



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

RECORD OF TELEPHONE CONVERSATION

JULY 26, 1979

2:00 p.m. - 2:30 p.m.

Mr. Sheldon Chasson
Director, Accounting and Auditing Division
Rural Electrification Administration
447-7221

I asked Sheldon two questions:

1. What are the accounting criteria for transferring nuclear plants from "Construction Work in Progress" (CWIP) to "Plant in Service"?
2. Would a utility (or a coop that issues bonds commercially) ever have an incentive to bring plant into commercial service in order to either (a) secure good bond ratings, or (b) maintain requirements of indentures of existing bonds?

Sheldon responded to question No. 1 that accounting classification always follows the engineering criteria. The constructing engineer (and also the consulting engineer, if any) must issue a written certification that the plant has passed all appropriate tests and is complete and ready for service. The certification will specify a completion date. The certification is the basis for the accounting change from CWIP to Plant in Service and is also the basis for halting the capitalization of interest during construction (AFC) and beginning depreciation.

There are specific engineering criteria to be fulfilled in order for engineers to sign certification.

Also suggests I call Mr. Mike Brennan, Chief Accountant for FERC. Phone: 275-4031 - 825 North Capitol Street.

Regarding question No. 2, he remembers a case where a utility requested a rate of return increase because a plant was completed and came on line prior to projected date of service. However, he is not sure if plant in service vs. CWIP status affects bond rating decisions. Basic financial tests are: 1) Times Interest Earned, and 2) Debt Service Coverage. Believes basic questions to ask investment specialist are:

What profile analysis is performed?

What ratios utilize plant in service and CWIP amounts?

(Note: Moody's, per my phone call last week with Peter Jodrosick, is sending us copy of most recent review of Met-Ed. This should disclose any profile analysis and ratio tests used in determining bond ratings.)

8001180 202

Sheldon will send an example of an engineering certification of the type relied on by REA in their audits of electric coops.

R. L. Vandenberg