G/712-11-1

MEETING HOUSE INTERVIEW

WITH

WILLIAM G. KUHNS

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The following uncorrected transcript was made from a video tape of the Meeting House program of television station KYW in Philadelphia.

Welcome back. The nuclear accident at Three Mile Island is going to cost millions. General Public Utilities owns the firm that runs the plant at Three Mile Island, and with us tonight we have Mr. William Kuhns, Chairman of General Public Utilities.

Question: Mr. Kuhns, please tell me why you think your customers ought to pay for an accident the nuclear industry said would never happen?

Kuhns: That's a fundamental question that's going to take a little longer than some might like. First of all, we regret very much there are any costs to be passed out to anyone and we are very unhappy that anyone has to pick up any part of this accident. It was most regretable and very expensive, as you cite. But let's talk about regulation. Utilities in this state are regulated on a cost-of-service basis. The Commission reviews the facts and figures and determines what the cost-of-service is to the customers and allocates it amongst groups. And included in that cost-of-service determination is a cost of capital determination, and included in that is the return on equity (return to the common stockholder) that the Commission decides is

reasonable to enable that utility to continue to attract equity capital. As a capital intensive industry, as we are the most capital intensive industry in the country, we have to be continually going to the capital markets and, therefore, to be able to pay the requisite cost of money. So this cost of capital for the equity stockholder is determined and the rates are fixed accordingly. The stockholder really has no ability to share in advantages, any economies, any fuel savings that the utility might generate. And that's the way it ought to be, we think. Those savings should be passed on to customers. Not the same way as in an industrial situation where if they increase their share of the market, improve their product, reduce their costs - the profits go up, the stockholders gain. Conversely, they have a natural disaster, a man-made disaster - the stockholder eats that over a period of time. Ultimately, of course, it ends up in the price of the product. The consumer ultimately has to pay no matter what system you use, but it takes a little longer period of time.

Question: Let's find out about how some of the consumers feel about that. Do we have a question from....Jim McGee from Harrisburg representing the Pennsylvania Alliance. One question I have - How a utility company

can justify making rate payers pay for a non-working generating facility and then pay again for buying power to replace that facility? And then another related question relating to this replacement power issue - I hear, I see figures of $600,000 - $800,000 a day for replacement power for Unit-2. Unit-2 has only been on-line for a couple of months, where did Met-Ed get its power before Unit-2 came on-line? Why is replacement power even necessary at all?

Kuhns: Well let's start back...your first question was - "How can we expect to collect for a plant that isn't operating?" You have to almost turn the question around, that plant cost a lot of money and the return on that plant is being paid to the investors. Who's going to pay that return. You have to collect revenues to service that investment. Plants are in and out of service all the time, either on a planned basis or a forced outage basis. This is a forced outage in a very extreme case, but the costs of that facility continue even though it is out of service. You have a mortgage on your house...

Question: I think he wants to know how you can justify making

Kuhns: ...and you take a vacation and you're not in the house, but the costs continue and you have to make...

Jim McGee: But Mr. Kuhns an investor chooses to invest and risk his money in stock, as you're talking here - your investors - you have to provide them with some return. The consumer has no choice, particularly in a utility which is regulated and utility companies have a monopoly. Now, how do you justify the concerns of the investors, which should bear the risk?

Kuhns: Utilities have a monopoly in the sense of the territory and its absolutely true that customers are captives, we all are, I am, you are. It has been decided, I think wisely, that it would be terribly costly for utilities to compete within a given service area. So as a monopoly the regulation is imposed quite properly, quite effectively to see that the monopoly, the utility, does not take advantage of that monopoly situation. But the costs are there and they are enormous...

Jim McGee: Where do the costs, the replacement costs, how do they become so high when in a plant that's only been open for six months?

Kuhns: Well, you've got to look at the entire interconnection. Three Mile Island Unit-2 has a capacity of about 900 megawatts. TMI-1 sits right next door to TMI-2, as you know. And that is down, that was ready to be put back on the line the Monday following the accident. Of course, with

the site activity that's impossible. But as a result of that accident, we've lost the availability of two of 1,700 megawatts of capacity. That's an enormous amount. Our total capacity in the GPU System is just over 8,000. So that's an incredible amount of capacity and we've had to go out and buy from the PJM pool. These are the running costs and this is based on these units throughout the interconnection, our economy load in Philadelphia and we are buying at the running rate of the increments of capacity and energy that we need to meet our needs. Now we are trying very hard to look within the pool for lower cost capacity in energy that we can buy on a firm basis and even beyond the pool. We've had people up in Canada seeing if we could get some capacity in energy in Ontario. We're looking West of the PJM interconnection over to Allegheny Power, American Electric Power. We're trying to minimize the impact on the customer as much as we can.

Prompter: Let's have another question up here.

Mark Helen: I'm Mark Helen, I'm a member of the Pennsylvania House of Representatives and Democratic Chairman of the Public Utilities Sub-Committee. We've heard through the media that the accident was caused by human error. I'd like to know to what degree human error may have been caused by

mis-management on the part of your company? Why did many workers have to work seven days a week, up to 20 hours a day according the Philadelphia Inquirer and why did you decide to scrimp and not decide to hire more workers and train more licensed nuclear operators and license senior nuclear operators?

Kuhns: We, of course, believe the work force has been an efficient, full compliment of people-well trained. The questions you raise are going to be the subject of these investigations that are underway, as they should be. The President of the United States' Commission has a six month charter, a million dollar budget - they will be investigating that. The commission has...

Mark Helen: Who trains your workers?

Kuhns: an investigation. We're going to be the subject of numerous investigations. Those workers are trained by plant personnel. They are also trained by NRC personnel, they visit simulators of the reactor manufacturer. They come in at about a "C" level, move to a "B" level and an "A" level. There is about a year of training in between. Forty hours a week for a number of weeks, classroom training, testing, they then have on the job training. They have a thorough,... then they

are tested by the NRC, a written exam, an on the job exam.

Mark Helen: How many do you have who passed the NRC test?

Kuhns: I don't know. There is no one in that plant, operating the plant, who hasn't passed the test.

Jim McGee: But Mr. Kuhns at the time of the accident you were, Metropolitan Edison, was operating in a tight budget situation - there was a hiring freeze. Is that correct?

Kuhns: No, there was no hiring freeze?

Jim McGee: Budget cuts?

Kuhns: There were budget constraints as there are in any well run organization, yes. We have budgets and try to live within them.

Harold Brown: State Representative Harold Brown from Reading. You mentioned that the plant began December 30th - Unit 2 in operation ...

Kuhns: Yes

H. Brown: One hour before...

Kuhns: TMI-2 went on service late 11 something December...

H. Brown: So you could get tax credits?

Kuhns: No, sir. Not so we could get tax credits...

H. Brown: O.K. Number 1. Did you know that there were several...

Prompter: Plus you did get a $300 million tax depreciation...

H. Brown: Not so we could get tax credits. We could have gotten a tax credit regardless of whether.

Mark Helen: The plant went into operation on December 30th, is this correct Mr. Kuhns.

Kuhns: Let's be accurate. Yes, it is.

Mark Helen: 11:00 p.m., December 30th. What tax advantages did Metropolitan Edison accomplish by that?

Kuhns: None.

Mark Hellen: Weren't there tax investment credits of about $18-20 million?

Kuhns: They weren't tied to the placing of that plant in service at that hour. We reviewed carefully...

Prompter: Is it true that you were able to ...

Kuhns: the tax regulations prior to that event and we were satisfied that whether or not that plant was placed in commercial service, which is what we're talking about, it could qualify for that tax credit. Please understand one thing, placing a plant in commercial service is an accounting deal it has nothing to do...

Prompter: Let me just interrupt you for one second... Isn't it true that you got a $3 million deduction on your taxes because you were able to depreciate that plant over the life of 1978 - although it was in operation 24 hours?

Kuhns: It is true and it would have been true whether or not it was placed in commercial service on December 30th.

Prompter: But if it's not operating how could it have been depreciated?

Kuhns: It was operating.

H. Brown: We know the answer to that and we're very upset with that answer. Number 2. Did you know that there were several safety violations at Unit-2 and, if so, since you put the plant in operation December 30th for an hour or 50 minutes, wasn't someone then responsible and maybe there's a problem here with profits before the safety of the public?

Kuhns: Oh no, no, no, no... and I...

H. Brown: Well then you didn't know there were safety violations?

Kuhns: We did not know there were safety violations.

Prompter: Why didn't you know?

Kuhns: Were there safety violations?

Prompter: The NRC has said so.

Kuhns: Are we sure of that? That's going to be harder to review.

H. Brown: Yes, we're positive of that.

Kuhns: You're positive, are you on the basis of press reports...

H. Brown: We have to listen to the NRC over you Mr. Kuhns, really.

Kuhns: Well, the NRC itself has taken the position that this is going to be a part of an intensive review and that has not been completed, really. Now I'm

not saying there weren't, we didn't know there weren't, if there were, we're more than embarassed and we'll take steps to see that they don't recur. Let me make a point about what I would characterize as the punitive attitude about this accident. I think it's real, its understandable, its human and I share it to a great extent. When something like this happens, people say "What happened - who caused it" and if its the company's fault, the company being the employees, the company ought to pay for it. The way we operate, there is no room for punishment of either the customer or the stockholder. If a review of this accident indicates deficiencies in the management, in the operation of that facility, the punishment to be exacted will be the people involved starting with me and working down through the organization. That's where the punishment should be. You can't punish a stockholder for this kind of thing.

Male: The punishment will be borne by the public.

Prompter: Right. To some extent everyone will be punished because everyone is gonna have to cough up money one way or the other. Isn't that what you said?

Kuhns: Anyone who has to cough up money is being punished, but not in the sense of punishment. There's a cost there to be borne.

Male: The insurance costs are borne by the customer too.

Prompter: Yes, sir, and the backup.

Male: Isn't that precisely the point though. Bob Mulligan Congress Watch. That this attitude that "well there is no punishment and there's really no preventative deterrent here" that we simply pass off the cost as best we can and not really argue too much about them, because if we do we're assigning blame and if we start assigning blame then it means it's going to be deterrent for someone to act like this in the future. Isn't that precisely why we're trying to down play that?

Kuhns: Oh no. You know there's an enormous amount of deterrents, punishment related to this accident. This is going to be the greatest learning experience in nuclear power that's ever occurred. I'm sorry that we are the university to which these people will be coming to learn. But we're all going to learn an enormous amount as a result of which the nuclear power program is going to be improved. Procedures will be improved.

Male: We have in our audience tonight Mark Widdoff, the Pennsylvania consumer advocate. Mr. Widdoff, you are appearing before the Pennsylvania Public Utility Commission as a party to the proceedings to determine who will pay the costs as a result

of this accident. Might you describe your perspective with regard to the issues?

Widdoff: Yes. I feel very strongly as an individual and to the extent that I have been able to express it as a public official that there must be more than just a learning experience as Mr. Kuhns has expressed it. That there must be a complete reevaluation of the assumptions upon which we have gotten ourselves into the mess that we have found ourselves in. I don't think the public, certainly the people in Harrisburg, were aware of the risks that they had been exposed to. Nor do I think the investor, who I believe is also innocent, is aware or has been aware of the risks that the investor has been exposed to. I think that unless there are consequences which flow, that the market, the financial market, perceives we will not get the kind of changes that we must get so that this situation does not recur. I guess my problem is that I have a fundamental disagreement with Mr. Kuhns because I am convinced that nuclear power is not economic, as well as dangerous and that this accident to me is a demonstration of the fundamental problem - the economic problem - we have exposed ourselves to.

Male: How do you think the costs of this accident should be borne?

Widdoff: I think they are going to have to be shared and I think the company recently has indicated that it's in agreement with that basic constant.

Kuhns: That's correct.

Widdoff: The fight, if that's what it's going to come down to is exactly how it's going to be shared. Obviously, there is going to be consequences to the investors and they are, in my opinion, innocent of any wrongdoing and, unfortunately, they will bear a great share of the burden here.

Male: The consumer will pay terribly. The residents of Harrisburg and surrounding areas will pay terribly. The thing that bothers me and the thing that I think is worth fighting about here and the reason I'm fighting is that I think that we must go further than say well we're having a laboratory in nuclear. We should have had that laboratory in a real laboratory and it should have been controlled and we are experimenting with human lives, with human health. I think there has to be a reconsideration at the national level about this whole area. I think that we have to go much slower than we've been going and I think that if force the company as best we can without really harming the public in the process to re-evaluate this whole situation that we will be doing everyone a great favor. We

really haven't had a national debate about nuclear power that's been informed...

Prompter: Well we're going to have one here if you give the man a chance...

Kuhns: Well, its a question of degree. Mr. Widdoff has officially taken the position that we ought to take it out of rate base and we shouldn't pass on the cost of purchased power. At that point the customer would be receiving free electricity. I don't really think he means that. Mark, I'm not trying to be unfair to you in that regard. That's part of his advocacy role to assume that the customer should pay nothing....

Prompter: What share do you think the customer should pay?

Kuhns: I think that has to be worked out...

Prompter: But if you could work it out your own way...

Kuhns: But I can't work it out. I'd be arrogant and presumptious as can be to suggest that...

Prompter: Well do you think you ought to set it up half and half.

Kuhns: We did this, we came to the commission yesterday and we suggested that the commission...

Prompter: Mr. Kuhns please tell me what you think...

Kuhns: May I answer your question, please. Because it's parts you see...

Prompter: But I'm asking you what, just what share...

Kuhns: We are suggesting that the investor be deprived of the return on half of the equity related to TMI-2. Now that's a significant amount...

Prompter: ...and you were suggesting that... should you get a rate increase for a plant that doesn't work...

Kuhns: Well there's no way we can share...

Prompter: ... and then cleaning it up.

Kuhns: That's right, that's right. Those are costs that must be borne.

Prompter: How do you feel about that?

Male: What about the implicit cost to the consumer? What about the psychological health and environmental costs? How can you assess those? Economically, they're almost impossible, yet you want to through a rate increase onto the consumer and yet have him pay for all of these other costs. To me that seems unequitable.

Kuhns: We can only deal with the measurable costs. They're being measured to the greatest degree that they can and they'll have to be dealt with on that basis. If you're talking about intangibles, I can't deal with those.

Male: But that seems to me not good enough.

Richard DePetris: Richard DePetris from Congressman Atkinson's staff. What percentage of a general rate increase has there been for your consumer because of nuclear power in the GPU System from the time there was no nuclear power until - in true dollars?

Kuhns: Nuclear power - I can't give you a number, but it's been a reduction. Nuclear power has contributed to a lessening of the otherwise needed increases. Now rates have gone up. Rates in the state of Pennsylvania for all companies have gone up, have just about doubled since 1970. And that's true of all...

Male: Are you familiar with your own 1977 rates? Weren't they higher than average for your nuclear energy?

Kuhns: No, No, No.

Prompter: And isn't it true that GPU has gotten $90 million...

Kuhns: I don't know where you think numbers, no...

Prompter: Well, Standard Reports printed in April that GPU has won $90 million in rate increase in the last year over all of the utilities that you own. I think the gentleman who represents...

Kuhns: We certainly don't stand alone with that. Utility rates have gone up, as I've indicated they have doubled since 1970 across the state.

Prompter: How much have they gone up because of nuclear?

Kuhns: They have not gone up because of nuclear power...

Male: But they have not gone down.

Kuhns: ...as much as they would have gone up with oil or coal

Male: One further point. In the last two years - there are only 72 nuclear power plants licensed and in operation across the country, but in the last two years ..:

Kuhns: There are 67 actually.

Male: ...well there have been almost 250 mandated shutdowns, o.k. Under those circumstances, costs are being passed along to consumers for plants that are not operating at any level - that's at some point or another. Doesn't that represent some kind of fake increase in costs...

Kuhns: Ah, fake increase... Any power plant in this country has shutdowns, has outages, planned maintenance, or forced outages. Any plant, whether its coal, oil or nuclear. Our nuclear plants - actually in the GPU System - have out performed the coal plants. We have a higher capacity factor from our nuclear plants. They are on-line more, generating more electricity than our coal plants...

Prompter: And yet isn't it true that the average that your nuclear plants are operating at 65% of their capacity.

Kuhns: No, it's not. They are operating at about 10 points above the national average...it had been until this...

Prompter: ...which is 62%

Kuhns: And we're about 10 points above that...

Prompter: So we're paying for almost 30% of a plant that isn't being used.

Kuhns: Oh, that's a feature of the business. That's the way... no plant can operate 100% of the time. They have to be maintained...

Male: Let me just ask Mr. Kuhns one question. Let's simplify this for a moment. You're suggesting that the cost of nuclear energy is more economical to the consumer.

Kuhns: This varies across the country based on geography, proximity to other resources...

Male: How do we figure the costs of accidents such as this, which is undetermined at the present time, and how does that get figured into the cost to the consumer...

Kuhns: That will certainly have to be an element in determining the economics of nuclear power...

Male: What is the insurance liability...

Kuhns: When we make a study of nuclear power versus anything else, or the anything else against nuclear, we assume what can happen to that plant

and still make it economic. What kind of monies can be spent during its life and still maintain its economic advantage...

Male: Sir...

Male: My name is Mr. Rosenberg and I belong to the Community Action Group for Northeast Philadelphia. I'd like to know what is the relationship between investment and nuclear power as opposed to oil, or coal, or whatever kind of plants you want to put up and the return of capital?

Male: Return on capital?

Rosenberg: Yhea. Nor is the relationship of the initial investment in nuclear energy. From my learning it cost more to invest in nuclear power than it does in coal or the oil.

Kuhns: Oh, I see what you mean. Yes, the capital cost of nuclear power is more than coal and more than oil, but it's more than made up in the fuel cost. The fuel cost of nuclear power is 3 mills, the fuel cost of oil fired generation today is 30 mills. Coal is less than that, of course, coal you can get down into the, about half of the oil.

Phillip Kolodner: Phillip Kolodner. Mr. Kuhns if in fact there is an immense cost here only part of which can, in fact, be borne by shareholders and much of which has to be borne by consumers inevitably one

way or the other. Should there be some major effort in the United States Congress for this cost in Pennsylvania and in New Jersey to be spread more broadly throughout the country on the theory that this kind of action that is something which really belongs to all of the people because it's one of nuclear costs which should probably be spread?

Kuhns: I think that's an excellent point and absolutely true and we are going to be pushing for that. The disadvantage of that is that we're bleeding badly at the moment and anything like that is going to take some time to develop. We would hope that we could develop that and anything we could obtain on that kind of a basis would be rebated to our customers in the future.

Chris Sayer: Mr. Kuhns, my name is Chris Sayer and I'm from Harrisburg. Many people in Harrisburg are going to have to pay costs of this even though they're not rate payers of Metropolitan Edison and they live outside of the five mile area within which you are paying insurance claims for evacuation. In light of Mr. Denton's recommendations to evacuate after 20 miles and Governor Thornburgh's granting of administrative leave to State employees out to 20 miles, why should Harrisburg residents have to pick up costs for a plant they get no benefit from?

Kuhns: What costs, you mean in the terms of these...

Sayer: Evacuation, loss of business, there's a tremendous impact on our economy in Harrisburg that we're already seeing.

Kuhns: Well those costs are being examined. I can't comment simply because I just don't know what disposition of those costs is being made to the extent that they are covered under the nuclear liability policies. Of course, they will be paid for, but I don't know how far out they will go.

Male: What if we exceed the $560 million limit, we have to bear it.

Kuhns: There is no hint that the limit will even be approached as a result of this accident.

Male: A P&L spokesman was quoted in the Harrisburg paper someday a week ago...

Male: Pennsylvania Power & Light, another utility company...

Male: ...right, right... as saying that if Met-Ed isn't crucified as a result of this accident, the credibility of the nuclear industry will suffer severely. Would you comment on that?

Kuhns: Oh, I think it's an irresponsible statement. I don't know who made it, but it's certainly premature - at best - at least - and I don't know what it means... What do you mean crucified?

Male: I - it was Lent maybe, I don't know.

Prompter: We asked more than a dozen representatives of the nuclear industry to come appear on this panel with you and they refused. I'm wondering if its a - referring back to this question - a hands off situation. Are you and Met-Ed out there all by your lonesome taking the rap for the entire industry?

Kuhns: We don't feel that way, we are... our associates in the industry have expressed great concern and some have expressed - in a way that said - there but for the grace of God go we.

Prompter: Oh really!

Kuhns: Well, in this sense, in this sense. Don't devour it too quickly till I get a chance to explain it. But we said earlier this is an accident that couldn't happen, one can say that - if you will. I've got to tell you that in the early stages of this accident I was frightened, as everybody was, because I have a wife and five daughters and I have a stake in their lives and in my own and I have a great regard for nuclear power and a responsibility for it. I don't take it lightly. I had always been told and learned through the years, I am not a scientist myself, but we have confidence in our staff, of course, that these

animals would never hurt people. That we could contain whatever happened, but that we might wreck a plant. We might do severe damage to a plant. That's what happened, I'm sorry it was our plant - it could be anybody's plant in that sense, but the system did work. I'm not bragging about that - it was a bad accident and we don't want to keep testing the adequacy of that system. But it did work.

Male: One more question, sir. Do you plan to initiate any re-evaluation of the commitment to nuclear power as a result of what happened at Three Mile Island and do you plan to look any more closely at alternative sources of power... such as solar and wind power?

Kuhns: We certainly do intend to explore those sources just as fast and as hard as they could be pursued.

Male: Thank you Mr. Kuhns. We are out of time. Thank you for joining us. This has been a special edition of Meeting House. I'm Larry Levin and I'm Marge Pallet. Goodnight.