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

RECORD OF TELEPHONE CONVERSATION

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S&P is now in process of updating Met Ed rating in light of Pa PUC decisions in June. Fendrick will mail us copies of published analyses appearing in "Fixed Income Investor."

S&P reviews ratings:

- annually
- whenever company has new financing
- major actions
- quart-rly review if company has commercial paper outstanding.

Met Ed prior to accident was nearly ready to issue commer ial paper. S&P had issued an A 1 rating which Met Ed asked S&P to withdraw af er the accident.

Historically, GPU companies were financially strained in 1973/1974, but have become financially more conservative.

Even if TMI-2 had not gone in service in December 1978, first mortgage ratings would have remained unchanged.

S&P considered Met Ed a relatively sound A rating. Penelec & Jersey Central were both BBB.

Before accident S&P looking to improve Penelec rating from BBB to A since TMI-2 into rate base.

Jersey Central is the fastest growing of three companies; therefore wanted greater ownership of TMI-2. Jersey Commission approved ownership change, but Pa.PUC did not because Pa.PUC wanted cheap nuclear power owned by company in Pa.

When referring to a company's bond rating, generally refer to rating of senior debt. For utilities, this is generally first mortgage bonds. Utility debentures are usually one grade lower than first mortgage bonds. Preferred stock usually same grade as first mortgage or debentures depending on amount outstanding, etc.

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S&P felt Met Ed's cash position was strong; TMI-1 was working well. S&P was looking to see several months of reasonable operation from TMI-2, rather than persistent problems such as at Arkansas plant. As a result, it was inconsequential to S&P if TMI-2 in commercial operation Dec. 30 or Jan, Feb, Mar. of 1979. Ratings are planned to be long-term ratings and should override any temporary adversity. Also whether Met Ed/GPU got an investment tax credit in 1978 or 1979 would have no impact on ratings.

Fendrick believed Met Ed, under current mortgage restrictions could not bond plant unless the plant had an operating license. Believed this restriction was probably solved by TMI-1. If restriction not lifted, would mean Met Ed could issue only debentures, not bonds and thus would incur higher interest costs.

S&P feels regulatory treatment more important than anything else in rating of public utilities. Of course looks at interest expense coverage by operating earnings and capital ratios, but these are result of regulatory decisions as much as management decisions. Many Pa. utilities have had bond ratings reduced over past five years.

Again, with regard to getting TMI-2 into commercial operation and then into rate base, Fendrick notes that in many jurisdictions several months to a year or more often pass from time utility plant changes from CWIP to plant in service, to the time the plant is actually considered in the rate base and earning a return for the company.

Even now, S&P has changed rating only from A to BBB because basically believes (from financial view) there is a regulatory problem not a nuclear problem.

R. L. Vandenberg