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CHIEF COUNSEL/STAFF DIRECTOR

U.S. House of Representatives
Subcommittee on Oversight and Investigations
of the
Committee on Energy and Commerce
Washington, DC 20515

April 22, 1987

The Honorable John S. R. Shad
Chairman
Securities and Exchange Commission
450 Fifth Street, N. W.
Washington, D. C. 20549

CHAIRMAN'S OFFICE
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SEC. & EXCH. COMM.

Dear Chairman Shad:

This is with reference to and supplements my letter of February 10, 1987, concerning the status of the Commission's investigation in the matter of transactions in Washington Public Power Supply System (WPPSS) bonds in connection with the summer 1983 default of WPPSS on interest payments due on \$2.25 billion in outstanding bonds.

In the wake of the Subcommittee's prior letter, we received numerous complaints about, and documents relevant to, the role of the State of Washington in the creation, marketing, and control of the WPPSS projects, as well as the issuance, marketing, and default on the securities to construct those projects.

We have been informed that many elderly individuals loaned (and subsequently lost) all or substantially all of their retirement income or resources set aside for retirement in WPPSS 4 & 5 bonds, in reliance on the good rating of the WPPSS bonds (Moody's A1; Standard & Poor's A+), the guarantee "Dry Hold Risk" provision (whereby each of the 88 utilities involved guaranteed to pay their share of the debt service on the bonds, whether or not the projects were completed, operable, or operating), and the certifications of the State on the bond -- each bond and the official statements distributed to each potential bond purchaser contained a certification and statement, respectively, by the State auditor that WPPSS bonds were issued in accordance with applicable law and were "prima facie valid and binding obligations in accordance with their terms." Further, as pointed out by Messrs. Leigland and Lamb in their recently published book, WPPSS: Who is to Blame for the WPPSS Disaster (1986), p. 138:

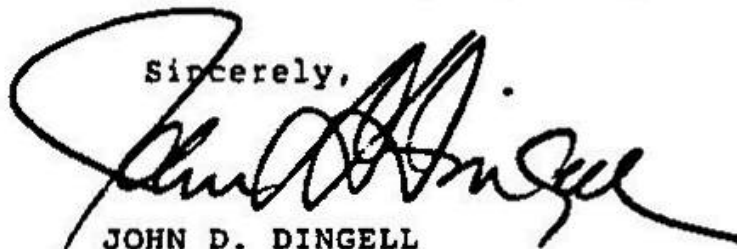
First, the State legislature passed laws enabling WPPSS to be constituted as a municipal corporation of the State, with all of the freedoms from outside control that such organizations typically enjoy. Second, State legislation also made possible the Supply System's status as a joint action agency. As such, WPPSS shares some unique powers and freedoms with the governmental bodies that comprise it.

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The Subcommittee requests that the Commission review the materials transmitted with this letter and provide your analysis of the legal issues raised thereby. Please advise the Subcommittee whether any civil or criminal cases have been or will be filed against State officials, and what legislative or administrative changes are necessary.

We appreciate your cooperation and prompt response to this request.

Sincerely,



JOHN D. DINGELL
CHAIRMAN

Subcommittee on Oversight
and Investigations

Enclosures:

1. Letter to the Committee dated April 6, 1987
2. Opinion of the Attorney General dated August 10, 1981
3. Official Statement cover page
4. A sample copy of the bond
5. The State auditor's checklist
6. Copy of Seattle Times article dated August 7, 1983
7. Memorandum from the Washington State Senate Energy and Utility Committee dated February 26, 1981

cc: The Honorable Edward J. Markey
The Honorable Norman F. Lent
The Honorable Al Swift