



UNITED STATES
NUCLEAR REGULATORY COMMISSION
WASHINGTON, D.C. 20555-0001

December 16, 2014

Mr. Timothy S. Rausch
Senior Vice President and Chief Nuclear Officer
PPL Susquehanna, LLC
769 Salem Boulevard
Berwick, PA 18603-0467

SUBJECT: SUSQUEHANNA STEAM ELECTRIC STATION, UNITS 1 AND 2 – REQUEST
FOR ADDITIONAL INFORMATION RE: REQUEST FOR ORDER APPROVING
INDIRECT TRANSFER OF CONTROL AND CONFORMING LICENSE
AMENDMENTS (TAC NOS. MF4426 AND MF4427)

Dear Mr. Rausch:

By letter dated July 11, 2014, as supplemented by letters dated October 24, 2014, and November 6, 2014, PPL Susquehanna, LLC (PPL), submitted a request for review and approval of an indirect transfer of control of PPL's interests in Facility Operating License Nos. NPF-14 and NPF-22 for the Susquehanna Steam Electric Station, Units 1 and 2. To complete its review, the U.S. Nuclear Regulatory Commission staff requests responses to the enclosed questions.

The draft questions were sent to Mr. Rocco Sgarro, of your staff, to ensure that the questions were understandable, the regulatory basis for the questions was clear, and to determine if the information was previously docketed. Please respond to the enclosed questions within 30 days of the date of this letter.

If you have any questions regarding this matter, please contact me at 301-415-4090.

Sincerely,

A handwritten signature in black ink that reads "Jeffrey A. Whited".

Jeffrey A. Whited, Project Manager
Plant Licensing Branch 1-2
Division of Operating Reactor Licensing
Office of Nuclear Reactor Regulation

Docket Nos. 50-387 and 50-388

Enclosures:
Request for Additional Information

cc w/encl: Distribution via Listserv

REQUEST FOR ADDITIONAL INFORMATION
OFFICE OF NUCLEAR REACTOR REGULATION
APPLICATION FOR APPROVAL OF INDIRECT TRANSFER OF CONTROL
PPL SUSQUEHANNA, LLC
ALLEGHENY ELECTRIC COOPERATIVE, INC.
SUSQUEHANNA STEAM ELECTRIC STATION, UNITS 1 AND 2
DOCKET NOS. 50-387 AND 50-388

By letter dated July 11, 2014,¹ as supplemented by letters dated October 24, 2014,² and November 6, 2014,³ PPL Susquehanna, LLC (PPL Susquehanna), submitted an application for approval of Indirect Transfer of Control of the licenses for the Susquehanna Steam Electric Station, Units 1 and 2 (SSES), pursuant to Section 184 of the Atomic Energy Act of 1954, as amended (the Act), Title 10 of the *Code of Federal Regulations* (10 CFR) Section 50.80 "Transfer of licenses," and 10 CFR 72.50 "Transfer of license." The indirect transfers of control results from a series of transactions in which PPL Corporation will spin off PPL Energy Supply, LLC, which will result in a new intermediate parent company, Talen Energy Holdings, Inc. To complete its review, the U.S. Nuclear Regulatory Commission (NRC) staff requests the following additional information regarding financial qualifications and decommissioning financial assurance.

Financial Qualifications – Regulatory Requirements

In accordance with 10 CFR 50.33(f)(2), the applicant provided a projected five year income statement for SSES and stated that PPL Susquehanna's anticipated sources of revenue from sales of energy would provide reasonable assurance of an adequate source of funds to meet PPL Susquehanna's share of expenses for the plan.

Under 10 CFR 50.33(l), a non-utility applicant must provide information sufficient to demonstrate its financial qualifications to carry out the activities for which the license is being sought. In addition, per NUREG 1577, Rev. 1, the reviewer "will also consider relevant-financial information (i.e., information on cash or cash equivalents that would be sufficient to pay fixed operating costs during an outage of at least 6 months... and any other relevant factors)."

¹ Agencywide Documents Access and Management System (ADAMS) Accession No. ML14195A110

² ADAMS Accession No. ML14311A681

³ ADAMS Accession No. ML14311A292

Enclosure

Finally, 10 CFR 50.33 f(5) states, in part:

The Commission may request an established entity or newly-formed entity to submit additional or more detailed information respecting its financial arrangements.... [T]his may include information regarding a licensee's ability to continue the conduct of the activities authorized by the license...

The finding of reasonable assurance that funds will be available to cover estimated operating costs for the period of the license relies on the applicant providing sufficient information regarding availability of credit or support agreements, bank lines of credit or other specifically identified sources of funds, sufficient to fund the estimated fixed operating and maintenance costs during the period of the license.

Request for Additional Information (RAI) 6

Talen Energy Corporation's S-1 filing with the Securities and Exchange Commission on November 5, 2015, page 40 stated:

We face intense competition in the competitive power generation market, which may adversely affect our ability to operate profitably... We believe that the commencement of commercial operation of new electricity generating facilities in the regional markets where we own or control generation capacity and the evolution of demand side management resources will continue to increase competition in the wholesale electricity market in those regions, which could have an adverse effect on electricity and capacity prices.

The ability of the licensee, PPL Susquehanna, and new parent company, Talen Energy Corp., to generate and access necessary funds may be impaired if the revenue and cash flow is significantly less than in the past.

- a) Please address this concern generally.
- b) The application indicated that sources of funds other than the revenues generated by SSES, specifically a parent support agreement and credit facility, would be available to pay fixed operating costs during an outage of at least six months for SSES. Provide supporting financial information for the NRC staff to evaluate the reasonableness of these sources of funds.

RAI 7

Talen Energy proposed two divestiture options in a filing with the Federal Energy Regulatory Commission on July 15, 2014 (EC14-112). One involves divesting a total of seven plants in New Jersey and Pennsylvania for a total of 1,315 megawatts (MWs). The second involves divesting six Riverstone plants, plus a 399-MW coal-fired plant in Maryland and two PPL hydro plants in Pennsylvania for a total of 1,346 MWs. Indicate how the divestiture plans will impact sources of funds available from Talen Energy Corp. or otherwise impact the financial qualifications of SSES.

RAI 8

Following the announcement that PPL intended to spin-off the power generation subsidiary, PPL Energy Supply (to become Talen Energy Supply), Standard & Poor's (S&P's) Ratings Services and Fitch Ratings downgraded PPL Energy Supply/Talen. Fitch cut PPL Energy Supply to double-B from triple-B-minus and placed the company's ratings on rating watch negative. S&P lowered its rating on PPL Energy Supply to double-B from double-B-plus, and placed it on CreditWatch negative.

Both ratings agencies cited the debt level of Talen following the transaction as a factor in their analysis. Provide the ratings agencies reports describing the credit downgrades.

RAI 9

As stated in their November 5, 2014, Security Exchange Commission S-1 filing, Talen Energy Corp., indicated that their debt level would be a financial risk factor:

Our indebtedness, which would have been approximately \$3,693 million on a pro forma basis as of June 30, 2014, could adversely affect our financial condition and impair our ability to operate our business.

As of June 30, 2014, after giving effect to the Transactions, we would have had approximately \$3,693 million in total indebtedness. See "Capitalization." Our indebtedness could have important consequences to our future financial condition, operating results and business, including the following:

...requiring that a substantial portion of our cash flows from operations be dedicated to payments on our indebtedness instead of other purposes, including operations, capital expenditures, and future business opportunities; limiting our ability to obtain additional debt or equity financing for working capital, capital expenditures, debt service requirements, acquisitions, and general corporate or other purposes; increasing our cost of borrowing; and limiting our ability to adjust to changing market and economic conditions and limiting our ability to carry out capital spending that is important to our growth.

The NRC has previously expressed concern about the financial impacts on NRC licensees resulting from holding company and LLC corporate structures.⁴ Absent specific corporate policies, Talen Energy Corp. may impact the financial viability of SSES by using the nuclear units' earnings to fund other Talen Energy operations, leaving insufficient funds available for PPL Susquehanna for nuclear operations.

Provide further information regarding whether operating revenues from SSES will be transferred to Talen Energy Corp. Explain how sufficient equity and liquidity will be retained in PPL Susquehanna to maintain safe operations. Indicate if loans may be made from PPL Susquehanna to Talen Energy Corp. or any affiliated companies, providing supporting documentation as to the type and magnitude of any such loans.

⁴ See SECY-93-025 and SECY-94-280.

RAI 10

In its July 31, 2014 SEC 10 Q filing, PPL Corp. stated:

Following the announcement of the transaction to form Talen Energy, efforts have been initiated to identify the appropriate staffing for Talen Energy and for PPL and its subsidiaries following completion of the spinoff. ... At present, there is considerable uncertainty as to the range of costs that will be incurred and when those costs will be recognized, as the amount of each category of costs will depend on the number of employees leaving the company, current position and compensation level, years of service, and expected separation date.

Additionally, certain of these costs are expected to be reimbursed to PPL by Talen Energy upon closing of the transaction. As a result, a range of the separation costs associated with the spinoff transaction and the timing of when those costs will be recognized cannot be reasonably estimated at this time but could be material.

Explain the impacts of reduced staffing on SSES operations. Provide an estimate of the costs that are expected to be reimbursed to PPL by Talen Energy.

Mr. Timothy S. Rausch
 Senior Vice President and Chief Nuclear Officer
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 /RA/

Jeffrey A. Whited, Project Manager
 Plant Licensing Branch 1-2
 Division of Operating Reactor Licensing
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ADAMS Accession No. ML14345A241

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