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UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C.



FOR RELEASE ON DELIVERY
EXPECTED AT 1:30 P.M.
MAY 2, 1982

STATEMENT OF
F. KEVIN BOLAND
SENIOR ASSOCIATE DIRECTOR
ENERGY AND MINERALS DIVISION
BEFORE THE
COMMITTEE ON ENVIRONMENT AND PUBLIC WORKS
U.S. SENATE

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per Emily Bushin

Mr. Chairman, we appreciate the opportunity to offer our views on S. 1606 and to discuss the status of the cleanup effort at The Three Mile Island (TMI) nuclear generating station, the financial condition of the General Public Utilities (GPU) System, and rate-payer costs under various funding options.

The basis for my comments today stem from three reports 1/ and follow-up work we have completed over the last 2 years concerning the serious financial and operational concerns presented by the TMI accident.

We believe the initial steps taken by the Federal Government, the State of Pennsylvania, and the electric utility industry were positive signs of a willingness by the concerned parties to move forward at TMI.

Some progress has been made towards cleaning up TMI-2, but funding constraints have slowed the pace for 1982 and this will probably continue to be the case unless additional funding is made

1/"Three Mile Island: The Financial Fallout" (EMD-80-89, July 7, 1980); "Greater Commitment Needed to Solve Continuing Problems at Three Mile Island," (EMD-81-106, Aug. 26, 1981); "Impact of Federal R&D Funding on Three Mile Island Cleanup Costs" (EMD-82-28, Jan. 15, 1982).

*View of cleanup Eff + cost
2/19/82*

available to GPU.

Before commenting on S. 1606, I would first like to respond to the several issues you asked us to address.

CURRENT FINANCIAL CONDITION
OF THE GPU SYSTEM

At the end of 1981, the GPU System was in about the same financial posture as it was at the beginning of the year. However, the January 1982 Pennsylvania Public Utility Commission (PaPUC) rate order for the Pennsylvania Electric Co. (Penelec) and the Metropolitan Edison Co. (Met Ed) will significantly improve the cash flow position of the two companies. If the New Jersey Board of Public Utilities (NJBPU), approves the rate filing for increased revenues by Jersey Central Power and Light Co. (JCP&L), which is currently pending, its financial situation would be similarly improved.

Financial status at December 31, 1981

The GPU System ended 1981 at essentially the same net income level (before extraordinary gains and losses) as 1980 -- \$20.5 million. Accounting adjustments for extraordinary gains and losses, however, resulted in a net loss for the System of nearly \$16 million. Prior to these accounting adjustments, Met Ed suffered the worst earnings record of the three companies, with a net loss of nearly \$13.5 million for the year--about \$3.5 million more than it lost in 1980. Penelec's net income was nearly \$30 million, a 25-percent increase over 1980 income. JCP&L's net income remained essentially the same at about \$22 million.

Except for Penelec, the GPU companies ended 1981 in an unfavorable solvency position. As the following schedule shows, only Penelec had a favorable ratio of current assets to current liabilities at year's end.

	<u>Current assets</u>	<u>Current liabilities</u>	<u>Current ratio</u>
	(000 omitted)		
Penelec	\$141,981	\$107,297	1.32
Met Ed	81,806	100,967	0.81
JCP&L	160,094	193,404	0.83

While this is only one of a number of financial ratios that could be computed in analyzing the GPU companies, it is indicative of the GPU System's financial situation based on our analysis of its 1981 financial statements. Penelec was in a relatively sound financial condition but restricted in its ability to use its resources to help out its sister companies by the conditions imposed on it as a member of a utility holding company. Met Ed's situation was precarious, following 2 years of net losses, and JCP&L was just keeping up with its cash needs.

Since late 1979, the only source of external financing for the System has been the Revolving Credit Agreement (RCA) loans from the 45-member banking consortium. The original loan agreement expired in late 1981, but based on some encouraging rate actions by the PaPUC and NJBPU, the banks extended the RCA until December 1982. The credit line was reduced from \$412 million to \$200 million, however, and the borrowing limits for each individual company were revised. The new agreement also requires that the GPU parent corporation and the subsidiary companies reduce their borrowings to zero by the end of 1982. As of December 31, 1981, the GPU System had \$60 million in outstanding short-term debt under the RCA in addition to \$49 million in term loan bonds due by the end of 1982.

Financial condition as of
March 31, 1982

Step 1 of the 3-step PaPUC settlement order increased Met Ed's base rates by \$72 million and Penelec's base rates by \$49 million for a total retail rate increase of \$121 million. The increases provide for the accelerated amortization of the companies' investment in TMI-2. These revenues are not immediately offset by related current expenses as is the case with increased revenue receipts related to higher energy costs. At this time, there is also no claim on these funds by the trustees for the bondholders that provided the capital to build TMI-2. Therefore, GPU has unrestricted use of these funds for whatever purpose it deems most important.

The companies' revenue collections were to have been reduced by \$103 million as a result of (1) expected savings in energy replacement costs when TMI-1 was restarted in April 1982 and (2) the expiration of the deferred energy surcharge collections in June 1982. The TMI-1 restart problems now make it highly unlikely that replacement energy savings will become a reality until well into 1983. The expiration of the deferred energy surcharge, however, will serve to reduce revenue requirements by about \$25 million beginning in July 1982, which, on an annualized basis, gives the companies a net revenue increase of \$96 million. Since the companies agreed not to file another base rate case until January 1983, and any subsequent rate changes agreed to would not be effective until September 1983, the \$96-million increase in revenues will continue through most of 1983 and would be affected only by the restart of TMI-1 prior to September 1983.

Factors affecting continued
financial solvency

A favorable decision by the NJBPU on JCP&L's current rate filing, coupled with the favorable PaPUC decision, would leave all the GPU companies in a relatively solvent financial position, at least for the next year or two. The companies are well below their RCA borrowing limits, and this provides them the needed short-term borrowing cushion to meet their State tax obligations and other short-term funding requirements.

Penelec, with short-term investments in excess of \$40 million, has no need of external borrowings. Met Ed's short-term borrowings went up to \$25 million in April 1982, when its State taxes came due. The increased revenue collections, however, will allow it to repay the outstanding RCA debt by September and begin to accumulate a reserve to meet its \$50-million, long-term debt retirement plus its State tax payment--both due in early 1983. These financial commitments, however, will still require about \$25 to \$30 million in short-term borrowings to supplement the funds internally generated.

JCP&L's financial status is unclear at this time, pending the final NJBPU decisions on the energy adjustment clause provision of \$97 million and the base rate filing for a \$214 million increase. JCP&L is faced with several major financial hurdles over the next 18 to 24 months. JCP&L's wholly owned Oyster Creek nuclear powerplant was unexpectedly shut down from December 1981 to April 1982. Replacement energy for the loss of Oyster Creek costs the company \$12 to \$15 million per month. If this cost is not allowed in the energy clause provision, JCP&L must pay these costs

with internal funds or short-term loans. JCP&L is also budgeting \$65 million for Oyster Creek capital costs in 1982 and an additional \$108 million in capital costs for 1983. The company has about \$35 million in maturing bonds coming due in early 1983 plus \$130 million in State tax payments due in May, August, and November of 1982. JCP&L is currently exploring the potential for refinancing the maturing bond issue. If this is not possible, all of the company's cash needs will have to be met from internal funds or short-term borrowings. Because this could require the short term debt level to peak at over \$100 million, a new credit agreement would have to be negotiated with the RCA banks. A favorable NJBPU rate order in May would materially affect the company's financial future and borrowing needs.

The GPU Corporation's outstanding debt as of April 15, 1982, stands at about \$65 million and of all System indebtedness, is the least likely to be repaid on time. The debt can only be repaid as the three companies pay dividends into the Corporation. In October 1981, it was envisioned that the restart of TMI-1 in early 1982 would allow Penelec and JCP&L to pay dividends to the parent corporation which could then reduce its outstanding debt to about \$5 million. Since JCP&L will not be able to pay any dividends before late 1983, the Corporation will end 1982 with an outstanding RCA debt balance of about \$46 million. This will require negotiating a new credit agreement with the banks for 1983 because the present agreement requires that the outstanding debt be liquidated by December 31, 1982.

POSSIBILITY OF A GPU
BANKRUPTCY

The potential for a GPU bankruptcy at this time appears to be unlikely. It cannot be totally discounted, however, given the interrelated financial ties that bind the GPU System and the System's current narrow margin of financial solvency.

In our August 21, 1981, report, 1/ we identified several studies that have been made of the effects that a bankruptcy action might have on the parties involved. We examined the studies and discussed possible issues and consequences with a range of knowledgeable people. Our general conclusion was, and still is, that too many uncertainties exist in a utility bankruptcy to make it a viable option to resolve the System's financial difficulties.

In our report, we pointed out the difficulty in assessing the consequences of a bankruptcy and cited several reasons for this. We did point out, however, that there is a reasonable certainty that a bankruptcy would be a long and protracted proceeding, that it could have a disrupting influence on customer service, and that costs to ratepayers would likely be increased. Furthermore, we pointed out that a bankruptcy would not solve the problems that might initially have led to the System's financial distress. TMI-2 would still have to be cleaned up in accordance with Nuclear Regulatory Commission requirements, replacement power would still have to be purchased, and other System costs incurred to continue supplying electric power to customers.

1/"Greater Commitment Needed to Solve Continuing Problems at Three Mile Island" (EMD-81-106).

A GPU bankruptcy would probably affect the cost of capital for all utility companies. A study issued by L.F. Rothschild, Unterberg, Towbin of New York on April 8, 1981, estimated that TMI has already added about \$170 million annually to the cost of utility debt financing and that a GPU bankruptcy could increase this risk premium to about \$400 million annually.

PROGRESS OF TMI-2
CLEANUP ACTIVITIES

The TMI-2 cleanup cost and completion schedule has slipped steadily since the initial estimate was developed in mid-1979. The expected completion cleanup date, for example, has slipped from 1982 to 1987. Given the current problems with obtaining adequate cleanup funds, final completion is likely to slip beyond that date. Costs have escalated from \$133 million (1981 dollars) to over \$1 billion, adjusted for inflation.

Cleanup accomplishments to date

The major cleanup activity to date has revolved around decontaminating the auxiliary building and treating the contaminated waste water resulting from the accident. This was the first of three planned stages of activity and it has been largely accomplished. The auxiliary building decontamination is about 85 percent complete, and the approximately 275,000 gallons of radioactive water in the auxiliary building have been processed through the EPICOR II filtering system. Another 600,000 gallons of high-level radioactive water in the containment building have been processed through the Submerged Demineralizer System (SDS), leaving about 5 to 6 inches of water remaining to be pumped out. The radioactive material from the contaminated water has

been captured on special filtering material and stored in containers at TMI. These will be taken by the Department of Energy (DOE) to an off-site location for storage and/or R&D purposes between now and the end of the year. Processing the 100,000 gallons of radioactive water in the reactor primary coolant system is also expected to start later this year.

Stage two of the cleanup involves removing the damaged fuel core, and stage three covers the decontamination of the entire interior of the containment building. Preliminary work on gaining access to the reactor core has started, but funding constraints are limiting the pace of activities. The decontamination experiments planned for December 1981 were finally completed in March 1982. This project was jointly funded by DOE and GPU and was intended to develop a practical methodology for more efficiently reducing radiation levels in the containment building than using manual labor and chemical detergents. Results were not as good as expected, but radiation levels in the areas sprayed with the pressurized hot water dropped from 300 millirems to about 100 millirems. Further decontamination work is now the responsibility of GPU.

In mid-1981, GPU proposed a \$759-million cleanup budget for 1982-87 that included \$117 million for cleanup activities in 1982. In late 1981, this 1982 budget, and the accompanying scope of work, was reduced to \$66 million when it became apparent that little or no outside financial assistance would be available. The \$66 million was expected to come from internal sources (\$26 million) and insurance proceeds (\$40 million) and be supplemented

with another \$8 to \$12 million from DOE funding for R&D activities related to the proposed work tasks.

GPU planned that about \$33 million of the budget would be used for activities required to keep the plant in a safe condition. The remaining \$33 million would be used to fund direct cleanup costs. When problems developed in restarting TMI-1, it became apparent that ratepayers' contributions to cleanup costs would not be forthcoming since they were tied to the restart by the PaPUC rate order of January 1982. GPU officials also saw little progress being made in implementing the utility industry's agreement to provide \$32 million annually to the cleanup fund. As a result, GPU decided to reduce the drawdown of insurance proceeds by \$6 million, which directly affected the cleanup activities previously scheduled for 1982. If arrangements to provide outside financing for cleanup activities become stalemated, GPU officials would probably continue to scale back the TMI-2 activities, to maintaining the unit in a safe condition with minimal cleanup at about a \$40-million-per-year level. GPU expects that about \$20 million of that amount will qualify as insurance-related costs. At that level of insurance expenditures, GPU can continue maintaining the unit through 1984. Given the present GPU limitations on access to external financial resources and the heavy financial commitments facing the companies between 1982 and 1985, we see little opportunity for GPU to divert any more of its resources to TMI-2 than it already is doing.

Use of Federal R&D funds may be affected if cleanup is curtailed

Some financial support for cleanup tasks could come from Federal R&D funds, but their use is largely contingent on GPU's being able to undertake and partially fund the work tasks that lend themselves to R&D activities. The Administration committed itself to a \$123-million, multi-year R&D effort at TMI-2 in October 1981. About \$48 million was designated for data acquisition efforts with an additional \$75 million for R&D programs. In our January 15, 1982, report on the impact of Federal R&D funding at TMI, we estimated that if the proposed cleanup effort proceeded as planned, about \$51 to \$54 million of R&D funds would replace money that GPU would have to spend to accomplish the same end-results. An additional \$15-million reduction in the total budget has already been achieved because of DOE's research efforts related to removing the radioactive water from the containment building.

GPU's 1982 budget reductions have not yet significantly curtailed DOE's R&D activities because most of the \$30.75 million DOE budget is for waste removal and immobilization activities and for preliminary engineering work related to subsequent core access work tasks. In addition, some work tasks rescheduled by GPU that have R&D implications are being replaced with tasks that were scheduled to be done later and are not time critical. Additional funding cut-backs by GPU, however, could affect the effective use of DOE funds in 1983 and beyond. DOE has already reduced its proposed 1983 budget request from \$33 million to \$27 million in anticipation of a continued slowdown of cleanup activity.

GAO COMMENTS ON S. 1606

The proposed amendment to S. 1606 provides a mechanism by which the electric utility industry can implement its commitment to share in the TMI-2 cleanup costs. This cost-sharing concept, which would include participation by the Federal government, Pennsylvania and New Jersey State governments, GPU and its ratepayers, and the electric utility industry, is one that we have supported in past reports and testimony.

The amendment limits the sharing of the industry contribution to those utilities with nuclear powerplant operating licenses. This is a substantive change from some of the previous considerations that would have assessed most electric utilities a share of the cost. While there are reasonable arguments on both sides of the issue, the answer is largely judgemental and, in our opinion, best left to the discretion of the Congress.

ALTERNATIVES TO INDUSTRY CONTRIBUTIONS

If the utility industry cannot keep its commitment to provide \$192 million for cleanup costs, there are few viable alternative funding sources. As we pointed out earlier, there is relatively little more of the shareholder's fund that can be re-directed to the cleanup without endangering the financial solvency of the System or future supplies of reliable electric power as maintenance costs are reduced below some marginal levels. External financing is not available, either through short-term borrowings or long-term debt instruments. The banks have made it clear they will not finance the cleanup costs, and the companies

are not an attractive investment for long-term bond holders, even if they met the basic financing requirements such as interest coverage.

This leaves three remaining sources of funds--Federal loans or grants, increased Pennsylvania and New Jersey State contributions, and increased revenues from ratepayers. Although there have been expressions of concern over the TMI-2 problem by certain congressional members, and a feeling that TMI-2 is a national problem that should receive Federal support, we find no groundswell of support for anything beyond the present R&D program level. The Governor's of Pennsylvania and New Jersey have accepted the responsibility for providing \$45 million towards the cleanup over a 6-year period, but thus far, no action has been taken by the State legislative bodies to formally commit these funds. Any funding from tax dollars beyond this commitment does not appear likely at this time.

This leaves the third possible source as the only reasonably viable alternative. Traditional utility ratemaking practices have generally assessed the utilities' customers for the costs incurred to provide electric power on demand as well as giving them the benefit of any cost reductions due to efficient operations. Until January 1982, however, the PaPUC and the NJBPU refused GPU requests to allow rate increases that passed part of the cleanup costs on to its customers. In its January 1982 rate orders for Met Ed and Penelec, the PaPUC allowed some of the potential cost savings expected to result from the TMI-1 restart to be retained by the companies and used to fund cleanup costs. The

NJBPU is expected to rule in a similar manner for JCP&L, although that decision has not yet been made.

The Met Ed and Penelec rate filing requests were structured so that a large initial revenue increase to reflect the amortization of the TMI-2 investment would be collected starting in mid-January 1982. These revenue increases were to be offset later in the year by replacement energy cost savings from the TMI-1 restart and by the termination of the deferred energy surcharge in June 1982. It was anticipated that Met Ed ratepayers would be paying the same retail rate per kilowatt hour (kWh) on December 31, 1982 as they were paying on January 1, 1982. Penelec retail customer rates were only expected to increase by 0.1 cent per kWh over the 12-month period. The failure to restart TMI-1 in April as scheduled, however, negated the potential replacement energy savings and resulted in Met Ed's retail rates increasing by \$53 million, or 0.9 cents per kWh and Penelec's retail rates increasing by \$42.6 million, or 0.52 cents per kWh. On an annualized basis, therefore, Met Ed's residential customers using 500 kWh per month are currently paying 8.6 cents per kWh--a 12 percent increase over the previous rate. Penelec's customers in the same class are now paying 7.63 cents per kWh for an 8 percent increase in rates. The following table shows how these current rates compare with other utility companies in the same area.

Philadelphia Electric Co.	-	10.46¢	<u>a/</u>
Met Ed	-	8.62¢	
Duquense Power & Light Co.	-	8.61¢	
Pennsylvania Power Co.	-	8.56¢	<u>a/</u>
Penelec	-	7.63¢	
Pennsylvania Power & Light Co.	-	6.87¢	
West Penn Power Co.	-	5.29¢	

a/Assumes pending rate increases are granted in full.

If all of JCP&L's retail rate filing request is approved by the NJBPU under terms similar to those approved by the PaPUC, the company's residential customer using 500 kWh per month would pay 12.44 cents per kWh on an annualized basis. This represents a 29 percent increase over the current rate of 9.61 cents. The comparison with other utility company rates is shown below.

Consolidated Edison Co.	-	13.50¢
Atlantic Electric Co.	-	12.73¢ <u>a/</u>
JCP&L	-	12.44¢
Long Island Lighting Co.	-	12.27¢ <u>a/</u>
Rockland Electric Co.	-	10.78¢
Pub. Service Elec. & Gas Co.	-	10.62¢
Philadelphia Electric Co.	-	10.46¢ <u>a/</u>

a/Assumes pending rate increase is granted in full.

The electric utility industry has made a commitment to provide \$32 million per year for 6 years to the cleanup, and S. 1606 is designed to help the industry implement that commitment. As we pointed out earlier, if the industry cannot keep its commitment, the only viable recourse is to obtain it from System ratepayer revenues. If this increase were to be approved by the PaPUC and NJBPU, it would likely increase rates by the following amounts.

<u>Company</u>	<u>Est. sales (1982) (Gwh)</u>	<u>S. 1606 cleanup share (\$ million)</u>	<u>Additional cost per kWh (cents)</u>
Met Ed	7,800	\$15.67	0.20
Penelec	10,500	7.18	0.07
JCP&L	13,000	9.14	0.07

At the current rate levels, this additional cost would increase rates for Met Ed, Penelec, and JCP&L residential consumers using 500 kWh per month by 2.3, 0.9, and 0.6 percent, respectively.

Mr. Chairman, this concludes my prepared statement. I will be happy to answer any additional questions you might have in this matter.