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June 19, 1984

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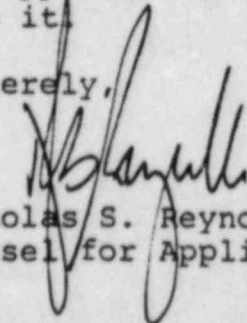
Re: Washington Public Power Supply System
(WPPSS Nuclear Project No. 1)
Docket No. 50-460-OL

Gentlemen:

Enclosed for your information is a letter from the Bonneville Power Administration to the Managing Director of the Washington Public Power Supply System announcing the initiation by BPA of a "public involvement process" to assist BPA in evaluating the construction schedules for WNP-1 and WNP-3. The letter indicates that BPA presently assumes that full construction will resume on WNP-1 and WNP-3 in July 1986 and July 1985, respectively.

We are providing copies of this BPA letter to the Board mindful of our obligation to apprise the Board of matters which bear on issues before it.

Sincerely,


Nicholas S. Reynolds
Counsel for Applicant

Enclosure
cc: Service List

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DS03



Department of Energy

Bonneville Power Administration
P.O. Box 3621
Portland, Oregon 97208

OFFICE OF THE ADMINISTRATOR

JUN 8 - 1984

In reply refer to:

D
BPWP-G-84-19

Mr. D. W. Mazur, Managing Director
Washington Public Power Supply System
P.O. Box 968
Richland, Washington 99352

Dear Mr. Mazur:

As you know, the Bonneville Power Administration (BPA) is beginning the process of developing its budgets for Fiscal Years 1986 and 1987 and its rates for the period of July 1985 through September 1987. This is especially significant because we must make final decisions before the end of this year on the assumptions to be used in our budgets and rates for those periods.

During the last few years, BPA has grown increasingly more sensitive to public concern about major activities we undertake. Therefore, we are beginning a public involvement process to examine whether we should continue to use our current assumptions about WNP-1 and -3 construction schedules in our 1986-1987 budgets and rates. Our current assumptions are that full construction will resume on WNP-1 and -3 in July 1986 and July 1985, respectively, and that they will be in commercial operation in June 1991 and December 1989, respectively. We also assume that construction and fuel costs will be financed through conventional financing.

To review these assumptions, we will conduct analyses similar to our previous analysis of Supply System projects which led to our recommendations to place WNP-1 and -3 in preservation status. We want to examine the funding levels we should assume for the two plants for the next two years. In this public process, we will also consider alternative schedules for plant completion, impacts on BPA rates, and many other factors.

The public involvement process will occur in three stages. First, we will ask the public, this month, to help us refine the alternatives and methods we should incorporate in our study. Second, those interested will be kept abreast of the progress of the analysis while it is underway. Third, we will solicit public response on the completed analysis this fall before refining it and incorporating the results in our rates, budget and resource planning process in December.



Department of Energy
Bonneville Power Administration
Public Involvement
P.O. Box 12999
Portland, Oregon 97212

JUN 08 1984

In reply refer to: ALP

OPPORTUNITY FOR INVOLVEMENT

Issue: Washington Nuclear Plants (WNP) 1 and 3.

Action: BPA is reviewing its assumptions about the schedules for WNP 1 and 3.

Public Directly Affected: Northwest citizens.

Background: Construction work on Washington Public Power Supply System's Washington Nuclear Plant 1 (WNP 1) and 3 (WNP 3) is now delayed. BPA has assumed construction of WNP 1 will resume on July 1, 1986, and construction of WNP 3 will resume on July 1, 1985. BPA is now reviewing these assumptions to see if they should continue to be used for BPA's 1985 rates and 1986-7 budgets.

Opportunities for Involvement: The enclosed Issue Alert describes the study BPA intends to undertake, the issues we intend to address, and the process we will follow.

This month, we would like the public to comment on our Study Plan: our proposed approach our study, including the methodology and variables we intend to address. We will accept comments on the Study Plan through July 2, 1984. The draft Study Plan is enclosed.

On June 20 - 29, we will hold public meetings throughout the region to describe the Study Plan and accept comment. Meeting dates and locations are listed on the back of this letter.

In each city, we will hold two different forums. First, we will hold a "town hall" meeting, at which we will describe our Study Plan and accept general public comment. Second, we will hold a technical workshop, where we will ask participants to give us more detailed comment on our methodology, variables, and treatment of issues which cannot be handled through quantitative analysis. You are welcome to attend either meeting, or both.

We will perform our analysis this summer. This September, we will issue our analysis for public review.

For Further Information Contact: BPA Area or District Manager in your locality, or the Public Involvement office in Portland, 503-230-3478. Toll-free lines: 800-452-8429 for Oregon outside of Portland; 800-547-6048 for Washington, Idaho, Montana, Utah, Nevada, Wyoming, and California.

Donna L. Geiger
Public Involvement Manager

Enclosures

Planning for Two Northwest Nuclear Power Plants

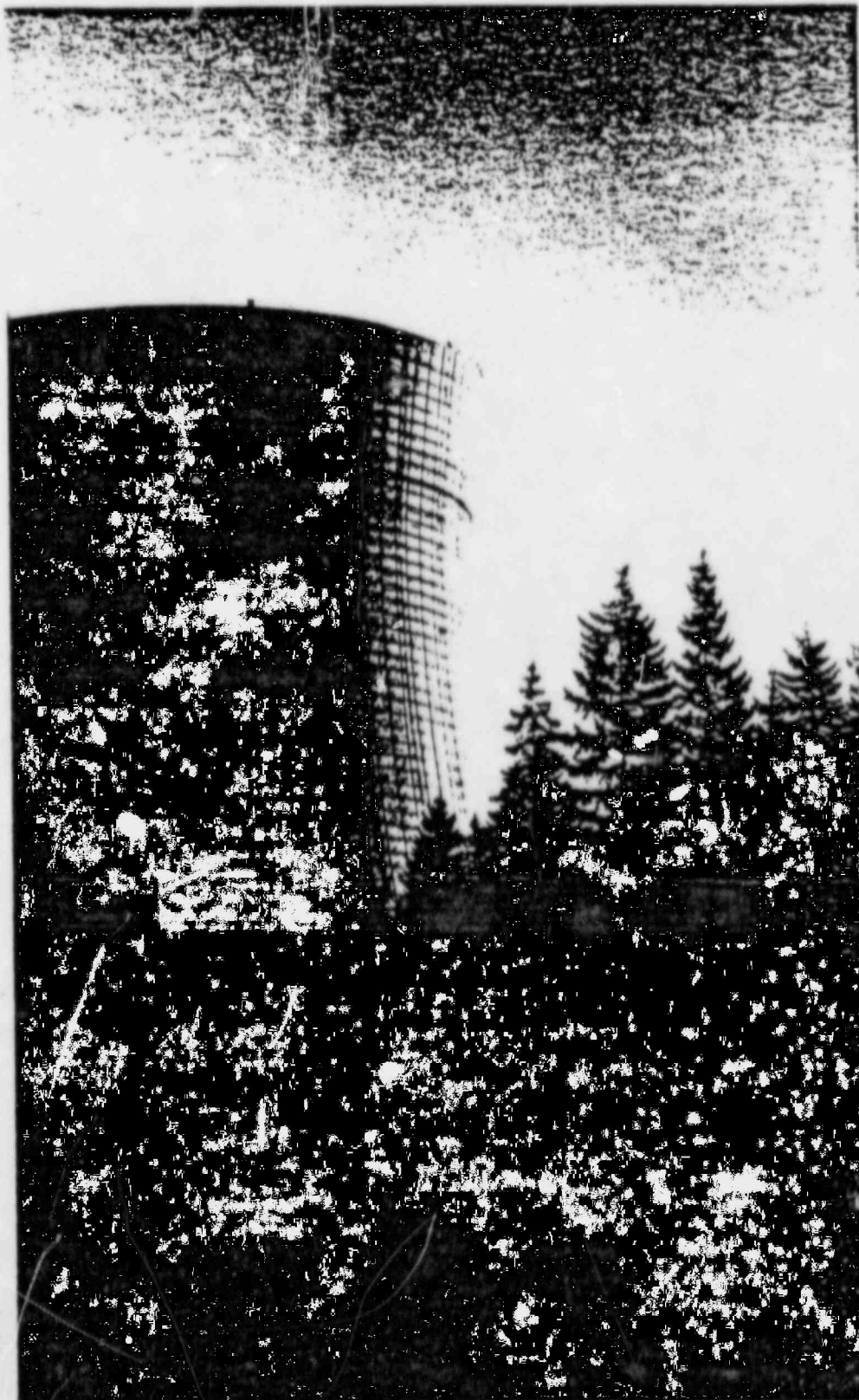
Introduction

In 1984, the Bonneville Power Administration will have to reconsider the future of two Northwest nuclear power projects. We want to hear your views.

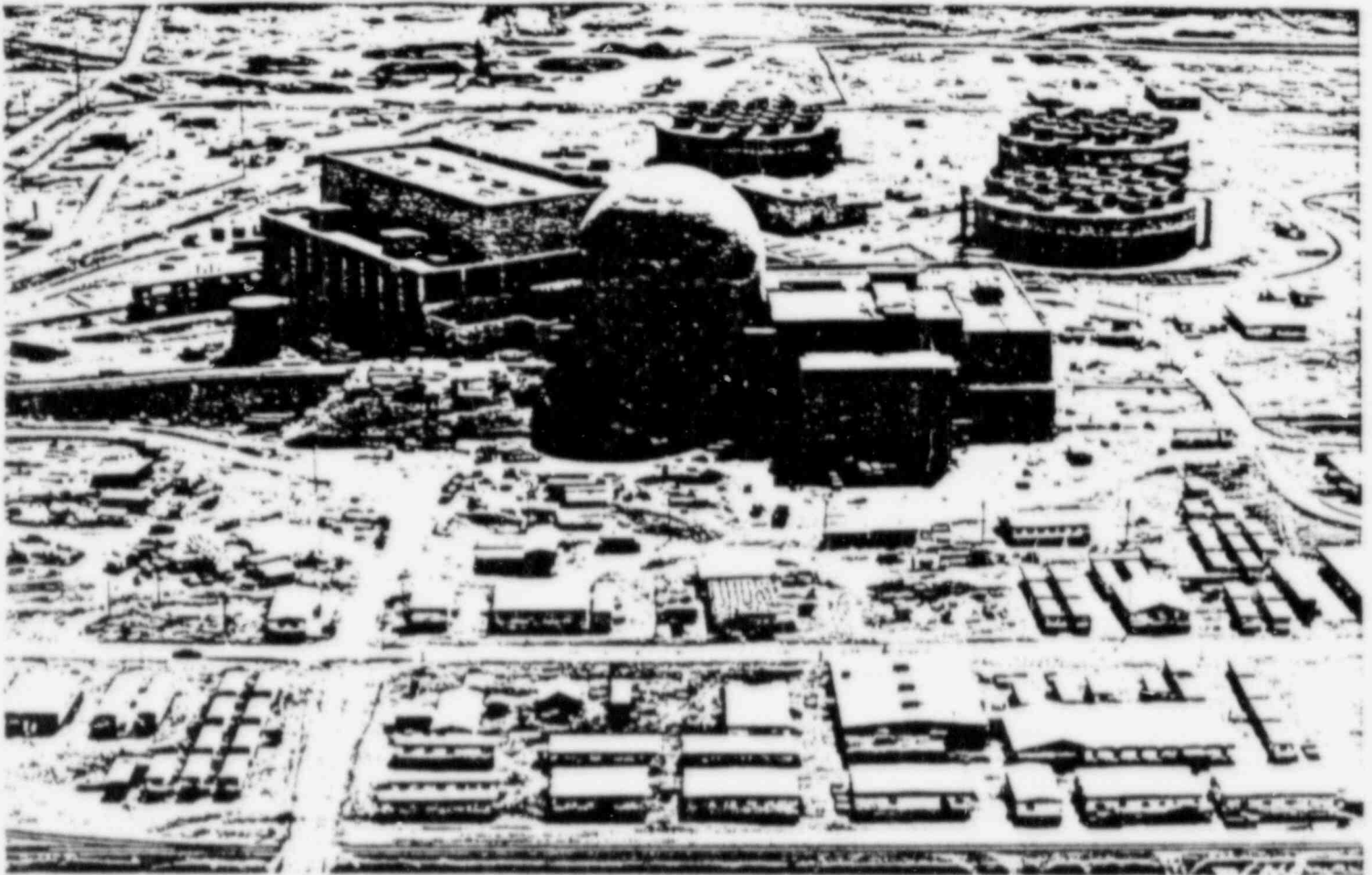
The issues revolve around the costs and schedules for completing the two Washington Public Power Supply System nuclear power plants now on delayed construction schedules. Whether the projects are accelerated, go forward on current schedules, or are further delayed or terminated, will significantly affect BPA budgets for fiscal years 1986 and 1987 and BPA rates for the period July 1985–October 1987. BPA must make some preliminary decisions before the end of this year about budgets and rates for those periods.

This issue is important to all of us in the Northwest. We are anxious to hear from all interested groups and citizens.

For the purposes of planning, BPA continues to assume that construction will resume July 1, 1985, on Washington Nuclear Plant 3 at Satsop, near Grays Harbor in western Washington, and that commercial operation of this unit will begin in December 1989. BPA assumes a July 1, 1986 resumption of construction on WNP 1 at Hanford in eastern



Construction of Washington Nuclear Plant (WNP) 3 at Satsop has been delayed since 1983. It is 75% complete.



WNP-1, at Hanford, Washington, is 63% complete and is currently scheduled to begin operating in 1991.

Northwest Electric Power Planning and Conservation Act of 1980 (the Regional Act), gave lead responsibility for planning the region's power future.

Hydro Base

There was a day when hydropower — cheap hydropower — alone was sufficient to meet the region's power needs.

Grand Coulee and Bonneville and 28 other big Federal multi-purpose dams — built not just for power, but for flood control and navigation and irrigation as well — produced the cheapest power. But many non-Federal, power-only dams produced inexpensive power, too. This made electricity cheap for customers of public and private power alike in the Northwest.

BPA was created by Act of Congress in 1937 to sell the Federal power. BPA built none of the dams — just the transmission lines and related facilities needed to bring the Federal power to market. But BPA was required to sell the power at rates

sufficient to pay all of its own costs and to repay the Treasury, with interest, the lion's share of the cost of the region's Federal multi-purpose dams. These included all of the costs associated with power production plus a large part of the costs associated with irrigation.

The original BPA wholesale rate of 2 mills (two-tenths of 1 cent) per kilowatthour was enough for BPA to pay its way — with some left over — for many years.

By 1965, BPA rates had to be increased, slowly at first, dramatically in recent years. The increases came partly because of higher costs associated with hydro additions and expansion of the BPA transmission system, but mainly because of increasingly expensive nuclear additions to the region's power supply.

Low-cost hydro nevertheless still provides 80 percent of the region's power supply, and this hydro base keeps Northwest power costs well below the national average.

Forecasting: Anything But an Exact Science

The forecasts that led to construction of the expensive nuclear and coal projects in this region had to be made 10 years or more before those units could be brought on line. It takes a long time to get such units licensed and built.

It turned out that the region's power planners were working with a cloudy crystal ball. They failed to foresee the impact of higher costs on usage. They failed to foresee the rapid growth of the conservation ethic, or all of the potential for cost-effective conservation and fuel substitution (e.g. wood stoves). They failed to foresee the recent nationwide downturn in the economy, a downturn that hit the Northwest harder than other regions. So their forecasts — always right during the 50s and 60s when year after year power demand grew steadily between 5 and 7 percent — turned out to be too high.

BPA Wholesale Rates to Preference Customers*

| Date | Average Rate (cents/kwh) |
|----------|--------------------------|
| 6/38 | 275 |
| 12/20/65 | 3.5 |
| 12/20/74 | 351 |
| 12/20/79 | 726 |
| 7/1/81 | 1.17 |
| 10/1/82 | 1.8 |
| 11/1/83 | 2.2 |

* Based on 55 percent load factor including capacity and energy components. Preference Customers are publicly and cooperatively owned utilities.

BPA rates rose rapidly in 1979-83 as Supply System and other new costs were folded into the rate base. Under current assumptions, BPA expects to hold future rate increases near the rate of inflation.

The Main Issues

We would like the public involvement program to focus on some major issues related to these two nuclear plants. But we recognize that some members of the public will also wish to discuss the Supply System or nuclear energy in general, and we will listen.

An imposing array of variables and uncertainties underlie all power planning. As we have seen from recent history, all utilities including BPA are vulnerable to events which change the forecasted demand for power. Forecasts cannot be counted upon with the certainty they once could.

More flexibility to meet various levels of growth has become necessary in BPA's planning for the future's uncertain outlook.

In its WNP 1 and 3 studies, BPA will consider a large number of uncertainties and variables, including forecasts, dependence on BPA for power supply, financing options and technology.

Forecasts

We are now forecasting three levels of growth – base (the level we think most likely to occur), low and high, and we study alternatives to cover all three levels at lowest economic cost.

We have developed a resource strategy which was presented to the region in May 1984, describing the actions BPA proposes to take on new conservation and renewable resources to respond to these conditions of uncertainty. An Issue Alert on that subject is among those listed on the last page.

An imposing array of variables and uncertainties underlies all power planning.

Dependence on BPA

The Regional Act gave BPA responsibility for acquiring all the power necessary to supply whatever new loads the utilities of the region – investor-owned and publicly owned – apply for. There are current indications the region's utilities will not place the full amount of future load growth on BPA.

If not all, what part? BPA has studied three basic scenarios, in which zero percent, 50 percent or 100 percent of investor-owned utility load growth is placed on BPA. For planning purposes, we currently assume 50 percent.

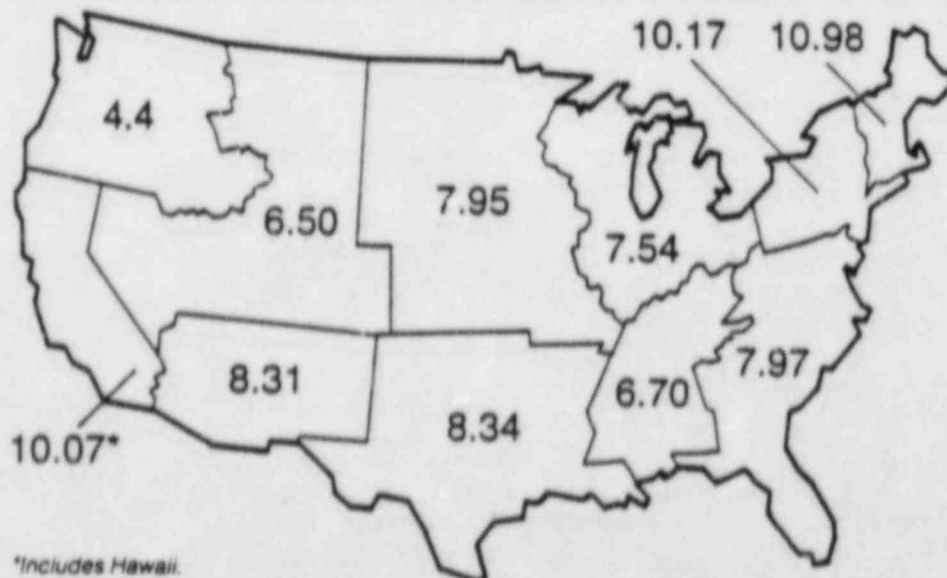
Financing

Financing opportunities can change. Long-term conventional financing stretches out payments over the expected life of the projects, much like a home mortgage. That kind of financing dried up for the Supply System as a result legal challenges related to its nuclear projects.

Will long-term conventional financing be available when construction resumes on WNP 1 and 3, or will financing have to be accomplished through other methods? A second method, financing directly from current BPA revenues, would probably mean higher rates for a few years, followed by lower rates once the projects were completed. A third possibility would spread out payments longer than direct revenue financing, but not as long as conventional bond financing. That would be for the Supply System to go into the short-term bond market. A key question here is whether BPA can promise to pay off Supply System debts if legal problems

Average Residential Retail Rates by Region

(Cents per kWh Projected for 1984)



*Includes Hawaii.

Northwest retail electric rates are still less than half the national average.

Public Involvement Steps

The public involvement program for WNP 1 and 3 will involve several steps. First will come meetings and workshops to review the assumptions and the methodology we are using to update the studies on which current schedules for resuming construction were based.

Workshops will be held in the following cities at specific times and places to be announced:

Portland, Oregon: June 20-21
Eugene, Oregon: June 21-22
Missoula, Montana: June 25
Burley, Idaho: June 26
Richland, Washington: June 27-28
Seattle, Washington: June 28-29

Most of the meetings will include evening sessions for the convenience of those who cannot attend during the day. Daytime workshops, for all who wish to attend, will be specially designed for those planning to provide technical information. A study plan will

be sent in advance to individuals and groups we know to be interested in technical matters, and to anyone else who requests one. Requests should be directed to your nearest BPA area office or the Public Involvement Office at BPA's Portland headquarters. A list of these offices is included on page 8.

In early July, we will evaluate comments from this first round of meetings, along with written comments received by that time. Work to update the studies will be done during the summer. By late August, we will offer briefings on the interim results of these new studies. In September, we will publicize the results and request further public comment. Thus, the public won't simply be presented with our conclusions relative to WNP 1 and 3, but will have a chance to participate at all stages. The public will be involved in determining the methodology to be used, the studies to be performed, and the interpretation that may be placed on results.

We expect to complete evaluation of all comments and announce our conclusions by November 15.

BPA is not now proposing any change in the current schedules for WNP 1 and 3. Should the current review lead to proposals for change, the procedures of the National Environmental Policy Act may be triggered.

At this time, we are only reviewing and updating the studies on which current construction schedules for WNP 1 and 3 were based. We are doing this so that when we make budget and rates decisions we can be sure they are based on the best possible information. Our review also will evaluate the costs of termination of either or both WNP 1 and 3 compared to completion on the current or some other schedule. We will keep the public fully informed of new information as it is developed.

Financial Studies

We will assess the availability and debt service costs for three kinds of financing (conventional bonds, short-term bonds, revenue financing). We will link each to the scenarios related to timing of the projects. We currently plan to make a variety of other financial assessments including one that identifies BPA's fixed and discretionary costs. Our last such assessment showed about 87 percent of BPA's annual obligations to be non-discretionary or fixed.

We will do a cash flow analysis to show BPA's ability to handle WNP 1 and 3 payments for each scenario while at the same time getting payments to the U.S. Treasury back on schedule. BPA has fallen behind and is making major efforts to catch up on these overdue payments. Timeliness, risk, and other pertinent characteristics of each potential financing mechanism will be reviewed.

We also will do an analysis of BPA's debt coverage – the ratio of revenues to interest costs – and other factors that affect bond ratings given by the rating agencies.

The budget impact for each scenario will be assessed anew, as will the impact on owners (the participating investor-owned utilities).

Finally, the potential impact on BPA finances from alternative outcomes of current litigation will get a fresh look. There are a number of lawsuits currently involving WNP 3 and the terminated projects WNP 4 and 5 that necessarily complicate the financial assessment of both WNP 1 and 3.

Uncertainty surrounding possible liabilities of BPA and other project sponsors also must be taken into account in determining a prudent course for the two projects.

Other Topics

Our primary need in this public involvement undertaking is to get comments specific to the WNP 1 and 3 costs and schedule assumptions for our rates and budget determinations in the near term. But as noted, we also will listen to comments related to the Supply System or nuclear energy in general.

These broader concerns may include matters such as the institutional nature of the Supply System, the licensing process and decommissioning theories and costs, along with ideas on the socio/economic impacts of project construction.

And if anyone wishes to comment on the relationship of scenarios to the Regional Plan and the Fish and Wildlife Plan, we will be listening.