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WASHINGTON PUBLIC POWER SUPPLY SYSTEM

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December 1, 1995
GO2-95-254

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

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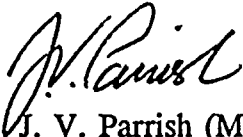
Gentlemen:

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

Enclosed for your information, as required by 10 CFR 50.71(b), are three copies of the Washington Public Power Supply System Annual Report 1995.

Should you have any questions or desire additional information regarding this matter, please call me or P. R. Bemis at (509) 377-4027.

Sincerely,



J. V. Parrish (Mail Drop 1023)
Vice President, Nuclear Operations

AGC/lm

Enclosure: Washington Public Power Supply System Annual Report 1995

cc: LJ Callan - NRC RIV
JW Clifford - NRC w/o
MM Mendonca - NRC w/o
NS Reynolds - Winston & Strawn w/o
DL Williams - BPA/399 w/o
NRC Site Inspector - 927N

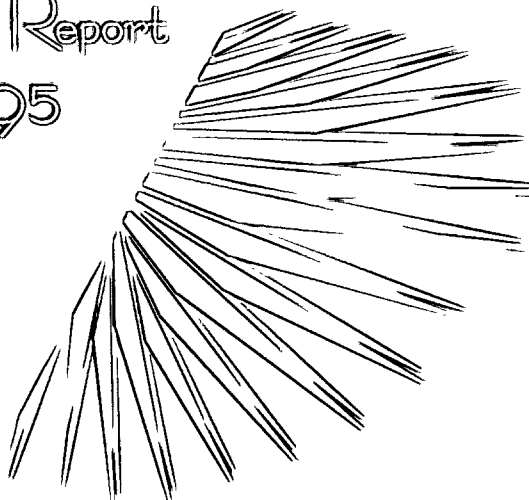
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"Gaining a Competitive Edge"

WASHINGTON PUBLIC POWER SUPPLY SYSTEM

Annual Report
1995



Annual Report 1995

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William G. Council

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Financial Operating Highlights

For the year ended June 30, 1995 (Dollars in millions)

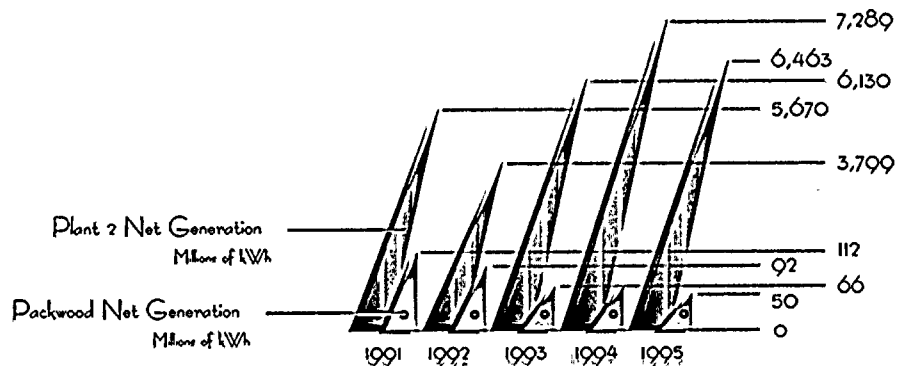
BONDS OUTSTANDING	FY 1995	FY 1994	CHANGE
Amount*/Weighted Average Coupon Rate			
WNP-1 amount	\$ 2,208.8	\$ 2,246.3	-1.7%
weighted average	6.3%	6.2%	1.6%
variable	\$ 149.9	\$ 153.3	-2.2%
average rate	3.5%	2.4%	45.8%
WNP-2 amount	\$ 2,603.7	\$ 2,612.2	-0.3%
weighted average	6.1%	6.1%	0
WNP-3 amount	\$ 1,701.5	\$ 1,738.4	-2.1%
weighted average	6.0%	6.0%	0
variable	\$ 198.3	\$ 202.1	-1.9%
average rate	3.5%	2.4%	45.8%

*Excludes Compounded Interest Bond Accretion

INVESTMENT PERFORMANCE	FY 1995	FY 1994	CHANGE
Income	\$ 48.5	\$ 50.1	-3.2%
Average Balance	\$ 899.4	\$ 894.2	0.6%
Rate of Return	5.4%	5.6%	-3.6%

OPERATING STATISTICS	NUCLEAR PROJECT NO. 2			PACKWOOD LAKE PROJECT		
	FY 1995	FY 1994	CHANGE	FY 1995	FY 1994	CHANGE
Total production costs*	\$ 139.9	\$ 155.9	-10.3%	\$ 1.0	\$ 0.4	150.0%
Net generation (millions of kWh)	6,462.7	7,288.8	-11.3%	60.7	65.6	-7.5%
Cost in mills/kWh*	21.7	21.4	1.4%	16.3	6.7	143.3%
Plant availability	75.0%	79.5%	-5.7%	60.0%	90.0%	-33.3%
Plant capacity	67.9%	76.6%	-11.4%	22.9%	27.3%	-16.1%

* Includes operation and maintenance costs per FERC report



Rudolph L. Bortolotti
Consultant,
Economic & Technical Analysis Group
Seattle, WA



Parker Knight
Commissioner, Skamania County PUD
Carson, WA

Don Carter (Board Secretary)
Deputy City Manager
City of Richland, WA



Malcolm Macdonald
Retired executive, Seattle City Light
Seattle, WA

Vera Clarkson (Board Assistant Secretary)
Commissioner, Grant County PUD
Ephrata, WA



Paul J. Nohm (Board Vice Chairman)
Attorney
Tacoma, WA

Dan G. Gunkel
Commissioner, Kittitas County PUD
Goldendale, WA



Bob Royer
Rathus Royer/Katz Communications
Seattle, WA

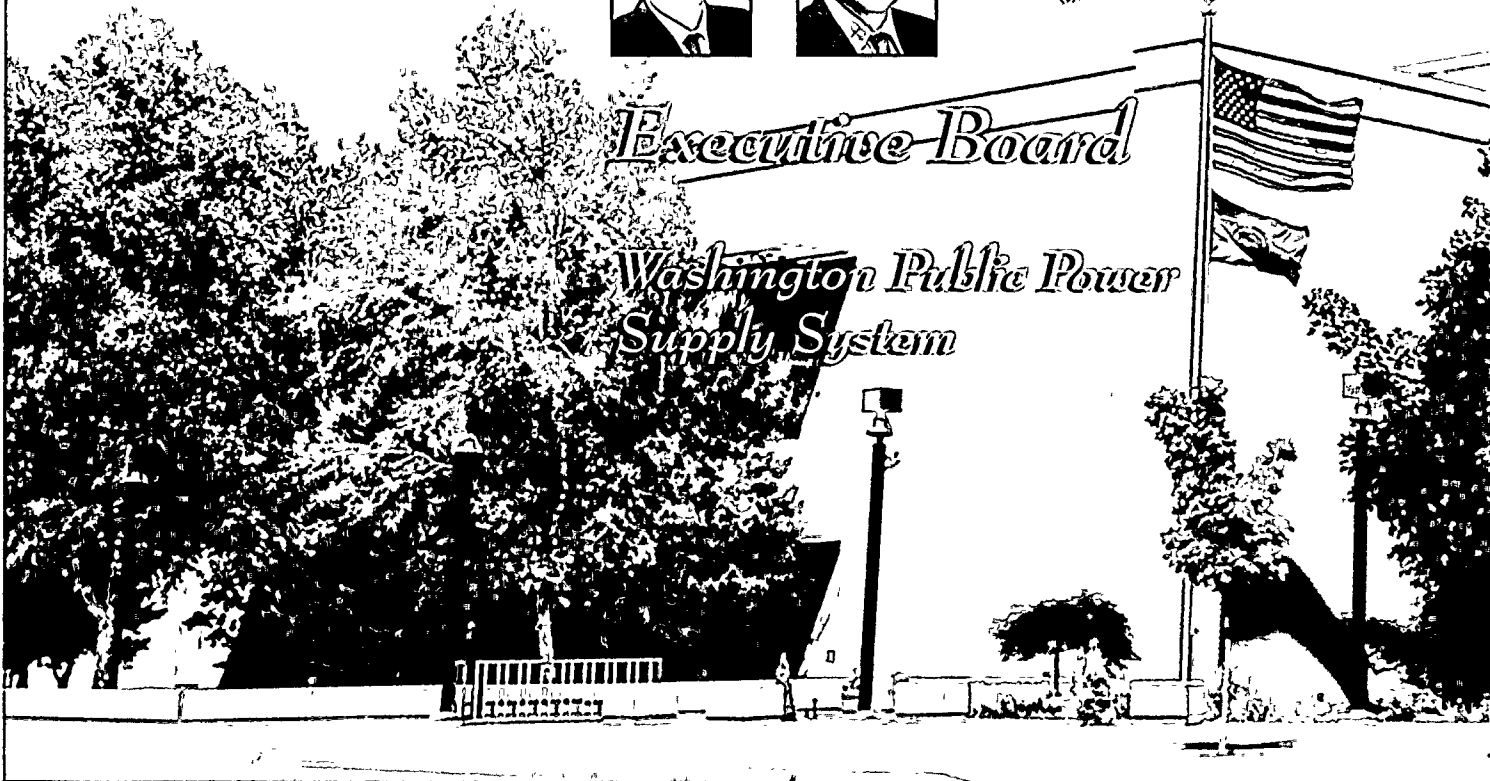
Carl M. Malvorson (Board Chairman)
President, Malvorson Mason Corp.
Portland, OR



Roger C. Sparks
Commissioner, Kittitas County PUD
Ellensburg, WA

Executive Board

Washington Public Power Supply System





Following 13 years of service, Carl M. Hakanson resigned from the Supply System Executive Board in July 1995.

Carl held the position of Executive Board Chairman since December 1982.

His contributions to the Executive Board, its committees, and the organization are appreciated.

SS



Carl M. Halvorson

This was my last year as a member of the Supply System's Executive Board. I leave this board after 13 years with the conviction that the organization as a whole is much more focused now than it was when I began my association with it.

In 1982, WNP-2 and -3 were still under construction, although questions were being asked about how long construction could continue at WNP-3. WNP-1 was preparing for preservation. WNP-4 and -5 had been terminated and were embroiled in lawsuits. The need to stay informed

on developments in all these areas and to make decisions affecting multi-billion dollar projects made Board membership a hectic proposition.

In the intervening years, WNP-4 and -5 litigation has been settled, the last of the large lawsuits in that collection—cost-sharing—in February 1995. It involved a dispute over the method allocating certain common and shared costs between the Supply System's "twinning" nuclear power projects WNP-1/4 and WNP-3/5. The Supply System's unique Hanford Generating Project, situated deep within the federal government's Hanford Site in southeastern Washington, was shut down for good in January 1987. At its startup in 1966, this plant that generated electricity using surplus steam from a federal nuclear reactor was the largest nuclear power plant in the world. Termination of WNP-1 and WNP-3 became a certainty in January of 1995 following a seven-month period during which we looked in vain for parties that would come forward with a legitimate proposal for use of either of those projects. The next steps for these plants will involve taking bids for demolition and site restoration, in anticipation of awarding a contract in calendar year 1996 at the WNP-3 and -5 site, and possibly three years later at the WNP-1 and -4 site.

These occurrences have allowed the Supply System to concentrate more and more on Plant 2, our remaining large nuclear power plant. Under Managing Director Bill Council's leadership, we have improved the operating record for this important regional generating resource. This improvement gained significance during FY95 as continued change in the regional electricity supply picture presented the customer for Plant 2's power—the federal Bonneville Power Administration—with the challenge of escalating price competition. Beginning in fiscal year 1996, the BPA will begin to reap the benefits of a Megawatt Improvement Program that was approved by the Executive Board in 1991 and completed during this fiscal year's annual maintenance and refueling outage. The program is expected to result in as much as 60 megawatts of increased electrical output.

The Supply System also continued its effort to provide new electrical generation options for BPA. In August 1994, we asked the state Energy Facility Site Evaluation Council for permits for the WNP-3 and -5 site to allow for construction of the proposed Satsop Combustion Turbine Project. One of the two CTs is dedicated to BPA, and we are actively marketing the second.

The Packwood Hydroelectric Project celebrated its 31st year of operation. Extensive work conducted on the plant's generator during this year's maintenance outage should keep Packwood operating well into the 21st century.

One of the programs I am most proud to be associated with is the refinancing of the Supply System's high-interest debt. Although no bonds were refinanced during this fiscal year because rising interest rates made it uneconomical, a gross debt service savings over the life of the bonds of about \$1.7 billion has been passed on to BPA, and ultimately to the electric consumers in the Pacific Northwest.

I came to the Supply System with more than 40 years of experience as a private sector contractor. While on the Supply System's Executive Board, I had the satisfaction of putting this experience to work for ratepayers throughout the Pacific Northwest. I also had the satisfaction of working on the Board with many talented and dedicated Board members, as well as a great staff.

Executive Board Chairman



William G. Council

The Pacific Northwest is experiencing a buyer's market for electricity, in which utilities have an increasing number of power supply choices. For example, independent power producers are active in the region, offering significant quantities of electricity at very competitive prices. During this year, the Supply System took actions, and planned others, that will allow us to provide competitively priced power for our customer.

The Bonneville Power Administration, customer for the power we generate, struggled this year in the intensely competitive environment. It is faced with rising costs and changes in hydro system operation to protect endangered salmon. At the same time, utility deregulation has encouraged growth of independent power producers, which do not share BPA's responsibilities for fish enhancement, energy conservation, and transmission system construction and maintenance.

To help BPA respond to these pressures, we improved production at Plant 2 and controlled costs...but we are not stopping there. We are aiming to reduce our cost of power to 2.7 cents per kilowatt-hour by July 1996, down from the 3.2 cents per kilowatt-hour originally budgeted for the coming fiscal year.

To meet this goal, we are continuing to look for ways to be more efficient. This past year we reduced our number of contractor employees to the minimum needed to support long-range improvements. We also reduced our staffing level from about 1,850 to 1,550, mainly through attrition and organizational realignments. We were also able to eliminate "unnecessary work," work not essential to the success of Plant 2 and the Supply System. This helped us to reduce overtime costs. These efforts reduced our fiscal year 1995 operating budget by \$9 million from the previous fiscal year.

Plant 2's improved performance has been and will continue to be the most significant factor in reducing the cost of our power. During fiscal year 1995, the plant operated for 204 continuous days, the second-longest period of continuous operation in its 10-year history, and the longest period of operation following an annual outage. The operating cycle was interrupted by a few short outages, but even so the plant provided more than 6.4 billion kilowatt-hours of electricity to Bonneville.

During this year's annual maintenance and refueling outage, completed in 49 days (the shortest in Plant 2's history), modifications were made and equipment was installed to increase the 1,112 megawatt electrical output by as much as 60 megawatts. Increased output combined with reduced operating costs will result in lowered kilowatt-hour cost.

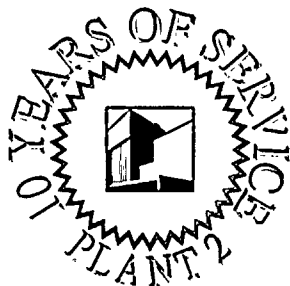
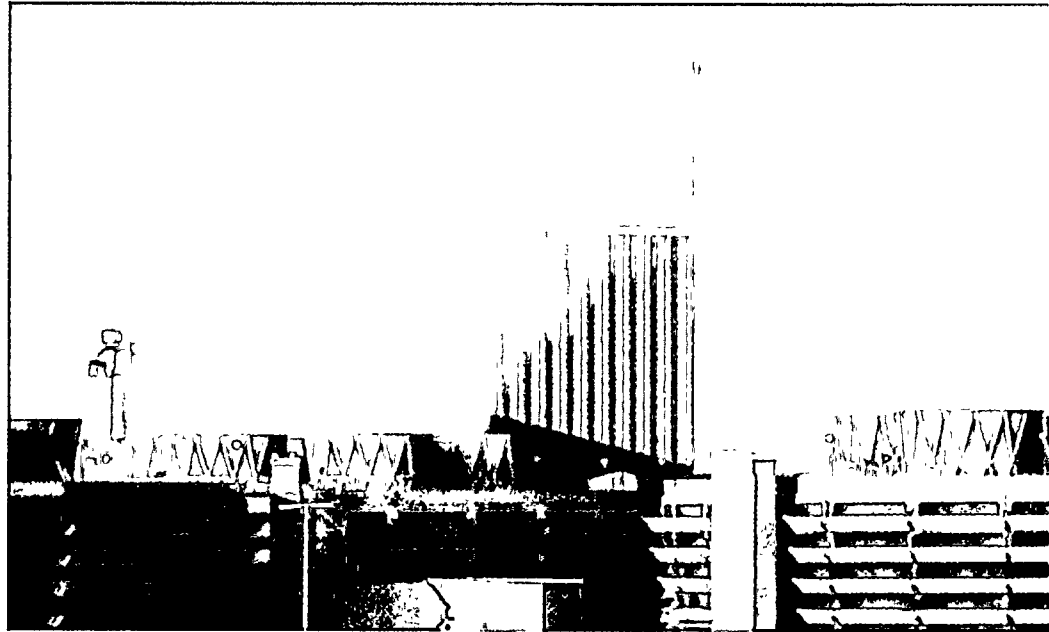
Another major effort, to be completed during next year's annual outage, will be to install adjustable speed drives on the plant's recirculation system pump motors, which will save wear and tear on equipment and aid in smoother startups.

Taking such steps to improve our performance and cut our costs, with a continued commitment to safety, will help us keep our cost of power competitive and we will remain a stable baseload resource for the region.

The Supply System

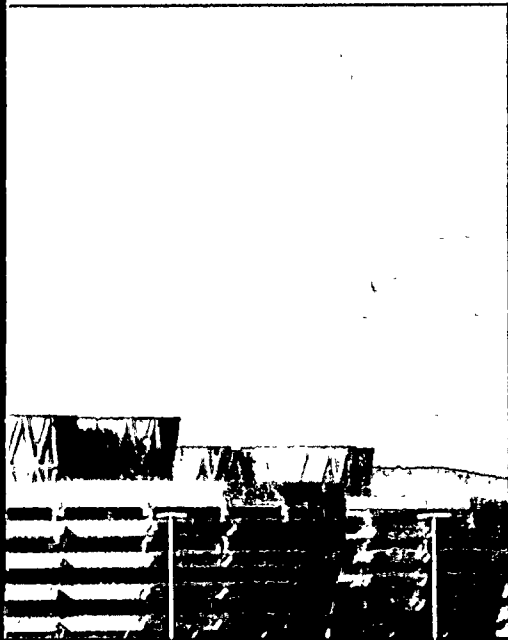
"Gaining a Competitive Edge"

With reduced costs and increased efficiency, Plant 2 will remain a strong, marketable resource, one of BPA's largest sources of thermally generated electricity in the Pacific Northwest.



Competition has never been more intense in the Pacific Northwest's electric utility business. Changes in federal laws and the entry of independent power producers offering low-cost power from natural gas-fired combustion turbines have given utility and industrial power purchasers new choices. Attracted by the lower costs, customers who have traditionally relied on power from hydroelectric and large thermal plants marketed by the Bonneville Power Administration are meeting some of their power needs elsewhere. One of BPA's largest sources of thermally generated electricity is the Supply System's Plant 2.

In a year during which Plant 2 reached its 10th anniversary of commercial operation, Supply System employees faced the competition head-on. The number of contractor employees, overtime costs, and nuclear fuel expense were reduced. Planned capital projects were deferred



or canceled. Organizational realignments brought increased efficiency that supported a nine-percent reduction in staffing level by June 1995.

Such actions were part of the ongoing drive to reduce the cost of Plant 2 power. While this fiscal year's cost of 3.5 cents per kilowatt-hour (regional perspective) continues a downward trend, it must go lower. Our plan is to reduce the cost to about 2.7 cents per kilowatt-hour by June 1996, with further reductions being considered. With reduced costs and increased efficiency, Plant 2 will remain a strong, marketable resource.

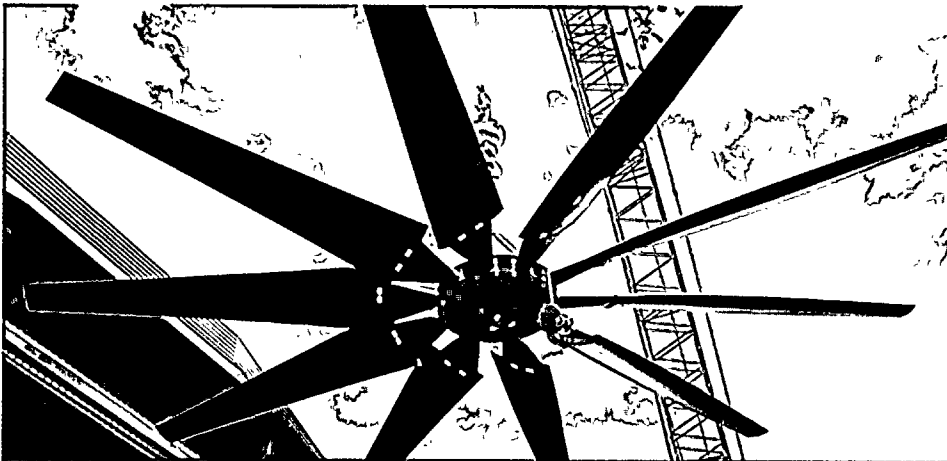
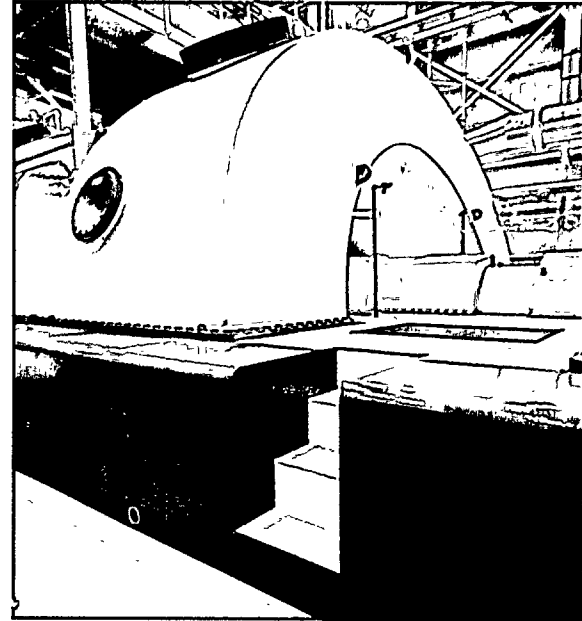
Increased efficiency was demonstrated this year by Plant 2's 204 days of continuous operation between July 1994 and February 1995, the longest period of continuous operation coming out of an outage. Although there were three short, unplanned outages in February and April, 1995, Plant 2 still generated more than 6.4 billion kilowatt-hours of electricity for the Bonneville Power Administration.

Modifications made during the fiscal year's outage were expected to increase Plant 2's electrical generating capacity by about 60 megawatts.



This year's annual Plant 2 maintenance and refueling outage was another illustration of the Supply System's focus on continuous improvement. It was completed in a record 49 days—beating Plant 2's previous-best outage in 1993 by three days. During that time, more than 3,800 tasks were completed, including replacement of 152 of the plant's 764 fuel assemblies; replacement of 12 local power range monitors which are used to measure reactor operating conditions; a remote camera inspection of reactor vessel welds, nozzles, and jet pumps; and inspection of the high-pressure turbine.

There also were a series of component tests and verifications to ensure the equipment was in prime condition for another year of operation. For the fifth straight year, random sample tests of Plant 2's snubbers produced zero failures, resulting in a United States nuclear industry record. Snubbers are mechanical devices that permit piping to move freely during thermal expansion and contraction, but also act as rigid restraints to minimize damage during sharp movements, such as earthquakes or other severe shocks.

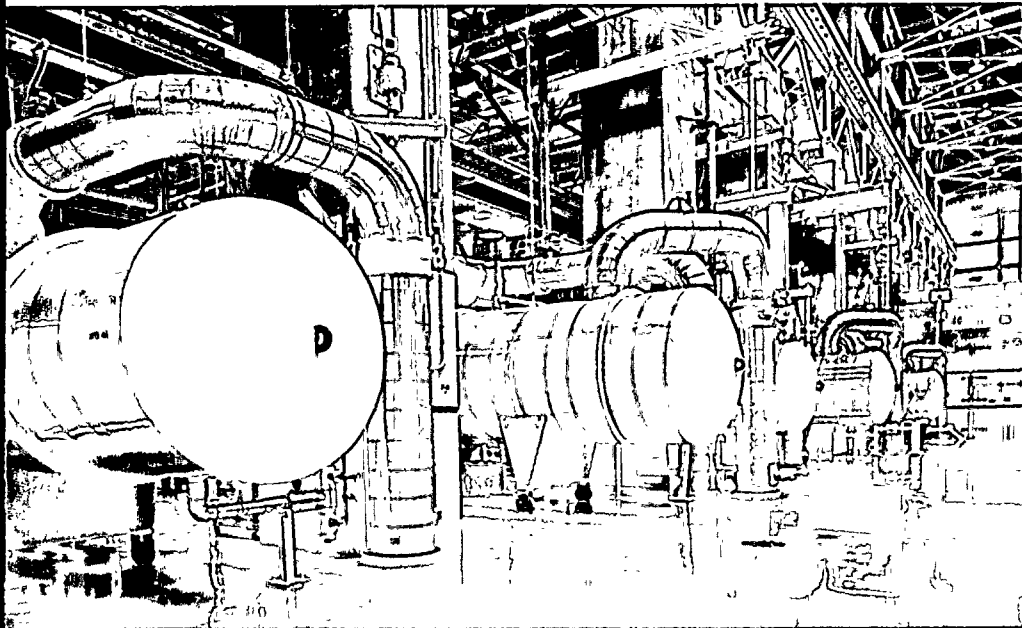


The snubbers are installed throughout the plant between pipes, pumps, motors, floors, walls, and ceilings. As in past years, Plant 2 came out of the annual outage fine-tuned and prepared to operate for another cycle. In addition, modifications made during the outage were expected to increase the electrical generating capacity of the plant by about 60 megawatts, enough to provide for more than 30,000 all-electric homes.

A total of 36 cooling tower fans were replaced during this year's maintenance and refueling outage to improve the reliability of the six cooling towers at Plant 2. The new 30-foot-diameter fans each have 10 blades, rather than eight, and can move more air with the same horsepower, resulting in more efficient cooling in the condensers. The new blades are made with a fiberglass resin composite as opposed to the old fan blades that employed metal in the design.

The Supply System

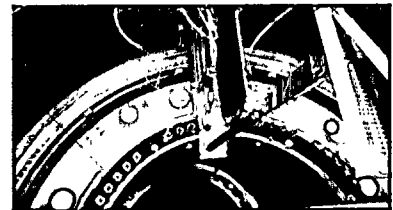
"Gaining a Competitive Edge"



Plant 2's annual maintenance and refueling outage, R10, was completed in a record 40 days. And the fewest number of recordable injuries in plant history among all plant personnel were recorded during the support of this year's record-setting outage.

A return to more normal water flow in the Columbia and Snake Rivers in June 1995 allowed BPA to meet its system demand for electricity with power from the federal hydroelectric system. Plant 2 was placed in "economic dispatch," and although the outage was completed on June 9, the plant had only a half-day of operation until July 3, when at BPA's request, the plant began extended operation.

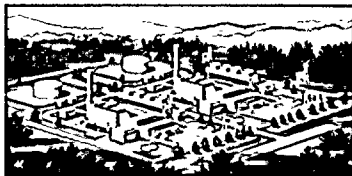
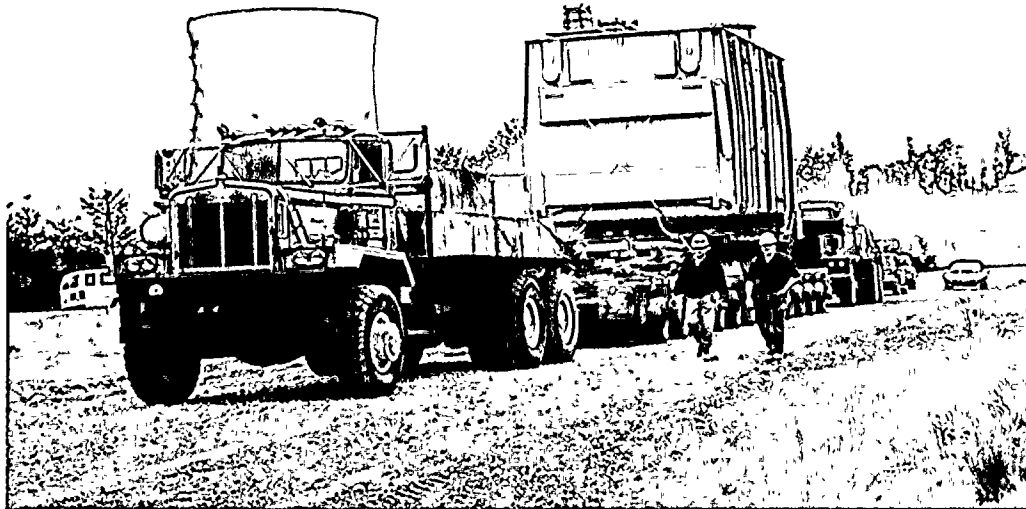
Other work completed during the fiscal year included installation of a new simulator in the Support Facility near Plant 2. Reactor operators who use it get hands-on training in an environment that duplicates the appearance and operation of the actual Plant 2 control room. The simulator replaces the plant's original simulator, which in 1988 was determined to need significant improvement to meet increasing high standards of performance required for training and examining reactor operators throughout the nuclear industry.



The Supply System

"Gaining a Competitive Edge"

In May 1995, the Supply System completed the sale of WNP-3's four 500-kv electrical transformers to Pacific Gas & Electric Co. of San Francisco for use at the Diablo Canyon power plant situated near Avila Beach, Calif. This includes three main transformers (one for each electrical phase) and a spare. The first major sale of WNP-3 assets was made prior to selection of an asset sales/demolition contractor at Satsop to accommodate outage schedules at Diablo Canyon. The 300-ton transformers were transported from the site by trailer to a barge slip on the Chehalis River, then by barge to Diablo Canyon. Proceeds from the sale go into WNP-3's construction trust account to offset project termination costs.



While Plant 2 remained the focus of our power production, we continued efforts to market competitively priced power from a proposed combustion turbine. In late January 1995, Power Resource Managers, Inc., of Bellevue, Washington, selected the Supply System's proposed combined cycle combustion turbine power plant for a short list of future power resources for the firm's customers. PRM represents several Northwest utilities. *Note: In July 1995, the Supply System received a letter from PRM stating their plans not to move forward with negotiating a memorandum of understanding on the proposed CT.*

The Satsop Combustion Turbine Project would be located on a portion of the Supply System's Satsop power plant site near the town of Elma, about 30 miles west of Olympia in Grays Harbor County.

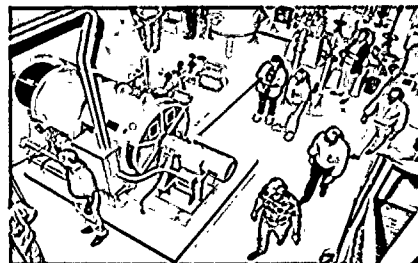
The Project consists of two Westinghouse combustion turbines, with a capacity of 245 megawatts each. Unit 1 is committed to Bonneville under an exclusive option agreement beginning in 1993. Unit 2 was offered to PRM in response to a request for proposals issued in September 1994.



Electricity from the Packwood Lake Hydroelectric Project, located in the Gifford Pinchot National Forest near Mt. Rainier, is distributed by the Bonneville Power Administration for use by 12 Public Utility Districts in Washington state. The plant supplies enough electricity to meet the annual needs of nearly 4,000 residences. Packwood began operating in June 1964. With extensive work conducted on the plant's generator during this year's outage, Packwood is expected to continue operation well past the year 2000.

January 1995 was also the month that the Supply System's Executive Board determined to proceed with demolition activities at our terminated sites, WNP-3/5 and WNP-1/4. A combined asset sales/demolition program is expected to begin at WNP-5 in 1996. Plans are to demolish the projects in the following order: WNP-5, WNP-3, WNP-4 and WNP-1.

The major decisions made and significant actions taken during fiscal year 1995 have moved the Supply System well along the road leading to lower, competitively priced power from Plant 2. The Supply System's progress in this direction will benefit the customer for this power—BPA—and the more than 100 utilities and industrial customers BPA serves.



BOARD OF DIRECTORS

Darrel Bunch
Commissioner
Okanogan County PUD

Tom Casey
Commissioner
Grays Harbor County PUD

Don Carter
Deputy City Manager
City of Richland

Vera Claussen (Secretary)
Commissioner
Grant County PUD

Mark Crisson
Superintendent
Tacoma Public Utilities

Beverly Cochrane Fitzgerald
(Vice President)
Commissioner
Franklin County PUD

Robert Graves (President)
Commissioner
Benton County PUD

Dan G. Gunkel
Commissioner
Klickitat County PUD

Parker L. Knight
Commissioner
Skamania County PUD

William G. Kuehne
Commissioner
Ferry County PUD

Dave Pflugrath
Commissioner
Chelan County PUD

Roger C. Sparks
Commissioner
Kittitas County PUD

Arne Torget (Assistant Secretary)
Commissioner
Wahkiakum County PUD

Gary Zarker
Superintendent
Seattle City Light

EXECUTIVE BOARD COMMITTEES

Administrative and Public Responsibility Committee

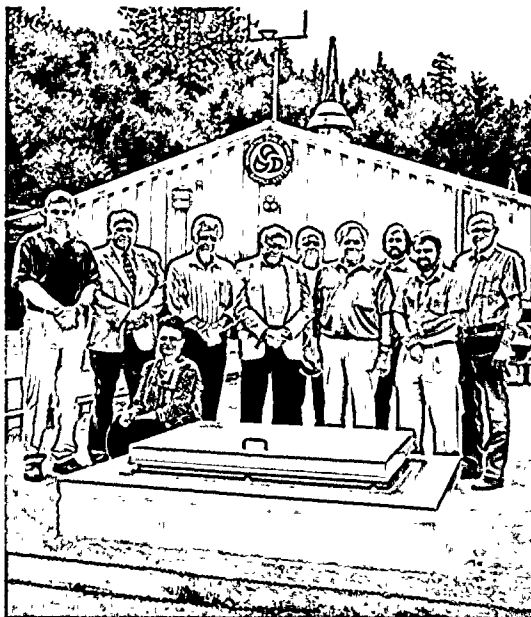
Vera Claussen, Chairman
Don Carter
Dan G. Gunkel
Paul J. Nolan
Bob Royer
Carl M. Halvorson, Ex Officio

Audit, Legal and Finance Committee

Paul J. Nolan, Chairman
Rudolph L. Bertschi
Vera Claussen
Bob Royer
Roger C. Sparks
Carl M. Halvorson, Ex Officio

Operations / Construction Committee

Parker L. Knight, Chairman
Rudolph L. Bertschi
Don Carter
Dan G. Gunkel
Roger C. Sparks
Carl M. Halvorson, Ex Officio



In July 1995, the Board of Directors toured the Packwood Lake Hydroelectric Project, located in the Cascade Mountains near Mt. Rainier. Pictured here in front of the power station are: Vera Claussen (sitting) and from left: Don Carter, William Kuehne, Darrel Bunch, Arne Torget, Parker Knight, Robert Graves, Tom Casey, Dennis Parrish (alternate for Seattle City Light) and Roger Sparks.

1995 ANNUAL REPORT

FINANCIAL INFORMATION

WASHINGTON PUBLIC POWER SUPPLY SYSTEM

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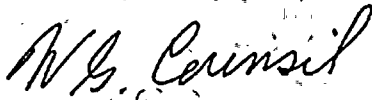
MANAGEMENT REPORT ON RESPONSIBILITY FOR FINANCIAL REPORTING

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 LLP, the Supply System's independent auditors. Management has made available to Deloitte & Touche LLP all financial records and related data, and believes that all representations made to Deloitte & Touche LLP 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 LLP 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 LLP concerning the control procedures and has taken appropriate action to respond to the recommendations. Management believes that, as of June 30, 1995, internal control procedures are adequate.



W. G. Council
Managing Director



G. J. Kucera
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 Paul J. Nolan, Chairman; Rudi Bertschi; Vera Claussen; Bob Royer; Roger Sparks; and Carl M. Halvorson, Ex Officio. The Committee held 11 meetings during the fiscal year ended June 30, 1995.

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.



Paul J. Nolan
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, 1995, 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, 1995, 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, the Supply System's Board of Directors has terminated Nuclear Projects Nos. 1 and 3 and the projects' Utility Plants have been written down to their net realizable values, and are held for sale.

Deloitte & Touche LLP

Seattle, Washington
September 1, 1995

BALANCE SHEETS

As of June 30, 1995

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	\$3,383,894	\$12,559				
Allowance for depreciation	(1,114,713)	(9,336)				
	2,269,181	3,223				
Nuclear fuel, net of accumulated amortization	152,997					
Construction work in progress	63,656					
	2,485,834	3,223				
RESTRICTED ASSETS (NOTE B)						
Special funds						
Cash	22	12		\$ 61	\$ 1,185	\$ 140
Investments	55,771	279	\$ 1	140,487	31,127	10,069
Accounts receivable				740	7,139	2,000
Due from other projects				41,308	95	53,105
Due from other funds					28,251	
Prepayments and other				117	79	1
Debt service funds						
Cash	49	1		293	93	1
Investments	157,258	723		216,761	176,930	42,583
	213,100	1,015	1	399,767	244,899	107,899
LONG-TERM RECEIVABLE (NOTE B)	50,297					
CURRENT ASSETS						
Cash	8,058	9		652	3,397	
Investments	35,028	712	8,431	9,138	10,370	
Accounts receivable	2,223	449		1	2	
Due from other projects	139		7	25		
Due from other funds	21,263	17		41,680		
Materials and supplies	55,030	2				
Prepayments and other	873	1				
Nuclear fuel held for sale				15,608		
Plant & equipment held for sale			3,900	10,611	7,657	
	122,614	1,190	12,338	77,715	21,426	
DEFERRED CHARGES						
Costs in excess of billings		3,593		2,018,217	1,793,157	
Unamortized regulatory studies	17,360					
Unamortized debt expense	17,534	9		23,050	18,889	
	34,894	3,602		2,041,267	1,812,046	
TOTAL ASSETS	\$2,906,739	\$ 9,030	\$12,339	\$2,518,749	\$2,078,371	\$107,899

* Supply System's ownership share (Note A)

Project recorded on a liquidation basis

See notes to financial statements

NUCLEAR
PROJECT
NO. 2PACKWOOD
LAKE
PROJECTHANFORD
GENERATING
PROJECT#NUCLEAR
PROJECT
NO. 1#NUCLEAR
PROJECT
NO. 3#NUCLEAR
PROJECTS
NOS. 4/5#**LIABILITIES****DEFICIENCY IN ASSETS****\$(4,295,488)****BILLINGS IN EXCESS OF COSTS** \$ 168,100**\$ 5,267****LONG-TERM DEBT (NOTE E)**

Revenue bonds payable 2,638,174 \$7,579 \$ 2,358,710 \$ 2,306,385

Unamortized discount on bonds - net (103,792) (35) (31,705) (371,787)

2,534,382 7,544 2,327,005 1,934,598**DEBT IN DEFAULT, CURRENTLY PAYABLE (NOTES E & F)**

Revenue bonds payable 2,155,755

Subordinated revenue notes 16,113

2,171,868**LIABILITIES - PAYABLE FROM RESTRICTED ASSETS (NOTE B)****Special funds**

Accounts payable and accrued expenses 33,923 8 1 52,017 38,370 3,433

Due to other projects 26,575 26,500

Due to other funds 18,456 2 18,780

Debt service funds

Accrued interest payable 95 70,561 47,007 2,217,618

Accounts payable 10,468

Due to other funds 2,807 15 22,900 17,211

55,186 120 1 190,833 129,088 2,231,519**OTHER NONCURRENT LIABILITIES**

Due to other projects 30,059

Other noncurrent liabilities 12,589 6

42,648 6**CURRENT LIABILITIES**

Current maturities of long-term debt 51,721 227

Accounts payable and accrued expenses 40,334 437 7,071

Due to participants 3,119 361 911 3,620

Due to other funds 11,040

Due to other projects 11,249 271 25

106,423 1,296 7,071 911 14,685**DEFERRED CREDITS**

Deferred gain on redemption of revenue bonds 64

COMMITMENTS AND CONTINGENCIES (NOTE F)**TOTAL LIABILITIES****\$2,906,739 \$9,030 \$12,339 \$2,518,749 \$2,078,371 \$107,899**

STATEMENTS OF OPERATIONS

For the year ended June 30, 1995 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	\$ 462,967	\$1,658				
OPERATING EXPENSES						
Nuclear fuel	24,642					
Fuel disposal fee	6,115					
Decommissioning	5,080					
Depreciation and amortization	107,299	365				
Operations and maintenance	127,275	702				
Administrative & general	41,023	136				
Generation tax	2,758	1				
Total operating expenses	314,192	1,204				
NET OPERATING REVENUES	148,775	454				
OTHER INCOME & EXPENSE						
Non-operating revenues - net			\$ (34)	\$2,459,775	\$1,979,447	\$ 65
Investment income	18,410	99	435	17,305	9,268	2,457
Interest expense and discount amortization	(165,225)	(295)		(150,334)	(117,873)	(187,731)
Plant preservation and termination costs			(37)	(5,382)	(6,443)	(4,646)
Settlement gain/(loss)				(26,500)	(7,219)	44,045
Loss on write-down of utility plant				(2,249,140)	(2,438,753)	
Site restoration				(46,000)	(36,000)	
Joint owners' share of allocable costs					615,968	
Other	(1,960)	(258)	(364)	276	1,605	
NET REVENUES BEFORE EXTRAORDINARY ITEM	0	0	0	0	0	(145,810)
EXTRAORDINARY ITEM						
Gain on write-off of liabilities (Note F)						11,427
NET REVENUES	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ (134,383)

* Supply System's ownership share (Note A)

Project recorded on a liquidation basis

See notes to financial statements

STATEMENTS OF CASH FLOWS

For the year ended June 30, 1995 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	\$ 403,529	\$ 1,774				
Cash payments for operating expenses	(193,723)	(563)				
Non-operating revenue receipts				\$ 178,898	\$ 140,642	\$ 66
Cash payments for preservation and termination costs				(5,702)	(8,201)	(5,685)
Cash payments/reimbursements for other expenses	435		\$ (56)	(992)		
Distributions/receipts of operating and non-operating surplus		(1,012)	(163)	163		
Net cash provided/(used) by operating and other activities	210,241	199	(219)	172,367	132,441	(5,619)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES						
Payment for bond issuance and financing costs	(11)			(447)	(334)	
Escrow restructuring receipts	344			1,816	2,747	
Capital and nuclear fuel acquisitions	(47,600)					
Cash payments for deferred programs	(1,253)					
Interest paid on revenue bonds	(155,993)	(293)		(146,916)	(100,502)	
Principal paid on revenue bond maturities	(8,515)	(307)		(57,830)	(40,735)	
Net cash used by capital and related financing activities	(213,028)	(600)	0	(203,377)	(138,824)	0
CASH FLOWS FROM INVESTING ACTIVITIES						
Purchases of investment securities	(1,120,081)	(10,970)	(16,693)	(911,962)	(610,205)	(316,097)
Sales of investment securities	1,108,859	11,304	16,510	916,228	597,190	318,629
Interest on investments	18,902	76	380	16,658	8,639	3,091
Receipts from sales of plant assets and fuel				10,336	13,415	
Net cash provided by investing activities	7,680	410	197	31,260	9,039	5,623
NET INCREASE/(DECREASE) IN CASH	4,893	9	(22)	250	2,656	4
CASH AT JUNE 30, 1994	3,236	13	22	756	2,019	137
CASH AT JUNE 30, 1995 (NOTE B)	\$ 8,129	\$ 22	\$ 0	\$ 1,006	\$ 4,675	\$ 141

* Supply System's ownership share (Note A)

Project recorded on a liquidation basis

See notes to financial statements

STATEMENTS OF CASH FLOWS (continued)

For the year ended June 30, 1995 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	\$ 148,775	\$ 454				
Adjustments to reconcile net operating revenues to cash provided by operating activities:						
Amortized revenues	(59,464)	(333)				
Depreciation and amortization	127,371	354				
Decommissioning	5,080					
Other	(2,304)	(258)				
Change in operating assets and liabilities:						
Accounts receivable	3,918	(225)				
Materials and supplies	(4,178)	(2)				
Prepaid and other assets	932					
Due from/to other projects, funds and participants	(1,107)	(86)				
Accounts payable	(8,782)	295				
Non-operating revenue receipts				\$ 178,898	\$ 140,642	\$ 66
Cash payments for preservation and termination expenses				(5,702)	(8,201)	(5,685)
Cash payments for other expenses			(56)	(992)		
Distributions/receipts of non-operating surplus			(163)	163		
Net cash provided/(used) by operating and other activities	\$ 210,241	\$ 199	\$ (219)	\$ 172,367	\$ 132,441	\$ (5,619)

* Supply System's ownership share (Note A)

Project recorded on a liquidation basis

See notes to financial statements

OUTSTANDING LONG-TERM DEBT

As of June 30, 1995 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	\$ 110,450
						<u>110,450</u>
1976A	11-18-76	5.86	(B)	5.60-5.75	7-1-96/2000	29,400
			100	6.00	7-1-2007	44,815
			99.50	6.00	7-1-2012	60,990
						<u>135,205</u>
1981A	9-4-81	14.67	100	14.375	7-1-2001	30,000
			59.958	8.25	7-1-2003	100,000
						<u>130,000</u>
1990A	3-15-90	7.77	99.75	7.25	7-1-2003	73,705
			97.125	7.25	7-1-2006	35,790
						<u>109,495</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)	7.00-7.50	7-1-97/2003	204,870
			(B)	(C)	7-1-2004/05	18,054
						<u>222,924</u>
1991A	9-26-91	6.81	(B)	5.80-6.60	7-1-96/2005	135,260
			90.375	6.00	7-1-2012	105,940
			(B)	(C)	7-1-2006/07	13,431
						<u>254,631</u>
1992A	10-2-92	6.19	(B)	4.65-6.30	7-1-96/2009	193,360
			97.230	6.25	7-1-2012	66,780
			98.875	6.30	7-1-2012	50,000
			(B)	(C)	7-1-2010/11	9,084
						<u>319,224</u>
1993A	5-20-93	5.76	(B)	4.20-6.00	7-1-96/2010	207,205
			96.404	5.75	7-1-2012	42,105
						<u>249,310</u>
1993B	7-15-93	5.64	(B)	4.10-5.65	7-1-96/2008	121,505
			100	5.55	7-1-2010	51,000
			97.775	5.625	7-1-2012	43,455
						<u>215,960</u>

(A) Based on original issue

(B) Various prices

(C) Compound interest bonds

(D) Excludes amounts due July 1, 1995

(E) Includes amounts due July 1, 1995

(F) The estimated fair value shown has been reported to meet the disclosure requirements of SFAS 107 and does not purport to represent the amounts at which these obligations would be settled.

OUTSTANDING LONG-TERM DEBT (continued)

As of June 30, 1995

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)						
1994A	1-27-94	5.31%	(B)	3.50-6.00%	7-1-96/2011	\$ 550,685
			100	5.40	7-1-2012	100,200
			100	(C)	7-1-2009	4,776
						<u>655,661</u>
Compound interest bonds accretion						<u>86,195</u>
Revenue bonds payable						<u>\$2,689,895 (D)</u>
Estimated fair value at June 30, 1995						<u>\$2,646,005 (F)</u>
PACKWOOD LAKE PROJECT REVENUE BONDS						
1962	3-20-62	3.66	99.425	3.625	3-1-2012	5,921
1965	11-4-65	3.76	100.5	3.75	3-1-2012	<u>1,885</u>
Revenue bonds payable						<u>\$ 7,806</u>
Estimated fair value at June 30, 1995						<u>\$ 6,773 (F)</u>
NUCLEAR PROJECT NO. 1 REVENUE BONDS						
1989A	9-14-89	7.76	100	6.90-7.30	7-1-95/2002	25,230
			98.185	7.00	7-1-2004	27,385
			99.017	7.50	7-1-2007	62,105
			97.759	7.50	7-1-2011	116,195
			82.083	6.00	7-1-2017	<u>95,110</u>
						<u>326,025</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
			98.533	7.125	7-1-2016	<u>41,070</u>
						<u>79,445</u>
1990A	3-15-90	7.73	(B)	6.80-7.60	7-1-95/2005	69,095
			92.75	7.00	7-1-2011	56,770
			81.75	6.00	7-1-2017	<u>55,635</u>
						<u>181,500</u>

(A) Based on original issue

(B) Various prices

(C) Compound interest bonds

(D) Excludes amounts due July 1, 1995

(E) Includes amounts due July 1, 1995

(F) The estimated fair value shown has been reported to meet the disclosure requirements of SFAS 107 and does not purport to represent the amounts at which these obligations would be settled.

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)						
1990B	6-7-90	7.75%	(B) 97.979 98.913	7.00-7.20% 7.25 7.25	7-1-99/2003 7-1-2009 7-1-2012	\$ 24,495 72,770 56,000 <u>153,265</u>
1990C	9-27-90	7.85	(B) 99.50	7.00-7.75 7.75	7-1-95/2003 7-1-2008	150,795 22,085 <u>172,880</u>
1991A	9-26-91	7.02	(B) 98.375	5.60-6.80 6.875	7-1-95/2008 7-1-2017	50,925 92,965 <u>143,890</u>
1992A	10-2-92	6.51	(B) 99.375 98	4.20-6.40 6.50 6.25	7-1-95/2011 7-1-2015 7-1-2017	46,085 137,820 78,815 <u>262,720</u>
1993A	5-20-93	5.86	(B) 100 99.75 96.306 96.566	3.75-7.00 5.75 6.05 5.75 5.70	7-1-95/2008 7-1-2011 7-1-2012 7-1-2013 7-1-2017	207,290 80,000 35,705 37,970 176,180 <u>537,145</u>
1993B	7-15-93	5.64	(B) 98.138	3.60-7.00 5.60	7-1-95/2010 7-1-2015	90,340 94,885 <u>185,225</u>
1993C	9-10-93	5.47	(B) 100 98.166	3.50-5.30 5.40 5.375	7-1-95/2010 7-1-2012 7-1-2015	24,655 66,400 75,650 <u>166,705</u>
1993-1A	12-15-93	NA	NA	Variable	7-1-95/2017	<u>149,910</u> 149,910
Revenue bonds payable						<u>\$2,358,710</u> (E)
1993A NOTES	5-20-93	4.975	100	4.70	7-1-1995	<u>0</u> <u>0</u> (D)
Revenue bonds/notes payable						<u>\$2,358,710</u>
Estimated fair value at June 30, 1995						<u>\$2,368,203</u> (F)

OUTSTANDING LONG-TERM DEBT (continued)

As of June 30, 1995

Dollars in thousands

SERIES	DATE OF SALE	TRUE INTEREST COST (A)	INITIAL OFFERING PRICES	COUPON RATE	SERIAL OR TERM MATURITIES	AMOUNT
NUCLEAR PROJECT NO. 3 REVENUE BONDS						
1989A	9-14-89	7.43%	100 (B) 84.75	6.90-7.30% (C) 6.00	7-1-95/2002 7-1-2003/14 7-1-2018	\$ 24,480 18,668 54,570 <u>97,718</u>
1989B	12-7-89	7.39	100 (B) 98.375 100 98.533 79.755 79.525	6.60-7.15 (C) 7.00 7.40 7.125 5.50 5.50	7-1-95/2001 7-1-2004/14 7-1-2005 7-1-2009 7-1-2016 7-1-2017 7-1-2018	77,465 71,321 85,690 29,235 76,145 62,560 65,905 <u>468,321</u>
1990B	6-7-90	7.57	(B) (B) 98.923	6.80-7.25 (C) 7.375	7-1-95/2000 7-1-2001/10 7-1-2004	100,455 39,211 55,920 <u>195,586</u>
1991A	9-26-91	6.97	(B) 97.75 94.552	5.60-6.80 6.75 6.50	7-1-95/2008 7-1-2011 7-1-2018	49,515 20,790 66,065 <u>136,370</u>
1992A	10-2-92	4.86	100	4.20-5.10	7-1-95/1998	<u>10,090</u> 10,090
1993B	7-15-93	5.64	(B) 97.775 98.138 98.058 97.719	3.60-7.00 5.625 5.60 5.60 5.70	7-1-95/2010 7-1-2012 7-1-2015 7-1-2017 7-1-2018	139,670 28,295 49,095 37,795 20,605 <u>275,460</u>
1993C	9-10-93	5.47	(B) 100 (B) 98.166 99.5	3.50-7.50 5.40 (C) 5.375 5.50	7-1-95/2010 7-1-2012 7-1-2013/18 7-1-2015 7-1-2018	178,540 105,000 25,248 188,355 20,805 <u>517,948</u>

(A) Based on original issue

(B) Various prices

(C) Compound interest bonds

(D) Excludes amounts due July 1, 1995

(E) Includes amounts due July 1, 1995

(F) The estimated fair value shown has been reported to meet the disclosure requirements of SFAS 107 and does not purport to represent the amounts at which these obligations would be settled.

SERIES	DATE OF SALE	TRUE INTEREST COST (A)	INITIAL OFFERING PRICES	COUPON RATE	SERIAL OR TERM MATURITIES	AMOUNT
<u>NUCLEAR PROJECT NO. 3 REVENUE BONDS (Continued)</u>						
1993-3A	12-15-93			Variable	7-1-95/2018	\$ <u>198,310.</u> <u>198,310</u>
<i>Compound interest bonds accretion</i>						<u>406,582</u>
<i>Revenue bonds payable</i>						<u>\$2,306,385 (E)</u>
<i>Estimated fair value at June 30, 1995</i>						<u>\$1,951,787 (F)</u>

DEBT-SERVICE REQUIREMENTS

As of June 30, 1995 Dollars in thousands

NUCLEAR PROJECT NO. 2

PACKWOOD LAKE PROJECT

FISCAL YEAR	PRINCIPAL	INTEREST	TOTAL	PRINCIPAL	INTEREST	TOTAL
6/30/95 Balance*	\$ 976	\$ 0	\$ 976	\$ 113	\$ 95	\$ 208
1996	51,639	155,722	207,361	347	281	628
1997	68,390	153,297	221,687	367	268	635
1998	72,050	149,283	221,333	387	255	642
1999	120,375	144,981	265,356	422	241	663
2000	131,390	136,979	268,369	473	226	699
2001	168,235	127,944	296,179	499	208	707
2002	92,835	116,371	209,206	523	190	713
2003	212,190	110,467	322,657	548	171	719
2004	158,249	107,591	265,840	573	151	724
2005	115,395	111,007	226,402	598	130	728
2006	131,896	93,685	225,581	623	109	732
2007	165,470	86,217	251,687	648	86	734
2008	192,780	64,101	256,881	674	62	736
2009	189,086	59,365	248,451	572	37	609
2010	202,629	52,719	255,348	274	16	290
2011	166,750	41,674	208,424	122	6	128
2012	363,365	21,904	385,269	43	2	45
2013						
2014						
2015						
2016						
2017						
2018						
Adjustment**	86,195	(86,195)	0			
	\$ 2,689,895	\$ 1,647,112	\$ 4,337,007	\$ 7,806	\$ 2,534	\$ 10,340

* 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

NUCLEAR PROJECT NO. 1

NUCLEAR PROJECT NO. 3

NUCLEAR PROJECTS
NOS. 4/5

FISCAL YEAR	PRINCIPAL	INTEREST	TOTAL	PRINCIPAL	INTEREST	TOTAL	PRINCIPAL	TOTAL
6/30/95 Balance*	\$ 43,500	\$ 70,561	\$ 114,061	\$ 41,762	\$ 47,007	\$ 88,769	\$ 0	\$ 0
1996	46,565	144,701	191,266	47,473	99,327	146,800	2,171,868	2,171,868
1997	50,770	142,092	192,862	36,490	96,563	133,053		
1998	53,020	139,117	192,137	34,555	94,524	129,079		
1999	67,275	135,965	203,240	68,150	92,615	160,765	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	
2000	71,325	131,737	203,062	73,025	88,247	161,272		
2001	76,105	127,203	203,308	71,585	90,107	161,692		
2002	75,705	122,205	197,910	76,257	86,234	162,491		
2003	66,375	117,220	183,595	78,522	84,568	163,090		
2004	78,065	113,019	191,084	62,396	96,206	158,602		
2005	70,345	108,016	178,361	63,621	94,365	157,986		
2006	87,770	103,463	191,233	64,457	92,640	157,097		
2007	93,630	97,693	191,323	59,381	92,903	152,284		
2008	100,135	91,265	191,400	61,196	91,181	152,377		
2009	104,070	84,282	188,352	63,648	88,827	152,475		
2010	111,285	77,352	188,637	66,117	86,461	152,578		
2011	135,355	70,067	205,422	84,464	75,450	159,914		
2012	144,565	61,213	205,778	98,062	71,717	169,779		
2013	156,210	52,609	208,819	95,410	74,630	170,040		
2014	165,535	43,397	208,932	98,355	71,817	170,172		
2015	175,530	33,534	209,064	129,220	41,108	170,328		
2016	186,925	23,424	210,349	133,834	36,663	170,497		
2017	198,650	11,848	210,498	142,027	28,643	170,670		
2018				149,796	21,047	170,843		

Adjustment**

406,582 (406,582)

\$2,358,710	\$2,101,983	\$4,460,693	\$2,306,385	\$1,436,268	\$3,742,653	\$2,171,868	\$2,171,868
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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, 1995, its membership consisted of 11 public utility districts and the cities of Richland, Seattle, and Tacoma. Grays Harbor County PUD rejoined the Supply System in April 1995. 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 1,153 MWe (Design Electric Rating net) 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, previously used by-product steam from the Department of Energy's (DOE) dual-purpose New Production Reactor (N-Reactor), and has not operated since the shutdown of the N-Reactor in 1987. As a result of the Secretary of Energy's decision to place the N-Reactor in permanent shutdown, the Supply System has evaluated alternative energy uses for the plant and anticipates eventual termination of HGP and subsequent removal and site restoration (see Note F - Hanford Generating Project).

Nuclear Project No. 1, a 1,250 MWe plant, was placed in extended construction delay status in 1982, when it was 65 percent complete. Nuclear Project No. 3, a 1,240 MWe plant, was placed in extended construction delay status in 1983, when it was 75 percent complete. On May 13, 1994, the Supply System's Board of Directors adopted resolutions terminating Nuclear Projects Nos. 1 and 3. (see Note E - Nuclear Projects Nos. 1 and 3 Termination). The Supply System has explored alternative uses for Nuclear Projects Nos. 1 and 3. However, no viable alternatives have been identified. Asset disposition plans and amended budgets, which included asset disposition activities, were adopted by the Executive Board on January 26, 1995. 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 in January 1982, and substantially all of the utility plant assets have been sold. 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 were declared invalid. 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 - 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.

All electrical energy produced by Supply System projects is delivered to electrical distribution facilities owned and operated by the Bonneville Power Administration (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 and BPA's other costs. See Note E, Security - Nuclear Projects Nos. 1, 2 and 3, for discussion of BPA's obligations with respect to Nuclear Projects Nos. 1, 2 and 3. BPA has no obligations with respect to Nuclear Projects Nos. 4 and 5.

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.

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.

HGP has been reduced to its net realizable value in anticipation of project termination (see Note F - Hanford Generating Project). Nuclear Projects Nos. 1 and 3 have been reduced to their realizable values due to termination. Plant and equipment held for sale includes management's best estimate for the net realizable value of the remaining inventories, buildings, equipment, tools, materials and consumables, common and operational spares, moveable equipment and land. 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 (the amortization of the cost of nuclear fuel assemblies used in the production of energy) is \$91 million as of June 30, 1995, for Nuclear Project No. 2. Current period operating expense for Nuclear Project No. 2 includes a charge for future spent nuclear fuel storage and disposal to be provided by DOE in accordance with the Nuclear Waste Policy Act of 1982, and a charge by DOE for clean-up of its nuclear enrichment facilities, in accordance with the Energy Policy Act of 1992. 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 DOE.

The Supply System executed a memorandum of understanding in December 1994 which provided for the sale of the initial core of enriched uranium product of Nuclear Project No. 1 to Nuclear Project No. 2 for \$41.4 million. This sales transaction is reflected in the accompanying financial statements of both projects.

The Supply System executed a contract in November 1994 to sell the remaining one million pounds of uranium for Nuclear Project No. 3 for \$11.6 million. This sale is reflected in the accompanying financial statements.

In December 1993, the Supply System and Nuexco Trading Corporation (Nuexco) entered into a contract for the sale of Nuclear Project No. 1's uranium to Nuexco. The uranium to be purchased by Nuexco had been previously loaned to Nuexco and pursuant to the terms of the contract, Nuexco agreed to periodically purchase incremental amounts of the fuel. In August 1994, Nuexco agreed to purchase approximately one million pounds of UF₆ for \$11.7 million and subsequently defaulted on the payment. As a result of the Nuexco default, the

Supply System took action to foreclose on collateral securing Nuexco's obligations for the fuel on loan. The collateral included a letter of credit (\$10.3 million) and uranium held in storage at Siemens Power Corporation in Richland, Washington. The collateral consists of uranium valued at \$2.7 million for Nuclear Project No. 1 and \$18.7 million for Nuclear Project No. 2 (see Note F - Fuel Contracts, Nuexco Bankruptcy). The Supply System has recorded losses of \$2.3 million for Nuclear Project No. 1 and \$2.3 million for Nuclear Project No. 2 for the loaned uranium transactions in addition to reserving \$11.9 million (includes loan fees) for Nuclear Project No. 1 and \$155,000 for Nuclear Project No. 2 for receivables from Nuexco.

The Supply System has entered into an agreement with General Electric Company to transfer enriched uranium in exchange for equivalent amounts of uranium at reload enrichments in future years and usage/loan fees. The Supply System has transferred approximately 630,000 pounds of UF₆ and 113,503 SWU of Nuclear Project No. 2 uranium. The exchange agreement has been secured by an irrevocable letter of credit issued in the amount of the replacement value, adjusted semiannually. The cost of this uranium, \$18.3 million, is included in the carrying amount of Nuclear Project No. 2 Nuclear Fuel. The estimated fair value is \$19.2 million.

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.

LONG-TERM RECEIVABLES

Long-term receivables include minimum guaranteed amounts pertaining to future discounts for certain goods and services to be provided to Nuclear Project No. 2 as the result of a litigation settlement.

DECOMMISSIONING

Estimated Nuclear Project No. 2 decommissioning costs are accrued based on current funding requirements. 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 \$357 million (in 1987 dollars). Payments to the decommissioning fund for the year ended June 30, 1995, aggregated \$3.2 million and the balance of the fund at June 30, 1995, was \$30.7 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.

FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value of financial instruments has been estimated using available market information and appropriate valuation methodologies. Considerable judgment is required in interpreting market data to develop fair value estimates and such estimates are not necessarily indicative of the amounts that could be realized in a current market exchange. The following methods and assumptions were used to estimate the fair value of each of the following financial instruments.

Cash, accounts receivable, accounts payable and accrued expenses, other noncurrent liabilities and due to and from participants, other projects and other funds: the carrying

amount approximates fair value. Investments and revenue bonds payable: the fair value is based on quoted market prices for such instruments or similar instruments. The fair value of revenue bonds payable currently in default is not determinable due to litigation contingencies.

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 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 recorded as either billings in excess of costs (liability) or as costs in excess of billings (asset), as appropriate. Such amounts will be recognized as revenues, or costs, during future operating periods.

STATEMENTS OF CASH FLOWS

For purposes of the statements of cash flows, 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 depository 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, and Federal Home Loan Banks, as well as repurchase agreements. Collateral for repurchase agreements must be authorized.

INVESTMENTS (Dollars in thousands)	U.S. Gov't Securities	U.S. Gov't Agencies	Total	Accrued Interest	Carrying Amount
NUCLEAR PROJECT NO. 2					
Amortized cost	\$ 138,623	\$ 106,230	\$ 244,853	\$ 3,204	\$ 248,057
Fair value	141,480	106,543	248,023		
PACKWOOD LAKE PROJECT					
Amortized cost	1,444	270	1,714	-0-	1,714
Fair value	1,444	270	1,714		
HANFORD GENERATING PROJECT					
Amortized cost	8,432	-0-	8,432	-0-	8,432
Fair value	8,438	-0-	8,438		
NUCLEAR PROJECT NO. 1					
Amortized cost	125,517	237,958	363,475	2,911	366,386
Fair value	125,254	237,866	363,120		
NUCLEAR PROJECT NO. 3					
Amortized cost	66,226	150,677	216,903	1,524	218,427
Fair value	65,414	150,750	216,164		
NUCLEAR PROJECTS NOS. 4/5					
Amortized cost	51,896	14	51,910	742	52,652
Fair value	51,861	14	51,875		

investments under Supply System investment policies. The Supply System did not invest in repurchase agreements during fiscal year 1995. 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 Supply System's investments are categorized, (see chart on page 30), 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, 1995, the Supply System's payroll covered under PERS was \$99 million, representing 94 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, 1993 (the latest actuarial valuation date per the Department of Retirement Systems), 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 \$10.752 billion and the value of net assets available to satisfy present and future pension benefit obligations was \$9.621 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.

Supply System contributions for the year ended June 30, 1995, 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	7.21%	\$ 960,080	7.21%	\$6,179,130
Actual Supply System contributions	7.58%	\$1,009,349	7.58%	\$6,496,228
Employee Contributions				
Actuarially determined requirement	6.00%*	\$ 798,958	5.08%	\$4,353,672
Actual employee contributions	6.00%	\$ 798,958	5.00%	\$4,285,111
* 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, 1994, 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, 203 retirees are eligible to receive life insurance benefits and 147 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 employees retiring prior to January 1, 1995. For non-bargaining employees retiring after December 31, 1994, the benefit is limited to \$50,000. The life insurance benefit is based on one-half of the employee's annual rate of salary at retirement with a \$22,000 maximum benefit for bargaining employees. Employees who retire prior to January 1, 1995, contribute \$6.60 per \$1,000 of coverage while employees who retire after December 31, 1994, contribute \$26.52 per \$1,000 of coverage. The Supply System funds the death benefit claims on a pay-as-you-go basis.

At the time each employee retires, the Supply System accrues a liability for the actuarial present value of estimated claims, net of retiree contributions. The total liability recorded at June 30, 1995, was \$2.8 million for these benefits.

During fiscal year 1995, pension costs for Supply System employees and postemployment life insurance benefit costs for retirees were calculated and allocated to each project based on direct labor dollars. Approximately 94 percent of all such costs were allocated to Nuclear Project No. 2 during fiscal year 1995.

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.

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 1995 defeasements, approximately \$704.7 million, \$853.9 million, and \$684.8 million of bonds outstanding are considered defeased at June 30, 1995, for Nuclear Projects Nos. 1, 2 and 3, respectively.

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

Outstanding revenue bonds of the various projects as of June 30, 1995, are presented on pages 21 through 25, and debt service requirements for these bonds are presented on pages 26 and 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.

On May 13, 1994, the Supply System's Board of Directors adopted resolutions terminating Nuclear Projects Nos. 1 and 3. The Nuclear Projects Nos. 1 and 3 project agreements and the net-billing agreements, except for certain sections which relate only to billing processes and accrued liabilities and obligations under the net-billing agreements, ended upon termination of the projects. The Supply System entered into an agreement with BPA to provide continued funding for the existing preservation program until January 1995, and for continuation of the present budget approval, billing and payment processes. With respect to Nuclear Project No. 3, the ownership agreement

among the Supply System, Puget Sound Power & Light Company, PacifiCorp, Portland General Electric Company and The Washington Water Power Company remains in effect following termination.

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 - Nuclear Projects Nos. 4 and 5 Termination, Bond Default, and Litigation).

SECURITY - HANFORD GENERATING PROJECT

The Supply System redeemed the remaining HGP bonds in the principal amount of \$6.635 million on September 1, 1992.

SECURITY - PACKWOOD LAKE HYDROELECTRIC PROJECT

Under power sales agreements, 12 public utility districts have purchased all of the project capability of Packwood. The 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. 1 AND 3 TERMINATION

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. On May 13, 1994, the Supply System's Board of Directors adopted a resolution terminating Nuclear Projects Nos. 1 and 3. Additionally, the Board of Directors recommended to the Executive Board that the Supply System enter into an agreement with BPA to provide continued funding for the existing preservation programs, including the maintenance of all federal and state licenses and permits until January 13, 1995, or such other date as may

be mutually agreed upon by BPA and the Supply System. The Supply System and BPA executed post termination agreements for Nuclear Projects Nos. 1 and 3 on June 14, 1994, in which BPA agreed to continue funding for preservation of the projects to evaluate alternative uses for and to facilitate the marketing of the projects until January 13, 1995;

Since that date, the Supply System has begun planning for demolition of the projects and restoration of the sites in light of the fact that there is no market for the sale of the Projects in their entirety, and no viable alternative uses have been found. Funding for the Projects has continued for administrative efforts associated with termination and planning of demolition activities for the Projects. Preservation activities have been continued for certain high-value assets to maximize the return on their expected resale. At this time, the eventual disposition of the projects is unknown. The Supply System has reduced the assets to their estimated net realizable value and has accrued for the estimated cost of removal and site restoration (see Note B - Utility Plants).

The project agreements ended upon termination of the projects, as did the net-billing agreements, except for certain sections which relate only to billing processes and accrued liabilities and obligations. The post termination agreements provide for an assured period of funding for asset preservation and for continuation of the present budget approval, billing and payment processes. The ownership agreement among the Supply System, Puget Sound Power & Light Company, PacifiCorp, Portland General Electric Company and The Washington Water Power Company remains in effect following termination.

COST-SHARING LITIGATION

In 1982, litigation was commenced by Nuclear Projects Nos. 4 and 5 bondholders against the Supply System, BPA, and all of the utilities participating in Nuclear Projects Nos. 1, 2, 3, 4 and 5 alleging costs shared between Nuclear Projects Nos. 1 and 4 and Nuclear Projects Nos. 3 and 5 had been misallocated to the detriment of Nuclear Projects Nos. 4 and 5. In 1983, Chemical Bank, as trustee for the Nuclear Projects Nos. 4 and 5 bondholders, intervened on behalf of the bondholders.

On July 6, 1995, a settlement agreement was executed between the Supply System, Chemical Bank, BPA, and all public and private utilities involved in Nuclear Projects Nos. 1, 2, and 3, except PacifiCorp. The terms of the settlement provided for payments of \$55 million to Chemical Bank for the benefit of Nuclear Projects Nos. 4 and 5 bondholders. All parties to the settlement agreement agreed to release all claims against the Supply System relating to Nuclear Projects Nos. 4 and 5, except those utilities which made "Bridge and Termination" loans to Nuclear Projects Nos. 4 and 5 (page 34). Chemical Bank further agreed to extinguish its \$2.25 billion judgment obtained against the Supply System in the MDL-551 litigation in exchange for the issuance of a warrant payable only against the Nuclear Projects Nos. 4 and 5 bond fund.

The settlement agreement further provides that Nuclear Projects Nos. 4 and 5 assets and properties may, at some time in the future, be transferred to Nuclear Projects Nos. 1 and 3 at the direction of BPA and the Supply System, and Chemical Bank assigned all rights to proceeds from sales of such assets and properties to BPA. On July 26, 1995, an order was entered in the District Court approving the settlement. The Supply System has accrued for the \$55 million payment.

PacifiCorp, a 10-percent owner in both Nuclear Projects Nos. 3 and 5, was not a party to the above-described settlement agreement. As set forth below in "Nuclear Project No. 5 Termination Claim," PacifiCorp has outstanding claims against the Supply System for breach of contract for failing to complete Nuclear Project No. 5, a "Bridge" loan claim against Nuclear Project No. 5, a claim for equipment and material transfers by Nuclear Project No. 5 against Nuclear Project No. 3, and other claims against the Supply System. The Supply System is unable to predict the outcome of this litigation.

HANFORD GENERATING PROJECT

HGP, completed in 1966, previously used by-product steam from DOE's N-Reactor, and has not operated since the shutdown of the N-Reactor in 1987. The federal government's decision to place the N-Reactor in permanent shutdown eliminated the N-Reactor as an energy source for HGP. The Supply System has evaluated alternative energy uses for the plant to no avail. Current options include a transfer to DOE for removal and site restoration, or removal and site restoration by the Supply System. At this time, it is unknown what the eventual disposition of HGP will be. The Supply System has reduced the assets of HGP to their net realizable value and has accrued for the estimated cost of removal and site restoration.

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 prior to completion. The Supply System had previously issued \$2.25 billion of bonds to pay costs of the projects. The participants' agreements (discussed in Note E - 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. 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. This decision became final when the U.S. Supreme Court denied a writ of certiorari.

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 was 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.

Beginning in 1983, a number of lawsuits were filed by and on behalf of purchasers and holders of Nuclear Projects Nos. 4 and 5 bonds ("the securities litigation"). The defendants named in the lawsuits included the Supply System, its member utilities, Nuclear Projects Nos. 4 and 5 participants, BPA, the architect/engineers and the lead underwriters for Nuclear Projects Nos. 4 and 5 and the Supply System's former bond counsel, special counsel and financial advisor. 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 lawsuits 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 the securities litigation. The agreement called for the Supply System to consent to entry of a judgment on the contract claim on the Nuclear Projects Nos. 4 and 5 bonds brought on behalf of bondholders. All other claims against the Supply System were to be dismissed with prejudice. The amount of the judgment was to equal the aggregate unpaid principal amount of the Nuclear Projects Nos. 4 and 5 bonds and accrued interest thereon at the time the judgment was entered. Recourse for satisfaction of the judgment was expressly limited to the funds and assets of the Supply System pledged to secure the Nuclear Projects Nos. 4 and 5 bonds. The settlement agreement provided that judgment would be entered upon final judgment or final settlement of all suits covered by the settlement.

All other defendants in the securities litigation and the State of Washington, a nonparty, settled all of the claims against them for aggregate payments of more than \$850 million. All of the settlements were approved by the District Court on September 5, 1989. The court found that the settlements were binding on all Nuclear Projects Nos. 4 and 5 bondholders in the litigation. On February 4, 1992, the Court of Appeals affirmed, in its entirety, the settlement of those claims; and a petition for certiorari was denied by the U.S. Supreme Court on November 2, 1992.

Accordingly, the District Court's ruling now permanently bars Chemical Bank and all Nuclear Projects Nos. 4 and 5 bond purchasers and bondholders from commencing, prosecuting, or continuing any action against the Supply System arising out of or relating to the allegations or subject matter of the securities litigation. However, based on the terms of the Supply System's settlement with Chemical Bank, the ruling did not preclude Chemical Bank from continuing with the Cost-Sharing litigation

described above which, as between Chemical Bank, Nuclear Projects Nos. 4 and 5 bondholders and the Supply System has been settled as described above.

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.

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. Due to the expiration of the statute of limitations, the Supply System wrote off \$3.1 million of principal and \$8.3 million of accrued interest for bridge/termination loans during the year ended June 30, 1995. Interest on the remaining loans in the amount of approximately \$60.9 million remains accrued and unpaid at June 30, 1995. Pursuant to the terms of the settlement agreement in the Cost Sharing litigation, the parties thereto agreed to the entry of judgments against Nuclear Projects Nos. 4 and 5 in favor of Puget Sound Power & Light and The Washington Water Power for bridge loans made to the Supply System by those utilities. Additionally, all settling defendants released each other and agreed inter alia not to assert said bridge or termination loans against any of the other settling defendants, except for purposes of an offset against claims made with respect to Nuclear Project Nos. 4 and 5.

Since the date of the settlement agreements, discussions have been held between the Supply System and the bridge and termination loan judgment holders to effect the dismissal or satisfaction of said judgments. The Supply System is unable to predict such efforts will be successful.

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.

The Supply System's management and legal counsel are of the opinion that such creditors will only be able to realize upon the net assets of Nuclear Projects Nos. 4 and 5 and will not be able to realize upon any net assets or future revenues of the Supply System and/or its other projects.

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. (also known as "Cost Sharing Litigation") 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, plus interest. Prosecution of that claim had been stayed since 1983. However, on July 26, 1995, following approval of the settlement of all other claims in the Cost Sharing litigation, an order was entered effectively removing the stay and reinstating PacifiCorp's claims. The Supply System is unable to predict the outcome of this litigation, but counsel is of the opinion that a successful claim against assets of other than Nuclear Projects Nos. 4 and 5 is remote.

NUCLEAR PROJECTS NOS. 1/4 AND 3/5 SITE RESTORATION

Nuclear Projects Nos. 1/4 and 3/5 site restoration requirements are governed by separate site certification agreements between the Supply System and the state of Washington and regulations adopted by Energy Facility Site Evaluation Council (EFSEC) and, with respect to Nuclear Projects Nos. 1 and 4, a lease agreement with DOE. The Supply System submitted a site restoration plan to EFSEC on March 8, 1995, which complied with EFSEC requirements to remove the assets and restore the sites by demolition, burial, entombment, or other techniques such that the sites pose minimal hazard to the public. EFSEC approved the Supply System's site restoration plan on June 12, 1995. In approval, EFSEC recognized that there is uncertainty associated with the Supply System's proposed plan. Accordingly, EFSEC's conditional approval provided for additional reviews once the details of the plan are finalized. The Supply System has recorded an accrued liability of \$46 million and \$36 million (based on current estimates for site restoration) for Nuclear Projects Nos. 1 and 3, respectively. Funding for this liability will be provided by BPA. No source of funding has been identified for site restoration on Nuclear Projects Nos. 4 and 5. Although Nuclear Projects Nos. 1 and 3 have no legal obligation

to fund Nuclear Projects 4 and 5, it is possible that claims may be asserted against Nuclear Projects Nos. 1 and 3 to pay the costs of site restoration for Nuclear Projects Nos. 4 and 5 which are estimated to be in the range of \$26 to \$43 million (in March 1995 dollars).

FUEL CONTRACTS - NUEXCO BANKRUPTCY

The Supply System has for several years engaged in uranium purchase, sale and loan transactions with Nuexco Trading Corporation (Nuexco), a corporation owned by Oren L. Benton ("Benton"). On February 23, 1995 (the "Petition Date"), Nuexco, Benton and several related entities filed chapter 11 bankruptcy cases in the U.S. Bankruptcy Court for the District of Colorado (the "Bankruptcy Case"). Prior to commencement of the Bankruptcy Case, the Supply System had outstanding three uranium loan or sale contracts (two contracts relating to Nuclear Project No. 1 and one contract relating to Nuclear Project No. 2). Nuexco had secured these contracts with a letter of credit and a pledge of uranium in various forms.

A few months before the Bankruptcy Case commenced, Nuexco had defaulted to the Supply System on a significant payment for the purchase of uranium relating to Nuclear Project No. 1. The Supply System drew on its letter of credit in partial satisfaction of such payment and, pursuant to the terms of a subsequent settlement agreement (the "Settlement Agreement"), Nuexco transferred to the Supply System all of Nuexco's right, title and interest in the uranium pledged to the Supply System. In addition, Nuexco, together with certain guarantors of Nuexco's obligations, including Benton, agreed to pay a deficiency claim in the amount of \$14,500,000. The Supply System anticipates collecting from the Bankruptcy Case only a small percentage of this deficiency amount. As such, the Supply System has fully reserved against the \$11.9 million receivable from Nuexco.

Approximately \$21.4 million of uranium collateral (approximately \$2.7 million of Nuclear Project No. 1 materials and \$18.7 million of Nuclear Project No. 2 materials) turned over to the Supply System under the Settlement Agreement is located at Siemens Power Corporation's (Siemens) storage and fabrication facility in Richland, Washington. Several utilities with similar accounts at Siemens, together with other parties in interest in the Bankruptcy Case, are seeking to establish entitlement to the fuel in their various accounts transferred to them by Nuexco. Siemens has indicated it will not make any of the material available to the Supply System or these other parties until the disputes between the parties are settled or the bankruptcy court orders otherwise. Although the parties are asserting conflicting claims to this material at Siemens, the Supply System believes that its entitlement to the material at Siemens will be upheld. Nuclear Project No. 1's uranium collateral materials are included in Nuclear Fuel Held for Sale. Nuclear Project No. 2's uranium collateral materials are included in Nuclear Fuel. (See note A)

OTHER LITIGATION AND COMMITMENTS

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

NUCLEAR LICENSING AND INSURANCE

The Supply System is a licensee of the Nuclear Regulatory Commission and is subject to routine licensing and user fees, to retrospective premiums for nuclear liability insurance, and to license modification, suspension, or revocation or civil

penalties in the event of violations of various regulatory and license requirements.

The Price Anderson Act currently provides for nuclear liability insurance over \$8.7 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 110) may be assessed up to \$75.5 million per incident, subject to a maximum annual assessment of \$10 million per year.

Nuclear property damage and decontamination liability 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 \$1.2 billion. The deductible for this coverage is \$10 million per occurrence.

For the year ended June 30, 1995 (unaudited)

BOND RATINGS - SUPPLY SYSTEM

Fitch Investors Service LP
Moody's Investors Service, Inc. (Moody's)
Standard and Poor's Corporation (S & P)

FY 1995	FY 1994
AA*	AA-
Aa	Aa
AA	AA

VARIABLE RATE LETTER OF CREDIT BANKS

Long Term

Series 1993-1A/3A-1
Series 1993-1A/3A-2
Series 1993-1A/3A-3

Short Term

Series 1993-1A/3A-1
Series 1993-1A/3A-2
Series 1993-1A/3A-3

S & P	MOODY'S
A+	Aa3
A+	A1
AA	Aa2
A-1	VMIG1
A-1	VMIG1
A-1+	VMIG1

* Rating changed to AA- on August 17, 1995