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Docket No. 50-346

MEMORANDUM FOR: John F. Stolz, Chief, Light Water Reactors Branch No. 1, PM  
 FROM: Donald J. Skovholt, Assistant Director for Quality Assurance and Operations, PM  
 SUBJECT: TOLEDO EDISON COMPANY AND CLEVELAND ELECTRIC ILLUMINATING COMPANY: DAVIS-BESSE NUCLEAR POWER STATION UNIT NO. 1

Enclosed is an analysis prepared by Tom Noonan of my staff regarding Toledo Edison Company's and Cleveland Electric Illuminating Company's financial qualifications to operate and, if necessary, shut down and safely maintain the subject facility. The analysis is intended for inclusion in a Supplement to the SER.

Donald J. Skovholt  
 Assistant Director for Quality Assurance and Operations  
 Division of Project Management

Enclosure:  
 As Stated

cc: w/enclosure  
 L. Engle, PM  
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MEMO  
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	DATE →	2/11/77	2/11/77	2/11/77		

### Introduction

The Nuclear Regulatory Commission's regulations relating to the determination of an applicant's financial qualifications for a facility operating license appear in Paragraph 50.33(f) and Appendix C to 10 CFR Part 50. In accordance with these regulations, Toledo Edison Company (To1 Ed) and Cleveland Electric Illuminating Company (Clv E) supplied operating and shutdown cost estimates for the Davis-Besse Nuclear Power Station Unit No. 1, as well as providing additional financial information. The following analysis summarizes our review of the financial information and addresses each applicant's financial qualifications to operate and, if necessary, to permanently shut down and safely maintain the subject facility.

To1 Ed and Clv E supply electricity to approximately 2.9 million customers over a 4,200 square mile service area in northeastern and northwestern Ohio. Recent financial information for each of the applicants, for the 12 months ended December 31, 1976, is presented in Table I.

Table I

Financial Data for To1 Ed and Clv E  
(12 months ended December 31, 1976)

	<u>To1 Ed</u>	<u>Clv E</u>
Operating Revenues (millions)	\$224	\$ 523
Net Income (millions)	\$ 39	\$ 82
Total Capitalization (millions)	\$780	\$ 1488
Bond Rating		
(Moody's/Standard & Poor's)	Baa/A	Aa/AA

Each of the applicants will share in the output of the Davis-Besse 1 facility in the same proportion as its ownership percentage: Tol Ed - 48.62%; Clv E - 51.38%. These percentages reflect a transfer of 3.88% ownership interest from Tol Ed to Clv E, which has been completed and for which payment has been made.

Estimated Operating and Shutdown Costs

For the purpose of estimating the unit's annual operating costs, the applicants assumed July 1977 as the startup date for commercial operation of the facility. Tol Ed's and Clv E's estimate of the total annual cost of operating the unit during each of the first five years of operation is presented in Table II. The unit costs (mills per kWh) are based on a net electrical capacity of 906 MWe. The five year average costs were calculated by annualizing the estimated costs for 1977 in combination with the annual estimates for 1978 through 1981.

Table II

Operating Cost Estimate  
(First five years of commercial operation)

	Plant Capacity	Operating Cost Estimate (thousands)	Mills/kWh
(July-Dec.) 1977	60%	\$ 68,473	28.8
1978	70%	\$ 168,950	30.4
1979	62%	\$ 164,940	33.5
1980	73%	\$ 163,973	28.3
1981	70%	\$ 163,952	29.5
5-year average	67%	\$ 159,752	30.0

In estimating the costs of permanently shutting down the facility, the applicants assumed that the plant would be entombed and no longer used as a commercial nuclear power facility. Expenditures for entombment are projected to be \$10 million initially, with an annual surveillance expense of \$90,000 thereafter. Entombment consists of sealing all remaining highly radioactive components within a biologically secure structure after having removed all fuel assemblies and radioactive fluids and waste.

Source of Funds

ToI Ed and Clv E expect to cover all operating expenses, including taxes, and interest payments through revenues generated from their system-wide sales of electricity. The applicants have consistently exhibited the ability to cover all operating expenses as evidenced by the ratio of operating revenue to operating and interest expenses in Table III. The Staff assumes that shutdown and subsequent maintenance costs will either be expensed in the year incurred or amortized over a period of years, depending on the rate-making policy of the regulatory authorities.

Table III

	<u>Ratio of Operating Revenue to Operating and Interest Expenses</u>	
<u>Year</u>	<u>ToI Ed</u>	<u>Clv E</u>
1976 (12 Months ended June 30, 1976)	1.08	1.08
1975	1.08	1.08
1974	1.06	1.10
1973	1.11	1.13
1972	1.14	1.16
1967 - 1971 (Average)	1.18	1.17

During 1976, Tol Ed and Clv E sold electricity for average unit prices (mills/kWh) of 30.3 and 29.3, respectively. These unit prices experienced by the companies are above the 1977 estimated unit cost (including a 10% return on investment) of generating electricity from the Davis-Besse 1 facility.

#### Conclusion

In accordance with the regulations cited above, there must be reasonable assurance that the applicants can obtain the necessary funds to cover the estimated costs of the activities contemplated under the license. Based on our analysis, we have concluded that Toledo Edison Company and Cleveland Electric Illuminating Company satisfy this reasonable assurance standard and, therefore, are financially qualified to operate and, if necessary, shut down and safely maintain the Davis-Besse Nuclear Power Station Unit No. 1. Our conclusion is supported by the following factors as discussed above: (1) the applicants' ability to earn revenues sufficient to cover all operating expenses, including taxes, and interest payments; and (2) the projected output of lower unit cost electricity from this facility, as compared with the utilities' present average price of electricity.