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

MAY 24 1985

MEMORANDUM FOR: Harold R. Denton, Director
Office of Nuclear Reactor Regulation

FROM: G. Wayne Kerr, Director
Office of State Programs

SUBJECT: FINANCIAL REVIEW OF GENERAL PUBLIC UTILITIES CORPORATION - OPERATION OF THREE MILE ISLAND, UNIT NO. 1

As requested, enclosed is a financial review of General Public Utilities Corporation including its ability to fund operating costs of TMI-1.

This review was performed by James Petersen of this office who may be reached on x29883 if there are questions.

G. Wayne Kerr, Director
Office of State Programs

Enclosure:
As stated

cc w/encl:
J. Stolz, NRR
J. Goldberg, ELD
E. Christenbury, ELD

FINANCIAL REVIEW OF GENERAL PUBLIC UTILITIES CORPORATION
OPERATION OF THREE MILE ISLAND UNIT NO. 1

I. Background

By order dated March 23, 1981 (CLI-81-3) (13 NRC 291, 297 (1981)), the NRC removed the financial qualifications issue from review and litigation in the TMI-1 restart proceeding. 1/ In the same order the Commission directed the staff "to continue to monitor the licensee's financial resources as long as is necessary and to report any health and safety implications to the Commission." (slip. op., p. 9). At the time of the order, the staff had already begun to receive General Public Utilities' (GPU) financial reports (in connection with the restart issue) by which it could begin the process of monitoring the licensee's financial condition in accordance with the order. By letter dated October 5, 1981, from J. Stolz, Office of Nuclear Reactor Regulation (NRR), to H. Hukill, Metropolitan Edison Company, the staff formalized a requirement whereby the licensee would submit specified, periodic financial reports to support the monitoring requirement. GPU has provided the reports periodically as required. In its

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1/ It is noted that on September 12, 1984 the NRC published a final rule (49 Federal Register 35747) which generically eliminated financial qualification review and findings for electric utilities that are applying for power reactor operating licenses if the applicant's rates are regulated or if it is authorized to set its own rates. The rule, which became effective October 12, 1984, applies both to OL reviews and proceedings that were ongoing at that time as well as to future OL reviews and proceedings. The Commission retained its authority to require financial information in individual cases as may be necessary for the Commission to determine whether an application should be granted or denied or whether a license should be modified or revoked. The final rule is the subject of a currently pending challenge before the U.S. Court of Appeals for the D.C. Circuit.

March 1, 1985 information notice regarding progress of the TMI-2 cleanup (50 Federal Register 9143; March 6, 1985) the Commission stated that "the funding situation is as assured as reasonably possible," and that it would "continue to monitor closely the funding situation."

Since the time of the March 23, 1981 Order, the Office of State Programs (OSP) has monitored GPU's overall financial condition including the company's efforts to fund TMI-2 cleanup. As products of this monitoring function, OSP has continued to provide a number of periodic reports to NRR as warranted by GPU financial developments and when requested by NRR and the Commission and has provided both input to several NRR papers on cleanup and material for NRC testimony.

II. Analysis

General

GPU is the parent holding company of the TMI licensee and operator, GPU Nuclear Corporation (GPUNC), and of three operating utility subsidiaries; Metropolitan Edison Company (Met-Ed), Pennsylvania Electric Company (Penelec), and Jersey Central Power & Light Company (JCP&L). All of these subsidiaries are wholly-owned by GPU. The three operating subsidiaries are the owners of TMI Units 1 and 2 in the following percentages: Met-Ed - 50 percent; Penelec - 25 percent; and JCP&L - 25 percent. The three owners are responsible for providing TMI operating and maintenance expenses in proportion to

their relative ownership shares. The financial condition and capability of GPU and of the licensee, GPUNC, is essentially the combined financial condition and capability of the three operating subsidiaries that provide utility service to the public and collect revenues for that service.

The three GPU operating utility companies provide electricity to about 1.7 million customers (and a total population exceeding 4 million) in service territories encompassing about half the land area of Pennsylvania and New Jersey. About 34 percent of the electricity distributed by the operating companies is used by residential customers, 26 percent by commercial customers, 35 percent by industry and 5 percent by other customers. Although GPU suffered several cash flow crises during the first several years following the TMI-2 accident, its cash flow, earnings and overall financial condition have improved substantially from that time to the present. The cash flow crises were alleviated by a combination of actions including company austerity measures and relief from the two public utility commissions that regulate the rates of the three operating companies: the Pennsylvania Public Utility Commission (PaPUC) for Met-Ed and Penelec; and the New Jersey Board of Public Utilities (NJBPU) for JCP&L. To the staff's knowledge, the three companies did not miss the payment of financial obligations during the cash flow crises. Such financial crises have not reoccurred. GPU's system-wide operating revenues have increased from $1.5 billion in 1979 to $2.7 billion in 1984. Annual net income (earnings after the payment of all operating expenses, interest, taxes, and preferred dividends) has increased from $96

million to $148 million over the same period. Common stock cash dividends were suspended after the accident and continue to be suspended at the current time as a cash conservation measure. GPU reports provided to the staff indicate that all costs of furnishing utility service to the public are being covered by company resources, primarily customer revenues; indeed a significant profit is being earned.

TMI-1 Costs and Funding

At our request GPU provided operating cost estimates and decommissioning cost estimates for TMI-1, as well as a statement of the sources of funds to cover such costs. 2/ The following annual operating cost estimates were provided for the first five years of operation after restart. The estimates assume that restart occurs in 1985.

TMI-1 Operating Cost Estimates
(1985 dollars in millions)

	Year 1	Year 2	Year 3	Year 4	Year 5
Operating and Maintenance	$ 58	$ 63	$ 76	$ 80	$ 88
Fuel	20	20	20	20	20
Taxes	38	38	38	38	38
Depreciation	18	18	18	18	18
Return on Investment	46	49	51	58	64
Total	$180	$188	$203	$214	$228

2/ Cost and source of funds information was provided in telephone conversations on May 22-23, 1985, with M. Morrell, GPU Assistant Treasurer. We have requested that the information provided be confirmed in writing to the staff. Other financial information in this review is derived from the periodic reports provided by GPU in support of the staff's monitoring function.

GPU plans to cover all costs of operating TMI-1 in the same manner as it covers the costs of operating other utility plants; i.e., through revenues from sale of electricity to customers. State public utility commission orders are already in place (PaPUC - January 22, 1984; NJBPU - November 16, 1983) that will restore TMI-1 to the rate base when the unit has achieved 35 percent capacity factor for 100 consecutive hours. Restoration of the unit to the rate base means that GPU will again begin to receive a return of its TMI-1 investment through depreciation charges and a return on the investment (profit). These will both be provided through revenues from customers as will the other operating expenses listed above. [3/]

GPU's last decommissioning cost estimate for TMI-1 was made in 1978 and assumed that the entombment method would be used. The estimated cost was about $40 million in 1978 dollars. In current dollars, that amount would be about $58 million. No new GPU cost estimate has been made pending an NRC rulemaking on decommissioning. GPU indicates that, depending on the mode and timing of decommissioning chosen, costs could be higher than the earlier estimate. In its May 13, 1985 comments to the NRC on the proposed decommissioning rule (50 Federal Register 5600, February 11, 1985), the Utility Decommissioning Group

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[3/] GPU informs the staff that customer rates in both Pennsylvania and New Jersey are scheduled to be decreased in connection with TMI-1 restart. This is due primarily to the cost of electricity to be produced by the unit being lower than the cost of purchased replacement power.

(a group of 13 nuclear plant licensees including the GPU companies) estimated that decommissioning a nuclear plant by immediate or deferred dismantlement could cost between $120-$170 million.

The GPU companies have been allowed to collect funds from ratepayers for eventual TMI-1 decommissioning based on the 1978 entombment estimate. In accordance with PaPUC directives, decommissioning funds collected by Met-Ed and Penelec are deposited in a funded reserve that is dedicated to the payment of eventual decommissioning costs. JCP&L, in accordance with NJBPU directives, is permitted to use the decommissioning funds for its ongoing cash needs. This arrangement is called an "unfunded reserve." GPU indicates that it expects that the NJBPU will grant its request to convert the JCP&L decommissioning collections to a funded reserve, as in Pennsylvania. Whatever the funding method and revisions to estimated decommissioning costs, GPU expects to be allowed to continue collections for decommissioning from customers in both States in the future. At the current time, pending the adoption of a final rule, NRC regulations require no particular method for financing decommissioning costs of a nuclear plant.

TMI-2 Cleanup Funding

GPU has received cash payments from all cleanup funding contributors suggested in the plan set forth by Pennsylvania Governor Thornburgh ("the Thornburgh Plan"). The NRC has recently indicated that "there appears to be reasonable assurance that there will be adequate funding for the cleanup for the next several years," and "that the funding

situation is as assured as reasonably possible." (50 Federal Register 9143, March 6, 1985.) A recent significant development has been the receipt by GPU of over $20 million for cleanup from the nuclear utility industry. These funds are the first installment of an industry commitment to provide a total of $150 million to the cleanup over six years. The industry contribution had previously been the one remaining, major uncommitted source of funding under the Thornburgh Plan.

Recently, we conservatively estimated that GPU was within $57 million of having a total funding commitment to cover the remaining estimated cost of the cleanup ($492 million as of January 1, 1985). Using this conservative approach, we would exclude $24 million of Pennsylvania and New Jersey funds not yet appropriated and $33 million of DOE funds not yet appropriated from GPU's estimate of total committed funds. This would amount to a $57 million shortfall of committed funds below the estimated total cost of cleanup. As these funds are appropriated the shortfall would be reduced or eliminated, assuming that funds from other contributors are also provided as committed.

III. Conclusion

For the reasons set out in detail above, we have concluded that GPU Nuclear Corporation (through the resources of the three GPU System operating utilities) has reasonable assurance of obtaining the funds necessary to cover estimated TMI-1 operating costs for the period of the license, plus the estimated costs of permanently shutting the

facility down and maintaining it in a safe condition (decommissioning costs). GPU's overall financial condition has improved substantially since the several-year period following the accident. All costs of providing utility service to the public are being covered by revenues and the companies are earning a significant profit. As also discussed above, GPU has obtained cleanup funding commitments (and at least partial cash payments) from all sources suggested in the Thornburgh Plan. Assuming that all contributors fulfill their commitments, the cleanup appears to be adequately funded for the next several years.