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

RECORD OF TELEPHONE CONVERSATION

July 30, 1979

3:00 p.m. - 3:45 p.m. and

4:15 p.m. - 4:20 p.m.

Mr. Gordon Murdock
Assistant Director
Division of Rates and Corporate Regulation
Office of Electric Power Regulation
FERC

When asked what would be changed from FERC's viewpoint if TMI-2 came on line in January or February of 1979 rather than on December 30, 1978, Gordon replied that he could see no change in the handling or disposition of GPU (all subs) rate increase applications. The only benefit he could see was the Investment Tax Credit being applied to Met Ed's 1978 taxes rather than 1979 taxes. He also noted that in his experience if a utility, near end of a tax year, is close to point of bringing a unit on line, the utility will try very hard to get the unit on line and secure the ITC. He also said that a commercial operation decision was purely the utility's.

Met Ed filed a rate increase application with FERC on November 13, 1978, asking for a January 12, 1979 effective date. 18 CFR 35.3, dealing with notice requirements, requires applications to be submitted not more than 120 days prior to the date on which electric service is to commence. This would imply that Met Ed believed TMI-2 would begin commercial operations ~~by~~ before March 13, 1979 (November 13 + 120 days).

Further, because FERC rate increase applications are based on a projected test year, a commercial operation decision by Met Ed in January or February would have no impact on the FERC rate increase. Under the projected test year concept, rates are based on what costs are projected or estimated to be. After the test period, actual costs are compared to the projections as a way to determine if the projections were reasonable. If there were substantial differences between projections and actuals caused by, say, TMI-2 not coming on line until July 1979 even though test year started in January 1979, then during FERC hearings arguments would be presented that the plant was not in service long enough to justify increased rates for that year. As it turns out, FERC in January 1979 delayed the effective date of Met Ed's rate increase request for five months, the maximum amount of time, from January 12 to June 13, 1979.

Penelec had also requested a FERC rate increase based on TMI-2, filing an application on July 18, 1979. FERC issued a deficiency letter (citing inadequacies in the application) on August 14. Penelec completed the application on September 1 whereupon FERC suspended the increase until December 1, 1978.

Gordon explained that for rate making purposes, ITC is flowed through to customers ratably over the life of the asset. This circumvents the Internal Revenue Regulation requirement that the benefit not be passed on to customers all in <u>one</u> year.

He was not sure of GPU's exact position with regard to the Pa.-Md.-N.J. Pool, but believed GPU has been in a deficit position both on purchased power and capacity for many years. Mr. Gene Ball, 275-4693, may have additional information on the Pool.

The analyst on all three GPU subsidiary rate cases is currently participating in the rate cases and therefore cannot discuss them at this time.

R. L. Vandenberg