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FEDERAL ENERGY REGULATORY COMMISSION
WASHINGTON, D. C. 20426

OFFICE OF THE CHAIRMAN

NOV 10 1980

Honorable John Ahearne
Chairman
U.S. Nuclear Regulatory Commission
Washington, D.C. 20555

Dear Mr. Chairman:

In response to your request, the FERC staff has evaluated the current and near-term financial condition of Metropolitan Edison Company (Met Ed) as it relates to Met Ed's ability to fund the clean up costs resulting from the nuclear accident at Three Mile Island (TMI). A staff group has met twice with officials of General Public Utilities Corporation (GPU), the parent holding company, and once with the staff of the Pennsylvania Public Utilities Commission (PaPUC) in Harrisburg. After reviewing a considerable amount of material, including financial statements, rate opinions, and management consultant studies, the staff has concluded that Met Ed is not now in a position to meet the TMI-2 clean up costs. Furthermore, it is questionable whether the Company will be able to meet those costs in the foreseeable future. The basic facts and findings supporting this position are discussed below.

As things stand now, Met Ed is losing money (this is a rather unique situation for a regulated public utility). The Company is unable to issue bonds or preferred stock (because of legal prohibitions in its indenture and corporate charter) and GPU is, for all practical purposes, unable to sell common stock, thereby precluding any meaningful capital contributions. In addition, the Company's short term borrowings are at or near the limits of its available line of credit. Met Ed's most recent projections (unaudited) show the Company moving into a negative cash flow position (technical insolvency) by May 1981. These projections assume, among other things, the continued unavailability of TMI-1, the absence of any further rate relief, and some additional cost-cutting measures.

Met Ed is now before the PaPUC requesting a $76.5 million rate increase. A decision is not expected until next spring. The FERC staff believes that it is reasonable to expect that

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enough rate relief will be granted to enable the Company to escape insolvency, at least over the short-term, although this is by no means certain. Other possible cost-cutting and cash-raising measures still available to the Company could also postpone its financial crisis.

Going beyond the short-term, the restoration to service of TMI-1 seems to be a critical variable affecting the long-run sustainability of Met Ed's financial position. However, even a restart of TMI-1 does not necessarily resolve the issue of clean-up costs. An important reason for this is that the PaPUC appears adamant that Pennsylvania ratepayers should not be required to shoulder the burden of any clean-up costs. This attitude has been clearly evident in its several rate orders since the TMI accident. If this stance is maintained, it is hard to see how Met Ed could possibly meet the clean-up costs associated with TMI-2 over any reasonable timetable.

If we can be of further help to you in assessing the financial condition of Metropolitan Edison Company, please let me know.

Sincerely,

Charles B. Curtis

Charles B. Curtis, Chairman
Federal Energy Regulatory Commission