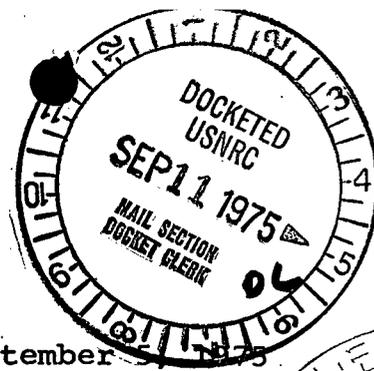


Regulatory Docket File

**Con Edison**

Law Department  
Consolidated Edison Company of New York, Inc.  
4 Irving Place, New York, N Y 10003



September 11 1975



Dr. Mary Jane Oestmann  
Environmental Projects Manager  
Division of Reactor Licensing  
U.S. Nuclear Regulatory Commission  
Washington, D.C. 20555

Re: Indian Point 2 - Docket 50-247

Dear Dr. Oestmann:

In accordance with my telephone conversation on September 3 with Dr. Miller Spangler, I am writing this letter explaining the legal restrictions on the sale of electricity by the Power Authority of the State of New York (PASNY) to Con Edison.

These restrictions derive from the Internal Revenue Code. The interest on PASNY's bonds is exempt from Federal Income Tax pursuant to Section 103 of the Internal Revenue Code. Section 103(c) of the Code provides that the tax exemption shall not be applicable if PASNY's bonds were deemed "Industrial Development Bonds". In order to avoid treatment as Industrial Development Bonds, PASNY must show that a major portion of the proceeds of the bonds are not used for a nonexempt business, such as Con Edison.

This test is described in Treasury Regulation Section 1.103-7(b)(5). This in substance provides that the use by a nonexempt person of a major portion of the output of facilities such as an electric generating plant meets the trade or business test and renders the bonds "Industrial Revenue Bonds". The regulation indicates that if Con Edison agreed pursuant to a contract to take 25% or more of the output of the plant, the interest on PASNY's bonds would become taxable.

PASNY has proposed to enter into contracts with municipal and governmental customers of Con Edison. These will then be sales by PASNY direct to governmental bodies. Beyond this

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Dr. Mary Jane Oestmann

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September 5, 1975

Con Edison can purchase directly up to 24% of the output of the plant owned by PASNY, but no more.

PASNY has a ruling from the Internal Revenue Service approving these arrangements and setting forth limitations on the sale of electric energy by PASNY. PASNY considers this ruling confidential and has not furnished a copy to Con Edison.

Sincerely yours,

A handwritten signature in cursive script that reads "Edward J. Sack".

Edward J. Sack

EJS:ld

cc: Dr. Miller Spangler