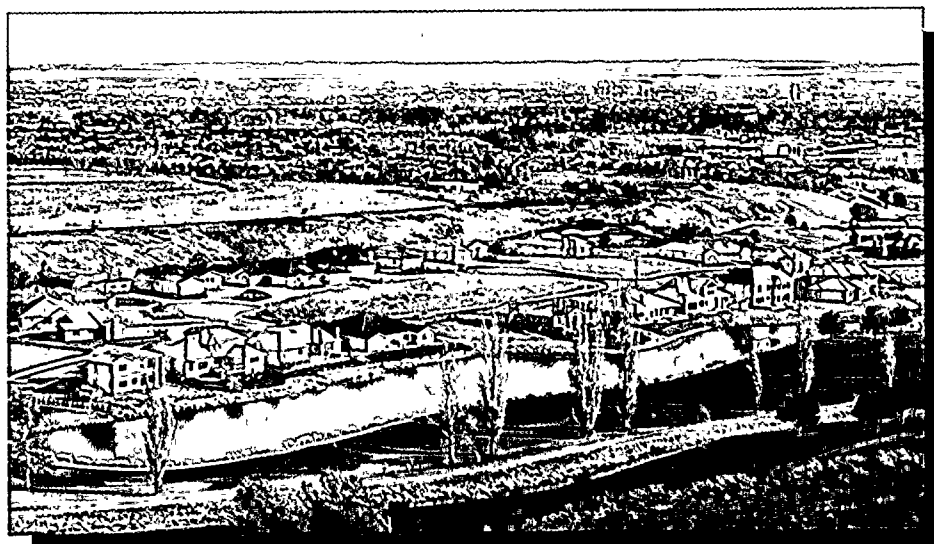
Two options available to help meet the region's electrical needs are WNP-1 located near Richland and WNP-3 near Satsop in Grays Harbor County, Washington. Construction of these two nuclear power plants, 65-percent- and 75-percent-complete, respectively, was suspended in the early 1980s because of a growing regional surplus of electric generating capacity at that time and difficulties in obtaining financing for further construction. The Supply System is preserving the two plants using techniques that minimize deterioration of installed and warehoused materials and equipment. Other aspects of preservation include maintaining federal construction permits and access to national financial markets. The design and technology in place for both WNP-1 and WNP-3 are the most advanced for the respective types of plants.

Another option the Supply System presented to the Bonneville Power Administration (BPA) this year was a proposal to locate and operate a 160-average-megawatt natural gas-fired combustion turbine (CT) power plant at the Supply System's Satsop site in western Washington.

The proposed CT power plant would be financed, designed and built by Westinghouse Electric Co. under a contract with the Supply System. It offers several advantages to BPA in meeting the region's growing need for electric resources: the existing Satsop site is already dedicated to power generation; the site is located in western Washington where the need for additional generation is greatest; the site is connected to the BPA transmission system and does not require construction of a new transmission corridor; and the plant would be equipped with state-of-the-art pollution controls. The proposed CT plant would be independent of, and would not impact, the completion of WNP-3.

In addition to meeting the electrical needs of the region, the Supply System contributes in several ways to communities near its plant sites. During FY 1992, Washington schools and taxing districts in the vicinity of Plant 2 shared a \$1,547,878 annual tax payment. The state general fund received four percent of the total tax, as well as an excise tax based on a seven percent surcharge on the tax. Remaining funds were shared by the state general fund for schools and by counties, cities, fire protection districts and library districts within 35 miles of Plant 2.

Since Plant 2 began operating in 1984, the Supply System has paid more than \$13.8 million in generation taxes. These costs are paid from BPA's revenues from electricity sales in Washington, Oregon,



Idaho, western Montana, and small portions of California, Nevada, Utah and Wyoming.

Other types of contributions are made by our employees who belong to local service clubs; participate as coaches, managers, and referees in local sporting events; and generally function as involved citizens of the communities in which they live. ■■■

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1992 ANNUAL REPORT

FINANCIAL INFORMATION

WASHINGTON PUBLIC POWER SUPPLY SYSTEM

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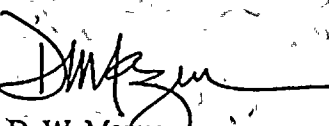
MANAGEMENT REPORT ON RESPONSIBILITY FOR FINANCIAL REPORTING

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 judgments.

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

Management has established and maintains internal control procedures that provide 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. These control procedures provide for appropriate division of responsibility and are 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, Deloitte & Touche has considered the internal control structure in order to determine their auditing procedures for the purpose of expressing an opinion on the financial statements. Management has considered recommendations made by the internal auditor and Deloitte & Touche concerning the control procedures and has taken appropriate action to respond to the recommendations. Management believes that, as of June 30, 1992, internal control procedures are adequate.


D. W. Mazur
Managing Director

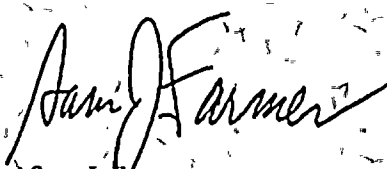

J. D. Perko
Chief Financial Officer

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 12 meetings during the fiscal year ended June 30, 1992.

The Committee oversees the Supply System's financial reporting process on behalf of the Executive Board. In fulfilling its responsibility, the Committee 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

INDEPENDENT AUDITORS' REPORT

Executive Board
Washington Public Power Supply System
Richland, Washington

We have audited the accompanying individual balance sheets of Washington Public Power Supply System's (the Supply System) Nuclear Project No. 2, Packwood Lake Hydroelectric Project, Hanford Generating Project, Nuclear Project No. 1, Nuclear Project No. 3, and Nuclear Projects Nos. 4 and 5 as of June 30, 1992, and the related statements of operations and cash flows for the year then ended. These financial statements are the responsibility of the Supply System's management. Our responsibility is to express an opinion on the financial statements based on our audits.

We conducted our audits 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 assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of the Supply System's individual projects at June 30, 1992, and the results of their operations and cash flows for the year then ended in conformity with generally accepted accounting principles.

As discussed in Note F to the financial statements, Nuclear Projects Nos. 1 and 3 are involved in disputes concerning costs shared with 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 F to the financial statements, creditors of Nuclear Projects Nos. 4 and 5 are attempting 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 may have an impact on the individual projects of the Supply System in amounts which are presently indeterminable. As further discussed in Note F to the financial statements, the Department of Energy has announced the termination of the N-Reactor, eliminating the Hanford Generating Project's present energy source. The ultimate utilization of the Hanford Generating Project Facility in another energy production capacity is uncertain.

Deloitte & Touche

Seattle, Washington
August 21, 1992

BALANCE SHEETS

As of June 30, 1992

Dollars in thousands

	NUCLEAR PROJECT NO. 2	PACKWOOD LAKE PROJECT	HANFORD GENERATING PROJECT	NUCLEAR PROJECT NO. 1	NUCLEAR PROJECT NO. 3*	NUCLEAR PROJECTS NOS. 4/5**
ASSETS						
UTILITY PLANT (NOTE B)						
In service	\$3,240,545	\$12,487	\$ 86	\$ 12,803	\$ 1,356	
Allowance for depreciation	(805,898)	(8,085)	(46)	(4,278)	(707)	
	2,434,647	4,402	40	8,525	649	
Nuclear fuel, net of accumulated amortization	129,121			257,683	34,835	
Plant held for future use			12,579			
Construction work in progress	119,709			2,237,602	1,827,911	
	2,683,477	4,402	12,619	2,503,810	1,863,395	
RESTRICTED ASSETS (NOTE B)						
Special funds						
Cash	8	1	2	496	1,174	\$ 262
Investments	40,575	294	3,382	131,150	18,692	14,607
Accounts receivable				3,288	6,142	210
Due from other projects				33	13	19,001
Prepayments and other				30	29	1
Debt service funds						
Cash	44	15	9	187	82	2
Investments	140,843	707	9,231	221,071	175,055	66,872
	181,470	1,017	12,624	356,255	201,187	100,955
LONG-TERM RECEIVABLE (NOTE B)						
	56,361					
CURRENT ASSETS						
Cash	1,807	148	5	8	398	
Investments	21,040	1,348	1,881	5,877	7,880	
Accounts receivable	3,190	194		1	49	
Due from participants			8			
Due from other projects	230			1,471		
Due from other funds	26,773	29	1,381	25,203	4,359	
Materials and supplies	40,641	1	375			
Prepayments and other	553		1			
	94,234	1,720	3,651	32,560	12,686	
DEFERRED CHARGES						
Costs in excess of billings		3,367				
Unamortized regulatory studies	8,965					
Unamortized debt expense	19,264	13	2	21,805	21,965	
Other				749	757	
	28,229	3,380	2	22,554	22,722	
TOTAL ASSETS	\$3,043,771	\$10,519	\$28,896	\$2,915,179	\$2,099,990	\$100,955

* Supply System's ownership share (Note A)

** Supply System's ownership share on a liquidation basis (Note A)

See notes to financial statements

	NUCLEAR PROJECT NO. 2	PACKWOOD LAKE PROJECT	HANFORD GENERATING PROJECT	NUCLEAR PROJECT NO. 1	NUCLEAR PROJECT NO. 3*	NUCLEAR PROJECTS NOS. 4/5**
LIABILITIES						
DEFICIENCY IN ASSETS						\$ (4,092,820)
BILLINGS IN EXCESS OF COSTS	\$ 549,024		\$19,010	\$ 466,720	\$ 138,894	
LONG-TERM DEBT (NOTE E)						
Revenue bonds payable	2,502,995	\$ 8,551	5,663	2,382,000	2,237,310	
Unamortized discount on bonds - net	(111,068)	(49)	(12)	(45,510)	(365,048)	
	2,391,927	8,502	5,651	2,336,490	1,872,262	
DEBT IN DEFAULT, CURRENTLY PAYABLE (NOTES E & F)						
Revenue bonds payable						2,250,000
Subordinated revenue notes						65,384
						2,315,384
LIABILITIES - PAYABLE FROM RESTRICTED ASSETS (NOTE B)						
Special funds						
Accounts payable and accrued expenses	15,815			1,947	3,084	28,448
Due to other projects				178	18,838	8,140
Due to other funds	21,368	14	883	20,178	1,128	
Debt service funds						
Accrued interest payable		107	72	82,875	58,738	1,834,043
Accounts payable						7,760
Due to other funds	5,405	15	498	5,025	3,231	
	42,588	136	1,453	110,203	85,019	1,878,391
OTHER NONCURRENT LIABILITIES	6,030	6	7			
CURRENT LIABILITIES						
Current maturities of long-term debt	8,185	200	972			
Accounts payable and accrued expenses	44,345	98	63			
Due to participants	1,475	1,497		1,766	3,815	
Due to other projects	197	5	1,482			
	54,202	1,800	2,517	1,766	3,815	
DEFERRED CREDITS						
Deferred gain on redemption of revenue bonds		75	258			
COMMITMENTS AND CONTINGENCIES (NOTE F)						
TOTAL LIABILITIES	\$3,043,771	\$10,519	\$28,896	\$2,915,179	\$2,099,990	\$ 100,955

STATEMENTS OF OPERATIONS

For the year ended June 30, 1992

Dollars in thousands

	NUCLEAR PROJECT NO. 2	PACKWOOD LAKE PROJECT	HANFORD GENERATING PROJECT	NUCLEAR PROJECT NO. 1	NUCLEAR PROJECT NO. 3*	NUCLEAR PROJECTS NOS. 4/5**
OPERATING REVENUES	\$ 438,232	\$1,387				
OPERATING EXPENSES						
Nuclear fuel	14,851					
Fuel disposal fee	3,628					
Decommissioning	3,991					
Depreciation and amortization	100,714	435				
Operations and maintenance	112,960	645				
Administrative & general	38,264	111				
Generation tax	1,385	6				
Total operating expenses	275,793	1,197				
NET OPERATING REVENUES	162,439	190				
OTHER INCOME & EXPENSE						
Non-operating revenues - net			\$ (248)	\$ 173,706	\$ 132,540	\$ 303
Investment income	19,707	140	882	22,113	10,283	4,476
Interest expense and discount amortization	(175,525)	(330)	(276)	(167,200)	(129,993)	(203,704)
Maintenance of projects in extended construction delay				(5,597)	(3,583)	
Maintenance of plant held for future use			(358)			
Termination and asset disposition expenses						(4,870)
Other	(1,089)			(15,308)	(1,876)	
NET REVENUES BEFORE EXTRAORDINARY ITEM	5,532	0	0	7,714	7,371	(203,795)
EXTRAORDINARY ITEM						
Loss on bond refunding (Note E)	(5,532)			(7,714)	(7,371)	
NET REVENUES	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ (203,795)

* Supply System's ownership share (Note A)

** Supply System's ownership share on a liquidation basis (Note A)

See notes to financial statements

STATEMENTS OF CASH FLOWS

For the year ended June 30, 1992 Dollars in thousands

	NUCLEAR PROJECT NO. 2	PACKWOOD LAKE PROJECT	HANFORD GENERATING PROJECT	NUCLEAR PROJECT NO. 1	NUCLEAR PROJECT NO. 3*	NUCLEAR PROJECTS NOS. 4/5**
CASH FLOWS FROM OPERATING AND OTHER ACTIVITIES						
Operating revenue receipts	\$ 370,388	\$ 2,907				
Cash payments for operating expenses	(160,941)	(728)				
Non-operating revenue receipts			\$ 7,000	\$ 136,047	\$ 145,302	\$ 755
Cash payments for maintenance of projects in extended construction delay				(5,265)	(6,221)	
Cash payments for other expenses	(3,864)		(350)	(7,680)	(1,771)	(3,347)
Distributions of operating and non-operating surplus		(1,909)	(1,855)	1,844		
Net cash provided/(used) by operating and other activities	205,583	270	4,795	124,946	137,310	(2,592)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES						
Proceeds from bond refundings	252,936			146,545	136,501	
Refunded bonds escrow requirement	(232,645)			(138,971)	(129,506)	
Bond issuance costs paid	(4,726)			(1,935)	(2,061)	
Bond issuance costs refund				1,491		
Capital and nuclear fuel acquisitions	(98,423)	(12)			(42)	
Cash payments for deferred programs	(5,694)			(749)	(755)	
Interest paid on revenue bonds	(169,227)	(328)	(283)	(165,096)	(116,806)	
Principal paid on revenue bond maturities	(14,679)	(258)	(5,585)	(24,455)	(17,995)	
Net cash used by capital and related financing activities	(272,458)	(598)	(5,868)	(183,170)	(130,664)	
CASH FLOWS FROM INVESTING ACTIVITIES						
Purchase of investment securities	(1,494,838)	(7,010)	(29,098)	(957,803)	(638,532)	(529,579)
Sales of investment securities	1,541,192	7,370	29,535	992,792	622,066	527,679
Interest on investments	19,723	82	634	23,184	9,968	4,481
Net cash provided/(used) by investing activities	66,077	442	1,071	58,173	(6,498)	2,581
NET INCREASE/(DECREASE) IN CASH	(798)	114	(2)	(51)	148	(11)
CASH AT JUNE 30, 1991	2,657	50	18	742	1,506	275
CASH AT JUNE 30, 1992 (NOTE B)	\$ 1,859	\$ 164	\$ 16	\$ 691	\$ 1,654	\$ 264

* Supply System's ownership share (Note A)

** Supply System's ownership share on a liquidation basis (Note A)

See notes to financial statements

STATEMENTS OF CASH FLOWS (continued)

For the year ended June 30, 1992 Dollars in thousands

	NUCLEAR PROJECT NO. 2	PACKWOOD LAKE PROJECT	HANFORD GENERATING PROJECT	NUCLEAR PROJECT NO. 1	NUCLEAR PROJECT NO. 3*	NUCLEAR PROJECTS NOS. 4/5**
RECONCILIATION OF NET OPERATING REVENUES TO NET CASH PROVIDED BY OPERATING AND OTHER ACTIVITIES						
CASH FLOWS FROM OPERATING AND OTHER ACTIVITIES						
Net operating revenues	\$ 162,439	\$ 190				
Adjustments to reconcile net operating revenues to cash provided by operating activities:						
Amortized revenues	(67,844)	(405)				
Depreciation and amortization	115,565	435				
Decommissioning	3,991					
Other	(1,089)					
Change in operating assets and liabilities:						
Accounts receivable	(3,727)	198				
Materials and supplies	(4,507)					
Prepaid and other assets	486	1				
Due from/to other projects, funds and participants	(6,131)	(189)				
Accounts payable	6,400	40				
Non-operating revenue receipts			\$ 7,000	\$ 136,047	\$ 145,302	\$ 755
Cash payments for maintenance of projects in extended construction delay				(5,265)	(6,221)	
Cash payments for other expenses			(350)	(7,680)	(1,771)	(3,347)
Distributions of non-operating surplus			(1,855)	1,844		
Net cash provided/used by operating and other activities	\$ 205,583	\$ 270	\$ 4,795	\$ 124,946	\$ 137,310	\$ (2,592)

* Supply System's ownership share (Note A)

** Supply System's ownership share on a liquidation basis (Note A)

See notes to financial statements

OUTSTANDING LONG-TERM DEBT

As of June 30, 1992 Dollars in thousands

SERIES	DATE OF SALE	TRUE INTEREST COST (A)	INITIAL OFFERING PRICES	COUPON RATE	SERIAL OR TERM MATURITIES	AMOUNT
NUCLEAR PROJECT NO. 2 REVENUE BONDS						
1973	6-26-73	5.65%	100	5.70%	7-1-2012	\$ 121,200 <u>121,200</u>
1974	7-23-74	7.21	100 100 100	6.90 7.00 7.375	7-1-1994 7-1-1999 7-1-2012	2,700 15,000 37,000 <u>54,700</u>
1974A	11-26-74	7.67	100 100	7.20 7.40	7-1-1994 7-1-1999	2,400 15,000 <u>17,400</u>
1975A	3-6-75	6.88	103.32 100 100	6.60 6.60 6.875	7-1-1994 7-1-1999 7-1-2012	2,300 15,000 78,000 <u>95,300</u>
1976	6-3-76	6.63	100 99.25 100	6.10-6.25 6.625 6.75	7-1-94/1998 7-1-2006 7-1-2012	11,610 42,300 49,860 <u>103,770</u>
1976A	11-18-76	5.86	(B) 100 99.50	5.50-5.75 6.00 6.00	7-1-94/2000 7-1-2007 7-1-2012	39,025 44,815 60,990 <u>144,830</u>
1978	7-11-78	6.71	100 100 100	6.00-6.60 6.80 6.875	7-1-94/2000 7-1-2006 7-1-2012	35,635 45,520 66,230 <u>147,385</u>
1979	3-13-79	6.49	(B) 100	5.75-6.00 6.75	7-1-94/1999 7-1-2012	28,285 83,605 <u>111,890</u>

(A) Based on original issue

(B) Various prices

(C) Compound interest bonds stated at original issue price

(D) Excludes amounts due July 1, 1992

(E) Includes amounts due July 1, 1992

OUTSTANDING LONG-TERM DEBT

As of June 30, 1992

Dollars in thousands

SERIES	DATE OF SALE	TRUE INTEREST COST (A)	INITIAL OFFERING PRICES	COUPON RATE	SERIAL OR TERM MATURITIES	AMOUNT
NUCLEAR PROJECT NO. 2 REVENUE BONDS (Continued)						
1979A	10-17-79	7.69%	(B) 100	7.00-7.30% 7.60	7-1-94/1999 7-1-2004	\$ 19,945 23,050 <u>42,995</u>
1981A	9-4-81	14.67	100 59.958	14.375 8.25	7-1-2001 7-1-2003	30,000 100,000 <u>130,000</u>
1990A	3-15-90	7.77	99.75 98.50 97.125 98.75 96.125	7.25 7.50 7.25 7.625 7.375	7-1-2003 7-1-2004 7-1-2006 7-1-2008 7-1-2012	73,705 61,510 35,790 62,215 189,625 <u>422,845</u>
1990B	6-7-90	7.69	94.135	7.00	7-1-2012	200,840 <u>200,840</u>
1990C	11-1-90	7.84	(B) 97.50 97.65 98.25 (B)	6.60-7.50 7.625 7.375 7.875 (C)	7-1-93/2003 7-1-2010 7-1-2011 7-1-2012 7-1-04/2005	230,415 209,625 35,810 101,980 18,054 <u>595,884</u>
1991A	9-26-91	6.81	(B) 90.375 (B)	5.40-6.60 6.00 (C)	7-1-94/2005 7-1-2012 7-1-06/2007	143,115 105,940 13,431 <u>262,486</u>
<i>Adjustment for compound interest bonds accretion</i>						<u>59,655</u>
<i>Revenue bonds payable</i>						<u>\$2,511,180 (D)</u>
PACKWOOD LAKE PROJECT REVENUE BONDS						
1962	3-20-62	3.66	99.425	3.625	3-1-2012	6,641
1965	11-4-65	3.76	100.5	3.75	3-1-2012	2,110
<i>Revenue bonds payable</i>						<u>\$ 8,751</u>

(A) Based on original issue

(B) Various prices

(C) Compound interest bonds stated at original issue price

(D) Excludes amounts due July 1, 1992

(E) Includes amounts due July 1, 1992

SERIES	DATE OF SALE	TRUE INTEREST COST (A)	INITIAL OFFERING PRICES	COUPON RATE	SERIAL OR TERM MATURITIES	AMOUNT
<u>HANFORD GENERATING PROJECT REVENUE BONDS</u>						
1963	5-8-63	3.26%	98	3.25%	9-1-1996	\$ 6,635
<i>Revenue bonds payable</i>						<u>\$ 6,635</u>
<u>NUCLEAR PROJECT NO. 1 REVENUE BONDS</u>						
1975	9-18-75	7.73	(B)	7.00-7.40	7-1-92/2000	26,300
						<u>26,300</u>
1976A	2-4-76	6.84	(B)	6.00-6.25	7-1-92/1998	19,320
			100	6.90	7-1-2010	66,485
			100	7.00	7-1-2017	76,495
						<u>162,300</u>
1976B	8-31-76	6.37	100	5.40-5.90	7-1-92/1998	21,145
			100	6.50	7-1-2010	66,940
			99.50	6.50	7-1-2017	71,235
						<u>159,320</u>
1978A	3-21-78	5.69	(B)	5.00-5.50	7-1-92/2002	44,060
			100	5.80	7-1-2010	50,920
			100	5.875	7-1-2017	64,810
						<u>159,790</u>
1978B	12-5-78	6.61	(B)	5.60-6.00	7-1-92/1998	21,925
			100	6.35	7-1-2003	22,305
			100	6.60	7-1-2009	38,190
			99.50	6.80	7-1-2017	81,150
						<u>163,570</u>
1979	6-19-79	6.64	(B)	6.00	7-1-92/1998	17,390
			100	6.40	7-1-2003	18,560
			100	6.70	7-1-2009	32,370
			100	6.80	7-1-2017	69,685
						<u>138,005</u>
1980A	8-5-80	9.15	100	7.50-8.25	7-1-92/1995	25,500
						<u>25,500</u>

OUTSTANDING LONG-TERM DEBT (continued)

As of June 30, 1992

Dollars in thousands

SERIES	DATE OF SALE	TRUE INTEREST COST (A)	INITIAL OFFERING PRICES	COUPON RATE	SERIAL OR TERM MATURITIES	AMOUNT
NUCLEAR PROJECT NO. 1 REVENUE BONDS (Continued)						
1989A	9-14-89	7.76%	100	6.60-7.30%	7-1-92/2002	\$ 31,695
			98.185	7.00	7-1-2004	27,385
			99.017	7.50	7-1-2007	62,105
			97.759	7.50	7-1-2015	295,575
			82.083	6.00	7-1-2017	95,110
						<u>511,870</u>
1989B	12-7-89	7.44	100	6.70-7.25	7-1-96/2003	31,095
			98.375	7.00	7-1-2005	2,100
			100	7.40	7-1-2009	5,180
			97.25	7.25	7-1-2015	50,040
			98.533	7.125	7-1-2016	41,070
						<u>129,485</u>
1990A	3-15-90	7.73	(B)	6.30-7.60	7-1-92/2005	72,705
			92.75	7.00	7-1-2011	56,770
			81.75	6.00	7-1-2017	55,635
						<u>185,110</u>
1990B	6-7-90	7.75	(B)	7.00-7.20	7-1-99/2003	24,495
			97.979	7.25	7-1-2009	72,770
			98.913	7.25	7-1-2012	56,000
			98.50	7.75	7-1-2017	164,735
						<u>318,000</u>
1990C	9-27-90	7.85	(B)	6.60-7.75	7-1-92/2003	173,095
			99.50	7.75	7-1-2008	22,085
			99.50	8.00	7-1-2017	60,045
						<u>255,225</u>
1991A	9-26-91	7.02	(B)	5.10-6.80	7-1-92/2008	54,560
			98.375	6.875	7-1-2017	92,965
						<u>147,525</u>
Revenue bonds payable						<u>\$2,382,000 (E)</u>

NUCLEAR PROJECT NO. 3 REVENUE BONDS

1975	12-3-75	7.87	100	6.70-7.25	7-1-92/1998	15,150
						<u>15,150</u>

(A) Based on original issue

(B) Various prices

(C) Compound interest bonds stated at original issue price

(D) Excludes amounts due July 1, 1992

(E) Includes amounts due July 1, 1992

SERIES	DATE OF SALE	TRUE INTEREST COST (A)	INITIAL OFFERING PRICES	COUPON RATE	SERIAL OR TERM MATURITIES	AMOUNT
NUCLEAR PROJECT NO. 3 REVENUE BONDS (Continued)						
1976	4-13-76	6.48%	(B)	5.60-6.00%	7-1-92/1998	\$ 10,825
			99.625	6.50	7-1-2010	35,100
			100	6.60	7-1-2018	45,295
						<u>91,220</u>
1977	7-12-77	5.71	(B)	5.00-5.50	7-1-92/2000	38,590
			99.50	5.70	7-1-2009	63,535
			99.50	5.80	7-1-2018	107,160
						<u>209,285</u>
1978	9-12-78	6.27	(B)	5.90-6.00	7-1-92/2004	51,950
			100	6.375	7-1-2010	42,985
			99	6.40	7-1-2018	90,630
						<u>185,565</u>
1989A	9-14-89	7.43	100	6.60-7.30	7-1-92/2002	30,750
			(B)	(C)	7-1-2003/2014	18,668
			98.533	7.25	7-1-2016	98,340
			84.75	6.00	7-1-2018	54,570
						<u>202,328</u>
1989B	12-7-89	7.39	100	6.40-7.15	7-1-93/2001	84,480
			(B)	(C)	7-1-2004/2014	71,321
			98.375	7.00	7-1-2005	85,690
			100	7.40	7-1-2009	29,235
			97.25	7.25	7-1-2015	226,230
			98.533	7.125	7-1-2016	76,145
			79.755	5.50	7-1-2017	62,560
			79.525	5.50	7-1-2018	65,905
						<u>701,566</u>
1990B	6-7-90	7.57	(B)	6.40-7.25	7-1-92/2000	147,180
			(B)	(C)	7-1-2001/2010	39,210
			98.923	7.375	7-1-2004	55,920
			98	7.50	7-1-2018	107,885
					<u>350,195</u>	
1991A	9-26-91	6.97	(B)	5.10-6.80	7-1-92/2008	53,210
			97.75	6.75	7-1-2011	20,790
			94.552	6.5	7-1-2018	66,065
						<u>140,065</u>
Adjustment for compound interest bonds accretion						<u>341,936</u>
Revenue bonds payable						\$2,237,310 (E)

DEBT-SERVICE REQUIREMENTS

As of June 30, 1992 Dollars in thousands

FISCAL YEAR	NUCLEAR PROJECT NO. 2			PACKWOOD LAKE PROJECT			HANFORD GENERATING PROJECT***		
	PRINCIPAL	INTEREST	TOTAL	PRINCIPAL	INTEREST	TOTAL	PRINCIPAL	INTEREST	TOTAL
6/30/92									
Balance*	\$ 5,574	\$ 0	\$ 5,574	\$ 100	\$ 107	\$ 207	\$ 4,863	\$ 72	\$ 4,935
1993	8,185	170,923	179,108	305	316	621	1,639	58	1,697
1994	32,476	170,413	202,889	320	305	625	133	4	137
1995	49,795	168,061	217,856	333	293	626			
1996	36,685	164,900	201,585	347	281	628			
1997	52,320	162,611	214,931	367	269	636			
1998	55,805	158,778	214,583	387	255	642			
1999	104,910	154,694	259,604	422	241	663			
2000	115,685	146,933	262,618	473	226	699			
2001	152,105	138,321	290,426	498	208	706			
2002	75,270	127,187	202,457	524	190	714			
2003	194,090	121,813	315,903	548	171	719			
2004	139,594	119,495	259,089	573	151	724			
2005	97,795	121,858	219,653	599	130	729			
2006	114,071	104,760	218,831	623	108	731			
2007	147,135	97,801	244,936	648	86	734			
2008	174,880	75,249	250,129	673	62	735			
2009	178,775	62,943	241,718	572	37	609			
2010	198,160	50,493	248,653	274	16	290			
2011	165,035	36,637	201,672	122	6	128			
2012	353,180	25,421	378,601	43	2	45			
2013									
2014									
2015									
2016									
2017									
2018									
Adjustment**	59,655	(59,655)							
	\$ 2,511,180	\$ 2,319,636	\$ 4,830,816	\$ 8,751	\$ 3,460	\$ 12,211	\$ 6,635	\$ 134	\$ 6,769

* Bond fund account balances less accrued investment income.

** Adjustment for compound interest bonds accretion. Compound interest bonds are reflected at their face amount less discount on the balance sheet.

*** The Supply System intends to redeem all outstanding bonds for HGP effective September 1, 1992 (Note E).

	NUCLEAR PROJECT NO. 1			NUCLEAR PROJECT NO. 3			NUCLEAR PROJECTS NOS. 4/5	
FISCAL YEAR	PRINCIPAL	INTEREST	TOTAL	PRINCIPAL	INTEREST	TOTAL	PRINCIPAL	TOTAL
6/30/92								
Balance*	\$ 30,950	\$ 83,528	\$ 114,478	\$ 28,385	\$ 58,738	\$ 87,123	\$ 0	\$ 0
1993	34,520	163,170	197,690	31,245	115,759	147,004	2,315,384	2,315,384
1994	36,325	161,582	197,907	33,245	113,807	147,052		
1995	38,280	159,174	197,454	35,430	111,683	147,113		
1996	41,740	156,610	198,350	41,090	109,386	150,476	<i>Refer to Note F under Nuclear Projects Nos. 4 and 5 Termination, Bond Default, and Litigation and Nuclear Projects Nos. 4 and 5 Bridge and Termination Loans</i>	
1997	46,035	153,882	199,917	30,015	106,682	136,697		
1998	48,360	150,810	199,170	27,965	104,719	132,684		
1999	63,585	147,559	211,144	61,910	102,886	164,796		
2000	67,795	143,137	210,932	66,600	98,656	165,256		
2001	72,695	138,438	211,133	64,950	100,676	165,626		
2002	71,435	133,347	204,782	68,922	96,964	165,886		
2003	62,120	128,303	190,423	70,917	95,501	166,418		
2004	73,840	124,009	197,849	54,496	107,360	161,856		
2005	66,155	118,896	185,051	55,421	105,739	161,160		
2006	83,595	114,249	197,844	56,292	103,893	160,185		
2007	89,460	108,386	197,846	51,251	104,031	155,282		
2008	95,735	102,109	197,844	52,921	102,361	155,282		
2009	99,475	95,391	194,866	54,843	100,437	155,280		
2010	106,415	88,415	194,830	56,967	98,311	155,278		
2011	130,810	80,929	211,739	75,449	87,198	162,647		
2012	140,150	71,631	211,781	89,332	83,012	172,344		
2013	152,980	61,782	214,762	94,563	77,788	172,351		
2014	163,895	50,860	214,755	100,200	72,141	172,341		
2015	175,825	38,935	214,760	133,980	38,368	172,348		
2016	188,505	26,255	214,760	143,310	29,041	172,351		
2017	201,320	13,446	214,766	153,195	19,156	172,351		
2018				162,480	9,863	172,343		
Adjustment **				341,936	(341,936)			
	\$2,382,000	\$2,814,833	\$5,196,833	\$2,237,310	\$2,012,220	\$4,249,530	\$ 2,315,384	\$2,315,384

NOTES TO FINANCIAL STATEMENTS

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. On June 30, 1992, its membership consisted 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 operates 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), an 860 MWe plant, was completed in 1966 and was in operation through 1986, using by-product steam from the Department of Energy's dual-purpose New Production Reactor (N-Reactor). The N-Reactor was shut down for safety improvements in 1987, placed in dry lay-up status in 1989, and in August 1991, the Secretary of Energy announced the decision to place the N-Reactor in permanent shutdown. This action eliminated the N-Reactor as a power source for HGP (see Note F under Hanford Generating Project). HGP is currently being preserved by the Supply System as a potential future energy resource.

Nuclear Project No. 1, a 1,250 MWe plant, is 65 percent complete and is in the eleventh year of a construction delay. Nuclear Project No. 3, a 1,240 MWe plant, is 75 percent complete and is in the tenth 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 (PacifiCorp, 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 in liquidation. Substantially all of the utility plant assets have been sold. 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 percent by PacifiCorp (see Note F under Nuclear Projects Nos. 4 and 5 Termination, Bond Default, and Litigation).

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.

More than 100 Northwest utilities have purchased all of the project capability of Nuclear Projects Nos. 1, 2, and the Supply System's 70 percent ownership share of Nuclear Project No. 3. Five

investor-owned utilities are obligated by contract to pay Nuclear Project No. 1 a specific amount for their portion of project capability through June 1996. The remaining utilities (participants), pursuant to the terms of their purchase agreements, 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.

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 electrical 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 BPA's 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 governmental utilities. Accounts are maintained in accordance with the uniform system of accounts of the Federal Energy Regulatory Commission. Separate funds and books of account are maintained 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

Utility plant is stated at original cost. Plant in service is depreciated by the straight-line method over the estimated useful lives of the various classes of plant.

Effective July 1, 1991, the Supply System ceased depreciating

utility plant amounts pertaining to the Hanford Generating Project. The project continues to be preserved as a potential future energy resource (See Note F - Hanford Generating Project).

During the normal construction phase of a project, the Supply System's policy is to capitalize all costs relating to the project, including interest expense (net of interest income), and administrative and general expense.

Because of the extended delay of Nuclear Projects Nos. 1 and 3, the Supply System discontinued capitalizing interest expense and preservation costs. Interest expense, termination expenses and asset disposition costs for Nuclear Projects Nos. 4 and 5 are charged to current operations.

NUCLEAR FUEL

All expenditures related to the purchase of nuclear fuel are capitalized and carried at cost. When the fuel is placed in the reactor, the fuel cost is amortized to operating expense on the basis of quantity of heat produced for generation of electric energy. Accumulated nuclear fuel amortization as of June 30, 1992 for Nuclear Project No. 2 is \$74.4 million. Current period operating expense for Nuclear Project No. 2 includes 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. No provision has been made for additional storage and disposal costs which may be incurred by the Supply System prior to the transfer of spent fuel to the Department of Energy.

Under certain exchange agreements, the Supply System has transferred to third parties approximately 1.6 million pounds of Nuclear Project No. 1 uranium and .2 million pounds of Nuclear Project No. 2 uranium. In return, the Supply System will receive equivalent quantities of uranium in future years. Additionally, the Supply System receives usage fees for a portion of the transferred uranium. These exchange agreements have been secured by bank letters of credit at current market value, adjusted semiannually. The cost of this uranium, \$48.2 million and \$3.1 million, is included in the carrying amount of Nuclear Projects Nos. 1 and 2 nuclear fuel, respectively.

Prior to 1992, the Department of Energy overcharged nuclear generating facilities for future spent nuclear fuel storage. To recover past overpayments, facilities are allowed credits against future quarterly payments. The refund process will allow the Supply System to recover overpayments, including accrued interest, by fiscal year 1995. The refund has been reflected in other income, and principal and interest to be received are reflected in Nuclear Project No. 2 Long-Term Receivables and Current Assets - Accounts Receivable.

LITIGATION SETTLEMENT

In March 1992, the Supply System entered into a settlement with General Electric Company ending litigation pertaining to modifications to the containment system for Nuclear Project No. 2. The settlement requires General Electric Company to provide certain goods and services to Nuclear Project No. 2 at substantial discounts. The parties to the settlement have been enjoined from disclosing terms of the settlement by court order.

Minimum guaranteed amounts pertaining to future discounts have been recorded within Nuclear Project No. 2 Long-Term Receivables, Construction Work in Progress, and Current Assets, with a corresponding reduction to Utility Plant in Service. Additional discounts are also available to Nuclear Project No. 2 dependent upon the level of future purchases from General Electric Company.

RESTRICTED ASSETS

In accordance with project bond resolutions, related agreements, or state law, separate restricted funds have been established for each project. The assets held in these funds are restricted for specific uses including construction, debt service, capital additions, extraordinary operation and maintenance, termination, decommissioning, and workers' compensation claims.

DECOMMISSIONING

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. Decommissioning costs are currently estimated at \$403 million (in 1982 dollars). Payments to the decommissioning fund for the year ended June 30, 1992 aggregated \$2.8 million and the balance of the fund at June 30, 1992 was \$15.8 million.

MATERIALS AND SUPPLIES

Materials and supplies are valued at cost, using weighted-average methods.

FINANCING EXPENSE, BOND DISCOUNT, AND DEFERRED GAIN

Financing expense, bond discounts, and deferred gain on redemption of revenue bonds are amortized over the terms of the respective bond issues.

REGULATORY STUDIES

Expenses associated with regulatory studies for Nuclear Project No. 2 are deferred and amortized by the straight-line method over the estimated operating life of the plant.

CURRENT MATURITIES OF REVENUE BONDS

Current maturities of revenue bonds payable from restricted assets are reflected in Long-Term Debt. Current maturities of bonds for which funds have not yet been restricted are reflected in Current Liabilities.

REVENUES

With the exception of Nuclear Projects Nos. 4 and 5, the Supply System recovers, through various agreements, actual cash requirements for operations and debt service for each project over

<u>INVESTMENTS</u> (Dollars in thousands)	<u>U.S. Gov't Securities</u>	<u>U.S. Gov't Agencies</u>	<u>Total</u>	<u>Accrued Interest</u>	<u>Carrying Amount</u>
NUCLEAR PROJECT NO. 2					
Amortized cost	\$ 146,099	\$ 52,470	\$ 198,569	\$ 3,889	\$ 202,458
Market value	148,548	52,541	201,089		
PACKWOOD LAKE PROJECT					
Amortized cost	2,349	-0-	2,349	-0-	2,349
Market value	2,351	-0-	2,351		
HANFORD GENERATING PROJECT					
Amortized cost	14,418	-0-	14,418	76	14,494
Market value	14,478	-0-	14,478		
NUCLEAR PROJECT NO. 1					
Amortized cost	189,465	161,960	351,425	6,673	358,098
Market value	193,683	162,502	356,185		
NUCLEAR PROJECT NO. 3					
Amortized cost	76,602	120,776	197,378	4,249	201,627
Market value	77,209	121,107	198,316		
NUCLEAR PROJECTS NOS. 4/5					
Amortized cost	58,169	22,743	80,912	567	81,479
Market value	58,865	22,760	81,625		

the life of that project. Accordingly, the Supply System recognizes revenues equal to operating costs for each period. No net income or loss is recognized, and no equity is accumulated.

The difference between cumulative revenues received and cumulative operating costs is reported on the balance sheet as either billings in excess of costs (liability) or as costs in excess of billings (deferred charge), as appropriate. Such amounts will be recognized as revenues, or costs, during future operating periods.

OTHER EXPENSE

Other expense for Nuclear Project No. 1 includes a provision for an interproject receivable from Nuclear Project No. 4 and the net loss on disposal of the control room simulator due to obsolescence.

STATEMENTS OF CASH FLOWS

For purposes of the statements of cash flows, the term "cash" includes unrestricted and restricted cash balances. Short-term, highly-liquid investments are not considered cash equivalents.

Note C - Cash and Investments

Cash and investments for each utility system are separately maintained. The Supply System's deposits are insured by federal depositary insurance or through the Washington Public Deposit Protection Commission. Supply System investment policies limit investment authority to obligations of the United States Treasury, Federal National Mortgage Association, Federal Home Loan Banks, Farm Credit System, and Federal Home Loan Mortgage Corporation, as well as repurchase agreements. Collateral for repurchase agreements must be authorized investments under Supply System investment policies. During fiscal year 1992, the Supply System invested in repurchase agreements, however, none were held at year-end. All investments are held in the Supply System's name by safekeeping agents, custodians, or trustees.

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. The Supply System's investments are categorized above to give an indication of the types and amounts of investments held by each project at year-end.

Note D - Retirement Benefits

Substantially all Supply System full-time employees participate in the statewide local government Public Employees' Retirement System (PERS). PERS is a contributory multi-employer cost-sharing retirement system established by the Washington State Legislature and administered by the State of Washington through the Department of Retirement Systems. For the year ended June 30, 1992, the Supply System's payroll covered under PERS was \$84.1 million, representing 99 percent of total payroll.

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. The annual pension benefits are generally based on a percentage of final average salary.

Required employer contributions for both plans, and PERS II employee contributions, are determined each biennium by the Legislature. Employee contribution rates for Plan I are established by legislative statute. Employer rates for Plan I are not necessarily adequate to fully fund the system. The employer and employee contribution rates for Plan II are developed by the Office of State Actuary to fully fund the system. The methods used to determine the contribution requirements were established under state statute.

As of December 31, 1990 (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 \$7.993 billion and the value of net

assets available to satisfy present and future pension benefit obligations was \$6.428 billion. The pension benefit obligation is a standardized measure which enables readers of financial statements to assess the funding status of each system and progress made in accumulating sufficient assets to pay benefits when due, and to make comparisons with other retirement systems. The standardized disclosure method is independent of the actuarial funding method used to determine contributions.

Contributions for the year ended June 30, 1992, expressed both in dollar amounts and percentages of current-year covered payroll, were as follows:

	Plan I		Plan II	
	Rate	Amount	Rate	Amount
Employer Contributions				
Actuarially determined requirement	7.33%	\$1,037,691	7.33%	\$5,130,022
Actual Supply System contributions	7.72%	\$1,115,602	7.72%	\$5,520,644
Employee Contributions				
Actuarially determined requirement	6.00%*	\$ 849,711	4.85%	\$3,394,353
Actual employee contributions	6.00%	\$ 849,711	4.70%	\$3,345,146
* Fixed at 6.00%				

The Supply System's actuarially determined employer contribution requirement represents approximately 2.1 percent of the total for all employers covered by PERS.

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, 1991 comprehensive annual financial report.

In addition to the pension benefits available through PERS, the Supply System offers postemployment life insurance benefits to retirees who are eligible to receive pensions under PERS Plan I and Plan II. Currently, 148 retirees are eligible to receive life insurance benefits and 107 retirees have elected to participate in this insurance. The life insurance benefit is equal to the employee's annual rate of salary at retirement for non-bargaining unit employees and one-half of the employee's annual rate of salary at retirement, with a minimum benefit of \$22,000, for bargaining unit employees. Retirees contribute \$6.00 per \$1,000 of coverage annually for life insurance, and the Supply System funds the death benefit claims on a pay-as-you-go basis.

At the time of retirement, the Supply System accrues a liability equal to the present value of estimated claims, net of retiree contributions. The total expense recognized for the year ended June 30, 1992 was \$.3 million, and the total liability at June 30, 1992 was \$2.5 million for these benefits.

Note E - Long-Term Debt

Except for Nuclear Projects Nos. 4 and 5, which were financed together as one utility system, each Supply System project is 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.

During the year ended June 30, 1992, the Supply System issued \$550.1 million in net-billed bonds for Nuclear Projects Nos. 1, 2 and 3 to advance refund \$485.8 million of outstanding bonds with an average interest rate of 7.48 percent. The net proceeds of the new issues were deposited in separate irrevocable trusts under the control of escrow agents to provide for all future debt service payments on the refunded bonds. As a result, the refunded bonds are considered to be defeased and the liability for those bonds has been removed from long-term debt.

Although the advance refundings resulted in the recognition of an accounting loss for the year ended June 30, 1992, the change in the aggregate debt service payments for Nuclear Projects Nos. 1, 2 and 3 and changes to debt service reserve fund balances resulted in an economic gain of \$5.7 million, \$9.4 million, and \$7.8 million, respectively.

A summary of fiscal year 1992 Series 1991A bond refundings by project is presented below:

FISCAL YEAR 1992 BOND REFUNDINGS			
(Dollars in Thousands)			
	Nuclear Project No. 1	Nuclear Project No. 2	Nuclear Project No. 3
Size of Issue	\$147,525	\$262,486	\$140,065
Amount of bonds refunded	133,000	228,900	123,855
Accounting loss	7,714	5,532	7,371
Reduction (Increase) in debt service payments	1,611	(55,807)	6,991
Economic gain	5,747	9,391	7,774

In prior fiscal years, the Supply System defeased certain revenue bonds by placing the proceeds of new bonds in irrevocable trusts to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the financial statements. Including the fiscal year 1992 defeasements, approximately \$730.8 million, \$820.5 million, and \$690.1 million of bonds outstanding are considered defeased at June 30, 1992 for Nuclear Projects Nos. 1, 2 and 3, respectively.

The Supply System expects to continue the refunding of high-interest bonds when economically feasible.

The Supply System intends to redeem all remaining HGP bonds in the principal amount of \$6.635 million effective September 1, 1992.

Outstanding revenue bonds of the various projects as of June 30, 1992, are presented on pages 21 through 25, and debt service requirements for these bonds are presented on pages 26 through 27.

SECURITY - NUCLEAR PROJECTS NOS. 1, 2 AND 3

Project participants and five investor-owned utilities for Nuclear Project No. 1 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. 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 F, under Nuclear Projects Nos. 4 and 5 Termination, Bond Default, and Litigation).

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 Department of Energy 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 HGP debt service costs, net of investment income, by Nuclear Project No. 1 participants, beginning July 1, 1980, regardless of continued operation of the N-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 LAKE 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 the retirement in accordance with provisions of the bond resolution.

Note F - Commitments and Contingencies

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 E 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. However, payments due under the participants' agreements were not made pending a judicial determination of the participants' authority and obligation to pay. In 1983, and again in 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. When the U.S. Supreme Court denied a writ of certiorari by which the state court decision might be reviewed, this suit was ended.

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 for holding 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 suits were filed by and on behalf of purchasers of Nuclear Projects Nos. 4 and 5 bonds. 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 MDL 551.

Another lawsuit, *Haberman v. WPPSS, et al. (Haberman)*, was filed against the Supply System and others in a Washington State court by a number of Nuclear Projects Nos. 4 and 5 bondholders alleging substantially the same allegations 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 to settle claims against the Supply System in MDL 551, the Chemical Bank litigation, and related litigation including the *Haberman* action. The agreement calls for the Supply System to consent to entry of a judgment on the contract claims 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 with prejudice. The amount of the 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 June 30, 1992, the amount of such accrued interest was approximately \$1.691 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 to the funds and assets of the Supply System pledged to secure the Nuclear Projects Nos. 4 and 5 bonds.

In another lawsuit entitled *Hoffer v. State of Washington (Hoffer)*, 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 may file cross-claims against the Supply System and the other MDL 551 defendants.

All other defendants in *Haberman*, *Hoffer*, MDL 551 and the Chemical Bank litigation also have reached agreements to settle claims against them. The total amount to be paid under these settlements in MDL 551 exceeds \$850 million.

All of the settlements were approved by the District Court on September 5, 1989. The court found that Chemical Bank represented all Nuclear Projects Nos. 4 and 5 bondholders in the litigation. If it becomes final, the court's ruling will permanently bar 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 below.

On February 5, 1992, the Court of Appeals affirmed, in its entirety, the settlement of all claims in MDL 551. Motions for reconsideration and rehearing en banc were denied. The plaintiffs in *Hoffer* petitioned for review by the United States Supreme Court on August 18, 1992. In the opinion of Supply System Special Counsel and Chief Counsel, the trial court's ruling, as affirmed by the Court of Appeals, unless modified or reversed by the United States Supreme Court, would bar the *Haberman* litigation, and

would provide for the release of claims asserted in the *Hoffer* litigation.

If approval of the settlements is modified or reversed, the Supply System is unable to predict the outcome of MDL 551, the Chemical Bank litigation, *Haberman* or *Hoffer*.

LIABILITY INSURANCE LITIGATION

The excess carrier of directors' and officers' liability insurance, National Union (AIG), 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 of \$30 million by the carrier. If approval of this settlement becomes final and non-appealable, the insurer will be barred from proceeding with this litigation. If approval is modified or reversed, the Supply System is unable to predict the outcome of this litigation.

NUCLEAR PROJECTS NOS. 4 AND 5 BRIDGE AND TERMINATION LOANS

In late 1981, 68 Nuclear Projects Nos. 4 and 5 participants and others loaned the Supply System \$60 million to pay project costs until an alternative source of financing could be found. None was found, and after the projects were terminated in January 1982, 42 Nuclear Projects Nos. 4 and 5 participants loaned the Supply System additional amounts of approximately \$8 million to pay termination costs. The first set of loans were called bridge loans, and the second termination loans. All of these loans were subordinate to the \$2.25 billion of bonds payable, and were payable solely from the revenues of Nuclear Projects Nos. 4 and 5. 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. Interest on these loans in the amount of approximately \$148.1 million also remains unpaid at June 30, 1992.

Most of the lenders have sued the Supply System and all but three of the suits (those brought by certain investor-owned utilities) have been reduced to judgment. The Washington State Supreme Court has held that the terms of the loans limited the source of 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 the 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 the 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 (Physical Assets), 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 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 the Physical 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 Physical 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 question 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 upon the Pledged Revenues or the Physical Assets.

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 the 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 bridge and termination 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 Federal 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 intervened as bond fund trustee on behalf of the Nuclear Projects Nos. 4 and 5 bondholders. Chemical Bank has alleged 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 District Court ruled that Chemical Bank has a lien in an amount of any funds which may be determined in the future 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.

On October 5, 1990, the District Court ruled that the Nuclear Projects Nos. 4 and 5 Bond Resolutions required the application of principles "akin to those espoused" by Chemical Bank. The court stated that because such principles were not applied, Nuclear Projects Nos. 4 and 5 "apparently bore more than their fair and equitable share of construction costs."

The court granted Chemical Bank's motion for seeking an accounting of all the uses of bond proceeds of Nuclear Projects Nos. 4 and 5. The Supply System and other parties in the case appealed this order to the U.S. Court of Appeals for the Ninth Circuit.

On February 25, 1992, the Court of Appeals reversed both the May 1989 and October 1990 rulings creating a lien on after-acquired assets and requiring the application of cost sharing principles "akin to those espoused" by Chemical Bank. The Court of Appeals upheld the concept of a proportional basis of cost sharing between each of the twinned projects and remanded the case to the District Court for resolution of the remaining issues in accordance with the Court of Appeals' decision.

Counsel for Chemical Bank has estimated the potential recovery for Nuclear Projects Nos. 4 and 5 at up to \$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

In August 1983, PacifiCorp, owner of 10 percent of Nuclear Project No. 5, 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 PacifiCorp and the Supply System. PacifiCorp 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 Energy Facility Site Evaluation Council (EFSEC) and, with respect to Nuclear Project No. 4, the lease agreement with the Department of Energy. It is not known at this time what actions will be necessary to comply with these 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 \$49 to \$82 million.

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 at that time due to legal and other uncertainties. In April 1991, the Council released its 1991 Power Plan, which includes an objective to determine the cost and availability of resources to the region in the next 20 years. Such resources, among others, include Nuclear Projects Nos. 1 and 3. An action plan item supporting that objective recommends that BPA and the Supply System undertake the work necessary to determine whether outstanding issues are resolvable so that the Council can make an informed judgment in the next Power Plan as whether to: 1) continue preserving the projects, 2) construct either or both of the projects if needed, or 3) terminate the projects. BPA and the Supply System have initiated work in response to this recommendation.

In its 1987 Resource Strategy, BPA found that there was no compelling case either 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 an economic risk management standpoint. BPA concluded that preservation of Nuclear Projects Nos. 1 and 3 was the prudent course of action at that time. These findings and conclusions remained unchanged in BPA's 1988 Resource Program and 1990 Resource Program. No new decision regarding completion or termination of the projects is expected to be reflected in BPA's 1992 Resource Program.

Preservation of each project is expected to continue until a decision is made whether to complete construction or terminate one or both projects. Continued funding of Nuclear Project No. 1 preservation costs is provided by the Nuclear Project No. 1 construction fund. Continued funding of Nuclear Project No. 3 preservation costs is provided by project participants (70 percent pursuant to net-billing agreements) and by the four investor-owned utility owners (30 percent pursuant to a settlement agreement).

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 Supply System executed agreements on September 17, 1985 to settle the construction delay claims with BPA and with each of the IOUs owning shares of Nuclear Project No. 3. A number of the Nuclear Project No. 3 participants have opposed the settlement and dismissal of claims. In October 1985, the participants filed pleadings in the U.S. 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 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 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.

An original proceeding also was filed in the United States Court of Appeals for the Ninth Circuit, challenging BPA's settlements with the IOUs. In January 1989, the Court of Appeals 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. No action has been taken by these nine non-stipulating participants since the May 1989 District Court ruling.

The four IOUs owning 30 percent of Nuclear Project No. 3 also filed complaints in state courts in King County, Washington, and Multnomah County, Oregon, in May 1983 seeking 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.* These cases were filed as a precaution against any determination that the Federal District Court lacked jurisdiction to try the Nuclear Project No. 3 construction delay claims. The Washington case was dismissed without prejudice in March 1992. Proceedings in the Oregon case are stayed by stipulation of the parties. The parties have agreed to dismiss the Oregon case 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 was completed in 1966 and operated through 1986, using by-product steam from the Department of Energy's (DOE) N-Reactor. In January 1987, DOE shut down the N-Reactor for safety improvements, and in October 1989 placed it in a dry lay-up status, while maintaining the capability to restart within a two-to-three year period. In August 1991, the Secretary of Energy announced the decision to place the N-Reactor in permanent shutdown. This action eliminated the N-Reactor as a power source for HGP.

Certain preservation costs of HGP have been funded by DOE since 1989 under a supplemental agreement between the Supply System and DOE. This agreement expired June 30, 1992, and DOE indicated that they will not require HGP support services subsequent to that date with the exception of minor fire protection backup service. Continuing preservation costs, or project termination costs, will be funded by BPA.

An independent power producer is currently preparing a feasibility study of repowering HGP with natural gas, using the project site for new gas-fired combustion turbines, or developing a cogeneration facility generating electricity and providing steam to nearby DOE facilities.

Options for the disposition of HGP include the Supply System or BPA repowering the project, development by an independent power producer, transferring the project to DOE by DOE exercising its contractual option, or removal and restoration. All of these options are currently being evaluated with the outcome unknown at this time. A final decision is expected in late 1992.

NUCLEAR INSURANCE

The Price Anderson Act currently provides for nuclear liability insurance up to \$7.8 billion per incident, which is covered by a combination of commercial nuclear insurance and mandatory industry self-insurance. The Supply System has purchased the maximum commercial insurance available of \$200 million, which is the first layer of protection. The second layer of protection is provided through a mandatory industry self-insurance plan wherein each licensed nuclear facility required to participate in the plan (currently 115) may be assessed up to \$66.15 million per incident, subject to a maximum annual assessment of \$10 million per year.

Nuclear property damage insurance requirements are met through a combination of commercial nuclear insurance policies purchased by the Supply System and BPA. The total amount of insurance purchased is currently \$1.625 billion. The deductible for this coverage is \$10 million per occurrence.