

COMMONWEALTH OF PENNSYLVANIA

PUBLIC UTILITY COMMISSION

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Pennsylvania Public Utility Commission							:
versus Metropolitan Edison Company and							:
Pennsylvania Electric Company, Respondents.							:
							:
*	*	*	*	*	*	*	X
							:
Operating agreement among Jersey Central							:
Power and Light Company, Metropolitan Edison							:
Company, Pennsylvania Electric Company and							:
GPU Nuclear Corporation.							:
							:
*	*	*	*	*	*	*	X
							:
Affiliated interest agreement between							:
Metropolitan Edison Company and Pennsylvania							:
Electric Company, relating to the proposed							:
combined management of the two companies.							:
							:
*	*	*	*	*	*	*	X
							:
Petition of JARI, Incorporated, et al. for							:
an injunction to enjoin Pennsylvania Electric							:
Company and Metropolitan Edison Company, and							:
for hearings.							:
							:
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Pages 148 through 357

Hearing Room No. 1  
North Office Building  
Harrisburg, Pennsylvania

Wednesday, December 3, 1980

Met, pursuant to adjournment, at 10:10 a.m.

BEFORE:

EDWARD CASEY, Administrative Law Judge

8102120 136

## 1 APPEARANCES:

2 SAMUEL B. RUSSELL, Esquire  
3 ALAN MICHAEL SELTZER, Esquire  
4 Ryan, Russell and McConaghy  
5 P. O. Box 699  
6 Reading, Pennsylvania 19603  
7 (For Met-Ed and Penelec)

8 DENNIS S. SHILOBOD, Esquire  
9 HOWARD F. MESSER, Esquire  
10 Strassburger, McKenna, Messer,  
11 Shilobod and Gutnick  
12 3101 Grant Building  
13 Pittsburgh, Pennsylvania 15219  
14 (For JARI, Incorporated)

15 ROBERT A. CHRISTIANSON, Esquire  
16 MR. ROBERT L. PACKARD  
17 P. O. Box 3265  
18 Harrisburg, Pennsylvania 17120  
19 (For Commission Trial Staff)

20 LEE E. MORRISON, Esquire  
21 P. O. Box 3265  
22 Harrisburg, Pennsylvania 17120  
23 (For Commission Administrative Staff)

24 IRA H. JOLLES, Esquire  
25 Berlack, Israels and Liberman  
26 26 Broadway  
27 New York, New York 10004  
28 (For General Public Utilities Corporation)

29 DAVID A. FAZZONE, Esquire  
30 Sullivan and Worcester  
31 100 Federal  
32 Boston, Massachusetts 02110  
33 (For Theodore Barry and Associates)

C O N T E N T SEXAMINATIONWITNESSES:

<u>DIRECT</u>	<u>CROSS</u>	<u>REDIRECT</u>	<u>RE-CROSS</u>
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HERMAN M. DIECKAMP

(By Mr. Russell)

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(By Mr. Shilobod)

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(By Mr. Messer)

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(By Mr. Packard)

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EXHIBITS:

<u>FOR IDENTIFICATION</u>	<u>IN EVIDENCE</u>
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Penelec/Met-Ed Statement A

195

(not offered)

Penelec/Met-Ed Statement B

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(not offered)

Penelec/Met-Ed Exhibit No. 1

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(not offered)

Penelec/Met-Ed Exhibit No. 2

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(not offered)

Penelec/Met-Ed Exhibit No. 3

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(not offered)

Penelec/Met-Ed Exhibit No. 4

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(not offered)

Penelec/Met-Ed Exhibit No. 5

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(not offered)

Penelec/Met-Ed Exhibit No. 6

195

(not offered)

JARI Exhibit No. 1

237

(not offered)

P R O C E E D I N G S

JUDGE CASEY: The hearing will come to order.

As most of the parties of record of this proceeding are probably already aware, there has been a substantial change in the format of the hearings that we're about to commence today. Specifically, two of the four docket cases have been removed from consideration by an Administration Law Judge as a result of certain formal action taken by this Commission at a public meeting held on November 26, 1980 which was last Wednesday.

The two cases which have been removed from consideration in this record are the first docketed case, which was the ongoing investigation into past and present management practices of Metropolitan Edison Company and Pennsylvania Electric Company, respondents, which is docketed at I-79080320.

The second case removed from our consideration involves the petition that had been filed by the Johnstown Area Regional Industries, Incorporated for an injunction to enjoin Pennsylvania Electric Company and Metropolitan Edison Company from proceeding further with these plans, and for hearings in the case.

The remaining matters for our consideration will be the operating agreement among Jersey Central Power and Light Company, Metropolitan Edison Company, Pennsylvania Electric

1 Company, and the newly formed GPU Nuclear Corporation. That  
2 case is docketed at G-80060098. I believe that particular  
3 affiliated interest agreement, as we call it under the Public  
4 Utility Code, was first filed with the Commission back on  
5 June 5, 1980.

6 The second case that will be taken up during the  
7 course of these evidentiary hearings would be the affiliated  
8 interest agreement between Metropolitan Edison Company and the  
9 Pennsylvania Electric Company, relating to the proposed  
10 combined management of the two companies; that is, the board  
11 of directors and the corporate officers, which would be common  
12 to the two companies. That case is docketed at G-80070101.

13 In view of this change, I feel that it is necessary  
14 for me to briefly state certain matters for the record in this  
15 proceeding before we hear from counsel and before we take any  
16 testimony in the case. I wish to call the parties' attention  
17 to an order published by this Commission which was adopted at a  
18 public meeting held on August 16, 1979, under docket number  
19 I-79080320, which was the first case in our consolidated cases  
20 that we were to hear.

21 In that order, the Commission stated as follows:  
22 In the order adopted June 15, 1979 and entered June 19, 1979 at  
23 docket number I-79040308, the Commission was compelled to  
24 state, "Performance of the GPU companies before this Commission  
25 calls into question the capabilities of its management and

1 lends urgency to the investigation and management audit which  
2 we will require in this order." More specifically, we stated  
3 in that same order, "There are questions unanswered which  
4 deserve the attention of the Commission. Did respondents act  
5 reasonably and prudently in construction and placing into  
6 service of TMI-2?

7 "Did Met-Ed, as the operator of TMI-2, act  
8 reasonably and prudently in the operation of the plant prior  
9 to and during the accident? When if ever will TMI-2 be  
10 returned to service? What will be the cost? Is present  
11 management of Met-Ed, Pennelec and GPU reasonably efficient?  
12 Can their efficiency be improved?

13 "These and other related matters directly or  
14 indirectly affect the cost and quality of service provided to  
15 respondents' ratepayers. Met-Ed and Pennelec have incurred  
16 capital costs which they will undoubtedly seek to recover in  
17 future rate cases."

18 The Commission's knowledge and understanding of  
19 the causes and costs cannot await these future rate cases.  
20 Therefore, the Commission will by separate order institute an  
21 investigation of the past and present management practices of  
22 Met-Ed, Pennelec and GPU. This investigation will specifically  
23 focus on the construction and operation of TMI-2, and will  
24 incorporate the public reports of the President's Commission,  
25 the Nuclear Regulatory Commission, and others concerning the

1 accident at TMI-2.

2           However, the investigation will include broader  
3 questions concerning the management of these companies, and  
4 will incorporate the findings of a management audit which the  
5 Commission will authorize.

6           The Commission then issued the following ordering  
7 paragraphs: Number one, that an investigation is hereby  
8 instituted into the past and present management practices of  
9 Metropolitan Edison Company, Pennsylvania Electric Company, and  
10 General Public Utilities Corporation.

11           Number two, that this investigation shall include  
12 an examination of the actions and decisions involved in the  
13 construction, maintenance and operation of Three Mile Island  
14 Power Station Unit Number Two.

15           Number three, that a management audit of  
16 Metropolitan Edison Company, Pennsylvania Electric Company and  
17 General Public Utilities Corporation is hereby authorized.

18           And finally, number four, that the Office of  
19 Administrative Law Judge shall assign this matter to an  
20 Administrative Law Judge upon request of the Staff. The order  
21 was adopted August 16, 1979 and entered on August 17, 1979.

22           All of this material that I've just read into the  
23 record pertains to the Commission's original and initial order  
24 under I-79080320, which is the first case among the four  
25 consolidated cases that we were to hear in this proceeding

1 this morning.

2           As we now know, the Commission sometime back in  
3 August or September of 1979 apparently retained the services of  
4 a New York management consulting firm known as Theodore Barry  
5 and Associates. Theodore Barry and Associates worked on their  
6 management audit report for a period of approximately a year,  
7 involving the two operating utilities and the holding company  
8 in New Jersey.

9           That report, as I understand, has been rendered to  
10 the Commission sometime in September of 1980. However, after  
11 the report was filed, the Commission found reason, apparently  
12 upon request of the Staff, to issue an order on October 29,  
13 1980. That particular order opened investigations into the  
14 two affiliated interest agreements and consolidated those  
15 investigations and the JARI petition with the Commission's  
16 general management investigation docketed at I-79080320.

17           In the ordering paragraphs, the Commission gave the  
18 Office of Administrative Law Judge 90 days in which to hold  
19 hearings and render a recommended decision. That assignment  
20 was communicated to yours truly, the presiding Administrative  
21 Law Judge approximately seven days later.

22           At that time, I endeavored to schedule preliminary  
23 conferences and a prehearing conference so that we could  
24 embark on hearings in this proceeding. On November 7, 1980 we  
25 held a preliminary meeting which was attended by the Commission

1 Trial Staff, by Mr. Samuel B. Russell, Esquire who is counsel  
2 of record for Metropolitan Edison Company, and the spokesmen  
3 for Pennelec and the GPU interest at that meeting. A week  
4 later, on November 14, we held the official prehearing  
5 conference and that was attended by substantially the same  
6 parties.

7 At that proceeding, we were able to establish the  
8 schedule of hearing dates; namely, December 1, 2 and 3, and  
9 during the following week, the eighth, ninth and tenth of  
10 December. However, the Commission at a public meeting -- and I  
11 am not privy to any information as to what precipitated this  
12 action -- decided to remove two of those cases from our  
13 consideration.

14 I was not aware of this development as of  
15 Wednesday, November 26, 1980. I did, however, receive a  
16 telephone call from Mr. Samuel B. Russell informing me that he  
17 was having some difficulty in getting the prospective witnesses  
18 from Theodore Barry and Associates prepared, and their  
19 prepared testimony ready for this proceeding.

20 He asked me if I would agree to postpone and  
21 continue the initial hearings scheduled for December 1 and 2.  
22 He said that he had personally been in contact with all other  
23 parties of record, and it was agreeable to them. On that  
24 basis, I granted the continuance. This is our first meeting  
25 this morning, and I would ask Mr. Russell, for the benefit of

1 the record, did you have any knowledge of the Commission's  
2 order of November 26, 1980 at the time you contacted me?

3 MR. RUSSELL: I had no knowledge whatsoever of the  
4 Commission's intention to eliminate two of the items from the  
5 proceeding before Your Honor. I did have the understanding  
6 that a request was made by Mr. Fazzone, counsel for TB&A to  
7 the Commission Staff, to the Commission Advisory Staff -- I  
8 think, specifically, to Chief Counsel for the Commission --  
9 that the Commission reconsider its decision not to call as its  
10 own witness, via its Administrative Staff, the TB&A witnesses.

11 And as I indicated to you on the phone, it was my  
12 understanding that that request was going to be made by Chief  
13 Counsel to the Commission at the session last week, and I also  
14 indicated to you that I had a phone call from somebody who had  
15 been attending that meeting that the Commission had directed  
16 that the Administrative Staff function in this proceeding and  
17 present the TB&A witnesses with respect to the two contracts.

18 JUDGE CASEY: Were you in contact with Mr. Howard  
19 Messer, Esquire and/or Mr. Dennis Shilobod on Wednesday,  
20 November 26 with regard to the proposed postponement of  
21 December 1 and December 2?

22 MR. RUSSELL: I contacted all counsel of record,  
23 including Mr. Morrison who I understood from the chap who was  
24 sitting in on the Commission session last week was directed to  
25 appear on behalf of the Administrative Staff. So, I contacted

1 all parties of record and indicated to them that it was my  
2 understanding that the Commission Administrative Staff would  
3 be calling the TB&A witnesses who were scheduled as witnesses  
4 yesterday and Monday of this week, and that obviously those  
5 witnesses would not be available at our call.

6 They would be appearing as Commission witnesses,  
7 and therefore there would not appear to be any purpose in  
8 going ahead with the holding of those two days of hearings.

9 JUDGE CASEY: I would ask Mr. Messer at this time,  
10 the reasons given to you by Mr. Russell at the time he  
11 contacted you by telephone on Wednesday, November 26, 1980  
12 which was the day before Thanksgiving, were they substantially  
13 the same reasons that I have indicated in this record as what  
14 he had told me about the difficulty with the TB&A personnel or  
15 witnesses?

16 MR. MESSER: Well, Your Honor, we spoke briefly,  
17 and I directed him to Mr. Shilobod and told him that I would  
18 have Mr. Shilobod contact him, indicating that I had no  
19 authority to agree or disagree without Mr. Shilobod's consent.  
20 And I believe that Mr. Russell and Mr. Shilobod did then speak  
21 subsequently about the situation.

22 I would let him answer that question.

23 JUDGE CASEY: Mr. Shilobod?

24 MR. SHILOBOD: If Your Honor please, prior to the  
25 telephone conversation on November 26, we have no knowledge

1 whatsoever of anything that was happening with respect to the  
2 Commission in these matters. I had spoken with Mr. Russell on  
3 Wednesday, November 26 in response to his telephone call. He  
4 had told me that the Commission had already acted. He  
5 indicated to me that he had spoken to Mr. Fazzone; that  
6 Administrative Staff was appointed; that Administrative Staff  
7 felt the need to prepare the TB&A witnesses for cross-examina-  
8 tion; and therefore, the witnesses would not be available for  
9 hearing on Monday and Tuesday, so that it was somewhat up to  
10 me what we wanted to do.

11 He wanted a continuance, indicating that if we  
12 would agree to the continuance of the hearings to today, that  
13 if necessary he would join in a petition to extend the time  
14 for completion of these hearings, if the delay caused a time  
15 problem.

16 I must point out to the Administrative Law Judge  
17 my extreme concern over these proceedings, whereby it was  
18 taken at least indirectly to the Commission without our prior  
19 knowledge. And perhaps of a greater concern to me is the role  
20 of Administrative Staff in this matter.

21 They are now not only presenting the TB&A witnesses  
22 but I am advised by opposing counsel that they are going to  
23 help prepare the TB&A witnesses for cross-examination. I  
24 submit that they are now becoming advocates. Now we have  
25 Administrative Staff attorneys being advocates in this case

1 on behalf of Metropolitan Edison, GPU and, apparently, Pennelec.

2 And I can't help but wondering as to the capability  
3 of having a fair and impartial decision.

4 JUDGE CASEY: We'll get to that in a few moments.

5 MR. RUSSELL: I might just point out one thing.  
6 If there's any suggestion that I or anybody on behalf of our  
7 clients talked with the Commission Staff as such, that's  
8 certainly not in the picture. We did talk with Mr. Fazzone,  
9 who inquired as to our position.

10 We did not want to call the TB&A witnesses as our  
11 witnesses, for obvious reasons. We didn't generate their  
12 report or control it or otherwise. And Mr. Fazzone made it  
13 clear that TB&A wanted to maintain their independence, which  
14 is certainly all right with us.

15 Mr. Fazzone is here, and if you have any questions  
16 with respect to any discussions he had with the Commission  
17 Staff which apparently led to action by the Commission,  
18 certainly I'm sure he could respond.

19 JUDGE CASEY: I just wanted to get the background  
20 of this matter, because I considered it somewhat unusual that  
21 unilateral action would be taken by someone within the  
22 Commission to change the format of a proceeding while a  
23 contested on-the-record proceeding was already in progress.

24 MR. RUSSELL: We would certainly agree, it was  
25 out of the ordinary.

1 JUDGE CASEY: We could say that it started on  
2 November 7, 1980. Of course, it's out of my control and I  
3 have to go along with the Commission's directions regardless  
4 of my personal feelings as a Law Judge. At this point, I  
5 would like to read the ordering paragraphs, but before I do  
6 that, let me read a portion of the Commission's most recent  
7 order which was adopted on November 26, 1980 and entered on  
8 November 26, 1980.

9 On the second page, I've already read a portion,  
10 but the last two paragraphs, I think, are significant. It  
11 says, "First, lest the consolidation of the affiliated interest  
12 investigation with the general management investigation be  
13 misinterpreted, it is neither our expectation nor intent that  
14 the consolidated proceeding address or resolve any matters  
15 other than the formation of the GPU nuclear corporation and  
16 the combination of Met-Ed's and Pennelec's managements.

17 "The overall management questions raised by our  
18 general investigation at I-79080320 will be addressed and  
19 resolved at a later time and in a different forum."

20 As a lawyer or a Law Judge, I would construe that  
21 as tantamount to a severance of this case from this proceeding.  
22 Anybody have any disagreement to my conclusion?

23 (No response.)

24 JUDGE CASEY: Second, insofar as TB&A's management  
25 and operations study addresses the formation of the GPU nuclear

1 corporation and the proposed combination of managements, we  
2 believe that it is critical that the study be entered into the  
3 record of the consolidated proceedings. Because the existing  
4 parties to the proceedings are neither disposed nor appropriate  
5 to sponsor the relevant parts of the study, another party must  
6 be added for this limited purpose.

7 "Therefore" -- and these are the ordering  
8 paragraphs -- "It is ordered, number one, that the initial  
9 decision of the presiding Administrative Law Judge in the  
10 consolidated proceeding of docket numbers I-79080320,  
11 G-80060098, G-80070101 and P-80100242 shall address and resolve  
12 only the issues of the formation of GPU Nuclear Corporation  
13 and the proposed combination of Met-Ed's and Pennelec's  
14 managements.

15 "Number two, that there is established a  
16 Commission Administrative Staff which is hereby made a party  
17 to the administrative proceeding for the limited purpose of  
18 sponsoring those parts of the TB&A management and operations  
19 study which directly address the issues described in paragraph  
20 number one.

21 "And three, a copy of this order shall be served  
22 upon the presiding Administrative Law Judge and all parties to  
23 the consolidated proceedings."

24 So, is our mission plain in this proceeding? You  
25 might say that the Administrative Staff, their role in the

1 proceeding has been defined in the ordering paragraph number  
2 two. The Administrative Staff apparently is headed by  
3 Lee Morrison, Esquire, assistant counsel of the PUC Law Bureau.  
4 Is that correct, Mr. Morrison?

5 MR. MORRISON: Yes, Your Honor, it is. I might  
6 disagree, to some extent, with your characterization and per-  
7 haps at this time I could state for the record that I believe  
8 that the proceeding here was, in effect, limited from its  
9 inception.

10 I think that my interpretation, at least, of the  
11 Commission's order is that the Commission itself was concerned  
12 lest the proceedings be misinterpreted, and that they wished  
13 make clear the fact that the consolidated proceeding for the  
14 purpose of these hearings and the orders that would be  
15 produced should deal with just some of the issues that would  
16 otherwise be presented in the management audit; that the  
17 overall management review would not be dealt with in this  
18 proceeding, but that the issues specifically to be addressed  
19 concerned the formation of the GPU Nuclear Corporation and the  
20 proposed Met-Ed/Pennelec management combination.

21 JUDGE CASEY: Could you point to anything in the  
22 Commission's order dated or adopted October 29, 1980 where  
23 that conclusion which you have reached was explicitly expressed  
24 in the Commission's order, where we would simply hold hearings  
25 and not render any decision with reference to the JARI

1 injunction petition or the investigation into the past and  
2 present management practices?

3 MR. MORRISON: Well, Your Honor, the way I read  
4 the order of last week, it does not preclude consideration of  
5 the JARI petition. As a matter of fact, I read it to include  
6 that.

7 JUDGE CASEY: Well, I was really referring to the  
8 initial order which consolidated the four docketed cases and  
9 ordered them down to hearing before the Administrative Law  
10 Judge. Is there any language in the body or the ordering  
11 paragraphs of that order which would indicate that the  
12 recommended decision would be limited to only the affiliated  
13 interest type agreements?

14 MR. MORRISON: Well, I think that's the point,  
15 Your Honor. I think, to the extent that that was not clear  
16 from the October 29 order, that is the purpose of the order of  
17 last week, the order entered November 26. The Commission  
18 wished to make it clear that this proceeding should not produce  
19 a final resolve pertaining to the overall management audit  
20 that the management audit would be -- and the proceeding, if  
21 there is in fact a specific proceeding attached to the manage-  
22 ment audit -- would go on; that it would not be closed by  
23 dealing with the issues that we are now considering.

24 JUDGE CASEY: Understand, I don't question the  
25 authority the Commission has under the Public Utility Law to

1 modify, rescind or amend any of its prior orders. I'm simply  
2 questioning the manner in which it was accomplished, in the  
3 middle of a contested, on-the-record proceeding which was  
4 ready for hearings, where the parties to the proceeding were  
5 not called in for a conference with the Commission prior to  
6 the action that was taken at the public meeting.

7           It just raises a question as to whether this action  
8 by the Commission was prejudicial in any way to the interests  
9 of certain parties of record, in any event.

10           MR. MORRISON: Again, Your Honor, I think that's  
11 the point, that the Commission wanted to make it clear that the  
12 issues in the three docket numbers other than the I docket  
13 would be dealt with fully in this proceeding. And since there  
14 appeared to be some confusion as to the management audit itself,  
15 I think that that was ancillary to their order clarifying the  
16 proceedings, the fact that the Administrative Staff would be  
17 created to specifically introduce the management audit for the  
18 purposes of this proceeding.

19           As counsel for Administrative Staff, along with  
20 David Fazzone who is counsel for Theodore Barry and Associates,  
21 we will be introducing the document, we will be offering the  
22 witnesses that have prepared the document. We are not acting  
23 as advocates in any manner, but we offer this to Your Honor  
24 to the other parties for their use in these proceedings.

25           I think that that is perhaps the best way to

1 preserve the integrity of the management study itself for  
2 whatever purposes it can be used in these proceedings. It  
3 will be available. But we also wish to make clear that issues  
4 unrelated to the issues in the two G and one P docket, we feel  
5 to be inappropriate to this proceeding.

6 I think that that, again, was the thrust of the  
7 Commission's order, that it is certainly the position of the  
8 Administrative Staff. And we are not acting as advocates on  
9 behalf of any party or point of view.

10 JUDGE CASEY: Thank you for your statement. I  
11 think that I've been able to rethink the entire matter --  
12 that is, the Commission's order of November 26, 1980, and to  
13 place an interpretation upon that order. It would appear that  
14 for the purpose of hearings, the four docketed consolidated  
15 cases may proceed so that we can make a record.

16 As I understand ordering paragraph number one, it  
17 simply precludes me from issuing any recommended decision with  
18 reference to the investigation into the past and present  
19 management practices, or to take any position in my decision  
20 with respect to the JARI, Incorporated petition for injunction  
21 to hold up the proceedings.

22 MR. RUSSELL: May we address that one aspect, if  
23 Your Honor please?

24 JUDGE CASEY: You may if you wish.

25 MR. RUSSELL: The first paragraph says that Your

1 Honor shall address and resolve only two issues, and one is  
2 the issue of the proposed combination of Met-Ed's and Pennelec's  
3 managements. Now, as we would view it, under the umbrella of  
4 that issue would be the contract filing docket and the petition  
5 of JARI which seeks to challenge that contract.

6 So, as we would view it, you would be in a position  
7 to make a recommended decision with respect to that petition  
8 as well as to the contract filing itself, under the umbrella of  
9 that issue, of that contract.

10 MR. CHRISTIANSON: Your Honor, if I might add for  
11 Commission Trial Staff, my view conceptually is, it might be  
12 best, if the I number is essentially removed from this  
13 proceeding at this point, at least, the P number might possibly  
14 in a sense be mooted, depending on what action the Commission  
15 takes on the two G numbers 90 days from their previous order.

16 And the JARI position would be essentially an  
17 intervenor in either the combined management G number or both,  
18 if they're interested in the nuclear aspects of it. And  
19 essentially, the P number proceeding appears to be largely  
20 directed to the I number proceeding, but clearly, insofar as it  
21 impacts on the others, they should be considered as intervenors  
22 in the two G numbers.

23 JUDGE CASEY: I agree with you, up to a point, but  
24 I think the P number, the JARI interests were directed to the  
25 two affiliated interest agreements which would result in

1 substantial changes in the management operations of Pennsylvania  
2 Electric Company in the Johnstown area.

3 I think they wanted to hold up that action until  
4 hearings were held to determine whether the proposal was in  
5 fact in the public interest. Is that correct, Mr. Shilobod?

6 MR. SHILOBOD: That's correct.

7 JUDGE CASEY: Were your clients interested in any  
8 way in the I number, the Commission investigation into past  
9 and present management practices?

10 MR. SHILOBOD: At this point, only insofar as it  
11 would have a bearing on these interrelationships between the  
12 companies. If Your Honor please, there is another issue that  
13 I'd like to address that I've raised and has been discussed,  
14 namely the role of Administrative Staff.

15 JUDGE CASEY: The Administrative Staff assignment  
16 has been explained in the ordering paragraphs, and I think  
17 Mr. Morrison attempted to clarify his position as not being an  
18 advocate, but in presenting portions of the TB&A report which  
19 apparently would have a direct bearing on the proposed GPU  
20 Nuclear Corporation as well as the combined management of  
21 Met-Ed and Pennelec, and that all other portions of the report  
22 and material in the report which would have a general applica-  
23 bility to past and present management practices under the  
24 I docketed case would not be offered into this record. Is that  
25 a correct statement, Mr. Morrison?

1 MR. MORRISON: Yes, Your Honor, I believe that's  
2 accurate.

3 MR. SHILOBOD: Well, Your Honor, first of all it's  
4 a conclusion whether or not Administrative Staff is taking an  
5 advocacy role. If they are in fact cooperating with the TB&A  
6 attorney in helping to prepare his witnesses for cross-examina-  
7 tion, I submit that's advocacy in its finest sense.

8 Second of all, this entire report necessarily has  
9 a bearing on the issues raised by JARI, because it has to be  
10 viewed as a whole in order to be understood.

11 JUDGE CASEY: Anybody wish to respond to  
12 Mr. Shilobod's statement?

13 MR. MORRISON: Well, Your Honor, the Administrative  
14 Staff is of course going to present the TB&A witnesses. Again,  
15 the thrust of what we're doing is offering this study. TB&A  
16 is not a party in any sense of the word to this proceeding, or  
17 a party at interest.

18 We are merely offering this study. That is why  
19 the Commission has created the Administrative Staff. Of course  
20 I'm going to be talking with TB&A. Those are the witnesses  
21 I'll be presenting as the Administrative Staff.

22 JUDGE CASEY: Is TB&A and their officials or  
23 employees being presented in the capacity of expert witnesses  
24 in the question of these two affiliated interest contracts to  
25 present opinion type evidence, either in support or against the

1 proposals by the GPU system? Do you follow my question?

2 MR. MORRISON: I do, Your Honor. The answer is,  
3 I guess, that of course the TB&A witnesses will be offered as  
4 experts. They are being offered to testify on the report they  
5 have prepared, but they are not being offered -- nor is the  
6 report being offered -- in support of any position.

7 It is there for the parties to use, and for Your  
8 Honor to use.

9 JUDGE CASBY: What about the point that Mr. Shilcock  
10 raised, that if you simply use the portions of the report or  
11 have the witnesses testify to those portions of the report that  
12 deal directly and exclusively with the two affiliated interest  
13 contracts, that you actually are taking this material out of  
14 context and that the report must be viewed in the overall sense  
15 in order for it to have relevancy to the issues raised in this  
16 proceeding?

17 MR. MORRISON: I think certainly the parties to  
18 this proceeding can argue the relevancy of various portions,  
19 and Your Honor can decide what is and what is not relevant.  
20 We are essentially in the posture of offering the report for  
21 the purposes of aiding yourself, aiding the parties and aiding  
22 the Commission in reaching a determination.

23 Of course, if all the parties find it not to be  
24 useful at all, then that may well prove futile. But, we are  
25 also interested in preserving the integrity of the management

1 audit. It is not offered to support one position or another,  
2 and we are interested in preserving it as a whole and in a way  
3 so that it may be used for other purposes.

4 JUDGE CASEY: All right. You say that it contains  
5 certain objective findings and opinions, and whether those  
6 findings support or do not support is not really your concern;  
7 you simply want to present the report, which represents an  
8 in-depth study of the situation. Is that basically it?

9 MR. MORRISON: That is correct, Your Honor. We  
10 are presenting it as a disinterested party, for whatever value  
11 the parties feel it to be.

12 JUDGE CASEY: I want to cover one other point,  
13 before I forget, and then I'll let you make a statement. The  
14 Commission will be participating in these proceedings in two  
15 different capacities. Commission Trial Staff has been in the  
16 proceeding from its very inception. Commission Trial Staff  
17 originally was represented by Stephen A. McClaren, Deputy  
18 Chief Counsel.

19 His role in the case for Commission Trial Staff  
20 was to aid in developing a record. I understood that they were  
21 going to thoroughly cross-examine all witnesses presented in  
22 the case, but would probably not present any testimony in this  
23 matter. To that extent, they may or may not be an advocate.

24 But in any event, on November 26, a letter was  
25 sent to me from Stephen A. McClaren which states that because

1 of commitments elsewhere, "I will be unable to attend the  
2 hearings scheduled for December 1, 2 and 3. Staff does wish  
3 to participate in those hearings, and ordinarily I would  
4 arrange for another attorney to act in my stead.

5 "However, no other attorneys on my staff are  
6 familiar with this case. Therefore, I am hereby requesting,  
7 pursuant to Title 66 PA Consolidated Statutes, Section 308,  
8 subparagraph (f) that Robert L. Packard be permitted to  
9 cross-examine any witnesses who are presented in any of the  
10 hearings on December 1, 2 and 3, 1980."

11 Of course, December 1 and 2 are out, so that would  
12 pertain to today's hearing. "Mr. Packard is not an attorney.  
13 He is in fact the director of the Bureau of Rates of this  
14 Commission, and I am not asking that Mr. Packard represent the  
15 Staff as counsel.

16 "Robert Christianson, Assistant Counsel, will be  
17 present. However, Mr. Packard is thoroughly familiar with all  
18 aspects of this proceeding, and we have discussed potential  
19 Staff cross-examination."

20 So, the Commission has the right to do this under  
21 the rule, and therefore I must honor the request, even though  
22 some of you members of the Bar may have some misgivings about  
23 permitting a layperson to engage in the capacity as counsel as  
24 cross-examining a witness on the witness stand. However, it is  
25 permissible.

1 Mr. Packard will be accompanied by Mr. Christianson  
2 as I have already indicated, and at least for today's date  
3 Mr. Christianson is counsel of record for the Commission.

4 MR. CHRISTIANSON: That's correct. I would add,  
5 just by the by, that Mr. Packard too has conflicts and is not  
6 present at this moment. If necessary, I will proceed with  
7 cross-examination. I have made myself sufficiently familiar  
8 to be able to proceed, though I expect Mr. Packard to be  
9 present later today.

10 JUDGE CASEY: Do you expect Mr. McClaren to resume  
11 his role as counsel of record in the hearings?

12 MR. CHRISTIANSON: Yes. Mr. McClaren remains  
13 counsel of record in this case. I am appearing for him,  
14 essentially, today. I assume I will continue to be associated  
15 somewhat, but Mr. McClaren will be the major Trial Staff  
16 counsel for this proceeding.

17 JUDGE CASEY: All right. Is there any objection  
18 to that arrangement?

19 MR. RUSSELL: We have none.

20 JUDGE CASEY: Mr. Shilobod?

21 MR. SHILOBOD: No.

22 MR. MESSER: No.

23 JUDGE CASEY: Unless you gentlemen have any further  
24 matters that you wish to raise on the record or questions, I  
25 would ask Mr. Russell to indicate how he is going to present

1 his proof in this case.

2 MR. SHILOBOD: If Your Honor please, I have  
3 several matters. I don't wish to belabor the issue that I  
4 raised concerning involvement of Administrative Staff. I  
5 pointed out the preparation of a witness for cross-examination  
6 was advocacy. That specific point was never addressed by  
7 Mr. Morrison.

8 In his final statement he said that he does have  
9 an interest in preserving the integrity of this management  
10 audit report. Now, if that is not advocacy, I don't know what  
11 is, because the integrity of that report is clearly an issue  
12 here. It is one of the objections that we raised.

13 We asked leave to intervene to attack the integrity  
14 of that report. What we have is Administrative Staff taking a  
15 contrary, advocacy position with respect to that. I do have  
16 several other matters that I'd like to raise also, if Your  
17 Honor wants me to go on.

18 JUDGE CASEY: Well, on that point, I think you can  
19 argue appropriately at any point in the briefs filed that there  
20 is either a conflict of interest involving the two sections of  
21 the Commission Staff, or that the Commission in fact, instead  
22 of being an impartial arbiter of the issues in this proceeding  
23 is actually playing an advocacy role by sponsoring the TB&A  
24 report. This is a matter which was ordered by the Commission  
25 for its own information.

1           The Commission was at liberty to reject all or any  
2 portion of that report, if it was not satisfied with the  
3 report. However, if it did feel that the TB&A report was  
4 worthwhile and well-prepared and so forth, I think the  
5 Commission, rather than use it privately to the detriment of  
6 the parties of record in this case, is under a moral if not a  
7 legal obligation to make known the contents of that report in  
8 this record so that adversary parties could cross-examine with  
9 respect to its findings and contents.

10           So, it's a two way sword, so to speak. Do you keep  
11 it out and let the Commission be guided by it privately when  
12 it makes the ultimate decision after my recommended decision  
13 is rendered, or do you try to incorporate it into this record  
14 for whatever use it may be to the parties?

15           MR. SHILOBOD: Your Honor please, I'm not objecting  
16 to merely having Administrative Staff come in and put the  
17 witness on the stand and describe that he prepared the report  
18 and that's his results. However, to prepare that witness for  
19 cross-examination, to take the stance of a need or a stance to  
20 preserve the integrity is something different.

21           And that's the point that I'm making, that  
22 Administrative Staff could participate, but it could partici-  
23 pate on grounds different than what Mr. Russell had indicated  
24 to me was being done.

25           JUDGE CASEY: Do we know whether that has been done

1 MR. SHILOBOD: I've raised it, and it certainly  
2 hasn't been addressed.

3 JUDGE CASEY: Mr. Morrison, have you met with  
4 employees of Theodore Barry and Associates and attempted to  
5 help them anticipate questions they will be asked in this  
6 proceeding -- in other words, prepare them for cross-examina-  
7 tion?

8 MR. MORRISON: I have not yet, Your Honor, but I  
9 certainly intend to. This is the same thing that was done in  
10 Phase Two of the Commission's investigation into specifically  
11 the situation with Metropolitan Edison. In that proceeding,  
12 Administrative Counsel assisted in the preparation and  
13 presentation of testimony.

14 That was prior to the availability of the final  
15 report itself, the final management study. The witnesses were  
16 presented with the aid of Administrative Staff Assistant  
17 Counsel Paul Russell, and of course he discussed the matters of  
18 their testimony with them.

19 It's an independent study. It was ordered by the  
20 Commission to be done. We are presenting the product. That is  
21 the interest we have in the product. We have no interest in  
22 the outcome of these proceedings. I think that's the point  
23 that Mr. Shilobod is missing.

24 JUDGE CASEY: I don't disagree with presenting the  
25 product, as you say, but do you feel compelled to school the

1 witnesses so that they'll be able to put their best foot  
2 forward under cross-examination, when they're being questioned  
3 by hostile parties? Is that your function? Does the  
4 Commission have to make them look good, or don't they have the  
5 strength of their convictions as to what's in that report to  
6 be able to respond to any questions concerning it?

7 MR. MORRISON: Well, Your Honor, I like to think  
8 that I've never schooled a witness at all. I think certainly,  
9 as an attorney presenting any witness, one has the duty to  
10 assist that witness to the extent that one, of course, goes  
11 through the proceedings with them, explains what will occur,  
12 and answers any questions they may have.

13 The testimony is, of course, always that of the  
14 witness. I by no means intend to suggest answers, to change  
15 answers, or do anything of this sort. But I do intend to  
16 function as an attorney presenting those witnesses.

17 MR. SHILOBOD: Your Honor please, I'd like to make  
18 a request. I'd like to make a request that we obtain a  
19 clarification from the Commission as to whether or not  
20 Administrative Staff is supposed to assist the witness, to  
21 prepare them for cross-examination and to take the stance that  
22 they should maintain, that Administrative Staff should assist  
23 in maintaining the integrity of that report; or does the  
24 Commission intend solely and only to have Administrative Staff  
25 present the witness, identify their report and present them for

1 cross-examination? I think that should be done before  
2 Administrative Staff deals with these witnesses, or their  
3 attorney.

4 JUDGE CASEY: I think he's already taken a  
5 position as to, rightly or wrongly --

6 MR. SHILOBOD: -- He has --

7 JUDGE CASEY: -- how he's going to handle the  
8 situation. Rather than obtain a clarification, which in my  
9 view might tend to hold up the proceedings -- and we have our  
10 work cut out for us -- I think you can take any objection or  
11 make any legal argument that you would care to, and you can  
12 cite whatever authority that you can find that this is not  
13 appropriate.

14 And, I think there are opinions -- I've seen one  
15 or two -- which deal with this precise subject, where the  
16 Attorney General of the Commonwealth of Pennsylvania is  
17 involved in a proceeding and he has people under his control.  
18 This is the way it used to be, where the agency chief counsels  
19 were all subject to control by the Attorney General, and you  
20 have two separate agencies taking adverse positions to each  
21 other.

22 And the basic issue arising out of that situation:  
23 Wasn't the Attorney General involved in an out and out conflict  
24 of interest by presenting two sides of the picture in a given  
25 proceeding? I think the Supreme Court of Pennsylvania came to

1 grips with that issue. I don't have the citation at my  
2 fingertips, but you know, it is available. Mr. Christianson?

3 MR. CHRISTIANSON: If I may point out, there are  
4 provisions in the Public Utility Code about our so-called  
5 bifurcation and trifurcation, which are not necessarily the  
6 easiest to interpret. But of course I'm not privy to the  
7 Commission's thinking -- and I couldn't be Trial Staff if I  
8 were -- but they did use in the order the phrase, "Administra-  
9 tive Staff," which is not the same as either of the phrases  
10 used at Section 308, subsection (b) where the Law Bureau is  
11 set up as a multifunction legal staff consisting of prosecutory  
12 function and advisory function.

13 Again, I'm only suggesting that Mr. Morrison is  
14 not necessarily advisory function in the sense that he will  
15 whisper in the Commission's ear at such time as they make  
16 their ultimate decision. Clearly, under a trifurcation, he  
17 will not aid the Administrative Law Judge in his decision.

18 JUDGE CASEY: Well, the Administrative Staff is  
19 obviously a new animal, as was the so-called Met-Ed Task Force,  
20 I believe, that functioned within this Commission in connection  
21 with the earlier proceeding at I-308.

22 MR. CHRISTIANSON: I believe it is still function-  
23 ing, and might have functioned to produce the November 26  
24 order. I'm not sure of that.

25 JUDGE CASEY: Who was involved in the Met-Ed Task

1 Force, may I ask?

2 MR. CHRISTIANSON: I believe it's Chief Counsel,  
3 but I'm not sure. I haven't been involved. It just happens,  
4 my background is in transportation law, so I have not been  
5 closely associated with the nuances of the fixed utilities.

6 JUDGE CASEY: I understand.

7 MR. CHRISTIAN: I believe it's been -- Chief  
8 Counsel, or Mr. McClaren has been Trial for a while. But the  
9 peculiar problem with one Law Bureau is that you do tend to  
10 run out of bodies after a certain point, and this is one reason  
11 I'm moving over to fixed utilities work.

12 But as I said, I believe that Advisory Task Force  
13 is still functioning and will continue to advise the Commission.  
14 Whether Mr. Morrison has been or will be part of that, I don't  
15 know, or precisely who is part of that.

16 JUDGE CASEY: I don't want to get into too many  
17 extraneous or collateral matters, but at 308 --

18 MR. CHRISTIANSON: I suggest, if necessary, this  
19 can be cured as an issue that might come up before the  
20 Commission, and the Commission can decide precisely what was  
21 ordered for.

22 JUDGE CASEY: You mean, you would concur with  
23 Mr. Shilobod, that it should be presented before --

24 MR. CHRISTIANSON: No, I don't think it should be  
25 presented as an interlocutory decision. I think we can best

1 proceed with this matter, and if decisions have to be made as  
2 to who may advise the Commission or precisely who plays what  
3 role, or even if there was an inadvertent mixing of functions  
4 which invalidates the proceeding, a decision can be made on  
5 the ultimate merits after your initial decision is presented.  
6 I would not advocate another extraordinary reference to the  
7 Commission.

8 JUDGE CASEY: One other question to Mr. Morrison,  
9 since he seemed to be more or less familiar with the background  
10 of the other proceeding. I'm excluding any reference to  
11 pending rate cases filed by Met-Ed. I want that very plain in  
12 this record. We are not involved here with rate cases.

13 But in the I-308, the last three numbers, was  
14 Mr. McClaren the advisory counsel to the Commission who  
15 operated behind the bench, so to speak, when the Commissioners  
16 were presiding over those proceedings?

17 MR. MORRISON: I believe he was, Your Honor. I am  
18 not that familiar with those proceedings.

19 JUDGE CASEY: And was Mr. Joseph Malatesta, the  
20 present chief counsel, was he not the Commission trial counsel  
21 who was engaged in examining witnesses during the 308  
22 proceedings?

23 MR. MORRISON: Yes, he was, Your Honor, and  
24 specifically I do know that Paul Russell served as Administra-  
25 tive Staff counsel and that he consulted with the TBSA

1 witnesses, assisting in the preparation of their testimony, and  
2 that he functioned completely independently from either  
3 Mr. McClaren or from Mr. Malatesta.

4 JUDGE CASEY: Mr. Paul Russell, who has been  
5 mentioned in the record, a former assistant counsel in the  
6 PUC Law Bureau, is presently an attorney in the Law Department  
7 of Pennsylvania Power and Light Company in Allentown, is that  
8 correct?

9 MR. MORRISON: Yes, sir.

10 JUDGE CASEY: Do you have a final matter that you  
11 wanted to bring up?

12 MR. SHILOBOD: I have two other matters. One has  
13 to deal with discovery. In our meeting on November 14, I  
14 requested leave to look at the records of Pennelec, GPU and  
15 Met-Ed dealing with these issues -- namely, the two affiliated  
16 interest agreements.

17 We agreed, as a matter of convenience and because  
18 of the time pressures to go to Harrisburg and look at those  
19 records, and we did. It was my understanding at that time that  
20 we would be entitled to look at the other records, in addition  
21 to those that were listed on Mr. Russell's list.

22 And the reason we requested this leave is because  
23 of the extreme time limitations that have been put upon us,  
24 which I interpret as being partially in response to the sense  
25 of urgency created by GPU and its affiliated companies.

1                   We did go to Harrisburg. We did see the records  
2 there that were listed on Mr. Russell's statement. He in  
3 addition presented some of the additional documents that we  
4 specifically mentioned, and we expressed surprise that they  
5 were not included as part of the relevant documents in this  
6 proceeding. However, the others were not --

7                   JUDGE CASEY: Stop right there for a moment. There  
8 were certain documents in an appendix to the prehearing  
9 conference memorandum which Mr. Russell presented on November  
10 14. There were certain numerated documents; I forget how many.  
11 It's in my file.

12                   But, are you saying that those documents were not  
13 available for your inspection and examination, or other  
14 underlying material, if there was such?

15                   MR. SHILOBOD: The matters listed were available.  
16 It's the underlying materials that we raised questions about at  
17 our meeting on November 14 that were not.

18                   JUDGE CASEY: What were you prevented from seeing,  
19 or what couldn't you see on that occasion?

20                   MR. SHILOBOD: Well, I indicated in that meeting  
21 on November 14 that I wanted to see even the letters of  
22 transmittal because of the brief time that passed, and for  
23 instance the appearance of the two proposed organizational  
24 reports by the two officers, one of Met-Ed and one of Pennelec.  
25 I wanted to know where there was background information giving

1 rise to that report. I didn't see any of that.

2 JUDGE CASEY: Do you have reason to believe that  
3 there was material or papers of that nature in existence? Did  
4 Mr. Russell indicate to you that there had been exchanges of  
5 correspondence between and among the officers of the various  
6 companies or minutes of board meetings which had bearing on  
7 these agreements?

8 MR. SHILOBOD: I posed a general question to  
9 Mr. Russell concerning the documents that I raised questions  
10 about in our prehearing conference. He indicated to me that it  
11 was his belief that all relevant documents had been presented  
12 to us, and that the others were irrelevant.

13 JUDGE CASEY: Were you aware, Mr. Shilobod, as to  
14 whether you were examining company records that had been  
15 provided especially to you or for the purposes of this  
16 litigation, or were you examining the contents of Mr. Russell's  
17 legal file with respect to these?

18 MR. SHILOBOD: Not his legal file at all. It was  
19 strictly documents related to the issues that we've raised  
20 here. They were primarily those matters that were included on  
21 the list of, quote, "relevant items," unquote that Mr. Russell  
22 had presented at the prehearing conference.

23 JUDGE CASEY: You saw all of those?

24 MR. SHILOBOD: Yes.

25 JUDGE CASEY: And nothing else, nothing more?

1 MR. SHILOBOD: No, we saw in addition some  
2 calculations on the 18 million dollar estimation and some  
3 summaries of results of interviews with TB&A employees, and  
4 there may be one or two other items that I raised questions  
5 about. In other words, if I had specifically mentioned them, I  
6 believe they were there except for the things like the general  
7 request for the various documentation.

8 JUDGE CASEY: Considering the time constraints and  
9 how this had to be done hurriedly, are you still making the  
10 statement or arguing that you've been precluded in some way  
11 from taking advantage of discovery in the case?

12 MR. SHILOBOD: Well, I certainly believe that I  
13 We certainly don't have the time to go through the extensive  
14 discovery that you normally would with all these documents.  
15 Just the copies of those I obtained that are sitting on my  
16 desk here are probably six or seven inches high. To go through  
17 that and to conduct normal discovery normally would take a  
18 substantial amount of time.

19 As I pointed out, we're on an expedited schedule  
20 for the benefit of these companies. There are memoranda that  
21 have made references to other documents that are attached, and  
22 they're not attached to these memoranda and so on.

23 JUDGE CASEY: I can't tell you how to try your  
24 case, even though I might be sympathetic with your position. I  
25 have no control over the time factor of this case. The

1 Commission has issued an order. I think if any counsel in the  
2 case feel that their preparation has been impeded or hampered,  
3 that they can make the appropriate petition or motion directly  
4 to the Commission for an extension of time.

5 As Mr. Russell indicated, if the postponement  
6 initially of the TB&A witnesses' testimony would be harmful in  
7 completing our assignment, he would join in a position to  
8 extend the case. But at this point, I think we had a similar  
9 problem with Mr. Dieckamp's prepared testimony. I received it  
10 late yesterday afternoon. It was hand delivered about four  
11 o'clock. I had only an opportunity to just peruse very  
12 hurriedly that material.

13 And I think that's probably the situation with  
14 other counsel. Whether you're going to be able to engage in  
15 any meaningful cross-examination remains to be seen. If  
16 Mr. Dieckamp is offered to identify and qualify his prepared  
17 testimony and then made available for cross-examination, is  
18 that going to be a problem?

19 MR. SHILOBOD: It may be. I got his testimony at  
20 7:30 last night, before I had my supper. I don't believe my  
21 cross-examination is going to be complete, although I'm going  
22 to try to do as much as I can. With respect to these documents  
23 that we inspected, I respectfully request information from  
24 Mr. Russell as to which if any of these documents does he  
25 specifically intend to place into the record. I submit that

1 this would substantially expedite these proceedings. I don't  
2 think that's an unreasonable request.

3 It's also going to make it clear to us which  
4 documents we have to demand copies of to be placed in the  
5 record.

6 JUDGE CASEY: Do you want to respond to that,  
7 Mr. Russell?

8 MR. RUSSELL: Well, with respect to the documents,  
9 and the discussion at the prehearing conference, I'd just like  
10 to clarify a couple things, at least as we understood them. We  
11 prepared a list of documents that we had culled through, the  
12 various materials that did have a bearing on the background  
13 the proposed agreement for combined management.

14 And we agreed at the prehearing conference we would  
15 produce those documents for any party to take a look at at a  
16 time and place in Harrisburg. We would also see if we could  
17 find some documents that had to do with the cost savings  
18 breakdown to which reference had been made. We also agreed we  
19 would produce all of the interview logs between all Met-Ed,  
20 Pennelec and GPU personnel with TB&A investigative personnel  
21 in connection with their management audit.

22 We produced those in Harrisburg at the assigned  
23 time and place. Mr. Packard and Mr. McClaren were there to  
24 through them, which they did, and got copies of various ones.  
25 Mr. Shilobod did not appear, and didn't even call to say that

1 he wasn't going to appear.

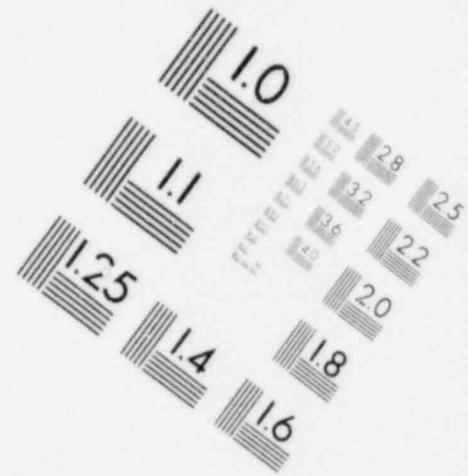
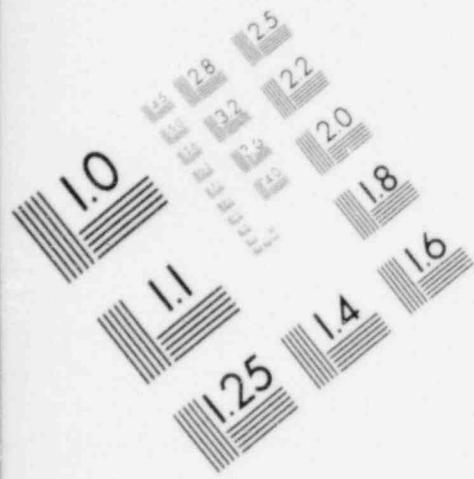
2 We got a hold of Mr. Shilobod and arranged another  
3 time in Harrisburg and place for him to come and look at them,  
4 which he did, and we arranged to have copies of, I think,  
5 everything run off for him which he has here on the table.

6 We did not agree to bring file cabinets full of  
7 miscellaneous correspondence at that time, and we don't think  
8 that in all honesty there's any relevancy or materiality to  
9 miscellaneous assorted correspondence, notes, et cetera. We  
10 think that everything of substance with respect to the back-  
11 ground of this proceeding has been fully disclosed.

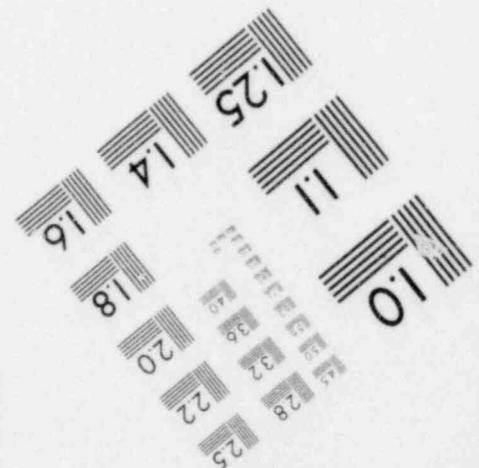
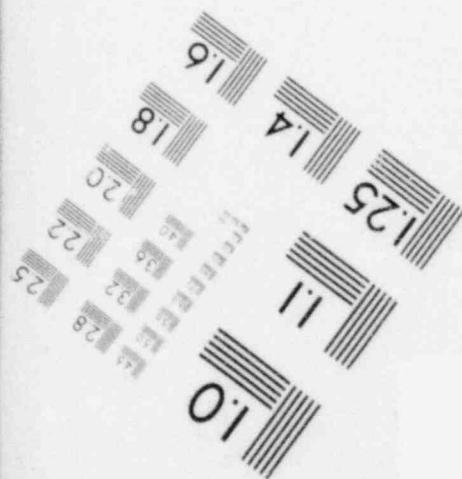
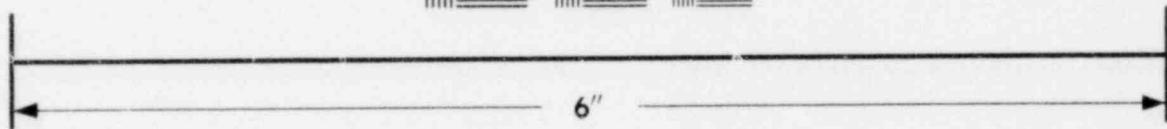
12 And having said that, I would say in response to  
13 Mr. Shilobod's request that I'm not aware that anything of  
14 which he has copies is sufficiently relevant for us to submit  
15 as exhibits in this proceeding, because the issues really are  
16 these two agreements -- are they or are they not in the public  
17 interest? And the manner, the time, the sequence of events  
18 which led to them are of informational, but not highly relevant  
19 or material.

20 The agreements themselves are the real issues. So,  
21 from that point of view, I am not aware of any specific items  
22 in the pile that he has in front of him that we would propose  
23 to put in as exhibits.

24 MR. SHILOBOD: If the Administrative Law Judge  
25 please, I must respond to the comment made by Mr. Russell about



**IMAGE EVALUATION  
TEST TARGET (MT-3)**



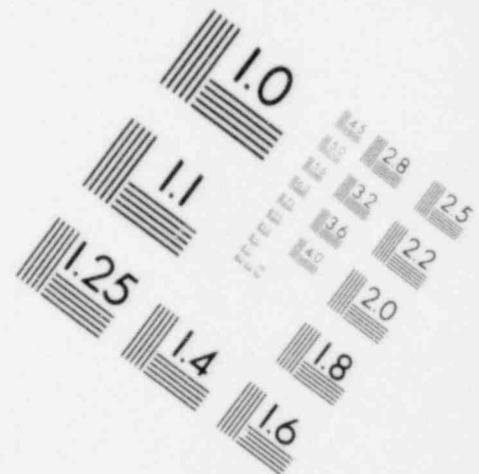
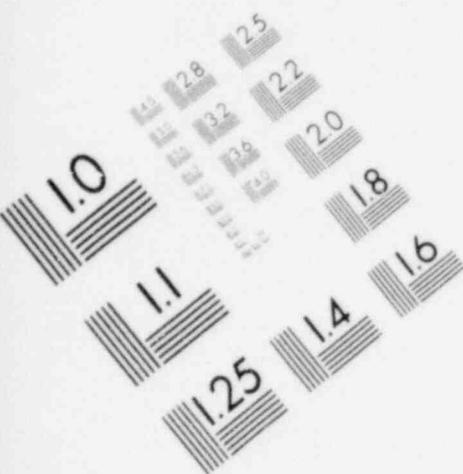
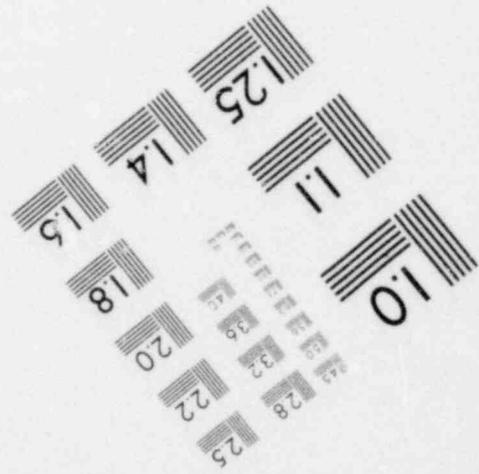
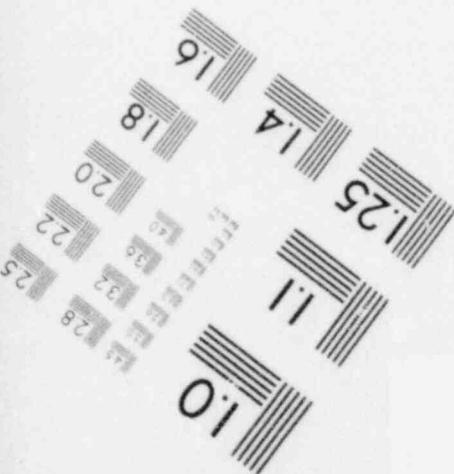
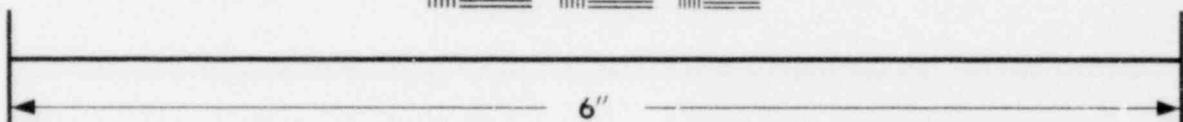


IMAGE EVALUATION  
TEST TARGET (MT-3)



1 my not appearing. He knows very well what happened, and --

2 JUDGE CASEY: I'm aware of that. Let's not make  
3 an issue out of that. Some problem came up and you were not  
4 able to be there at the appointed time. As long as you had the  
5 opportunity --

6 MR. SHILOBOD: Your Honor, I was snowed in my  
7 office. I couldn't get out of my office the night before. I  
8 couldn't even get home. Mr. Russell knows that, and he knows--

9 MR. RUSSELL: -- I don't know that, Mr. Shilobod --

10 MR. SHILOBOD: -- that I talked to his employee --

11 MR. RUSSELL: And the airport in Pittsburgh was  
12 open the entire period, and the most time that any flight was  
13 delayed was twenty minutes.

14 JUDGE CASEY: Gentlemen, we're not going to argue.  
15 That's water over the dam, so to speak. The opportunity to  
16 examine did occur. He was there at a time later. I think I  
17 understand Mr. Russell's position. He thinks these two  
18 affiliated interest agreements must be examined within the  
19 four corners of those documents.

20 He did attempt to glean from the company's records  
21 any correspondence, memoranda which would have a bearing on the  
22 proposals. He put it together. As I recall, when he had this  
23 as an appendix, he said, you know, "We're not really pushing  
24 any of these matters, but they do have some general relevancy,  
25 so I'll disclose them rather than exclude them."

1 I think your task, as counsel for JARI, will be,  
2 during the course of your cross-examination on relevant matters,  
3 to try to discern whether there is something that the company  
4 officers had communicated to them or some underlying record  
5 that you can question them about and ask them to produce at the  
6 time of cross-examination.

7 I don't see how you could ever, even if you take a  
8 cynical point of view and say that they're withholding informa-  
9 tion, they failed to disclose it -- I don't think at this  
10 junction that you'll be able to conduct a side investigation  
11 and play detective and search through the records of both  
12 these utilities.

13 MR. SHILOBOD: I have some specific information I  
14 would request, if I could make it on the record. I'd like a  
15 copy of the Booz-Allen report referred to in Mr. Dieckamp's  
16 testimony. I'd like a copy of any agreements on ownership  
17 and/or operation of TMI facilities between Pennelec and Met-Ed  
18 such as existed as of the time the accident occurred, and any  
19 changes since.

20 This is for purposes of comparison to the new  
21 proposal. I also would like to point out that among those  
22 written documents that were presented for our inspection, the  
23 earliest writing was January 7, 1980.

24 JUDGE CASEY: I think you also pointed that out, or  
25 there was some reference to it at the prehearing conference.

1           Are you able to produce the Booz-Hamilton report  
2 that he's referring to?

3           MR. RUSSELL: We don't have any of them here. We  
4 can obtain them. If he's interested in looking at the TMI  
5 operating agreements in a hurry, they're public documents on  
6 file here with the Commission. And if he wants to look at them  
7 in the meantime, we can do that. We can get copies of them in  
8 due course.

9           MR. SHILOBOD: Mr. Russell, were those affiliated  
10 interest agreements approved by the Commission, do you know?

11           MR. RUSSELL: They were filed with the Commission,  
12 and my recollection was that in the absence of any action by  
13 the Commission, they were deemed to have been approved as a  
14 matter of law under the statutory provisions.

15           JUDGE CASEY: I believe the statute indicates that  
16 if they are properly filed, and 30 days goes by without the  
17 Commission issuing any disapproval or extending the time period  
18 to examine the agreements, that those agreements become  
19 effective by operation of law or something similar to that, in  
20 any event.

21           At this point, I think we'd better be on our way.  
22 Mr. Russell, I'll ask you, if you wish, to make an offer of  
23 proof or tell me how you're going to present your case, and  
24 then we'll decide on the order of cross-examination.

25           MR. RUSSELL: Before I proceed, I would like to

1 take care of a matter I meant to earlier, and in the course of  
2 discussion I didn't get to it. I'd like to introduce  
3 Mr. Ira Jolles of the firm of Burlack, Israels and Liberman,  
4 New York City, who is appearing on behalf of General Public  
5 Utilities Corporation.

6 JUDGE CASEY: Mr. Jolles has signed the appearance  
7 sheet?

8 MR. JOLLES: Yes, I have, Your Honor.

9 MR. MORRISON: Your Honor, if we could, as a sort  
10 of a housekeeping matter, before Mr. Russell begins, I would  
11 like to discuss when the TB&A witnesses will be available, and  
12 see if we could set that up right now. All of the witnesses  
13 are out of town, and we would like to have a date.

14 We would suggest either next Wednesday, which would  
15 be preferable, or next Tuesday, as an alternative.

16 JUDGE CASEY: When you say they're out of town,  
17 New York City or elsewhere?

18 MR. MORRISON: Yes, sir, Boston.

19 JUDGE CASEY: Mr. Russell and his client and the  
20 other attorney, they are the moving parties in this proceeding,  
21 and they are in control of how much testimony and proof they  
22 will be putting into the record, and then we have to allow for  
23 cross-examination. We do have December 8, 9 and 10 scheduled,  
24 which would be this coming Monday, Tuesday and Wednesday, and  
25 Mr. Shilobod has already indicated he probably will have

1 extensive cross-examination. And Commission counsel from both  
2 individual staffs will have an opportunity to cross-examine.  
3 Anyone else? Mr. Messer, will you be cooperating with your  
4 cocounsel in cross-examination of witnesses?

5 MR. MESSER: I will, Your Honor.

6 MR. MORRISON: Your Honor, specifically with the  
7 TB&A witnesses, if we could at least get an estimate from the  
8 parties of expected cross-examination and if we can schedule a  
9 date for certain witnesses --

10 JUDGE CASEY: Perhaps Mr. Russell can assist us.  
11 Do you think your direct case will consume all of the scheduled  
12 dates we have left, including cross-examination?

13 MR. RUSSELL: Well, it's a little difficult to get  
14 an estimate with respect to that. Our three basic witnesses  
15 we have already made clear in our prehearing memorandum:  
16 Mr. Dieckamp, Mr. Verrochi and Mr. Donofrio. We have presented  
17 the prepared testimony of the first two of those. Mr.  
18 Donofrio's, we expect to have available in the next several  
19 days to distribute to the parties.

20 But so far as the amount of hearing time that is  
21 required, as Mr. Morrison indicates, it is primarily a function  
22 of cross-examination rather than direct examination, and I  
23 would say that the other parties could perhaps give you more  
24 information than we could as to hearing time on our witnesses'  
25 cross.

1 MR. MORRISON: Your Honor, if I might suggest, it  
2 really doesn't have any relevance to the other parties' direct  
3 witnesses. If we just know how much time they expect to take  
4 on the TB&A witnesses, we could schedule our witnesses for  
5 Wednesday, preferably, or if not then Tuesday of next week.

6 JUDGE CASEY: All right. Tentatively, we will  
7 schedule for Wednesday. That's the last day. Perhaps at the  
8 close of today's hearing, we can decide on some additional  
9 tentative dates in case we can't complete the case next  
10 Wednesday, which is probably unlikely.

11 But as of this moment, I would say, have your  
12 TB&A witnesses available on Wednesday morning, and the  
13 company will have today -- the GPU system will have today and  
14 next Monday and Tuesday. They'll be putting on their direct  
15 case, which is all prepared testimony and exhibits, is that  
16 correct?

17 MR. RUSSELL: That's as far as we know.

18 JUDGE CASEY: I think we should move ahead. Do all  
19 attorneys present have copies of Mr. Herman Dieckamp's  
20 prepared testimony?

21 (No response.)

22 JUDGE CASEY: Would you be calling Mr. Dieckamp as  
23 your first witness?

24 MR. RUSSELL: Yes, we'll call him as our first  
25 witness. Could we have just a brief five minute recess before

1 we call Mr. Dieckamp?

2 JUDGE CASEY: I think it's a good time. We will  
3 take a ten minute recess at this point.

4 (Whereupon, a recess was taken.)

5 JUDGE CASEY: On the record.

6 Whereupon,

7 HERMAN M. DIECKAMP

8 having been duly sworn, testified as follows:

9 JUDGE CASEY: You may proceed, Mr. Russell.

10 MR. RUSSELL: Your Honor please, there's one  
11 further preliminary. I've handed to the reporter three copies  
12 of various documents which I ask to have marked for identifi-  
13 tion as Pennelec/Met-Ed Statements A and B, and Pennelec/Met-Ed  
14 Exhibits No. 1 through No. 6 inclusive.

15 JUDGE CASEY: Those exhibits will be so marked for  
16 identification.

17 (Whereupon, the documents were  
18 marked Pennelec/Met-Ed Statement  
19 A and B and Pennelec/Met-Ed  
Exhibits No. 1 through No. 6  
for identification.)

20 DIRECT EXAMINATION

21 BY MR. RUSSELL:

22 Q Would you state your name, please?

23 A My name is Herman Dieckamp.

24 Q Do you have before you a document which has been  
25 marked for identification as Pennelec/Met-Ed Statement A?

1 A Yes, I do.

2 Q Is that your prepared written testimony in this  
3 proceedings?

4 A Yes, it is.

5 Q Are there any corrections that you would like to  
6 make in the text of that statement?

7 A Yes. There are a few minor typographical errors  
8 that I'll not enumerate and we can take care of later, but on  
9 page 22, I would call attention to the third line which should  
10 read, "my understanding that a combination" -- "consolidation,"  
11 I should say -- "occurs when all the assets and liabilities of  
12 the two entities are combined."

13 So, the word "consideration in the third line  
14 should be "consolidation." And moving down to the next para-  
15 graph, which starts, "At the same time(sic)," it should read,  
16 "Met-Ed and Pennelec have some common officers." So, "same"  
17 should become "some." And in the next line, "and some  
18 separate officers and directors."

19 Q With those corrections, Mr. Dieckamp, if I were  
20 to ask you the same questions that appear in your statement  
21 today, would your answers be the same as those that appear in  
22 that statement?

23 A Yes, they would.

24 Q I show you documents which have been marked for  
25 identification as Pennelec/Met-Ed Exhibits No. 1 and No. 3

1 through No. 6 inclusive. Are you sponsoring those exhibits in  
2 this proceeding?

3 A Yes, I am.

4 Q Could you identify briefly what those exhibits  
5 represent?

6 A Exhibit No. 1 is a map of the service areas of  
7 Pennelec and Met-Ed. It also happens to show the service area  
8 of our Jersey Central subsidiary in New Jersey. Pennelec  
9 Exhibit No. 3 is the proposed operating agreement among  
10 Jersey Central, Met-Ed and Pennsylvania Electric for the  
11 operation of Three Mile Island by GPU Nuclear Corporation.

12 Exhibit No. 4 is a letter from the Nuclear  
13 Regulatory Commission to Mr. Robert Arnold, which allows,  
14 amends the technical specifications of the plant to permit  
15 operation under the organizational structure that we identify  
16 as the GPU Nuclear Group.

17 Exhibit No. 5 lists --

18 JUDGE CASEY: Wait a minute, Mr. Dieckamp. Are  
19 you referring to a letter dated September 15, 1980 from the  
20 United States Nuclear Regulatory Commission?

21 THE WITNESS: Yes, I am.

22 JUDGE CASEY: Which has been marked for identifica-  
23 tion as PN/MA Exhibit No. 4?

24 THE WITNESS: Yes, sir.

25 JUDGE CASEY: I think you said it allows permission

1 for the operation of the plant.

2 THE WITNESS: Yes.

3 JUDGE CASEY: Isn't it qualified in the letter,  
4 operation of the plant during the period of its shutdown, not  
5 when it goes back on line? Is that correct?

6 THE WITNESS: Yes, sir. I did not mean to  
7 summarize the letter in its totality, but simply to briefly  
8 outline.

9 JUDGE CASEY: I thought you said, "which would  
10 permit its future operation."

11 THE WITNESS: Oh, no. My comments in no way are  
12 to amplify the exhibit itself.

13 JUDGE CASEY: Very good.

14 THE WITNESS: Exhibit No. 5 identifies the proposed  
15 slate of directors for GPU Nuclear, and the back side, a list  
16 of officers for GPU Nuclear. Exhibit No. 6 is the combined  
17 management agreement, or I guess what has been referred to as  
18 the affiliated interest agreement, which would describe the  
19 relationship between Met-Ed and Pennelec and the allocation of  
20 costs under the combined management plan.

21 BY MR. RUSSELL:

22 Q And you are sponsoring these several exhibits you  
23 have identified?

24 A Yes, sir.

25 MR. RUSSELL: Mr. Dieckamp is available for

1 cross-examination.

2 JUDGE CASEY: We will proceed with the petitioners  
3 first, and then the Commission Trial Staff second, followed by  
4 the Commission Administrative Staff if they are going to  
5 participate in cross-examination, and that's not at all sure.

6 We had the Consumer Advocate involved in the case  
7 as a party of record at the beginning of the proceedings. Is  
8 the Consumer Advocate represented here this morning?

9 MR. SCHANNAUER: Your Honor, Consumer Advocate is  
10 not yet a formal party at these proceedings. We haven't filed  
11 a petition for intervention yet, and we are monitoring the  
12 case at this time. And at the time that we do decide, we may  
13 file a petition to intervene, but we haven't done so yet.

14 JUDGE CASEY: You haven't filed any statement with  
15 the Commission under Act 161, is that correct?

16 MR. SCHANNAUER: That's correct.

17 JUDGE CASEY: I think the Consumer Advocate's  
18 name ended up on the service list of this proceeding because  
19 it was included in the service list at the prior Met-Ed  
20 proceeding. Is that the reason?

21 MR. SCHANNAUER: That's my understanding, yes.

22 JUDGE CASEY: You can act as you see fit at the  
23 appropriate time.

24 MR. RUSSELL: Notwithstanding that limited status,  
25 we have provided copies of all documents to the Consumer

1 Advocate's office. I presume there is no problem with that?

2 JUDGE CASEY: Not as far as I'm concerned. Are  
3 you satisfied that Mr. Russell has given you the necessary  
4 documents or prepared testimony and exhibits to be placed in  
5 this record, which will aid your office in making a decision or  
6 judgment as to the extent to which you will proceed in the  
7 future?

8 MR. SCHANNAUER: Yes, Your Honor.

9 JUDGE CASEY: Mr. Shilobod, you are the lead-off  
10 cross-examiner.

11 CROSS-EXAMINATION

12 BY MR. SHILOBOD:

13 Q Mr. Dieckamp, for whom are you testifying today?

14 A I am here on behalf of Met-Ed and Pennelec, and  
15 I am here in my capacity as president of General Public  
16 Utilities and a member of the board of directors of Met-Ed and  
17 Pennelec.

18 Q You indicate that you are the chief operating  
19 officer of GPU and the acting president of Met-Ed?

20 A That's correct.

21 Q Who pays you?

22 A My time is allocated on the basis of best estimates  
23 of activities and their relationship to those things which I  
24 supervise. For example, when I am working or functioning  
25 directly in relationship to my responsibilities in the service

1 company, my time is allocated to the service company, and in  
2 turn to the operating subsidiaries on the basis of established  
3 agreements and formula.

4 If I am functioning on a direct matter relative  
5 to Metropolitan Edison, then my time charge will show directly  
6 as a Met-Ed charge; likewise for General Public Utilities  
Corporation.

8 Q Do you receive separate paychecks from each of  
9 these entities?

10 A No, I do not. I receive one paycheck from General  
11 Public Utilities Service Corporation, and GPU Service Corpora-  
12 tion is in turn compensated by any other entity for which my  
13 time is charged.

14 Q For all the services that you render GPU itself as  
15 the parent company, are your payments for that service included  
16 in the paycheck that you receive from General Public Utilities  
17 Service Corporation?

18 A I receive no compensations other than those shown  
19 in the paycheck itself, and the normal spectrum of fringe  
20 benefits.

21 Q And your entire paycheck, along with the associated  
22 benefits, are parceled out among the operating companies, is  
23 that correct?

24 A That is true, except for that portion which is  
25 charged directly to GPU Corporation, and in turn some of those

1 costs are absorbed by the stockholders.

2 Q Did you personally prepare your testimony?

3 A It was prepared with my assistants. I reviewed it  
4 and I concur in it.

5 Q Who helped you prepare it?

6 A The GPU General Counsel.

7 Q Is that Mr. Liberman?

8 A Yes.

9 Q When did you last work on preparation of your  
10 prepared statement?

11 A I reviewed the drafts over the Thanksgiving holiday  
12 period.

13 Q Is that the last time that you saw them?

14 A That was the last time I saw them until last  
15 evening.

16 Q Were they typed in final form at that time?

17 A Last evening?

18 Q Whenever you reviewed them?

19 A No. When I reviewed them, they were in draft form.  
20 And I reviewed the final draft, the final text last evening.

21 Q As chief operating officer of GPU, are you familiar  
22 with the financial structure of Pennelec?

23 A In general terms, yes.

24 Q How many shares of Pennelec preferred stock are  
25 outstanding?

1           A       I do not happen to know that number, but that's a  
2 matter of record.

3           Q       Are the outstanding number of preferred shares the  
4 same now as they were as of December 31, 1978?

5           A       I cannot testify specifically to that. Again, I  
6 think that's a matter of record, and we'd be happy to provide  
7 that data.

8           Q       Would you agree, subject to check, that the number  
9 of shares outstanding is in the range of 2.8 million shares?

10          A       Yes.

11          Q       Who are the owners of those preferred shares? Is  
12 it GPU?

13          A       GPU does not own the preferred stock of any of its  
14 subsidiaries. In general, we find that the principal owners of  
15 preferred stock are those kinds of institutions that can  
16 benefit most from the tax treatment of preferred dividends.

17          Q       Do individuals also own preferred shares of  
18 Pennelec?

19          A       It would be my guess that there are some individual  
20 owners of Pennelec preferred stock. It would not be my guess  
21 that they are a significant fraction, however.

22          Q       Do you know the order of magnitude of the number  
23 of shareholders of Pennelec preferred stock?

24          A       No, I do not.

25          Q       Has Pennelec been paying dividends to date to

1 those preferred shareholders?

2 A Yes.

3 Q Has it been paying dividends on its common stock?

4 A Pennelec has made some dividend payments to GPU,  
5 the holder of the Pennelec common stock.

6 Q When was the most recent dividend payment made?

7 A I could not cite the specific date, but I think  
8 within the last few months.

9 Q Do you know the order of magnitude of the dividends  
10 per share?

11 A Dividends per share?

12 Q Yes.

13 A No, I do not.

14 Q Do you know the total dollar amount?

15 A I do not know the exact amount. Again, that's  
16 something that we can produce for the record.

17 Q Do you have an order of approximation?

18 A I would have to say I would be strictly venturing  
19 from memory an estimate, but I think that Pennelec during this  
20 calendar year 1980 will be paying approximately 15 million in  
21 dividends.

22 Q Is Pennelec presently capable of paying its debts  
23 as they become due?

24 A Yes.

25 Q Do you perceive that it's probable that Pennelec

1 will continue to be able to meet its debts as they become due  
2 for the foreseeable future?

3 A I perceive that as being probable. I would have  
4 to add, however, that we are in a condition which requires us  
5 to be extremely careful about expenditures and commitments, and  
6 are in effect having to take measures to constrain the extent  
7 of Pennelec's construction programs so as to insure that  
8 can live within Pennelec's means.

9 Q When did you become the chief operating officer of  
10 GPU?

11 A I am not absolutely certain on that. I think the  
12 date is about 1974.

13 Q When did you become the acting president of Met-Ed?

14 A About one year ago, or a little -- let's say -- yes

15 Q Did you become acting president of Met-Ed before or  
16 after the TMI-2 nuclear incident?

17 A After.

18 Q Who was the president of Met-Ed before you became  
19 acting president?

20 A Walter Creitz.

21 Q Is Mr. Creitz no longer with the company?

22 A Mr. Creitz remains on the payroll of the company.

23 Q When you became acting president of Met-Ed, did  
24 your duties as chief operating officer of GPU increase, or did  
25 you continue in that job the same as you did before?

1           A       I continued. I have been sharing my time between  
2 these various duties.

3           Q       Has the time that you've dedicated to GPU affairs  
4 increased, decreased or stayed the same since you became  
5 acting president of Met-Ed?

6           A       It is very difficult to separate those duties in  
7 an absolute way, in a sense that many of the affairs of GPU  
8 are the affairs of Met-Ed, and vice versa. I think it's fair  
9 to say that to the extent that I have spent additional time on  
10 Met-Ed affairs, obviously that time had to come from some other  
11 source.

12          Q       Did the time expended on behalf of General Public  
13 Utilities Service Corporation increase, decrease or stay the  
14 same since you became acting president of Met-Ed?

15          A       I do not know the exact time charges and the  
16 manner in which they have changed over that time period.

17          Q       Would it be reasonable to assume that your time  
18 dedicated to both GPU and GPU Service Corporation decreased as  
19 you took on the responsibilities of acting president of Met-Ed?

20          A       I think that is a reasonable presumption. Again,  
21 when one recognizes the degree of overlap of the areas of  
22 interest between GPU and the service company and Met-Ed, it  
23 may well be that the changes are masked within the precision  
24 of possible time allocations.

25          Q       When you became acting president of Met-Ed, did

1 you personally assume all of the duties previously carried out  
2 by Mr. Creitz, or were some of those duties delegated to others?

3 A At the same time that I became president of Met-Ed,  
4 we assigned Mr. Floyd Smith to be senior vice-president of  
5 Met-Ed and to be the manager at Met-Ed, and in many ways  
6 Mr. Smith takes care of the day-to-day activities and functions  
7 at Met-Ed that are not performed by me.

8 Q Would it be fair to state then that your role as  
9 acting president at Met-Ed right now is to handle the extra-  
10 ordinary problems that are facing the company?

11 A Certainly that's the area where I make the major  
12 contribution.

13 Q Could you tell me specifically what you do as  
14 acting president of Met-Ed?

15 A I work closely with Mr. Floyd Smith, who is handling  
16 the day-to-day affairs. The principal areas that I function  
17 on that is directly related to Met-Ed are oversight of its  
18 budgeting and spending activities; maintaining a close over-  
19 sight of its cash position; work very closely with Mr. Arnold  
20 on the management of the Three Mile Island problems, which  
21 Met-Ed is a 50 percent owner of that station. I think those  
22 are the areas where I have the greatest degree of involvement.

23 I do not involve myself at the levels of the  
24 transmission and distribution operation or the A and G func-  
25 tions within Met-Ed. Those are largely taken care of by

1 Mr. Smith. If there are any problems, we can discuss them on  
2 occasion, but these are not of a significant nature.

3 Q Is it fair to state that Mr. Smith assumed the  
4 responsibility that had been previously carried out by  
5 Mr. Creitz before the incident occurred?

6 A He assumed some of them, in effect; not all of them.

7 Q Which ones did he not assume?

8 A At the time of the accident or before the accident,  
9 Walter Creitz was directly responsible also for the operation  
10 of Three Mile Island. I do not today consider Floyd Smith to  
11 be carrying the same degree of responsibility for Three Mile  
12 Island that Walter Creitz was, because I work very closely  
13 with Mr. Arnold on that matter.

14 Q Any other duties that Mr. Smith has been relieved  
15 of as compared to Mr. Creitz?

16 A I think that's probably the most definitive  
17 differential.

18 Q What are the duties of Mr. Smith right now?

19 MR. RUSSELL: I think the question has been  
20 answered several times.

21 MR. SHILOBOD: I submit not. I'd like some  
22 detailed information.

23 JUDGE CASEY: I think there was an attempt by the  
24 witness to describe his duties, what might be residual duties,  
25 but I'll permit the question and direct the witness to answer

1 so that it's clarified once and for all.

2 THE WITNESS: Mr. Smith takes care of the day-to-  
3 day management activities -- leadership, direction, coordina-  
4 tion of the various functions of Met-Ed in his role as the  
5 resident manager at Met-Ed. His time is devoted primarily to  
6 the areas of supervising the T&D or line operations activities,  
7 the division and district offices, the A&G functions.

8 BY MR. SHILOBOD:

9 Q What's A&G?

10 A Administrative and general functions. These  
11 include the accounting and the office of the controller, and  
12 the like. He also supervises the residual activities in foss  
13 generation that exist at Met-Ed. In general, he conducts on a  
14 day-to-day basis the responsibilities for Met-Ed operations  
15 with the principal exception of the nuclear operation.

16 And secondly, since Mr. Smith has less background  
17 in the financial matters of Met-Ed, those tend to be areas  
18 where he turns to me most often for these day-to-day efforts.

19 Q Does Mr. Smith also assume Mr. Creitz's previous  
20 responsibility with respect to the various regulatory proceed-  
21 ings in which Met-Ed may be a participant?

22 A I think his responsibilities there are not -- when  
23 you say "regulatory," I presume you mean the Public Utility  
24 Commission and not the Nuclear Regulatory Commission?

25 Q Yes.

1           A        I think his responsibilities are quite analogous  
2 to those which Mr. Creitz carried out. I should point out,  
3 however, that in these trying times since the accident, there  
4 has been considerable more participation in regulatory affairs  
5 by the GPU level people, particularly Mr. Hafer, Mr. Graham,  
6 the GPU treasurer, Mr. Kuntz, and myself.

7           Q        Does he also participate in other legal proceedings  
8 that may be undertaken by Met-Ed or to which Met-Ed may be a  
9 party to the extent that Mr. Creitz would have also as  
10 president of Met-Ed?

11          A        Metropolitan Edison has its own counsel, in-house  
12 counsel, Mr. Robert Heist, who for day-to-day supervision  
13 reports to Floyd Smith. For items of significant legal  
14 initiative, however, those in general are carried out under the  
15 supervision of the GPU general counsel or other outside counsel  
16 that we may hire for specific problem areas.

17          Q        Is Mr. Smith also ultimately responsible for  
18 handling labor matters that Met-Ed may encounter?

19          A        I would not say that Mr. Smith has full and direct  
20 responsibility for legal matters. Again, as a matter of --

21          Q        I'm sorry, it's labor.

22          A        Oh, labor matters? Yes, he does; labor relations.

23          Q        Does Met-Ed also have its own preferred share-  
24 holders?

25          A        Yes, it does.

1 Q Does Mr. Smith deal with Met-Ed's preferred  
2 shareholder issues, also?

3 A He may on occasion answer a letter from a  
4 preferred stockholder. He participates as a member of the  
5 Met-Ed board of directors when it comes time to make a  
6 determination on the payment of a preferred dividend.

7 Q Does he also participate in attempts to solve  
8 Met-Ed's cash flow problems?

9 A He certainly does, in the sense that he is the  
10 on-site manager who is maintaining first line visibility and  
11 cognizance over the spending levels, manning levels, personnel  
12 reduction efforts and the like. And in that sense, he has a  
13 very direct role in maintaining, contributing to all of the  
14 elements necessary to maintain Met-Ed's solvency.

15 Q Does he also have ultimate responsibility as far  
16 as Met-Ed is concerned for customer relations and relations  
17 with the creditors of Met-Ed?

18 A He has direct responsibility for customer relation-  
19 ships. When you say "creditors," our principle creditors there  
20 are the 45 banks that are members of the revolving credit  
21 agreement, and I would not characterize Mr. Smith as having a  
22 primary role with respect to those creditors, but would rather  
23 say that Mr. Graham handles those matters.

24 Q Does Mr. Verrochi presently perform any services  
25 for Met-Ed?

1 Q Mr. Verrochi does not today perform any services  
2 for Met-Ed that I would identify.

3 Q Are there any other Penelec employees that today  
4 perform services for Met-Ed? When I say "employees" right now  
5 I'm asking about officers.

6 A Officers? I would say no.

7 Q Are there other employees of Penelec other than  
8 officers that are performing services for Met-Ed?

9 A There can be on occasion opportunities when Penelec  
10 is called upon for some assistance. And for example, in the  
11 event of a storm which requires the introduction of additional  
12 line crews, it is standard practice for us to call upon our  
13 own subsidiaries or even neighboring utilities to give an  
14 assist to restore service to the customers.

15 Another example that I can think of is at the time  
16 of the accident, Met-Ed called upon a fair number of people  
17 from the Penelec remote reporting maintenance organization to  
18 assist in the accident response of Three Mile Island.

19 But in general, these as of today are minor  
20 interactions and generally associated with some kind of  
21 special or emergency condition.

22 Q What arrangement exists for the payment for such  
23 services from Penelec employees?

24 A When Penelec provides those kinds of services, I  
25 think the costs are billed to Met-Ed for their payment. I

1 would prefer to defer in detail to either Mr. Donofrio or  
2 Mr. Wertz of Met-Ed -- Mr. Donofrio of Penelec or Mr. Wertz of  
3 Met-Ed for the detailed manner in which such compensations are  
4 handled.

5 MR. RUSSELL: Mr. Donofrio is one of the witnesses  
6 who will be appearing in this proceeding.

7 BY MR. SHILOBOD:

8 Q What is presently the most pressing issue facing  
9 Met-Ed?

10 MR. RUSSELL: I have been wondering -- Your Honor  
11 please -- what proceeding we're involved with in a number of  
12 these questions, and haven't interposed objections, but I  
13 would interpose one on the grounds of relevancy at this point  
14 to this question.

15 JUDGE CASEY: Well, it has general relevancy I  
16 think the question may be a little bit too broad, though, to  
17 evoke a proper answer. Could you be more specific and  
18 rephrase your question -- what is the number one management  
19 priority that Met-Ed has? Is it a financial consideration, or  
20 is it reorganization or something of that nature, if there is  
21 such an A-No. 1 priority item?

22 MR. SHILOBOD: That's what I thought my question  
23 indicated to the witness. I didn't think that the witness  
24 misunderstood me.

25 THE WITNESS: If I may speak to the question, I

1 don't know that it's meaningful to think in terms of just one  
2 priority. Certainly a number of things combine, and thus I  
3 find it difficult to end up with an absolute separation into  
4 one priority.

5           But I think Met-Ed's principal problems are to  
6 deal with the ramifications of the accident at TMI-2; to insure  
7 the health and safety of the public on a continuing basis from  
8 any things that could result from TMI-2; to arrange for the  
9 cleanup and the identification of financial resources so that  
10 cleanup can be done; to maintain continuity and reliability of  
11 electric service to Met-Ed's customers; and to return Three  
12 Mile Island One to service.

13           Now, in a sense, you can say that most of those are  
14 direct results of the accident at Three Mile Island Two, and  
15 if you wish, you could then say that that was the principal  
16 problem. I would add that those problems all combine into --  
17 and our ability to deal with those problems are controlled and  
18 constrained by the necessity to maintain Met-Ed's cash  
19 continuity so that we are not expending more than we have  
20 available to meet these obligations and objectives.

21           BY MR. SHILOBOD:

22           Q. Will those problems disappear if and when this  
23 management combination is allowed to go into effect?

24           A. No, they will not.

25           Q. Would you continue to operate as operating

1 vice president of the combined management organization if and  
2 when it is allowed to go into effect?

3 A I'm sorry, I do not understand.

4 MR. RUSSELL: Could you repeat that question?

5 BY MR. SHILOBOD:

6 Q Will you continue to serve as operating president  
7 of Met-Ed or of the combined management organization if and  
8 when it is allowed to go into effect?

9 A No, I would not.

10 Q Is Met-Ed itself presently able to pay its debts  
11 as they become due?

12 A Yes.

13 Q Are you familiar with the recent restriction of  
14 credit to Met-Ed by the various banks that are members of the  
15 revolving credit agreement?

16 A Yes, I am.

17 Q When did the restriction of credit occur?

18 A I can't cite the exact date, but it was a matter  
19 of a few weeks after the last rate order, which was May 23,  
20 1980. So that would make the revised definition of credit  
21 availability sometime early in June.

22 Q Is Met-Ed repaying the member banks on schedule  
23 as required to the extent required by the revolving credit  
24 agreement?

25 A Met-Ed's credit requirements are remaining within

1 the defined credit availability. That does not necessarily  
2 mean that Met-Ed is repaying, because as of today, Met-Ed's  
3 credit requirements have not exceeded the amount available,  
4 and thus have not been required to be forced downward as the  
5 credit availability moves downward. So, I think it may be just  
6 a semantic question on the repayment.

7 I think the more general way to say it is that as  
8 of today and since that change, Met-Ed has been staying within  
9 the limits imposed by that credit agreement.

10 Q Can you state with a reasonable degree of certainty  
11 whether or not Met-Ed will be able to continue to currently  
12 pay its debts as they become due over the next twelve months?

13 A We have filed with the Pennsylvania PUC forecasts  
14 of Met-Ed's cash requirements, and we have updated those  
15 forecasts as time has gone on and as reality has taken the  
16 place of forecasts. And in general, those forecasts continue  
17 to show that Met-Ed will have difficulty staying within the  
18 cash or the credit available in a time period sometime late  
19 summer or early fall of 1981, absent any rate relief, and even  
20 with a continuation of the cutbacks that we put in place over  
21 the last few months, and that this subject is a central part of  
22 the ongoing Met-Ed rate proceeding.

23 So, the degree to which Met-Ed can remain within  
24 the credit available to it is a function of the degree to which  
25 Met-Ed can serve its customers with limited construction effort:

1 and the degree to which the PUC responds to the rate relief  
2 requirements and cash flow requirements that Met-Ed has and  
3 is outlining in the ongoing rate proceeding.

4 JUDGE CASEY: Mr. Shilobod, can I interrupt your  
5 cross-examination for a moment to clarify a point in my own  
6 mind with Mr. Dieckamp. Mr. Dieckamp, would you tell me, to  
7 what degree the two operating Pennsylvania utilities are  
8 autonomous in their operations? To what extent can they  
9 decide policy -- that is, their boards of directors -- to be  
10 carried out by the officers, without clearing such matters  
11 with the holding company in Parsipanny, New Jersey? Can you  
12 explain how that works, for my benefit?

13 THE WITNESS: The manner in which that works is by  
14 means of the membership of the boards of directors of the  
15 individual subsidiaries. Those boards of directors approxi-  
16 mately are composed of half people from GPU or the GPU service  
17 company and half people from the subsidiary.

18 Mr. Kuntz, who is the chairman of General Public  
19 Utilities, is also the chairman of the board and chief  
20 executive officer of each of the operating subsidiaries. So,  
21 within that forum of the board of directors, we have the  
22 mechanism for establishing policies and plans for individual  
23 subsidiaries. And by means of the overlapping membership of  
24 the subsidiaries, we have the mechanism for at least striving  
25 to achieve a degree of uniformity in our policies.

1 JUDGE CASEY: In effect, what you're saying, if  
2 the Met-Ed or Penelec board of directors were to arrive at a  
3 decision with respect to a policy or a proposed corporate  
4 action, that GPU would have already participated in that  
5 decision by virtue of having its directors sitting on the  
6 board of Met-Ed or Penelec?

7 THE WITNESS: Yes, and by recognizing that Mr.  
8 Kuntz is the chairman and chief executive officer of that  
9 subsidiary.

10 JUDGE CASEY: So, there's never any time lag where  
11 the Met-Ed board would have to go back to the parent in  
12 Parsippany for specific approvals? It's all done at the board  
13 meetings of the operating utilities? Do you follow me?

14 THE WITNESS: I would be careful about the word  
15 "never," in the sense that there are occasions when we think  
16 that an issue can be sufficiently important that we want to  
17 review it with or seek consensus or approval from the GPU  
18 level board of directors. So, in that kind of an event, there  
19 could be what you would describe as a time lag or an inter-  
20 action, and let me give a specific example.

21 For example, the undertaking of a project to  
22 construct a large generating facility, which might involve  
23 today a commitment in the order of a billion dollars, which in  
24 turn would also have a direct impact on the requirements of  
25 the parent corporation to seek additional equity and the like

1 is the kind of thing that we go to the GPU board of directors  
2 for approval, in addition to approval by the subsidiary board  
3 of directors.

4 JUDGE CASEY: Very good, that clears it up for me.  
5 Sorry for the interruption, Mr. Shilobod. You may proceed.

6 BY MR. SHILOBOD:

7 Q You indicated that if you achieve the rate relief  
8 that you request, I presume on the time basis that you request,  
9 that Met-Ed will be able to meet its debts as they become due  
10 under the revolving credit agreement. What about with respect  
11 to debts other than those outlined in the credit agreement?  
12 Can you state with a reasonable degree of certainty whether  
13 Met-Ed will be able to currently pay its other debts as they  
14 become due over the next twelve months?

15 A. When I say "live within the revolving credit  
16 agreement," that means, meet all of its obligations and pay all  
17 of its debts within the amount of cash available either from  
18 its internal sources or from the revolving credit agreement.  
19 So, these all tend to sum into the revolving credit agreement.

20 Now, there are perhaps one or two exceptions to  
21 that that I might cite. For example, we do have some obliga-  
22 tions to the Department of Energy for enrichment services which  
23 are not paid up currently, but upon which we have a agreement  
24 with the Department of Energy for extension of those payment  
25 times and associated interest charges to go with that.

1           But in general, all of Met-Ed's transactions and  
2 obligations sum into the revolving credit agreement, because  
3 other than those monies available from internal sources, monies  
4 available from customers, everything is derived from the  
5 revolving credit agreement.

6           Now, again, I should make an exception there with  
7 respect to insurance recoveries for activities at Three Mile  
8 Island Two.

9           Q       To what extent did the various creditors reduce  
10 Met-Ed's borrowing capacity following the most recent reduction  
11 in lines of credit?

12          A       Prior to the May 23 order, the revolving credit  
13 agreement made available to Met-Ed, I think, approximately  
14 a hundred or a hundred and ten million dollars out of the  
15 available 293 in the total available portion of the revolving  
16 credit agreement at that time.

17           After the May 23 order, the banks felt that they  
18 were not able to lend beyond that which they considered a  
19 reasonable security, and they defined that as being some  
20 fraction of Met-Ed's uranium inventory, Met-Ed's accounts  
21 receivable, and Met-Ed's deferred energy balance. And I think  
22 the deferred energy balance was characterized as a security in  
23 the sense that the Commission had made statements concerning  
24 the recoverability of those deferred costs.

25           And so, the amount of credit available to Met-Ed as

1 a function of time is the sum of those three elements with the  
2 deferred energy balance being the variable one, because it is  
3 reducing each month as we amortize that deferred energy balance  
4 in accordance with the rates provided in the May 23 order.

5 Q What is the order of magnitude of the presently  
6 available unused credit?

7 A I would have to refer to something. I think as of  
8 today, in round numbers, it is roughly 20 million dollars.  
9 But again, I would have -- let me just say that there was a  
10 recent letter signed by Mr. Floyd Smith sent to the PUC about  
11 mid-December, which gave the status of Met-Ed's cash position  
12 as of November 30. I don't know whether I have that.

13 MR. RUSSELL: We can get that and supply that after  
14 the luncheon break.

15 JUDGE CASEY: I think Mr. Dieckamp said, "about  
16 mid-December." We haven't reached mid-December.

17 THE WITNESS: Excuse me, I'm off a month. I'm  
18 trying to get to Christmas fast -- mid-November, as of  
19 September 30 -- October 30, excuse me. I'm not too quick here.  
20 If we can supply that, that will not only show you the position  
21 as of October 30, but it will also show you the forecast through  
22 the end of 1981. Now again, we are updating that on a monthly  
23 basis.

24 BY MR. SHILOBOD:

25 Q When you indicate that Met-Ed will be able to

1 currently meet its debts as they become due, did you include in  
2 that consideration of the probable liabilities associated with  
3 cleanup costs?

4 A That is a function of time, and a function of the  
5 rate at which the cleanup program will be conducted. We  
6 currently are in a mode where we have reduced the level of  
7 effort at Three Mile Island to about 50 to 55 million dollars  
8 a year. We would expect that about 60 to 65 percent of those  
9 expenditures will be recoverable by insurance, meaning that  
10 there's about 15 or 20 million dollars' deficiency between the  
11 expenditures and the insurance recovery.

12 Met-Ed's portion of that then is somewhere around  
13 seven to ten million dollars on an annual basis. Our cash  
14 forecasts include that effect. But now again, that will  
15 depend -- that will change dramatically when the insurance  
16 monies are exhausted. As of the end of 1980, we will have  
17 exhausted about 200 of the 300 million dollars of insurance  
18 that was available.

19 And at the current or the projected level of  
20 program, the remaining 100 million of insurance would last for  
21 roughly three years. So, the issue becomes the timing for any  
22 reacceleration of the cleanup program. Our current plan,  
23 however, is to not reaccelerate that program, absent any  
24 emergency, until such time as the resources for that cleanup  
25 program are in place, identified and in place.

1 Q If it should be necessary to accelerate the  
2 cleanup at Three Mile Island, would that adversely affect  
3 Met-Ed's ability to currently meet its debts as they become  
4 due?

5 A It would certainly adversely affect it, as it would  
6 adversely affect the position of all of the owners of Three  
7 Mile Island.

8 JUDGE CASEY: Wait a minute. Are you in complete  
9 control of the schedule for the cleanup operations, or are you  
10 being directed by the Nuclear Regulatory Commission, some  
11 outside agency?

12 THE WITNESS: Yes. It is possible if not probable  
13 that we could receive direction from the NRC to take some  
14 actions that would require us to accelerate, expand the level  
15 of spending at Three Mile Island Two. So, in a sense, it is  
16 not at our sole, total discretion.

17 On the other hand, I think as we go forward, all  
18 parties, including the NRC, will have to recognize that we  
19 will not be able to protect the health and safety of the public  
20 if the resources is not there to do the job. So, these will  
21 all, I think, have to combine into an effort which has  
22 internal continuity to it.

23 BY MR. SHILOMUD:

24 Q Is Penelec currently contributing funds to assist  
25 in the cleanup of Three Mile Island?

1           A        To the extent that the expenses at Three Mile  
2 Island are not covered by insurance, Penelec carries its  
3 pro rata share of those costs.

4           Q        Has Met-Ed paid all of its pro rata share of the  
5 costs to date of the cleanup?

6           A        Yes, in the sense -- when you say "paid," one  
7 could attribute some portion of Met-Ed's outstanding  
8 indebtedness as having been the result of payment for costs  
9 associated with Three Mile Island Two or Three Mile Island One  
10 or other things that are not currently covered in ratemaking.

11          Q        Is Met-Ed currently incurring debt to General  
12 Public Utilities Service Corporation for services rendered with  
13 respect to these activities?

14          A        GPU Service Corp. is not a creditor.

15          Q        GPU Service Corporation incurs expenses in  
16 rendering service to Met-Ed in some fashion or another, does  
17 it not?

18          A        Yes.

19          Q        And Met-Ed does reimburse the service corporation  
20 for expenses, is that correct?

21          A        Yes.

22          Q        And are all of the payments due the service  
23 corporation by Met-Ed presently paid?

24          A        Met-Ed is in good standing. There is no unusual  
25 or extraordinary or special lag there beyond what our normal

1 practices have been for years.

2 Q To what extent, whenever there is an assignment of  
3 the costs related to the cleanup, to what extent are they  
4 immediately parceled out among the various operating companies?

5 A I would answer, "immediate" in the sense of our  
6 normal accounting practices. In that sense, immediate. Now,  
7 whether that billing is weekly or monthly, again, I would  
8 defer to a more knowledgeable individual from the accounting  
9 organizations to give you details on that.

10 But there is no separate fund or no separate  
11 deferred account which is introducing any extraordinary or  
12 special lag between Three Mile Island billing and any other  
13 billings between the service company and the subsidiaries.

14 Q Is Met-Ed currently paying dividends to preferred  
15 shareholders?

16 A Yes, it is.

17 Q Is it currently paying dividends to its common  
18 shareholders?

19 A Met-Ed has made no dividend payments to GPU --  
20 certainly not this calendar year, and I'm not sure that they  
21 have since the accident.

22 JUDGE CASEY: Let me interrupt. Perhaps I am  
23 mistaken. Did Met-Ed declare a 25 cent per share dividend  
24 some time during the last six month period?

25 THE WITNESS: No.

1 JUDGE CASEY: On its common stock, I'm talking  
2 about.

3 THE WITNESS: No. Absolutely not. Met-Ed, within  
4 the last month or two, I think, paid a preferred dividend.  
5 Met-Ed has made no common stock earnings payments to GPU during  
6 this calendar year, and in fact Metropolitan Edison, during  
7 this calendar year to date is in a net loss position on --

8 JUDGE CASEY: GPU, of course, is the only common  
9 stockholder of Met-Ed?

10 THE WITNESS: That's correct.

11 JUDGE CASEY: Do you know the amount of the dividend  
12 that was declared on the preferred stock by Met-Ed?

13 THE WITNESS: I think it might have been about  
14 two and a half million dollars, something of that nature.

15 JUDGE CASEY: Thank you.

16 THE WITNESS: There is a record on that, and I  
17 think a record of some discussion of that subject in the rate  
18 case.

19 BY MR. SHILOBOD:

20 Q. Would it be fair to state that unless Met-Ed  
21 achieves the rate relief that it's requesting from the  
22 Commission, it will endanger its ability to currently pay its  
23 debts as they become due?

24 A. I'm afraid that I would have to agree with that.  
25 To the extent that we do not have money coming in, we are not

1 able to pay money out.

2 Q Is it your belief that the proposed management  
3 combination will assist Met-Ed's abilities to meet its debts  
4 as they become due?

5 A I don't look to the management combination as  
6 having a material impact on that necessary balancing of money  
7 in and money out. I do look to the management combination as  
8 a general strengthening of our ability to serve all of our  
9 customers in Pennsylvania.

10 Q In the first year after the combined management  
11 agreement is placed into effect, will there be a net cost or  
12 a net benefit resulting therefrom?

13 A I am not sure on that kind of a cash flow basis,  
14 when one recognizes that there will be some startup costs,  
15 there will be some moving expenses, initially, during the  
16 early phases of the combination, and some of the savings that  
17 references have been made to are cost avoidances and thus  
18 would not reduce the current levels of spending; and further,  
19 that some of the benefits that we see in the combinations are  
20 ones that do not instantaneously but rather result over a  
21 period of time. And so, I think it's very difficult to  
22 identify the specific dollar impact with respect to the on-  
23 going levels of effort and spending in the two companies.

24 JUDGE CASEY: Off the record for a moment.

25 (Discussion off the record.)

1 JUDGE CASEY: We will declare a recess now until

2 1:45 p.m.

3 (Whereupon, at 12:33 p.m. the hearing was  
4 adjourned to be reconvened at 1:45 p.m. this same day.)

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## AFTERNOON SESSION

(1:45 p.m.)

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2  
3 JUDGE CASEY: On the record.

4 Before the luncheon recess, Mr. Shilobod was engaged  
5 in the cross-examination of Mr. Herman Dieckamp.

6 You may resume with your cross-examination, Mr.  
7 Shilobod.

8 MR. RUSSELL: With your permission, gentlemen, could  
9 I clarify, for the record, one of the open items from this  
10 morning, that Mr. Dieckamp was going to provide over the lunch  
11 hour?

12 JUDGE CASEY: Certainly.

13 MR. RUSSELL: Thank you.

14 JUDGE CASEY: Go right ahead.

15 MR. RUSSELL: Mr. Dieckamp, this morning, I believe  
16 there were questions open to you to supply answers to concern-  
17 ing Met-Ed's outstanding obligations under the Revolving Credit  
18 Agreement and its borrowing limits under the Revolving Credit  
19 Agreement.

20 THE WITNESS: Yes.

21 MR. RUSSELL: Have you gotten the information that  
22 was requested?

23 THE WITNESS: Yes. On the basis of the information  
24 that we've been able to get from the Treasury Department of  
25 the GPU Service Company, Met-Ed's current borrowings under the

1 Revolving Credit Agreement amount to approximately \$69 million,  
2 against an official established level of credit availability  
3 of \$80 million, which number did not yet recognize the added  
4 credit availability with the pledge of receivables that has  
5 been approved by the Pennsylvania PUC and by the SEC, but for  
6 which the bank has not yet provided formal recognition.

7 We would expect that that will increase the Met-Ed  
8 available debt ceiling by about \$20- or \$25 million.

9 MR. SHILOBOD: \$25 million additional, or --

10 THE WITNESS: Additional.

11 MR. SHILOBOD: All right.

12 THE WITNESS: Over and above the \$80 million -- and  
13 I'll characterize it as \$22 million to \$25 million.

14 So that gives Met-Ed, as of, I think, the end of  
15 October, an available debt capacity of about \$100 million,  
16 against which it has borrowings of about \$70 million; so about  
17 a \$30 million cushion is currently available.

18 JUDGE CASEY: Mr. Dieckamp, did you say \$20- to \$25  
19 million --

20 THE WITNESS: Additional.

21 JUDGE CASEY: -- additional, on top of the \$80 mil-  
22 lion?

23 THE WITNESS: Yes -- as a result of the pledge of  
24 receivables.

25 JUDGE CASEY: Is that the actual value of the

1 receivables, or is it a discounted amount of the receivables?

2 THE WITNESS: I think it is a discounting of the  
3 actual amount, and I think it's approximately 80 percent of  
4 the actual level of the accounts receivable.

5 JUDGE CASEY: Thank you.

6 MR. RUSSELL: All right, thank you, Mr. Dieckamp.

7 JUDGE CASEY: Mr. Shilobod.

8 CROSS-EXAMINATION (Resumed)

9 BY MR. SHILOBOD:

10 Q Has Penelec exercised any of its borrowing capacity  
11 under the Revolving Credit Agreement?

12 A So far, no.

13 Q How much is the line of credit available to Penelec  
14 at this time?

15 A I am not sure of the exact portion of the \$293 mil-  
16 lion available that is available to Penelec.

17 Perhaps, Mr. Donofrio can give us this number.

18 Q You're indicating that \$293 million is available to  
19 the combined group of companies covered by the Revolving  
20 Credit Agreement?

21 A There is a total of \$293 million available to the  
22 system; this is the three subsidiaries and GPU.

23 Initially, there were established limits for each  
24 of the subsidiaries. The sum of those limits originally  
25 exceeded the \$293 million.

4  
1 As of today, with the redefined Met-Ed basis, I'm  
2 not quite sure where that addition actually ends up.

3 Now, the amount available to Penelec, again, I will  
4 say, is approximately \$100 million -- unless Allan has a --

5 MR. DONOFRIO: \$120 million.

6 THE WITNESS: \$120 million?

7 MR. DONOFRIO: Yes.

8 BY MR. SHILOBOD:

9 Q \$120 million?

10 A For Penelec.

11 Q And none of that's been utilized; is that correct?

12 A That's correct.

13 Q And nor has Penelec been been required to rely upon  
14 the pledging of its accounts receivables or any additional  
15 credit --

16 A Right.

17 Q -- is that correct?

18 A That is correct.

19 Q I believe I asked you this question before, but I'm  
20 not sure what your answer was.

21 Specifically; how many months or how many years will  
22 it be after the proposed management combination is placed into  
23 effect, will it be until there's a net savings for the system?

24 A I don't know. I don't know that I can be specific.

25 It would be my judgment that in the second year,

1 there will be definite savings.

2 I would have to caution, though, that it would be  
3 difficult to identify those, because of the moving base from  
4 which we will be trying to make that characterization.

5 But as we look at the kinds of opportunities for  
6 operating efficiency, the kinds of opportunities for minimizing  
7 or eliminating duplications of effort, we certainly expect to  
8 see not only net savings, but also cost avoidances.

9 Q Do you have any idea of the range and magnitude of  
10 the savings to be realized in the second year?

11 A No. As I sit here now, I do not have a specific  
12 number.

13 Q When did you first see any -- did you ever see any  
14 specific numbers as to the range of savings?

15 A Well, I have seen -- well, I'm aware of the analysis  
16 that suggests savings potentials of the order of \$18 million,  
17 being a combination of anticipated cost avoidances in the  
18 future and savings with respect to the actual level of opera-  
19 tions that we're running at now, as we go forward.

20 Q When did you first see those figures?

21 A Oh, I can't pinpoint that date too sharply, but my  
22 memory would suggest of the order of six months ago.

23 Q So that would be around the middle of the year?

24 A Yes -- four to six months ago.

25 Q Would that have been about the time that the annual

6  
1 review was presented to the Public Utility Commission?

2 A Well, the annual review, as I recall the last one,  
3 was in September, and I think, in that meeting, we did identify  
4 an \$18 million savings potential.

5 Q There was an annual review publication issued in  
6 late June 1980; is that correct?

7 A Is that when it was, in June?

8 MR. DONOFRIO: June 26th.

9 THE WITNESS: Oh, all right.

10 Excuse me -- yes, that's what I'm referring to.

11 BY MR. SHILOBOD:

12 Q And that would have been approximately the time that  
13 you saw the \$18 million, for the first time?

14 A That falls within my band of four to six months ago,  
15 yes.

16 Q Did you participate in the calculation of the  
17 savings of \$18 million?

18 A No, I did not.

19 Q Did you review the calculation?

20 A Not in detail.

21 Q Whenever you refer to cost avoidances, specifically,  
22 what do you mean?

23 A I mean costs that one would expect to incur if you  
24 had to maintain two separate entities to operate, Met-Ed and  
25 Penelec, but which when you don't have to maintain two separate

1 entities, you do not incur those costs.

2 Q And as I read your direct testimony, I perceive that  
3 when you look at this planning, you look at it on the basis  
4 of the overall system, as a systems savings, rather than on a  
5 company-by-company basis.

6 Is that correct?

7 A No, not -- no, I would not say that, because I think  
8 the savings, as such, do not particularly have significance, in  
9 a composite system sense; they only have significance in rela-  
10 tionship to the cost of service for the individual groups of  
11 customers.

12 So while we may on occasion speak of the composite  
13 number, I think its true significance relates to its impact  
14 on individual sets of customers.

15 Q Now, you indicate that in, maybe, the second, that  
16 there's a net savings.

17 I presume, then, there's a net expense in the first  
18 year.

19 Isn't that correct?

20 A I'm not sure of that. I only say it that way in the  
21 sense of a range of uncertainty in the summation of the costs  
22 and benefits.

23 Q Do you remember whenever I took your deposition,  
24 along with that of Mr. Kuhns --

25 A Yes.

1 Q -- in Parsippany, New Jersey?

2 A Yes, I do.

3 Q Do you recall whenever I asked you about what the  
4 impact would be on Penelec customers of this combined manage-  
5 ment operation, and you stated that there would be no impact  
6 on Penelec customers?

7 A Well, I don't know the exact context of that; if you  
8 could reference me to the transcript, perhaps I would know  
9 better what you're referring to.

10 Q Page 71.

11 A Page 71.

12 MR. SHILOBOD: If the Administrative Law Judge  
13 wishes, I --

14 JUDGE CASEY: I issued an order that that deposition  
15 be incorporated into the present record in these consolidated  
16 cases, and I'm not sure that the Commission's file folders con-  
17 tain this.

18 Is that an extra copy?

19 MR. SHILOBOD: This is an extra copy.

20 JUDGE CASEY: All right.

21 MR. SHILOBOD: If the Administrative Law Judge would  
22 permit me, I'll have a copy of it marked as an exhibit --

23 JUDGE CASEY: If you wish.

24 MR. SHILOBOD: -- and placed into the record.

25 JUDGE CASEY: All right.

1 MR. SHILOBOD: I have here a copy that I'd like to  
2 hand to the Reporter and have it marked as JARI Exhibit Number  
3 1.

4 JUDGE CASEY: Very well.

5 (Whereupon, the document was  
6 marked JARI Exhibit Number 1  
for identification.)

7 MR. MESSER: Excuse me, Judge -- are you missing  
8 Pages 71, 72, 73 and 74, in that copy?

9 JUDGE CASEY: I'll let you know in a moment.

10 MR. SHILOBOD: Mr. Russell, do you want to review  
11 this document before I give it to the Reporter?

12 MR. RUSSELL: No.

13 JUDGE CASEY: I have those pages.

14 MR. MESSER: All right.

15 JUDGE CASEY: That's at the very end.

16 MR. MESSER: Yes.

17 JUDGE CASEY: Thank you.

18 BY MR. SHILOBOD:

19 Q I was referring, specifically, to the discussion on  
20 Page 71.

21 A Yes -- and the question?

22 Q I asked you if you recalled telling me, at that time,  
23 that the management combination would not have any impact at  
24 all upon Peneloc's rate payers?

25 A Well, as I read the reference on Page 71, the line

of questioning related to strengthening and combining efforts  
in the area of rate case management within this combined  
Pennsylvania management.

I think, in the context of that, my answer toward  
the bottom of the page was meant to reinforce the position that  
the combination will not impact, at all, the rate that Penelec  
customers would be paying by virtue of this combined effort on  
rate making.

That does not mean -- I would not interpret that to  
mean that the combination would not result in any benefits to  
the Penelec customers.

As I read this, it is, rather, to reassert that the  
combination, as such, does not, in any way, blend together or  
confuse the rate making for Met-Ed and Penelec.

Q Who will pay the cost of the combination?

A Those who utilize the sources and services available  
from this combined management.

Q Which would be whom?

A The customers of Penelec and the customers of  
Metropolitan Edison.

Q Upon what basis would there be a sharing of these  
costs?

A To a first approximation, or the base situation, all  
costs, whether man-hour labor costs or material costs, will  
be charged directly to each subsidiary, to the extent that

1 those costs are clearly identifiable as being incurred for the  
2 benefit of that subsidiary.

3 To the extent, then, that that leaves over some  
4 costs whose classification is somewhat ambiguous or too minute  
5 a detail to bother with all the accounting, those costs will  
6 be allocated in accordance with the formula set forth in the  
7 affiliate agreement that has been filed and is the subject of  
8 this hearing.

9 Q How is benefits going to be defined, insofar as each  
10 of these participating companies are concerned?

11 A I don't know that we have attempted to concentrate  
12 on benefit in terms of trying to be extremely specific about  
13 the bookkeeping of those benefits.

14 I think we have, rather, said that the benefits will  
15 accrue to the companies as a result of what we see from a  
16 strengthened management group, a more uniform set of policies  
17 across the Pennsylvania companies and customers, a more consist-  
18 tent and uniform set of policies and approaches which will show  
19 up in the rate making area, a more concentrated effort on  
20 standardization and improvement in work practices.

21 A number of areas that we see will just flow from  
22 this approach, which we think will result in benefits to both  
23 groups of customers.

24 Q I'm talking about the assignment of the costs of  
25 combination. Those costs of the combination will be assigned

1 to the various companies, based upon the benefits received?

2 A No -- well, on the basis of work performed.

3 Q How do we decide who receives the benefits, in order  
4 to establish the allocation of expenses?

5 A When Mr. Verrochi is working on a matter that relates  
6 directly to Metropolitan Edison, he will charge the man-hours  
7 associated with that effort to Met-Ed; when he's working on  
8 matters of direct relationship to Penelec, he will charge  
9 directly to Penelec.

10 Now, on those occasions when he's working on some  
11 general overall policy matter that equally applicable to both,  
12 that kind of effort will probably be allocated on the basis of  
13 the formula outlined in the agreement.

14 The same is true, then, for all other offices in  
15 the combined management, or for any other employees who are  
16 working for a company other than the one that they happen to  
17 be on the payroll of.

18 Q We made previous references to the Revolving Credit  
19 Agreement, and you mentioned it in your direct testimony.

20 Do you recall the date on which that agreement was  
21 entered into?

22 A I don't recall exactly, but I think it was probably  
23 around June of 1979.

24 Q And which GPU companies were parties to the agree-  
25 ment?

1 A All three of the subsidiaries and the parent com-  
2 pany.

3 Q Prior to that agreement, isn't it a fact that Penelec  
4 had its own line of credit, separate and apart from that of  
5 GPU and Met-Ed?

6 A Yes, I think that's true.

7 Q Isn't it a fact that after the TMI incident, but  
8 before the Revolving Credit Agreement was entered into, GPU  
9 had some of Penelec's lines of credit extended to it -- that  
10 is GPU?

11 A I'm not sure that I know exactly how to characterize  
12 that.

13 I think that we had general policies where, on  
14 occasion, we would have joint participation in some of the  
15 lines of credit.

16 I think it would be best, if that subject was to be  
17 pursued, that it be pursued, perhaps, with Mr. Graham, who  
18 would be far more knowledgeable of that than I am.

19 Q Those needs for lines of credit --

20 MR. RUSSELL: Could we --

21 MR. SHILOBOD: Excuse me.

22 MR. RUSSELL: Could we go off the record for just a  
23 moment?

24 JUDGE CASEY: Had you completed your question, or  
25 would this --

1 MR. SHILOBOD: I'll let him go off the record.

2 JUDGE CASEY: All right; we'll go off the record.

3 (Discussion off the record.)

4 JUDGE CASEY: On the record.

5 Continue, Mr. Shilobod.

6 BY MR. SHILOBOD:

7 Q Those lines of credit were needed as a result of  
8 the accident at Three Mile Island; isn't that correct?

9 A No. It was a general need across the system for  
10 credit, as they began to incur higher costs for replacement  
11 power.

12 Q I asked you a question a few moments ago, and I'm  
13 not really sure whether your answer was, yes, or, no.

14 I asked you whether or not, after the accident, but  
15 before the Revolving Credit Agreement was entered into, GPU  
16 had Penelec's lines of credit extended to cover it, the parent  
17 company?

18 A My answer is that I am not sufficiently aware of  
19 that detail to testify on it, and would suggest that that be  
20 asked of Mr. Graham, the GPU Treasurer.

21 Q Are you familiar with the negotiations of the  
22 Revolving Credit Agreement?

23 A Only peripherally, not in great detail, because in  
24 that time period, I personally was still very much involved  
25 in the details of responding to the accident.

1 Q Does Mr. Donofrio have the information concerning  
2 the negotiations of the Revolving Credit Agreement?

3 A He may have it.

4 Again, I think we would probably find, however, that  
5 Mr. Graham would be most knowledgeable about the details of  
6 that negotiation.

7 JUDGE CASEY: Was there a single officer of the  
8 company, or one of the companies, placed in charge of that  
9 effort, Mr. Dieckamp, do you know?

10 THE WITNESS: I don't know that we took any steps  
11 to officially appoint someone as a single officer in charge,  
12 but I think it would be fair for me to say that Mr. Graham,  
13 Mr. Condon, Mr. Kuhns and the General Counsel, Mr. Liberman,  
14 were all intimately and very heavily involved in the negotiation  
15 of that Revolving Credit Agreement.

16 JUDGE CASEY: All right.

17 BY MR. SHILOBOD:

18 Q Considering your prepared testimony, on Page 11, you  
19 indicated that Met-Ed wanted to spend more money on nuclear  
20 maintenance and operations before the TMI incident, but was  
21 afraid to do so because of the expected regulatory response.

22 What regulatory bodies were you referring to?

23 A I'm referring to the State Utility Commission.

24 Q The Pennsylvania State Public Utility Commission?

25 A For one.

1 Q Now, as I read your testimony, I gathered that this  
2 fear was based upon the study of comparative operating costs  
3 at other nuclear facilities.

4 Is that correct?

5 A No, I would not quite say that. The study of the  
6 comparison with other facilities was simply to provide for us  
7 an awareness of industry practices and industry experience, and  
8 to give us a sense of where we stood relative to the industry,  
9 in a more general sense.

10 The comment concerning regulatory acceptance of such  
11 expenditures, rather, relates to our own experiences in rate  
12 cases in getting such O&M expenditures recognized fully and on  
13 a current basis.

14 Let me go on to say that I think that comment has  
15 no great significance, other than to indicate that it was a  
16 matter of concern to us that the levels of expenditures and  
17 the acceleration of these levels of expenditures that we were  
18 experiencing might not get covered in rate making.

19 Q How long had Met-Ed been operating nuclear power  
20 plants before this incident occurred?

21 A If we take operation in the strict sense, it would  
22 go back to, I think, the second quarter, or so -- the first  
23 or second quarter of 1974, when TMI-1 was brought to critical;  
24 and if you take operation in a broader sense, it would go back  
25 a few years before that, when Met-Ed personnel were heavily

1 involved in the start-up and testing of the Three Mile Island  
2 Unit 1 Plant.

3 Q In any of that time, did the Public Utility Commis-  
4 sion specifically refuse to allow operating costs or main-  
5 tenance costs of any of the nuclear power plants, in any rate  
6 proceeding?

7 MR. RUSSELL: You're talking about Met-Ed now?

8 MR. SHILOBOD: Yes.

9 MR. RUSSELL: And Pennsylvania?

10 MR. SHILOBOD: Yes.

11 JUDGE CASEY: Met-Ed is the operator of --

12 MR. SHILOBOD: Three Mile Island.

13 JUDGE CASEY: -- Three Mile Island, Unit Number 1,  
14 which first went on line in the second quarter of 1974?

15 THE WITNESS: Yes.

16 JUDGE CASEY: Thank you.

17 THE WITNESS: I would not characterize the matter  
18 directly as your question would indicate, but I would be  
19 willing to say that I think if one looked at any year in that  
20 time period, there was a lag between the amount allowed in  
21 rate making for operation and maintenance expenses, as con-  
22 trasted with that which was actually spent.

23 BY MR. SHILOBOD:

24 Q Are you stating that the non-recovery of expenses  
25 was a result of regulatory lag? Is that what you're talking

1 A I'm sure that's a contributor.

2 Q Were you also saying that there would be specific  
3 disallowance of operating and maintenance expenses of nuclear  
4 power plants?

5 A I can't be specific about it, but I think if one  
6 examines the record, you will find that in the rate cases, in  
7 the totality of recognition of operating and maintenance  
8 expenses, there is record of not having fully accepted our  
9 claims for the operating cost of nuclear plants.

10 Q Was --

11 A Again, I don't plan -- the testimony is not intended  
12 to make a great point about that, only to say that that was a  
13 matter of concern to us.

14 Q You indicate that it was more than a matter of con-  
15 cern.

16 You indicate that you didn't make those expenditures  
17 because --

18 A I don't think -- does the testimony say that?

19 Q That's what I read.

20 Would I be incorrect --

21 A What page is that? I'd be happy to look at that.

22 Q Page 11.

23 A Page 11.

24 Q If I was incorrect in my interpretation, you may so  
25 advise me.

1           A       "...but we were concerned about rate regulatory  
2 response, under those circumstances."

3                   I have a hard time interpreting that to say anything  
4 other than those specific words.

5                   That does not say that we failed to spend the money  
6 necessary; in fact, the record will show that spent in excess  
7 of what was allowed in rate making, and the record will further  
8 show that we spent in excess of industry practices.

9                   MR. SHILOBOD: Mr. Russell, these references to  
10 exhibit numbers, on Pages 17 and 19, I take it, are references  
11 to those exhibits that were passed out this morning; is that  
12 correct?

13                   MR. RUSSELL: Yes.

14                   MR. SHILOBOD: All right. I thought that they were  
15 something from a previous rate case, because I didn't have  
16 those exhibits, and I wasn't sure what they were.

17                   JUDGE CASEY: Those exhibits were marked this morning,  
18 for identification.

19                   MR. RUSSELL: Yes.

20                   MR. SHILOBOD: Yes.

21                   BY MR. SHILOBOD:

22                   Q       Mr. Dieckamp, on Page 19 of your testimony, you  
23 refer to the capitalization of the GPU Nuclear Corporation, d  
24 \$50,000.

25                   A       Yes.

1 Q Who made the decision on the level of capitalization  
2 in that instance?

3 A There is an SEC requirement that there be some  
4 minimum capitalization for a subsidiary of this type.

5 The management of GPU made the decision that we  
6 should not provide more than the minimum required.

7 Q How was the minimum required determined?

8 A I don't know, specifically; again, I think it may  
9 relate to a minimum requirement of the SEC -- and I don't know  
10 whether that's in specific dollars or not.

11 We can elaborate on that for the record, if desired,  
12 but --

13 Q I think that I would forego a substantial amount of  
14 cross-examination right now if we could have some elaboration  
15 on that.

16 A Fine.

17 JUDGE CASEY: How the amount of \$50,000 was --

18 MR. SHILOBOD: Determined as being adequate.

19 JUDGE CASEY: -- determined?

20 MR. SHILOBOD: Yes.

21 JUDGE CASEY: Why didn't you ask what was it supposed  
22 to cover?

23 What cost was it supposed to defray?

24 MR. SHILOBOD: Yes.

25 JUDGE CASEY: Was this a token posting of capital,

1 such as the statute might require for the incorporation of a  
2 new life insurance company, something of that nature?

3 THE WITNESS: Well, I --

4 JUDGE CASEY: Under SEC regulations.

5 THE WITNESS: With the understanding that I do not  
6 pose as an expert in this area, it is my understanding, though,  
7 that it is in response to some minimum requirement for capitali-  
8 zation under SEC rules.

9 If one looked beyond that, then, to see what might it  
10 be used for, it could be used for some minor pieces of equip-  
11 ment or supplies, or something of that sort, but it is not  
12 intended to be a source of funds to cover the operations of  
13 the nuclear plants.

14 BY MR. SHILOEOD:

15 Q Are you familiar with the ramifications of under-  
16 capitalization in a corporation?

17 A I think that depends upon the purpose of that corpor-  
18 ation and its obligations, aspirations and functions.

19 Q And the purpose of GPU Nuclear Corporation is to  
20 operate and maintain nuclear power plants.

21 Is that correct?

22 A The purpose is to provide operating and maintenance  
23 and construction services for the owning utility.

24 Q Who had undivided interest in the plant; is that  
25 not correct?

1 A Right.

2 Q The GPU Nuclear Corporation, is it being created to  
3 provide a corporate shield to operations?

4 A Absolutely not.

5 Q Well, what's the purpose of creating the Corpora-  
6 tion?

7 A It's created for the purpose to establish one organi-  
8 zation with single-minded dedication to the safe and efficient  
9 operation of those nuclear units.

10 It's also provided so as to enhance our ability to  
11 attract and maintain the requisite level of skills, both in  
12 depth and breadth, that nuclear operations require.

13 We feel -- and I think we're supported in this judg-  
14 ment by a number of the investigations after the accident --  
15 that the ability to provide such capabilities is enhanced by  
16 having larger, stronger organizations with single-minded,  
17 single-purpose set of objectives.

18 That was the underlying rationale for the establish-  
19 ment of GPU Nuclear.

20 Q Why do you need a nuclear corporation to achieve  
21 those ends, rather than a division?

22 A I don't think there's anything magic about that at  
23 all.

24 For example, we could have done it as a department of  
25 the GPU Service Corporation. It was our feeling, though, that

1 in the overall picture of things, it would help to provide  
2 this group with a clear identify, a clear separation from  
3 other functions and activities of companies, to be able to  
4 provide this group with a greater stature of being able to  
5 reside within the organization at a -- of an organizational  
6 level similar to the other subsidiaries, and to just have those  
7 things that give an organizational entity a feeling of identi-  
8 fication and purpose.

9 I don't think there's anything beyond that that is  
10 fundamental about this particular structure.

11 Q After the nuclear incident, did Penelec find it  
12 necessary to curtail its own maintenance operations?

13 A I'm uncertain of the specifics of that. I would  
14 have to think, however, that in recognition of the problems  
15 that we anticipated in terms of limited access, if any, to the  
16 capital markets, there was a need for Penelec to operate as  
17 effectively and as efficiently as possible.

18 I would have to believe that that probably have  
19 caused it to constrain some activities, both at the operating  
20 and maintenance and at the construction levels.

21 On the other hand, Penelec, by virtue of their only  
22 25 percent participation in Three Mile Island and, secondly,  
23 by virtue of the fact that they are able to serve a major  
24 fraction of their load with their own coal-fired generating  
25 station and, thus, incurred less expenses for replacement power,

1 with the outage of the two Three Mile Island units, were under  
2 less financial stress than the other two subsidiaries and,  
3 thus, the degree of constraints on expenses in construction  
4 have been not as tight as it has been on the other subsidiar-  
5 ies.

6 Q On Page 31 of your testimony, you emphasize that you  
7 do not plan to have either Met-Ed or Penelec construct facil-  
8 ities for the other.

9 Do you recall that?

10 A Yes, I do.

11 Q Were you present during the oral presentation of  
12 the annual review to the Public Utility Commission, at the end  
13 of June 1980?

14 A Yes, I was.

15 Q Do you recall discussion presented by Mr. Kuhns, I  
16 believe, to the Commission, indicating that as a result of the  
17 probable construction of Sewerage VII, that the need for any  
18 additional construction by Metropolitan Edison could be delayed  
19 for a substantial period of time?

20 A Yes.

21 Q Who is building Sewerage VII?

22 A Perhaps we should back up, though, and elaborate  
23 on what those words mean.

24 Those words are not meant to say, for example, that  
25 Penelec would construct, manage the construction and operate

1 plants which were jointly owned with others.

2 Those words are, rather, meant to say that Penelec  
3 would not be building facilities and owning facilities for the  
4 benefit of Met-Ed and Met-Ed customers.

5 Q So --

6 A Now, in the case of Sewerage VII, our planning there  
7 tends to shift a little bit with time, as we analyze the load  
8 and capacity requirements for the various subsidiaries.

9 I think, as of today, Sewerage VII, which has  
10 recently just been pushed back in schedule by about two years,  
11 would be jointly owned by Penelec and Jersey Central, and there  
12 would be no Met-Ed participation in the Sewerage VII plant,  
13 participation in the sense of ownership.

14 Q The production from the Sewerage VII would be avail-  
15 able for use according to systemwide needs, as I believe is the  
16 present practice; am I correct?

17 A Well, that's a matter of practicality. Once we hook  
18 together the system, whether it be within GPU or within PJM,  
19 there's no way in which we can trace each kilowatt or kilowatt-  
20 hour and show its exact relationship between this plant and  
21 that customer.

22 On the other hand, everything that we do in terms of  
23 construction obligations and investments, have to be shown to  
24 have a direct relationship to the needs of the particular set  
25 of customers that are carrying the cost of that increment of

1 construction.

2           So, again, while Sewerage VII would be justified  
3 completely on the basis of the needs of the Penelec customers,  
4 that doesn't mean that on some occasion there might be a kilo-  
5 watt flow from Sewerage VII to Met-Ed.

6           And let me just go further to say that this situation  
7 is very dramatically shown when today Penelec is able to pro-  
8 vide something like 85 or 95 percent -- 85 or 90 percent of the  
9 energy requirements of its customers from its own coal-fired  
10 stations, while Met-Ed is only able to provide about 50 percent  
11 of the energy to its customers from its own owned stations.

12           So I think, in my mind, there is no question but  
13 what the energy accounting and costing mechanism are such as  
14 to constrain the relationship between owners and the benefi-  
15 ciaries of such ownership

16           Clearly, there is no washing together of them today,  
17 under these emergency conditions.

18           Q     As presently planned, I take it Sewerage VII would  
19 be helped by Penelec and operated by Penelec.

20                     Is that correct?

21           A     Part of the management combination has as one of its  
22 basic objectives the further building of a strong technical  
23 and operating and engineering and maintenance capability in  
24 coal-fired generating stations and, as part of that plan, we  
25 would have Penelec manage the design and construction of the

1 Sewerage VII plant, and then, subsequently, be the operator.

2 I might go ahead to point out, also, then, that that  
3 is a modification from what our practices were prior to the  
4 accident, at which time the service company would have handled  
5 the design and construction phase and the plant would have been  
6 turned over to Penelec for operation when it was ready to  
7 operate.

8 That approach, for example, was used on the Homer  
9 City III Plant.

10 As we now move in this direction of the combined  
11 management in Penelec, and as we move to establish that the  
12 combined organizations would constitute the center of excellence  
13 for coal-fired plants, we feel that it is best to combine the  
14 operating responsibility with the design and construction  
15 responsibility.

16 Q Would it be fair to state that the planned combina-  
17 tion is, in part, the result of input by TB&A?

18 A The way I would say it is that we, of ourselves,  
19 arrived at the rationale and basis for the management combina-  
20 tion.

21 TB&A has worked with us in the process of establishing  
22 or working out the details of the organizational structure; and  
23 I would characterize their principal input as being that of  
24 bringing to our attention some of the experience that they have  
25 observed in other companies, so that a broader range of

1 experience, and approaches could be considered as we tried to  
2 arrive at the proposed structure for the combined Met-Ed and  
3 Penelec organization.

4 Q But they did have input in the development of this  
5 combined management planning; isn't that correct?

6 A They had input in the manner in which the plan was  
7 to be implemented; correct.

8 Q They also had input as to details of the plan; isn't  
9 that correct?

10 A I don't of any restrictions on their ability to make  
11 input.

12 Q And --

13 A I only drew a distinction in terms of the origin of  
14 the plan.

15 Q I'm not sure what you said.

16 The origin, or the idea, came from within GPU and  
17 TB&A assisted in the development of the final plan; is that  
18 not correct?

19 A Right.

20 Q Are you familiar with the "Blue Books?"

21 MR. JOLLES: Maybe you could be more specific?

22 BY MR. SHILOBOD:

23 Q Did you ever hear of the terminology?

24 A I have not heard it in the plural; I've heard  
25 reference to a "Blue Book," which --

1 Q With revisions?

2 A Pardon?

3 Q With revisions?

4 A I guess -- having been one of the early descriptions  
5 of the manner in which the combined management approach could  
6 be implemented.

7 Q Did you review them, the "Blue Book," and its revi-  
8 sions?

9 A I am aware of the original "Blue Book." I think it  
10 would be fair to say that I reviewed it. I'm not sure that I  
11 kept track of each of its iterations, as we worked with TB&A  
12 toward the final definition for the structure.

13 JUDGE CASEY: Mr. Shilobod, would you mind enlighten-  
14 ing the Court and, perhaps, the record as to what the "Blue  
15 Book" is, or what it's supposed to be?

16 MR. SHILOBOD: I can show the Administrative Law  
17 Judge -- well, there's a cover letter -- I just happened to  
18 pull one of them out -- referring to a "Blue Book." It's on  
19 GPU stationery.

20 JUDGE CASEY: All right.

21 MR. SHILOBOD: This matter will come up later in the  
22 hearing.

23 JUDGE CASEY: Is there a treatise of some kind, or  
24 somebody's preliminary work sheets, or what is it?

25 MR. SHILOBOD: It's a GPU document on this plan for

1 a combination of the management of the companies.

2 JUDGE CASEY: All right.

3 THE WITNESS: Yes, Your Honor, if I might --

4 MR. SHILOBOD: Here's a copy of it.

5 (Handing document.)

6 JUDGE CASEY: Thank you.

7 THE WITNESS: -- if I might elaborate on that, one  
8 of the initial actions after the management announcement of  
9 a plan to combine the managements was to attempt to identify  
10 the kind of organizational structure and arrangement that would  
11 fulfill such a set of objectives and to begin to also analyze  
12 the degree to which people transfers would be involved, what  
13 costs might be involved in such people transfers, what oppor-  
14 tunities there might be for savings, and things of that sort.

15 That initial "Blue Book," as it's referred to, was  
16 subsequently criticized by TB&A.

17 In my mind, I think it was critized on the basis  
18 that the "Blue Book" focused more on the mechanics than on the  
19 rationale for the organization.

20 So it was a rather incomplete treatise in terms of  
21 expounding the purpose of the organization and the rationale  
22 behind it and some of the criteria for its functioning.

23 Those things, then, got included into the subsequent  
24 iterations in the workings with TB&A, as this organization was  
25 developed.

1 MR. RUSSELL: And if I might add, to clarify the  
2 matter, there's no secret about this.

3 THE WITNESS: No.

4 MR. RUSSELL: This is one of the many documents that  
5 was made available for inspection and copying in Harrisburg.  
6 It was on the list that we had provided at the prehearing  
7 conference.

8 MR. SHILOBOD: I don't think anyone can reasonably  
9 infer that I indicated that it was secret.

10 MR. RUSSELL: Okay.

11 BY MR. SHILOBOD:

12 Q It was an in-house document, was it not?

13 MR. RUSSELL: It was a document made available for  
14 inspection and copying.

15 BY MR. SHILOBOD:

16 Q But it was a GPU in-house document, was it not, Mr.  
17 Dieckamp?

18 A I would say that all of our documents are in-house  
19 documents.

20 Q Yes.

21 A We don't make a practice of publishing reports or  
22 documents; on the other hand, when they are called for, they  
23 are available.

24 Q Thank you.

25 Now, you indicated that TB&A criticized it because

1 dealt with the mechanics, rather than the rationale.

2 A Yes.

3 Q What you're indicating, if -- do I interpret your  
4 comments correctly that TB&A criticism was a matter of pre-  
5 sentation; too much attention was given to mechanics, rather  
6 than the rationale; is that what you meant?

7 A Well, I think that TB&A would best be able to  
8 testify and characterize their own criticisms of the original  
9 volume of the "Blue Book."

10 I only state my understanding of their criticism,  
11 that it seemed to focus on the mechanics of people moving, and  
12 things of that sort, rather than focus, sufficiently, par-  
13 ticularly for a third-party reader, on the rationale, the pur-  
14 pose, the objectives, and the like.

15 Now, I don't object to --

16 JUDGE CASEY: So that to summarize, apparently, it  
17 outlined what they were going to do, but not why they were  
18 going to do it.

19 THE WITNESS: I think that's a reasonable charac-  
20 terization and one of the major criticisms of the first "Blue  
21 Book."

22 BY MR. SHILOBOD:

23 Q Well, then, TB&H's criticism dealt with concern over  
24 what a third party might interpret by reading this document?

25 Is that a fair assessment of your observation?

1           A     No -- I think I would have said it's what a third  
2 part might not learn by reading the document.

3           Q     When did you first see an actual quantification of  
4 the economic impact of the management combination?

5           A     Again, I have trouble remembering detailed dates.  
6 I would have to say that some of the moving costs, for example,  
7 came to my attention about the time, or as a result of the  
8 initial "Blue Book," if my memory serves me correctly.

9                     Beyond that, I think I testified earlier that, with  
10 respect to the estimated \$18 million of potential savings, that  
11 into my awareness roughly six months ago.

12          Q     On Page 33 of your testimony, you indicate that on  
13 December 17, 1979, Messrs. Kuhns and Condon met separately  
14 with members of the Barry group and members of the Commission's  
15 Audit Staff, relating to the perspective scope of the Barry  
16 audit.

17                     Do you remember who was present from the Barry group  
18 and from the Commission's Audit Staff?

19          A     I don't think I was in that meeting; so I don't  
20 recall, specifically, who was present.

21          Q     Is there a memorandum summarizing the results of  
22 that meeting?

23          A     I do not know.

24          Q     If there is one, will you produce it?

25          A     Yes.

1 Q You indicate that later, in December of 1979, you  
2 advised the GPU Board of Directors of the plan, and it was  
3 one of the subjects discussed at the Board's January 3, 1980,  
4 meeting.

5 You then state that some of the Barry representatives  
6 also met on January 3, 1980, with some of the individuals out-  
7 side GPU directors.

8 Then you disclaim any knowledge as to what was  
9 discussed.

10 Are you inferring that TB&A had discussed this issue  
11 with these outside directors in early January?

12 A I don't know whether they did or not; I think they  
13 would be the best witness on this.

14 Q I don't understand, then, the purpose of your  
15 comments here.

16 I could, just as well, say that someone met with  
17 someone on any particular day -- I'm not sure what the rele-  
18 vance is.

19 A I think it's specifically identifying some inter-  
20 actions between the parties involved in this decision, without  
21 making a judgment as to whether they did or did not function  
22 specifically on the decision that was subsequently announced  
23 in the hearings here on January 17, 1980.

24 Q Are there any records as to who met with whom on  
25 January 3, 1980?

1           A     Again, I think the TB&A people would be the best  
2 witnesses on that.

3           Q     Do you have any records --

4           A     I do not have any records --

5           Q     Does GPU have any records?

6           A     I'm sure we have records of which directors we made  
7 appointments for, but we have no records concerning the con-  
8 versations or the substance of those conversations, at all.

9           Q     Do you have records of with whom it was that the  
10 directors met?

11          A     I think the answer to that would be, no, other than  
12 just someone from TB&A.

13                   Now, we may have know whether it was Perry Wheaton  
14 or someone, but I don't think that was a matter of concern to  
15 us, to identify or constrain the TB&A participants in those  
16 meetings; so it's not my feeling that we would have a record  
17 on it.

18                   Our only role there was to assist TB&A in scheduling  
19 meeting occasions with the directors, or some of the directors.

20          Q     Is it fair to state that there was a company practice  
21 of maintaining interview summary sheets of the meetings with  
22 TB&A representatives?

23          A     Yes, we had a practice of that on matters relative  
24 to the on-going audit, and these kinds of memos or summary  
25 sheets were made by the individual interviewees.

1           That practice, to my knowledge, did not extend to  
2 our Board of Directors, in any way, shape or form, but we did  
3 feel that it was important, in terms of our interactions with  
4 TB&A, to maintain a level of internal communications and aware-  
5 ness of subjects and topics of interest.

6           Q     I'd like to go back to some Met-Ed matters.

7           A     Okay.

8           Q     Whenever Met-Ed put TMI-1 on line, did it retire any  
9 other plants?

10          A     I don't recall whether, specifically, at that time,  
11 but in the reasonable short intervening time period, or ensuing  
12 time period, the Crawford Station was retired.

13          Q     What was the size of the Crawford Station?

14          A     Oh, very small; I think it's, what, 60 megawatts, or  
15 something of that order, 40 megawatts.

16          Q     How many employees worked at that plant; do you  
17 recall?

18          A     I do not know.

19          Q     Do you have a range of approximation?

20          A     No, I do not, but we could provide that for the  
21 record.

22          Q     Were there any other plants retired since the  
23 Crawford Station?

24          A     By Metropolitan Edison?

25          Q     Yes?

1           A     Well, does anybody know -- well, again, we could  
2 provide for the record the date of retirements and the number  
3 of employees in any such retirement.

4           Q     Would you please provide that?

5           A     I would be happy to.

6           Q     All right.

7           A     Perhaps you could tell me what you want to do with  
8 that, so that we can make sure that our information is most  
9 responsive.

10          Q     I would just like to know the plants that were  
11 retired since you put on the nuclear plants, the generating  
12 capacity and how many employees were employed station.

13          A     At the retired station?

14          Q     Yes.

15          A     What about the new station that's brought on?

16          Q     If there were new non-nuclear stations, I would like  
17 to have that information, also.

18          A     All right.

19          Q     And I'm referring, specifically, to all types of  
20 stations other than nuclear?

21          A     For Met-Ed, only?

22          Q     And its subsidiaries.

23          A     York Haven is the only subsidiary.

24          Q     Does York Haven operate as a separate corporate  
25 entity?

1 A It is a subsidiary of Met-Ed which has its own  
2 offices and its own Board of Directors.

3 Q Are they separate from the Met-Ed officers and Board  
4 of Directors?

5 A I think they are largely separate. I'm uncertain as  
6 to whether it may or may not be one overlapping member.

7 Q But as a general rule, they are different board; is  
8 that correct?

9 A York Haven has its own Board of Directors.

10 Q When was York Haven acquired?

11 A I do not know.

12 Q Was it within this time span that GPU began to under-  
13 take nuclear generation --

14 A No.

15 Q -- or was it before that?

16 A Long before that.

17 Q Is there any other subsidiary utility beside York  
18 Haven?

19 A Of Met-Ed?

20 Q Yes?

21 A Not to my knowledge.

22 MR. JOLLES: Can we go off the record for a minute,  
23 please?

24 JUDGE CASEY: Off the record.

25 (Discussion off the record.)

1 JUDGE CASEY: Back on the record.

2 THE WITNESS: I'm informed that we should provide  
3 some official statement relative to the York Haven subsidiary,  
4 as such.

5 BY MR. SHILOBOD:

6 Q I'm only interested in it if it was acquired after  
7 you began --

8 A Well, rather than depend upon my comment just now,  
9 let us supply a specific statement on that, so that we can  
10 clearly differentiate between the time at which York Haven  
11 was acquired versus the time at which it may have been set up  
12 as a subsidiary.

13 MR. SHILOBOD: If the Administrative Law Judge  
14 please, I'd request leave to permit Mr. Messer to address a  
15 few questions to Mr. Dieckamp.

16 I don't know whether I'll have other additional  
17 questions or not after I've had a more thorough review of this  
18 document, along with the documents that are referred in there,  
19 too. At this time, I'm not aware of additional cross-  
20 examination; if I have it, I will present it and I will advise  
21 you.

22 JUDGE CASEY: All right.

23 MR. SHILOBOD: But I would like to request that Mr.  
24 Messer be allowed to cross-examination for the day.

25 JUDGE CASEY: Is this because of your personal

1 situation, as far a travel is concerned?

2 MR. SHILOBOD: No, no.

3 MR. RUSSELL: I have no problem with multiple counsel  
4 questioning the Witness, but from the point of view of perhaps  
5 expediting matters, are you saying you're going to need a  
6 response with respect to York Haven?

7 MR. SHILOBOD: Yes.

8 MR. RUSSELL: Would it be helpful for you to know  
9 that Met-Ed owned the York Haven property for over 50 years  
10 before it --

11 MR. SHILOBOD: Well, I don't care about that.

12 MR. RUSSELL: -- created this subsidiary and  
13 transferred it to --

14 MR. SHILOBOD: That's all right.

15 MR. RUSSELL: So you're not interested; so we can  
16 forget about York Haven?

17 MR. SHILOBOD: Yes.

18 MR. RUSSELL: All right.

19 JUDGE CASEY: All right. I don't mind co-Counsel  
20 sharing cross-examination. I would hope that you would divide  
21 it in a manner where you won't be rehashing many of the things  
22 that have already been gone over, if that's possible.

23 MR. SHILOBOD: I don't believe he would.

24 JUDGE CASEY: Fine.

25 Mr. Messer, you may --

1 MR. MESSER: If at all possible, I will attempt to  
2 avoid that.

3 JUDGE CASEY: Fine.

4 CROSS-EXAMINATION

5 BY MR. MESSER:

6 Q Mr. Dieckamp, would you agree with me that part of  
7 the strength of any corporation is its management team?

8 A Yes, I would.

9 Q Do you consider, as of today, that Pennsylvania  
10 Electric Company is a well-managed, efficiently run operation?

11 A Yes, I would.

12 Q Would you agree that Pennsylvania Electric Company  
13 is of sound fiscal position, as a separate entity outside of  
14 the general GPU system?

15 A I think you would have to be a little more specific  
16 on the definition of "sound."

17 I think Pennsylvania Electric Company has some --  
18 while it is in a better financial position than our other two  
19 subsidiaries, it is not without its share of the problems that  
20 result from its 25 percent ownership of Three Mile Island.

21 And I would go on to say that those problems are made  
22 dramatically clear when we recognize that just within the last  
23 few months, Penelec was unable to issue First Mortgage bonds,  
24 by virtue of its inability to find a buyer.

25 So I think we would have to be very careful in that

1 characterization of "sound."

2 Q So would you agree with my classification that it  
3 would be in a more sound financial situation than Met-Ed?

4 A Yes.

5 Q Now, as I understand it, Met-Ed has two operating  
6 coal-fired stations.

7 Is that correct?

8 A Yes. They have Portland Station and Titus.

9 Q And those are the facilities that you envision will  
10 be helped by the increased availability of technological man-  
11 power and direction, as a result of this merger that you pro-  
12 pose; is that correct?

13 A Those --

14 MR. RUSSELL: This is a misleading question, to the  
15 extent it assumes that a merger is proposed.

16 MR. MESSER: Oh, all right.

17 MR. RUSSELL: There is no such fact on the record  
18 as to a merger.

19 BY MR. MESSER:

20 Q The combination envisioned by the agreement that has  
21 been filed; is that right, Mr. Dieckamp?

22 A Yes, the management combination.

23 Q All right.

24 A Yes, we do believe that it will be in the best  
25 interest of Met-Ed and the best interest of our Pennsylvania

1 companies, and I think, also, not inconsistent with the best  
2 interest of the Penelec customers, to combine all of our  
3 fossil generation operations into one organization.

4 Just as in the nuclear area, this gives us a better  
5 ability to justify and to build and to maintain a staff of  
6 people with the requisite depth and breadth of capabilities  
7 to operate these stations.

8 Now, while the Met-Ed stations seem a small increment  
9 when compared with the total stations that Pennsylvania Electric  
10 now operates, I would have to point out that those two coal-  
11 fired stations provide almost 50 percent of the energy for the  
12 Met-Ed customers.

13 Q The point I'm trying to make -- which I think you  
14 have made very well -- is that while the technological flow of  
15 information and knowledge of Met-Ed is not inconsistent with  
16 the operation of Penelec, it is really of very little benefit  
17 to Penelec.

18 Is that correct?

19 A I don't think I said that. I think anytime you have  
20 the opportunity to have a broader base of activity and ability  
21 to thereby justify a more experienced and more capable staff,  
22 because of the broader range of activities that you're involved  
23 in, I think that, then, works to the benefit of all parties.

24 Q Well, maybe I misunderstood your testimony, Mr.  
25 Dieckamp, but it was my understanding of what you told me, that

1 the fossil fuel experience of Penelec would be a great help  
2 to the more efficient operation of the coal-fired plants of  
3 Metropolitan Edison.

4 Did I understand that part of your testimony correctly  
5 sir?

6 A I stand by that.

7 Q And my assumption, based upon that answer, was that  
8 technological know-how of Penelec would be important to  
9 creating that efficiency in those coal-fired generation plants.

10 Would that also be a proper assumption for me to  
11 make, sir?

12 A That is correct.

13 Q And --

14 A I only went on to say that that does not imply that  
15 there is no net benefits going in the direction of Penelec.

16 Q I see.

17 A Okay.

18 Q I didn't mean to make that extrapolation.

19 A Okay.

20 Q I think, if you pay attention just to my questioning,  
21 my questioning is involved with the technical flow of knowledge  
22 from Penelec and Metropolitan Edison and the increased effi-  
23 ciency that you foresee in the operation of those coal-fired  
24 plants, based upon the experience and technological know-how  
25 of Penelec -- that's the point of my questioning.

1 I'm wondering if you can relate to me that if you  
2 perceive that to be true, how is the reverse true, that Penelec  
3 and the technology and the quality of their coal-fired produc-  
4 tion, will increase because of the participation in the opera-  
5 tion of the Metropolitan Edison plants?

6 A Well, I've already commented on that, when I said  
7 that I think that anytime that we have the opportunity to have  
8 a broader range of operations which permits us to justify a  
9 organization with more breadth and depth, a larger scope of  
10 activity, it not only lets us be cost effective in maintaining  
11 such a scope of capabilities, it also increases the work  
12 interest of the individuals involved and increases our probabili-  
13 ties of maintaining a good, strong, competent staff.

14 And I would go one step further -- that while I have  
15 to agree that when one looks at the size and substance of the  
16 Penelec organization in relationship to the roughly 6,000 mega-  
17 watts of coal-fired capacity that they operate, it's a much  
18 larger operation than that of Met-Ed, but I would not go so  
19 far as to suggest that Met-Ed has no technical or technological  
20 capabilities to bring to that combined party.

21 Q But you're saying that, as I understand it, the  
22 benefits flowing from Penelec's technological know-how to  
23 Met-Ed would outweigh any technological benefit that Penelec  
24 would receive from Met-Ed.

25 Would that be a fair assumption, too?

1           A     I didn't say that, but I'll accept that.

2           Q     All right. Now, in reviewing some of the documenta-  
3 tion that I've seen, I've noticed various figures mentioned  
4 in regard to what I perceive to be cost avoidance and not net  
5 savings, which you discussed previously.

6                     What I haven't seen is a quantification outside of  
7 those figures, or including those figures, on training lag time  
8 for employees who are moved to different positions, executives  
9 moved to different positions, job responsibility shifts, and  
10 the type of problem that is created whenever this type of  
11 combination occurs.

12                    Did you direct, or, to your knowledge, did anyone at  
13 GPU direct any type of time study to determine how soon, if  
14 ever, that particular problem would be solved, and the amount  
15 of money that would be lost in the meantime?

16           A     I think I should suggest that Mr. Verrochi can be  
17 the best witness on those kinds of detailed questions, but I  
18 would go on to say that I think it's important to observe that  
19 we are not combining a fish factory with a brass foundry.

20                    We are putting together two operations which do  
21 exactly the same things and which have people who come to their  
22 jobs already with knowledge from their own position within  
23 their own subsidiary.

24                    So while there always will be some degree of time  
25 associated with a new organization learning how to work

1 together or learning exactly what the people relationships are  
2 policies, or things of that sort, I personally do not see that  
3 as a big hurdle, because of the extreme similarity of the  
4 functions that are brought together and the prior experience of  
5 the people in those functions.

6 Q Well, it just seems to me that if you have an  
7 extremely competent engineer in the maintenance of a coal-fired  
8 generation plant and he is removed from that plant and taken  
9 to a Met-Ed plant for the purpose of training improving the  
10 efficiency of that other plant, that something is going to be  
11 lost in the transfer, either his attention to the coal-fired  
12 generation plant where he has previously worked, or vice versa

13 Now, how is that not an important consideration, cost-  
14 wise or maintenance-wise, in the decision to combine the manage-  
15 ment of these companies?

16 A I'm afraid that I would differ with you very sharply  
17 on that judgment, because I think it can equally be damaging  
18 to a technical person to be clustered in one environment only  
19 and one atmosphere and one situation only.

20 I think any good, competent technical person exposed  
21 to a variety of situations, a variety of environments,  
22 inherently learns something and transfers information back and  
23 forth across those various areas in which he is working; and  
24 we see that as one of the benefits of this organization.

25 Q Acquired knowledge is, no doubt, a benefit, but where

1 does one get the time to apply his knowledge?

2           A     Well, we are not proposing that we use this combina-  
3 tion, let's say, in the fossil area, as a justification for a  
4 net reduction in the total number of people necessary to do the  
5 total work.

6                     We have only said that we see a net reduction in  
7 relationship to the number that would be required to adequately  
8 staff each group individually.

9                     Now, we're not proposing to stretch the same number  
10 of people more thinly; we're simply proposing that we'll be  
11 able to do a better job in covering all fronts and we will not  
12 have to suffer the cost and expense of trying to duplicate a  
13 full range and a full scope of capabilities for each operation  
14 on a stand-alone basis.

15           Q     Well, then, how is it effective -- well, it's my  
16 understanding of your testimony that one of the benefits for  
17 Metropolitan Edison -- and also from reading the other docu-  
18 ments that I have seen -- is the increased technical ability  
19 of the people at Penelec to help manage and make more effi-  
20 cient the coal-fired operations of Metropolitan Edison.

21                     Now, that's an assumption I've made reading your  
22 testimony and reading the literature.

23                     My question, then, becomes, does this type of  
24 technological know-how and the people involved therewith only  
25 expand at the level of the executive? Is that the only place

1 that this transfer is going to accomplish an exchange of info-  
2 mation?

3 A Oh, by no means.

4 Q All right; and if it's not, that means that the  
5 people on the lower levels, the supervisors, the engineers,  
6 and so on, are going to have to cooperate, doesn't it?

7 A Yes, it does.

8 Q And it means that the technological know-how of one  
9 corporation is going to be used to help the other corporation,  
10 under your plan, doesn't it? Is that right?

11 A Yes.

12 Q All right. And that means that there must be time  
13 spent doing that, doesn't it?

14 A Yes.

15 Q It must mean that there be employee time devoted to  
16 that concept.

17 A Yes.

18 Q On all levels, from management down to the day-to-day  
19 work force.

20 A Exactly.

21 Q Is that correct?

22 A Yes.

23 Q Now, how does one allocate, then, the amount of  
24 different employee time that is spent solving efficiency and  
25 productivity problems of Metropolitan Edison in their

1 coal-fired plants, by the employees of Penelec? How does one  
2 do that under your proposed management combination?

3 A Those employees, when working on a Met-Ed problem,  
4 will fill out their time cards to reflect the Met-Ed time  
5 charged.

6 Q And this is the proposal as you understand it, that  
7 any time that an employee from Penelec spends working on a  
8 Met-Ed problem, that employee's time, and so forth, is charged  
9 to Metropolitan Edison?

10 A That's correct.

11 Q Doesn't that seem to you that the amount of book-  
12 keeping and accounting time is proportionally increased over  
13 what those employees are doing today?

14 A They're filling out time cards anyway.

15 Now, the only question is whether they are making  
16 two entries instead of one, whether they are making a Met-Ed  
17 entry and a Penelec entry, or simply a Penelec entry.

18 Now, I would also go on to say that we see only a  
19 fraction of the people who will be dual charging; we don't see  
20 every Tom, Dick and Harry dual charging between Penelec and  
21 Met-Ed.

22 Q Well, it becomes quite a complicated system, does it  
23 not, whenever one determines that if you take an engineer at  
24 a coal-fired production plant of Penelec and have him look at  
25 the coal-fired production plant of Metropolitan Edison, and charge

1 his time proportionately; that's one step in the process,  
2 isn't it?

3 A Well --

4 Q I mean, he makes the allocation, doesn't he?

5 A Yes.

6 Q Under your system?

7 A Yes.

8 Q And then something has to be done with that alloca-  
9 tion, doesn't it?

10 It has to go somewhere, and somebody has to separate  
11 it; somebody has to fill it; somebody has to clock it in; some-  
12 body has to send it to Metropolitan Edison, and an accountant  
13 has to enter it there.

14 All of these functions are created by one person's  
15 time.

16 Isn't that correct, sir?

17 A Yes.

18 Q And those functions today are not being performed,  
19 are they?

20 A That's not correct.

21 Q They are not being performed on that basis?

22 A Penelec, right now, performs exactly those functions  
23 when they charge the time of these people, the kinds of people  
24 that would be involved, to the owners of Keystone, Conoma or  
25 Homer City.

1           So there are already embedded procedures, mechanisms,  
2 systems, accounting, bookkeeping, in order to do exactly that  
3 thing.

4           Now, what we're doing is we're adding one additional  
5 entity; instead of having just Keystone, Conoma, Homer City  
6 and Penelec, we've got Keystone, Conoma, Homer City, Penelec  
7 and Met-Ed.

8           Q     Well, then, excuse me -- you're talking about the  
9 accounting distinction now, for the record, as between the  
10 plants; is that right?

11          A     You raised the question about an individual engineer  
12 charging his time to a Metropolitan Edison Plant.

13          Q     Yes.

14          A     I only said to you that that same individual may just  
15 as well charge his time to Keystone, Conoma or Homer City.

16          Q     At the present time?

17          A     Yes.

18          Q     All right.

19          A     So the mechanism for keeping track of those kinds of  
20 time charges are already in place within the Penelec organiza-  
21 tion.

22          Q     Now --

23          A     Already fully checked out, already established, work-  
24 ing, long-standing.

25          Q     They work well, do they?

1 A I think they work well.

2 Q All right.

3 A We've been operating the Keystone and Conoma plants  
4 since the 1968-69 time period.

5 Q And you don't have any combined management with the  
6 other people who operate that plant, do you?

7 A We have the Penelec management that's operating  
8 plants that Penelec doesn't own.

9 Now, I don't know whether that's combined management  
10 or not.

11 I'm saying if I --

12 Q There's no affiliation with the other corporations  
13 or utilities that operate those plants, or receive electricity  
14 from that plant?

15 A Pardon me -- the question?

16 Q In the Conoma plant, how much of that plant does  
17 Penelec own?

18 A None.

19 Q And you operate it?

20 A Yes.

21 Q And for whom?

22 A For the joint owners of that plant, who are, on the  
23 one hand, Met-Ed and, on the other hand, the other members of  
24 the PJM pool.

25 Q And it doesn't take a management combination agreement

1 to operate that plant, does it?

2 A In a sense, it does; there's an agreement exactly  
3 like this management combination agreement, that defines the  
4 basis for allocation of time and charges to those owners.

5 So in terms of the gut issues in this affiliated  
6 interest agreement --

7 Q Are you indicating to me --

8 MR. JOLLES: Let him answer the question.

9 BY MR. MESSER:

10 Q Are you indicating to me that --

11 MR. JOLLES: Let him answer the question.

12 MR. RUSSELL: Wait a minute -- let him finish his  
13 answer.

14 MR. MESSER: I thought he was finished.

15 JUDGE CASEY: Well, I thought he was, too, but,  
16 Mr. Dieckamp, if you had not completed your answer --

17 THE WITNESS: No -- I'm through.

18 JUDGE CASEY: All right.

19 BY MR. MESSER:

20 Q Mr. Dieckamp, I apologize for interrupting.

21 A That's all right.

22 Q Is it my understanding that the combined management  
23 agreements that you submitted to this Commission are the same  
24 combined management agreements that Penelec is functioning  
25 under to manage the Conoma Valley Power Plant?

1           A     I didn't say they were the same -- or I should not  
2 have said they are the same.

3           Q     I see.

4           A     But there are in existence agreements, contracts with  
5 the owners of those ongoing stations at Conoma, Keystone and  
6 Homer City, that set forth the basis for charging the costs  
7 incurred by Penelec and Penelec people, including Penelec  
8 management, and the manner in which they are charged to those  
9 owners and the principles, in terms of type keeping and over-  
10 head allocation, are not unlike what are described in this  
11 affiliated interest agreement.

12          Q     Okay. Now, my question is what are the distinctions  
13 between that agreement which you're functioning under -- and  
14 when I say "you," I mean referring to Penelec --

15          A     Yes.

16          Q     -- and the ones before the Commission today?

17          A     The only other distinction that I see is that in  
18 this agreement we are specifying, also, that these two GPU  
19 subsidiaries will have a common set of officers and directors,  
20 that is not an element of the agreement for Keystone, Conoma  
21 or Homer City.

22          Q     Would I be correct in assuming, then, that the  
23 technological benefits that are currently available to Metropolitan  
24 Edison, due to the know-how of Penelec, would be  
25 available to them with or without the combined management

1 agreement?

2 A We would have to establish a more formal mechanism  
3 for the manner in which those resources should be applied  
4 to Met-Ed.

5 There could be alternate approaches setting up, for  
6 example, a coal-fired service company, or something of that  
7 sort, but the net result would be the same, that from Ralph  
8 Conrad down through Tom Wolfe, the management efforts of those  
9 people would be divided between supervising the work on the  
10 Penelec Station, Keystone, Conoma, Homer City and Met-Ed  
11 Station.

12 Q Similar to the Conoma agreement?

13 A Yes.

14 Q Okay.

15 A Right now, Ralph Conrad's time is split between those  
16 multiple functions. We're adding one additional to that.

17 Q Yes; I understand.

18 A All right.

19 MR. MESSER: Would it be possible, Mr. Russell, if  
20 you could furnish me with a copy, then, of the Conoma manage-  
21 ment agreement?

22 MR. RUSSELL: Sure. They are also of public record,  
23 filed here with the Commission. We can make copies available  
24 to you.

25 MR. MESSER: Thank you.

1 MR. CHRISTIANSON: If you could, send a copy to  
2 Mr. McClaren, as well, because it might be difficult to  
3 retrieve the agreement from our file.

4 MR. RUSSELL: All we'll do is make them available.  
5 We will not propose to make them as exhibits.

6 MR. CHRISTIANSON: No -- and if they are 100-page  
7 documents, I wouldn't --

8 MR. RUSSELL: We'll make them available to the par-  
9 ties of this proceeding, in general.

10 MR. CHRISTIANSON: Yes. I was just asking that you  
11 realize that we might not --

12 MR. RUSSELL: These fall in the discovery basis,  
13 rather than as exhibits.

14 MR. CHRISTIANSON: Yes. I agree wholeheartedly with  
15 that.

16 MR. RUSSELL: All right.

17 BY MR. MESSER:

18 Q Now, Mr. Dieckamp, if we again assume that the  
19 quality of management is important to the function of any  
20 corporation, part of the quality of the management depends,  
21 I suppose, on the type support staff management has to conduct  
22 their operations --

23 A Yes.

24 Q -- is that correct, sir?

25 A I would agree with that.

1 Q And the type of support staff or the size of support  
2 staff that management would need depends upon the relative  
3 size of the entity that's being supervised; would you agree?

4 A To some degree, yes.

5 Q And would you agree that the larger a corporation,  
6 in terms of employees, the more staff is needed to support or  
7 to oversee just the employee problem area of any particular  
8 corporation?

9 A You mean that element of the staff that relates to  
10 personnel or employee relations?

11 Q Yes, sir.

12 A I think it's fair to say that it's the function of  
13 a number of people.

14 Q And isn't the size of your engineering staff also  
15 a function of the size and number of generating stations that  
16 you have?

17 A To the extent that there's work relating to those,  
18 yes.

19 Now, I think I would have to say, though that that --  
20 yes.

21 Q And isn't it also fair to conclude, Mr. Dieckamp,  
22 that the potential combination of Metropolitan Edison with  
23 Penelec, in terms of the management agreement that is proposed,  
24 would increase the number of employees under the supervision of  
25 management?

1 A Well --

2 Q Is that correct?

3 MR. RUSSELL: Will you identify which management  
4 you're talking about?

5 MR. MESSER: The new combined management.

6 MR. RUSSELL: Thank you.

7 THE WITNESS: The number of employees in the com-  
8 bined organization, clearly, is greater than that of either  
9 Penelec or Met-Ed.

10 I don't know, though, that we are suggesting that  
11 the supervisory ratio is any different than what it is today.

12 BY MR. MESSER:

13 Q But you do --

14 A But I don't know that the ratio in supervision to  
15 employees is changing as a result of the combination.

16 If anything, it would be my guess that the ratio of  
17 supervisor to employee is decreasing by virtue of this combina-  
18 tion, and that's one of the sources of potential cost avoidance  
19 or savings.

20 Q It's potential cost avoidance or savings?

21 A Yes.

22 Q And the function of -- the ability of the corporation  
23 to deal with the unions and employees has a lot to do with that  
24 function, doesn't it?

25 A Certainly.

1 Q Isn't it also true, Mr. Dieckamp, that the amount of  
2 supervisory personnel needed to interact among all of the coal-  
3 fired generation systems of both Met-Ed and Penelec, and the  
4 supporting staff that's necessary to maintain those systems, is  
5 going to increase, under your proposed management combination  
6 agreement?

7 A I don't know, again, that the total supervision  
8 between Met-Ed and Penelec, in generation stations, will  
9 particularly increase.

10 You see, that's one of the things that troubles me  
11 about your line of questioning. It would suggest -- it implies  
12 that Penelec would be better off if they were not operating  
13 Keystone, Conoma and Homer City and were only operating their  
14 own thousand megawatt generation -- and I would assert to  
15 you that that would be absolutely wrong, because they would not  
16 then be able to enjoy the full depth and breadth of engineering  
17 capability and expertise and experience base that is valuable  
18 to the effective operation of those plants.

19 Now, again, when we look at generation, what are we  
20 doing?

21 We are adding about 600 megawatts of Met-Ed genera-  
22 tion to about 6,000 megawatts that Penelec is already oper-  
23 ating.

24 JUDGE CASEY: Mr. Dieckamp, I think, maybe your  
25 interpretation of the thrust behind Mr. Messers question was

1 a little bit too refined.

2           What I gather is that he thinks that Penelec would  
3 be better off, period, if it never merged with Metropolitan  
4 Edison --

5           Is that it?

6           MR. MESSER: Yes, sir.

7           JUDGE CASEY: Not "merged," but combined management.

8           THE WITNESS: Your Honor, I'm only --

9           JUDGE CASEY: Not confining it to just the operation  
10 of two coal-fired generating stations.

11           THE WITNESS: Well, I go to that one because that  
12 happens to be one of the most efficient examples that avail-  
13 able from which to discuss whether size is a detriment.

14           BY MR. MESSER:

15           Q    Well, I think --

16           A    Which you seem to be forgetting.

17           Q    Well, we don't have to get into --

18           JUDGE CASEY: While we are on the subject, let me  
19 interject for a moment.

20           MR. MESSER: Yes, sir.

21           JUDGE CASEY: I think Mr. Messer said that the  
22 support staff would probably increase, even though the number  
23 of directors and officers might be curtailed by the combined  
24 management.

25                   Now, I don't know whether that's a valid assumption

1 or not, but I have a concern which is borne out of that.

2 A former well-known merger in the United States --  
3 and that is the New York Central Railroad and the Pennsylvania  
4 Railroad -- where the management groups from the New York  
5 Central and Pennsylvania Railroad management group did not  
6 get along.

7 I think the news media characterized New York Central  
8 as the "Green Team," that stayed in New York and the "Red Team,"  
9 stayed in Philadelphia, and never between did meet.

10 Is there any possibility that this would be a repeat  
11 of that situation, with your combined management agreement,  
12 where you have prominent corporate executives from two separate  
13 companies being blended into a single team, so to speak?

14 THE WITNESS: Well, I think there's no question but  
15 what one has to be sensitive to those kinds of human relations  
16 factors.

17 I would want to point out several things, however.

18 Now, there will be major operations which do not, in  
19 any way, involve combinations, except at the very top.

20 For example, the Division Manager in Erie will still  
21 be doing the same job and still have the same people reporting  
22 to him, and he won't in any way be impacted by the fact that  
23 the combined organization also has a division manager in  
24 Eastern, and who has the same people reporting to him.

25 Secondly, the people that we are talking about at

1 the first few levels of management, that I think can set the  
2 tone for that kind of a problem, are people that, to a degree,  
3 have already had a working relationship simply by virtue of  
4 the manner in which we have tried to operate and coordinate the  
5 GPU system over the past.

6 We bring these people together routinely for manage-  
7 ment meetings; they know each other on a first-name basis; they  
8 function together on cross-company committees that try to  
9 resolve operating problems and equipment standardization prob-  
10 lems, or things of that sort.

11 So it's not as though we are mixing together people  
12 who somehow have an ingrained basis to be antagonistic and  
13 who have no prior experience of working together.

14 But, again, I would not want to deny that there can  
15 always be some residual pride of organization kind of aspect  
16 that can be present, but we do not sense, among the people  
17 that are concerned, that that's going to be a significant fac-  
18 tor.

19 I guess that's, you know, about the best I can say  
20 about that. We have no evidence that that's going to be a  
21 major factor.

22 JUDGE CASEY: All right.

23 THE WITNESS: Let me just -- you mentioned something  
24 too, about the support staff; let me just give you some non-  
25 generation examples.

1           For example, on the accounting side, by virtue of  
2 the need to maintain separate property records, separate  
3 income statements, separate accounting of customer receipts,  
4 and the like, for Penelec and Met-Ed, we will, in effect, have  
5 two separate accounting departments, but you'll end up with  
6 one accounting department on policies and procedures, rather  
7 than having to have two, one for Met-Ed and one for Penelec.

8           I think, in reality, you'll find in an example like  
9 that, the number of supporting staff personnel will actually  
10 be less for the combination than what it would be for the two  
11 organizations, on a total, self-sufficient, stand-alone basis.

12           And I think there are many other examples of the same  
13 kind of thing, where we try to take advantage of the best from  
14 both organizations, to put together a common corporate staff  
15 level of capability in this area of policies and procedures  
16 and overviews, improvements of work practices, techniques.

17           Budgeting is another example. We will have a common  
18 group of people who are able to apply a uniform system of  
19 budgeting approaches to both operations, and there will be,  
20 inherently -- I don't see any problems in that.

21           I think there will also be some net improvements in  
22 the ability to develop budgeting techniques and provide manage-  
23 ment visibility, by virtue of that common group.

24           JUDGE CASEY: I'd like to ask three quick questions --  
25 and maybe I'm anticipating everybody's cross examination, but

1 part of your objective here to attempt to submerge the identity  
2 of the Metropolitan Edison Company, is it because of the adverse  
3 national and worldwide publicity connecting Met-Ed with the  
4 Three Mile Island accident?

5 THE WITNESS: Well, I think it's true that part of  
6 the plan to weld these companies together -- we propose to  
7 change the name, so that they both carry the name Pennsylvania  
8 Electric Company, with a designation of East and West -- how-  
9 ever, it would seem to me that with the degree to which the  
10 name Met-Ed has been indelibly etched on the world's mind, as  
11 well as our own foreheads and other parts of the anatomy, that  
12 any illusions that we could somehow erase that piece of history,  
13 I think, would be a little bit reaching.

14 I certainly don't think we're going to have great  
15 bounties of benefits from anything of that sort, and I think  
16 that, clearly, cannot be enough of a motivation to justify  
17 this.

18 I think our feeling is, rather, one that "Why should  
19 we, after this trauma?"

20 This is the opportunity to correct something which  
21 really is nothing more than a preservation of the history of  
22 the manner in which these two companies were borne out of  
23 reorganization.

24 Why does it make sense for two companies with about  
25 the same number of customers as Pennsylvania Power and Light

1 to operate as two separate entities instead of one entity?

2           So we just think that we would have better ability  
3 to serve the customers, better ability to identify with  
4 Pennsylvania, better ability to receive from the economy; and  
5 with past trauma, if there was ever a time to make the change,  
6 this is it.

7           JUDGE CASEY: By these two moves, do you think you  
8 would also win the confidence of investors and also the finan-  
9 cial community in New York? Is that a possible objective, by  
10 putting up a united front?

11           THE WITNESS: I'm -- well, two things:

12           I think the establishment of the GPU Nuclear Corpora-  
13 tion is a more pioneering kind of an effort, which I think will  
14 perhaps attract more attention in terms of a response that the  
15 Nuclear Regulatory Commission, and perhaps the investment  
16 community of value there, will recognize that the company has  
17 responded in a way which tries to assure the broadest possible  
18 range of capabilities to support the safe operation of a  
19 nuclear plant.

20           On the side of the electric system, I think the  
21 benefits are going to be more nearly felt right here at home,  
22 and I don't see them perculating out to the same extent.

23           I think we need to recognize, for example, that  
24 there will still be Metropolitan Edison preferred stock and  
25 will still be Metropolitan bonds.

1           We will not change the names of those securities  
2 or re-register them, in any way of the sort.

3           So I think the external image will perhaps be less  
4 impacted than what we would expect to see right here within  
5 Pennsylvania and in this regulatory environment.

6           JUDGE CASEY: One more question -- and that deals  
7 with the nuclear corporation.

8           THE WITNESS: Yes.

9           JUDGE CASEY: Is this, by any chance, being done in  
10 response to pressure from the NRC or the President's Kemeny  
11 Commission, or Congressman Ertel's Special Committee, pressure  
12 to bring more expertise into the nuclear generation field?

13           THE WITNESS: I would not say that we're doing it  
14 in response to pressure.

15           Now, it is true that the Kemeny Commission, the  
16 Rogovin Commission, the NRC, sense a need for stronger in-  
17 house technical capabilities in support of nuclear operations,  
18 but I would testify very strongly that this view is one that  
19 we had before the accident; it is a plan that we had con-  
20 sidered before the accident.

21           We hadn't quite gotten to the point of biting the  
22 bullet to take the step to do it. We had made decisions to  
23 expand the scope and capabilities of the service companies,  
24 but we had not yet gotten to the point of deciding to form a  
25 separate corporation.

1 JUDGE CASEY: Well, your Exhibit Number 5, which  
2 lists the proposed Board of Directors and the corporate  
3 officers of the GPU Nuclear Corporation, all of these people  
4 are already officers in one or more of the three companies in  
5 the GPU system; isn't that correct?

6 THE WITNESS: That is correct.

7 JUDGE CASEY: And how would you go about convincing  
8 people that the new corporation brings more expertise in the  
9 field, if these people were all part of the organization prior  
10 to the nuclear accident?

11 Suppose somebody says, "Is this anything more than  
12 a cosmetic change in your internal management structure?"

13 THE WITNESS: Well, I would say several things.

14 First of all, Mr. Arnold, at the time of the acci-  
15 dent, was responsible for design and construction of new  
16 facilities and providing some degree of engineering support  
17 to operating plants when called upon. He was not in the  
18 direct chain of responsibility for either TMI-1 or TMI-2, or  
19 Oyster Creek; so I would characterize him as being a new element  
20 in the operational chain of responsibilities.

21 Mr. Clarke is a new employee, since the time of the  
22 accident. He joined us after 25 years of experience on  
23 Admiral Rickover's staff in the Naval Nuclear Program. He  
24 will be Mr. Arnold's deputy, and the two will occupy what we  
25 will term the Office of the President of GPU Nuclear.

1           The theory of the Board is to provide a mechanism  
2 whereby the owning company of the plant have a mechanism for  
3 oversight on the operations of GPU Nuclear.

4           Dr. Bartnoff represents the owner for Oyster Creek.

5           MR. Verrochi, after the management combination, will  
6 represent the Pennsylvania owners for Three Mile Island.

7           Mr. Cherry, while he is not new, was not in the  
8 direct chain of nuclear operations before the accident.

9           He is an employee who, from the start of his profes-  
10 sional life, has been involved in nuclear affairs.

11           He was, at the time of the accident, in charge of  
12 planning for the system, but his background is very much in  
13 nuclear fuels and uranium resources, and things of that sort.

14           I guess I would say that while we cannot describe  
15 this slate as being a complete new group, with the exception  
16 of Mr. Clarke and, to some extent, Mr. Arnold.

17           I would go on to say, though, that if I looked at  
18 the years of direct nuclear background and experience in that  
19 group, you would find that I, for one, have roughly 30 years  
20 of background in nuclear technology; Mr. Cherry, I would  
21 suspect, is of the order of 15; Dr. Bartnoff is probably of  
22 the order of 35 years; Mr. Arnold is probably 20 to 25, and  
23 Mr. Clarke about 25 years.

24           So there's a tremendous experience base of nuclear  
25 awareness in that group.

1           Again, the purpose of the Board is to provide over-  
2 sight to the GPU Nuclear Corporation, so that the operating  
3 company can have, with validity, delegated operating respon-  
4 sibility to GPU Nuclear Corp.

5           JUDGE CASEY: By the way, did Mr. Walter Creitz have  
6 any specific background in nuclear engineering, or physics,  
7 or any --

8           THE WITNESS: Only that which he acquired during the  
9 period when Three Mile Island was having problems.

10          JUDGE CASEY: Was Mr. Jack Herbien the Chief  
11 Operations Officer, so to speak, over those two plants prior  
12 to the accident?

13          THE WITNESS: Mr. Herbien had a very extensive  
14 nuclear background, again, coming out of the Nuclear Navy,  
15 through the early pilot plants that Penelec owned, called  
16 Saxton Nuclear Station, and then on to Three Mile Island.

17          JUDGE CASEY: But there has been a shift in his  
18 responsibility, and, as I understand it, Mr. Creitz resigned;  
19 is that correct --

20          THE WITNESS: Yes.

21          JUDGE CASEY: -- as President of Metropolitan  
22 Edison Company?

23          THE WITNESS: He resigned as President of Metropoli-  
24 tan Edison, that's correct, and he is nowhere in the manage-  
25 ment chain.

1 JUDGE CASEY: But you say he's still an employee of  
2 the company?

3 THE WITNESS: Yes, he is, because, even though he  
4 resigned as President of Met-Ed, we felt that since Mr. Creitz  
5 was a very loyal employee for something over 30 years with  
6 Metropolitan, and that he was only about two years away from  
7 the age where he would qualify for early retirement, that it  
8 would be only fair for us to provide him the opportunity to  
9 remain an employee until such time as he is eligible for retire-  
10 ment.

11 JUDGE CASEY: Was Mr. Creitz asked to step down as  
12 President, by the GPU management? Was he asked to resign --

13 THE WITNESS: I think --

14 JUDGE CASEY: -- his capacity as President?

15 THE WITNESS: I think that I would characterize it  
16 as saying that in discussions between GPU management and Mr.  
17 Creitz, it was mutually agreed that the kinds of challenges  
18 that Met-Ed faced were not the kind of things that he was  
19 particularly qualified for, by virtue of his background and  
20 experience, and that there was an agreement that it would be  
21 best if he were to resign.

22 I've sort of stirred around whether he was specif-  
23 ically directed to resign, but I think it is fair to say that  
24 in the course of that evaluation of where we were and where we  
25 had to go, there was a mutual agreement that the best interest

1 of all parties was served by his resignation.

2 JUDGE CASEY: All right. I'm not going to pursue  
3 the questioning any further at this point.

4 I think I interrupted Mr. Messer before he had com-  
5 pleted his cross -- is that true? You had additional ques-  
6 tions?

7 MR. MESSER: I have a few more questions.

8 JUDGE CASEY: I think we could go until approximately  
9 4:15 this afternoon; is that too early or too late for the  
10 participants?

11 MR. MESSER: I think I may be done before that,  
12 Your Honor.

13 JUDGE CASEY: All right. If you are, Mr. Christianson  
14 and Mr. Packard, would you like to begin your cross-  
15 examination, or will you have any --

16 MR. CHRISTIANSON: We do have some cross; conceivably,  
17 we could complete it in that time, depending on how things go,  
18 Your Honor.

19 JUDGE CASEY: All right.

20 MR. SHILOBOD: If Your Honor please, I have about  
21 four additional questions I'd like to pose to the Witness;  
22 I regret having to do that, however, I got the testimony less  
23 than 13 hours ago.

24 JUDGE CASEY: I want it understood, when all the  
25 active participants complete their cross-examination, including

1 any questions I might have to clarify the record, we will then  
2 have to excuse Mr. Dieckamp.

3 I suppose you were hoping that that would occur  
4 today -- is that right -- or we can have Mr. Dieckamp available  
5 this coming Monday.

6 MR. RUSSELL: I'd say, to the extent Mr. Dieckamp  
7 could be closed today, I'm sure he would be delighted; if it  
8 is not possible -- I haven't checked with him about what any  
9 other availability would be.

10 MR. SHILOBOD: If Your Honor please, we request that  
11 he not be released as a witness, particularly in the light of  
12 the short time period that we've had.

13 That doesn't mean that we're going to ask for him  
14 back, but just that if it should appear to be important, we  
15 would like to have access to him.

16 MR. RUSSELL: May we go off the record just for a  
17 second?

18 JUDGE CASEY: Off the record.

19 (Recess.)

20 JUDGE CASEY: On the record.

21 Mr. Messer?

22 BY MR. MESSER:

23 Q Mr. Dieckamp, would you agree that the primary  
24 responsibility of management in a public utility, at least in  
25 the State of Pennsylvania, presumably nationwide, is to provide

1 24-hour service in supply of energy for its customers, to  
2 ensure that that be done and, also, to generate a fair and  
3 reasonable rate of return on the investment of the utility?

4 A Yes.

5 Q And as a function of trying to accomplish that goal,  
6 is it not necessary that management devote its expertise and  
7 time and efforts to operating the utility in the best manner  
8 practicable under the circumstances?

9 A Certainly.

10 Q And within that context, isn't it also true that an  
11 executive management of any corporation involved in the furnish-  
12 ing of energy, utilities in Pennsylvania, must devote con-  
13 siderable time and attention to ensure the adequate delivery  
14 of service to its customers?

15 A Yes.

16 Q Would you consider that a fragmentation of an  
17 executive's time and duties would be adversely affected by  
18 additional responsibility by the management of two companies,  
19 or the devotion of his management abilities to one company?

20 A I have trouble with the manner in which you have now  
21 phrased that question.

22 I think one needs to look at what the management of  
23 the combined company would be doing.

24 The President, for example, would have reporting to  
25 him a Generation Department, which would be not unlike the

1 Generation Department of any other company of similar size  
2 to the combined group.

3 It would have reporting to it a Customer Operations  
4 Department, not unlike the size of PP&L or Philadelphia  
5 Electric.

6 So I don't quite accept the concept of fragmentation.

7 The management is managing functions. It just so  
8 happens that the functions now happen to cover property and  
9 customers who previously were identified in two separate  
10 groups.

11 Q Well, let --

12 A But the functions are the same, and not different,  
13 certainly.

14 Q Well, the amount of time that any one person has to  
15 devote to the management of a corporation is finite, is it not?

16 A Certainly.

17 Q And if we would increase the responsibility of any  
18 one executive, we are fragmenting that finite period of time,  
19 are we not?

20 A Yes, but are we also saying that we're making a  
21 judgment is capable of managing an organization the size of  
22 Penelec and has no capacity to grow, and manage an organization  
23 that's one and a half times that size? Is that the judgment  
24 that we're making?

25 Q That's not the judgment I'm making.

1           A     Oh -- but it seems to me when you say, "fragment,"  
2 that's what you're implying, that you now have imposed upon  
3 him responsibilities beyond his capacity or capabilities.

4           Q     If we assumed, Mr. Dieckamp, that an executive could  
5 manage both Penelec and Metropolitan Edison, with the same  
6 type of system that is currently in use at, let's say, Penelec,  
7 we could agree, could we not, that the size of the operation  
8 would make very little fundamental difference? Would you  
9 agree with that?

10          A     Well, I'm not sure exactly what your qualifier in  
11 there was meant to say.

12          Q     Well, my qualifier is meant to say that whether  
13 Penelec increases its size by 25 percent, as long as the other  
14 management systems remain the same and the input of that  
15 particular executive remained the same, he's capable of  
16 managing the extra 25 percent, under your theory and under  
17 mine; wouldn't that be right?

18          A     I guess.

19          Q     Now --

20          A     You know, I think we have to remember now, though,  
21 when we look at these two, by the formation of GPU Nuclear,  
22 we're off-loading out of what we previously thought of at Met-  
23 Ed as a major segment of direct management responsibility.

24                     I think the other thing we have to remember is that  
25 despite the fact that Met-Ed has many problems that you may

1 describe as being somewhat more intense than those that Penelec  
2 has, we also have the benefit of a considerable amount of  
3 assistance in compensation on those problems, by people outside  
4 of what we identify as the Met-Ed and Penelec organization.

5 I speak, specifically, then, as a financial function  
6 within GPU.

7 Q Well, it's my understanding that GPU Nuclear is  
8 going to be the operating arm of TMI, in terms of making sure  
9 it operates properly, but it's not going to function in the  
10 financial end or the coal end of Met-Ed.

11 Is that correct?

12 A That's correct.

13 Q But the Chief Executive Officer -- excuse me -- the  
14 Chief Operating Officer of Metropolitan Edison Company, whoever  
15 it happens to be, still has the responsibility of customer  
16 service, customer control, rate service, energy, production,  
17 and so on; isn't that correct?

18 A Yes.

19 Q And the overlay is that in addition to all of those  
20 functions which Mr. Verrochi, for example, has with Penelec,  
21 he would have to fulfill those also for Metropolitan Edison.

22 Isn't that correct?

23 A Yes.

24 Q Plus, in addition to that, even though you are off-  
25 loading the operating responsibilities for Metropolitan

1 Edison, you are now bringing him into the vortex of the situa-  
2 tion of dealing with the additional financial problems which  
3 Metropolitan Edison now finds itself.

4           Isn't that also true?

5           A     Dealing with it in the sense of budgetary planning,  
6 control of expenditures, things of that sort.

7           He, for example, would not be brought into the eye  
8 of the storm on funding the cleanup, or things of that nature,  
9 in terms of his direct day-to-day responsibilities.

10          Q     But wouldn't you agree that these additional respon-  
11 sibilities that he is assuming are different from the ones  
12 that he now has?

13          A     Well, I think they are different only in the degree  
14 of intensity, let's say, of the requirement for tight budgetary  
15 planning and control.

16          Q     And that intensity, by the way, for tight budgetary  
17 control, is more intense as far as Metropolitan Edison is  
18 concerned than Penelec is concerned.

19                 Is that right?

20          A     As of today, that's right.

21          Q     So one of the additional details, or one of the  
22 additional issues that Mr. Verrochi, as the Operating Officer,  
23 must accept is the responsibility to deal with that intensity.

24                 Is that right?

25          A     Certainly.

1 Q Now, the Booz-Allen report which was referred to,  
2 I believe, in various documents -- I think you spoke a little  
3 bit about it this morning -- of which we have also requested  
4 a copy --

5 A Yes.

6 Q -- never recommended a merger of Penelec and  
7 Metropolitan Edison, did it?

8 A I'm not aware that it did.

9 Q It never recommended a management combination between  
10 Metropolitan Edison and Penelec, either, did it?

11 A I don't think so.

12 Q In fact, the only reason for the combination that  
13 you propose -- by "you," I do not mean you personally --

14 A I understand.

15 Q -- GPU --

16 A Yes.

17 Q -- is the fact that Three Mile Island happened.  
18 Isn't that right?

19 A I wouldn't say that was the only reason.

20 Q Would you call it a precipitating reason?

21 A I think that's a better characterization.

22 Q In fact, if Three Mile Island hadn't occurred --  
23 and believe me, everybody wishes it didn't --

24 A I'd sign up for that, too.

25 Q -- we wouldn't be here, would we?

1           A     That's right -- well, that's not clear; I won't  
2 quite go that far.

3                     It isn't as though this issue had not been on our  
4 minds.

5                     For example, when we combined our two subsidiaries  
6 in New Jersey, we didn't do it because of a Three Mile Island;  
7 we did it because we saw an unnecessary duplication of efforts  
8 and complications in trying to run two subsidiaries in the same  
9 environment, both of them being of limited size, and we just  
10 felt it made sense to combine them.

11                    Now, we were able to combine them there in a full  
12 financial merger sense, which does not seem practical here,  
13 but in terms of the management and the utilization of the  
14 people and the people resources, we can accomplish all of those  
15 things without having to change the financial structure.

16           Q     Well, I believe we can agree, can we not, that until  
17 Three Mile Island happened -- from the documentation we've been  
18 furnished at least -- we did not understand that there would  
19 be an acceptable idea that there should be a merger between  
20 the management of Metropolitan Edison and Penelec.

21                    Now, is that correct or incorrect?

22                    MR. RUSSELL: Again, I would object to the use of  
23 the term "merger," because --

24                    MR. MESSER: Strike the word "merger."

25                    BY MR. MESSER:

1 Q Combination of management between the two.

2 A Perhaps the record doesn't reveal it, but I think  
3 we probably did have conceptual ideals. I would have to agree  
4 with you, though, that it was far down on our agenda of the  
5 things that we were working on or worrying about prior to the  
6 accident.

7 Q And would I be correct in assuming that the reason  
8 that it was far down on the agenda was that, specifically,  
9 Pennsylvania Electric Company was a well-managed, well-  
10 functioning, efficient, productive, money-making corporation  
11 withing the GPU system?

12 A No.

13 Q It was those things, though, wasn't it?

14 A But it was not the reason that this other issue was  
15 down on the list.

16 You must remember what the total question was.

17 I think I answered the totality of the question.

18 Q I am having some trouble in my own mind, then, Mr.  
19 Dieckamp, trying to understand how, with all of the combined  
20 Boards of Directors among all of the GPU functioning entitles,  
21 that you have failed to create, or the Board of Directors has  
22 failed to enforce a standardization procedure among the util-  
23 ities; and you've indicated that the possible benefits is a  
24 combination of the standardization procedure.

25 It just occurs to me that with all the common Boards

1 of Directors and officers, that you already have a standardiza-  
2 tion procedure -- or is that a misleading assumption on my  
3 part?

4 A No. I think we say that we have tried, for a number  
5 of years, to achieve standardization in areas that we felt  
6 made sense, to be shown to be cost-effective, and the like.

7 It's very difficult to ensure or convince people  
8 that you're not interested in standardization just for its own  
9 sake.

10 On the other hand, achieving full standardization  
11 of important areas and full acceptance of the standardized  
12 approaches takes a lot more than just the Board of Directors.

13 You've got to permeate down through the ranks of the  
14 organization and the supervisory structure in order to achieve  
15 those things.

16 I just think that, as I suggest in the testimony,  
17 that to the extent that major operations come together under  
18 a common leadership, standardization and the benefits thereof  
19 can be more readily achieved and more effectively achieved  
20 than they can ever be achieved by a committee approach, trying  
21 to convince people of the values of such standardization.

22 I think you also have to deal with the issue of  
23 management style.

24 I don't think that one can manage by having the  
25 President or the Board of Directors issue edicts on every

1 little issue.

2 I think there's a need to make sure that people work  
3 together, come together in a judgment, and then truly enlist  
4 their support to an approach or a plan.

5 Now, again, I think that's better accomplished if  
6 there's a greater depth in management committed to that than  
7 if it's just a few people at the top.

8 Q Well, see, that's what troubles me, Mr. Dieckamp.

9 A Okay.

10 Q What troubles me is that I agree with that philosophy,  
11 and yet what I see you doing is doing exactly what you said  
12 you didn't want to do by committee; and that is, you're talki  
13 about the central management of Penelec and combining it,  
14 making it manage two companies that never functioned very well  
15 as one.

16 You're taking out and forming another committee,  
17 essentially, a new corporation, in GPU Nuclear, to manage  
18 another facet of the operation.

19 It seems to me that what you're doing now is precisely  
20 what you don't want to do.

21 I am just wondering, now, even considering that the  
22 executive management or the Chief Executive or Operating  
23 Officer of Penelec is going to be on the GPU Nuclear Board o  
24 Directors, whether or not he is going to have the ability to  
25 give us the in-depth management which he has given the Penelec

1 service area customers and rate payers.

2 MR. RUSSELL: If Your Honor please, I have no objec-  
3 tion to questions being put to the Witness, but I think I must  
4 object to what has been a fairly long statement of statements  
5 of fact by Counsel, as preliminary to the question.

6 MR. MESSER: I agree with that.

7 MR. RUSSELL: So I would ask the matter be placed  
8 in question form only.

9 JUDGE CASEY: It sounds a little bit as though he  
10 was testifying, I'll admit, but I could follow his line of  
11 thinking; and I think, even though it is a broad unwieldy  
12 question, that Mr. Dieckamp could respond if he agrees, in  
13 general, with that observation, or disagrees, for specific  
14 reasons that may be covered in his own testimony.

15 THE WITNESS: I would like very much to respond to  
16 that question, because, Mr. Messer, I think you characterized  
17 the combination of, somehow, more than doubling the respon-  
18 sibilities of Mr. Verrochi, and, somehow, therefore, having  
19 the amount of effort available for the management of what you  
20 relate to as Penelec.

21 I think that if you take that apart, you don't find  
22 that to be quite the case.

23 One of Mr. Verrochi's major areas of responsibility  
24 now is generation, and in that area we are moving some 6,000  
25 to 6,600 megawatts -- hardly a factor of two.

1 Another major area of Mr. Verrochi's responsibility  
2 with Penelec are division operations, customer operations, the  
3 division offices which contain the customer contact, customer  
4 service and the line operations for maintaining the lines and  
5 making line expenses in construction.

6 Penelec has slightly over 500,000 customers.

7 Met-Ed will add about 350,000 customers to that --  
8 again, not a doubling, but, again, simply, putting under that  
9 part of the organization a group of absolutely similar opera-  
10 tions, each one geographically located.

11 There's no clear, hard distinction between the roles  
12 or responsibilities of the man here versus the man in Easton.

13 Again, I don't see a big change in the management  
14 load that's involved there.

15 Again, now, when we go to G&A, the General Adminis-  
16 trative or the Accounting and Financial sides, yes, we do have  
17 this requirement to maintain two sets of books; on the other  
18 hand, we do have the ability to more efficiently effect common  
19 policies and common procedures, and economies of scale, and  
20 things of that sort.

21 So I think it depends very much on the manner in  
22 which you characterize this combination and its impact on  
23 Penelec or Met-Ed.

24 BY MR. MESSER:

25 Q Well, it will have an impact; will you agree?

1 A Yes.

2 Q By some factor?

3 A Yes.

4 Q And if there is an impact by some factor, that will  
5 eliminate some of the depth of time and energy that he will be  
6 able to devote to either one of the two companies; wouldn't  
7 you agree?

8 A In principle, yes, but I am troubled by the logic  
9 that suggests that somehow Penelec is the optimum sized com-  
10 pany and, therefore, there is no ability for that management  
11 or that management team, or a combination of senior managers  
12 from Met-Ed and Penelec, to manage a combined operation that  
13 is no different than at least a couple of the other companies  
14 within this State.

15 So what is unique that requires Penelec to have some  
16 higher level of management concentration, I don't follow, the  
17 logic.

18 Q Well, wouldn't you agree that what's unique about  
19 the present situation is the fact that we have Three Mile  
20 Island, and the uniqueness of the movement of Mr. Verrochi  
21 into that arena, taking away the depth of management that he  
22 had concentrated on Penelec.

23 That's what concerns me.

24 Doesn't it concern you?

25 A Again, I pointed out to you that we had separated

1 out the nuclear management role and set that up in a separate  
2 operation called GPU Nuclear.

3           And, again, now, if I look at the other large com-  
4 panies in this State, I find that those companies not only are  
5 as large as the combination, in terms of customers and mega-  
6 watt hours, and things of that sort, but they also have full  
7 responsibility for nuclear operations, which this combined  
8 operation would not have.

9           Q     Well, let me --

10          A     So, again, I don't see the great disparity that  
11 comes just because of combination or size.

12          Q     Can I give you one example?

13          A     All right.

14          Q     In the Theodore Barry and Associates' report they  
15 say that Penelec has approximately 3,600 employee, or there-  
16 abouts, and they are producing 6,000 megawatts.

17                 The same report indicates that approximately 2,700  
18 people of non-nuclear application are employed by Metropolitan  
19 Edison Company.

20                 Now, can you indicate to me how it would be possible  
21 for Mr. Verrochi to manage a work force of 2,600 people, pro-  
22 ducing approximately 600 megawatts of electricity, and not  
23 have severe problems in efficiency, productivity and manage-  
24 ment time of his work force?

25          A     Well, let's start with the numbers.

1 First of all, the Met-Ed people devoted to non-  
2 nuclear operations, I think you will find today to be somewhere  
3 between 1,900 and 2,000.

4 Q Well --

5 A Secondly --

6 Q -- let me just indicate to you -- are you speaking  
7 of the date this was -- September 1980?

8 A I'm speaking as of today.

9 Q All right.

10 A And what I'm addressing is the fact that when one  
11 removes the nuclear functions from Met-Ed, the residual number  
12 of Met-Ed employees -- as you stated, non-nuclear employees --  
13 is somewhere between 1,900 and 2,000.

14 Q All right. So we have between 1,900 and 2,000 people  
15 producing 600 megawatts of coal-fired energy?

16 Is that right?

17 A I also will not -- I will not accept that number,  
18 because there's only a fraction of those people that are in  
19 the Generation Department.

20 Q Well, that's what you told me.

21 A No, no --

22 Q I thought you indicated there were 600 megawatts.

23 A No, sir. I did not characterize it that way --

24 Q All right.

25 A -- that there were 2,000 people, producing 600

1 megawatts.

2 Q All right.

3 A I don't think I ever said that.

4 Q Well, how many megawatts of power do these 1,900 to  
5 2,000 people generate?

6 A A fraction of those 2,000 people -- and I don't know  
7 exactly, as I sit here -- perhaps 200 produced the 600 megawatts  
8 of energy that Met-Ed operations.

9 If I go through Penelec, I will find, probably,  
10 somewhere of the order of 1,000 people or more operating the  
11 6,000 megawatt, a generation that they have there --

12 JUDGE CASEY: Well, I think that --

13 THE WITNESS: I would have to check that number.

14 JUDGE CASEY: Mr. Dieckamp, sir, I would agree,  
15 probably, with what you've said, but I think that's an opera-  
16 tional observation.

17 I think what Mr. Messer is trying to say in his  
18 question is that you had all these employees who work for a  
19 utility that may not be directly and physically involved in  
20 generating electricity --

21 THE WITNESS: Yes.

22 JUDGE CASEY: -- but all of the employees of that  
23 company, excluding nuclears, are involved in operating a  
24 utility that only produced 600 megawatts of electricity, as  
25 compared to Penelec, who has -- what is it -- 3,700?

1 MR. MESSER: 3,239, according to the report, Your  
2 Honor.

3 JUDGE CASEY: Yes.

4 THE WITNESS: Your Honor, I am only suggesting that  
5 those employees, whether it's at Met-Ed or at Penelec, are  
6 doing more than producing X megawatt hours of electricity.

7 They are serving X customers; they are maintaining  
8 Y miles of line.

9 I'm saying that to imply, somehow, that their  
10 deficiency parameter, which is the rate that people per mega-  
11 watt of capacity operate, is a misleading statement and is not  
12 meaningful in any way, shape or form.

13 BY MR. MESSER:

14 Q Well --

15 A I mean, if you want to pursue this, you should say,  
16 "How many Met-Ed people are working in the operations or line  
17 departments? How many Penelec people are working in the  
18 operations and line departments? How many customers do they  
19 serve in those line departments? How many miles of lines are  
20 they maintaining, and the like?"

21 Perhaps, then you could get a better fix of the  
22 meaning of this combination, but the parameter that you are  
23 implying, I don't see a sense to.

24 Q Well, maybe I'm misunderstanding, but it seems to me  
25 that Penelec has a territory almost six times larger to cover

1 than Met-Ed.

2 A Yes.

3 Q And they produce one heck-of-a-lot more electricity,  
4 with, certainly, a much lower ratio of employees.

5 Now, I'm --

6 A Well, I just cannot accept that implied ratio as  
7 having any meaning whatsoever.

8 Q Well, let's assume that's true; somebody still has  
9 to administer and, as you've indicated previously in your  
10 testimony, provide some depth of administration to those  
11 employees.

12 A Yes.

13 Q And my suggestion to you, sir, is if you are  
14 administering 3,239 employees and increased the number by  
15 approximately 1,900 or 2,000, that the depth of management  
16 that is necessary to properly police and administer that  
17 force, either must increase the additional employees or must  
18 be lessened by the time spent.

19 A Well, we have not proposed that all the Met-Ed  
20 employees somehow fit under the existing Penelec management  
21 structure.

22 We have proposed that there is a new management  
23 structure for the combined operation, which employs an expanded  
24 number of managers below the executive level, that is consis-  
25 tent with the magnitude of job that has to be done.

1           And as I stated earlier, it is my judgment, as you  
2 begin to look at supervisory ratios or numbers of managers per  
3 employee, you would find, probably, some improvement over the  
4 individual companies as they stand alone today, improvement  
5 in terms of lesser managers per employee, and economy that's  
6 being received there.

7           Now, I don't think it's a savings, but at least I  
8 think it's in the right direction.

9           You see, somehow, many of your questions suggest  
10 that we've got this poor little great, competent Penelec  
11 group that now, all of a sudden, is saddled not only with their  
12 own existing job, but all of the Met-Ed people -- and that's  
13 not true.

14           There's a standard level of management that's con-  
15 sistent with the level of efforts that's being conducted.

16           Q     What's the increase in costs associated with that  
17 management level expansion?

18           A     A net decrease from the summation of the individual  
19 companies as they stand today.

20           Q     Do you know what that amount is?

21           A     It's part of the 18 million -- and Mr. Donofrio will  
22 be able to testimony in more detail to that when he is in this  
23 chair.

24           Q     All right.

25           A     You know, I sense that, somehow, we have failed to

1 communicate to you how this combination progresses.

2 Q I'm certain of that.

3 A Okay.

4 Q Now, Mr. Dieckamp, you've indicated that it's your  
5 understanding that Theodore Barry and Associates was somehow  
6 dissatisfied with the initial group.

7 A I stated that I thought they had some criticisms of  
8 it.

9 Q Do you know who the representatives of TB&A were or  
10 are that were dissatisfied?

11 A The man who worked most closely with us on the  
12 management combination was Mr. Wicker.

13 Q And has Penelec been paying the full return on all  
14 of its preferred stockholders?

15 MR. RUSSELL: You mean dividends?

16 BY MR. MESSER:

17 Q Dividends.

18 A Yes.

19 Q All the way?

20 A Yes.

21 Q And Met-Ed, also?

22 A Yes.

23 Q What are your responsibilities in regard to the  
24 planned merger? If it's accomplished, what will your respon-  
25 sibilities be after any approval is given to the combined

1 management, if any?

2 A First of all, I will no longer be Acting President  
3 of Metropolitan Edison.

4 Secondly, I will continue as President of GPU  
5 Corporation, as President of GPU Service Corporation and,  
6 when fully in force, I will be the Chairman and Chief Executive  
7 Officer of GPU Nuclear.

8 Q Do you have any responsibilities today in regard to  
9 the planned merger, other than being the Acting President of  
10 Metropolitan Edison, in terms of the implementation of the  
11 planning that has gone on previously?

12 A Well, I am one of those members of GPU management  
13 that has worked with the Penelec and Met-Ed people and Theodore  
14 Barry in arriving at the combination plan, management combina-  
15 tion plan, and I would, in my role as a member of the Board of  
16 Directors of each of those subsidiaries, Met-Ed and Penelec,  
17 and as the President of GPU, would continue to play a role in  
18 the management oversight of that combined operation.

19 Q On Page 33 of your testimony, which I believe is  
20 Statement A, you indicate -- and I quote -- "On December 17,  
21 1979, Messrs. Kuhns and Condon met separately with members of  
22 the Barry group and members of the Commission's Audit Staff  
23 relating to the prospective scope of the Barry audit.

24 They subsequently advised me that during the course  
25 of that discussion, they had advised that group of the possible

1 management combination for Met-Ed and Penelec, and that sub-  
2 stantial interest had been expressed in it."

3 Who expressed substantial interest in the prospective  
4 combination?

5 A I think you would have to ask the principals that  
6 were in that meeting.

7 I think it's fair to say that the statement, as it  
8 is, says that that suggested course of action elicited substan-  
9 tial interest, and people said, "Yes, that's an interesting  
10 idea."

11 Q Did you consider, in the work that you were doing  
12 with Theodore Barry and Associates subsequent to this discus-  
13 sion, that the scope of the audit changed?

14 A Well, I guess the simple answer to that is, yes,  
15 that is my understanding, that Theodore Barry was directed  
16 by their client, the Bureau of Audits, to incorporate the  
17 task of assessing the management combination, as a task that  
18 they were directed to perform; so, in that sense, the scope  
19 changed.

20 MR. MESSER: Thank you.

21 That's all we have, Your Honor.

22 JUDGE CASEY: All right. Apparently, this is a good  
23 time to suspend for today, and we will resume the hearing, I  
24 believe, at 10:00 on Monday, December 8, since Monday again  
25 will be a travel day for certain people.

1           Mr. Dieckamp, I'm afraid I'm going to have to ask  
2 you to be present again on Monday morning, since cross-  
3 examination today has not been completed by the Commission's  
4 Staff.

5           We would also ask that Mr. Verrochi and the other  
6 gentleman, Mr. --

7           MR. RUSSELL: Donofrio.

8           JUDGE CASEY: -- Donofrio, be present.

9           MR. RUSSELL: Is there any desire to block out any  
10 further hearing days beyond next week?

11           JUDGE CASEY: I would like to do that; I don't know  
12 whether we can accomplish it today or not, because I don't have  
13 my own hearing calendar available to me at the moment.

14           I think, if we can give it some thought, maybe some  
15 selection dates that we can discuss first thing on Monday morn-  
16 ing --

17           MR. MESSER: Your Honor, I hate to -- I apologize  
18 for taking so long on questions I didn't feel were going to  
19 take quite as long, but if there's another 15 minutes or so  
20 of questioning, I wouldn't have any objection to waiting  
21 around, because I don't want to see Mr. Dieckamp have to come  
22 back on Monday if he doesn't have to.

23           JUDGE CASEY: Well, I think the Commission's Staff  
24 would have questions.

25           MR. MESSER: Yes.

1 JUDGE CASEY: And we just can't --

2 MR. CHRISTIANSON: Possibly, 10 minutes worth of  
3 questions to follow it up. We're really not sure how long it  
4 will take.

5 We could make a try at preventing the necessity for  
6 having him come back next week.

7 MR. RUSSELL: We're prepared to stay here if it's  
8 possible to finish up with Mr. Diekamp questioning.

9 MR. CHRISTIANSON: And conceivably, other employees  
10 could answer the question follow-ups; he wouldn't have to be  
11 here.

12 I'm not going to be asking the questions, so I can't  
13 exactly speak as to how it might work out.

14 MR. SHILOBOD: If Your Honor please, I may have to  
15 leave.

16 I'd just like to request that we get Mr. Donofrio's  
17 testimony sometime further in advance than the night before he  
18 appears.

19 MR. RUSSELL: We will certainly do our best.

20 MR. SHILOBOD: Thank you.

21 MR. RUSSELL: I had asked you at the prehearing  
22 conference for some submissions with respect to the authen-  
23 ticity of several documents; do you have that?

24 MR. SHILOBOD: I'll advise you about that tomorrow.  
25 I understand I have a response; I'll have it ready.

1 MR. RUSSELL: And is there any additional information  
2 as to possible witnesses other parties contemplate calling, or  
3 any changes in witnesses?

4 MR. CHRISTIANSON: We have nothing.

5 JUDGE CASEY: Well, we really don't have any infor-  
6 mation from the Commission's Administrative Staff as to who,  
7 in particular, from the Theodore Barry and Associates group  
8 they will be calling to testify.

9 MR. RUSSELL: Well, at least we are aware of who  
10 worked on it, so we'll have some idea as to who the possibili-  
11 ties are.

12 JUDGE CASEY: All right.

13 MR. RUSSELL: I just want to know if there's anything  
14 totally new --

15 JUDGE CASEY: I see a hand in the audience.

16 VOICE FROM AUDIENCE: Not to speak for my client,  
17 the Administrative Staff, but, at this point in time, Theodore  
18 Barry would expect to have three witnesses, Perry Wheaton,  
19 John Wicker and Dennis Shoemaker.

20 JUDGE CASEY: Thank you.

21 MR. RUSSELL: All right. If there's any interest  
22 in finishing up with what's available for Mr. Dieckamp, we'd  
23 be more than happy to stay and trying to accomplish that.

24 JUDGE CASEY: You would prefer to do that this  
25 evening?

1 THE WITNESS: Very much, sir, because to come back  
2 on Monday takes a whole day, and I'd just as soon get up here  
3 and in a half-hour, or whatever it takes -- you know, depend-  
4 ing upon your schedule, it certainly would be most welcomed.

5 JUDGE CASEY: All right.

6 Mr. Packard will be cross examining on behalf of  
7 the Commission's Trial Staff and will be accompanied by Mr.  
8 Christianson, as his legal advisor.

9 CROSS-EXAMINATION

10 BY MR. PACKARD:

11 Q Mr. Dieckamp, I'm going to boil it down to two ques-  
12 tions, and we may be able to dispose of this in five minutes.

13 JUDGE CASEY: Unless the Judge can think of something  
14 to ask.

15 BY MR. PACKARD:

16 Q The first question, our concern has to do with  
17 bankkrupcty -- and I'll just pose it in a general sense, and  
18 I think, if you can address it, I may not have further ques-  
19 tions, or I may have a lot of questions.

20 A All right.

21 Q Under this proposed plan or plans, what would happen  
22 in the event of a bankkrupcty of Met-Ed? How would it work?

23 Specifically, I'm concerned about the debtor in  
24 possession, what he can do, what he cannot do, what kinds of  
25 problems have been anticipated by this merger plan?

1           A     Well, Mr. Packard, I, clearly, am not an expert on  
2 bankruptcy, but I think we could say a few things.

3                     Number One, since this is only a management combina-  
4 tion, we are in no way changing the financial structure, the  
5 financial reporting, the financial accountability, the property,  
6 or any of those factors' relationship to creditors or debtors,  
7 or anything of the sort.

8                     We could almost say, from that point of view, this  
9 management combination has no affect.

10                    Now, with respect to, probably -- I guess what you're  
11 pointing at is the more pragmatic aspect of who manages the  
12 company in the event of bankruptcy, debtor-in-possession,  
13 or what-have-you.

14                    Again, I could not pose as an expert on this subject,  
15 but I must say that I do not have a vision of some court  
16 driving up to the offices in Reading with a busload of people  
17 who, all of a sudden, begin to occupy the offices of the  
18 officers and people that are managing Met-Ed.

19                    I, rather, would see that perhaps some court-  
20 appointed supervision that the management would be reporting  
21 to and accountable to, during any period of resolution of the  
22 problem.

23                    So, again, I think that, perhaps it helps to  
24 visualize the impact of that, to simply recognize that, indeed,  
25 we are still running two entities which are financially

1 separate. We just happen to have a common set of officers and  
2 directors who are managing those two groups.

3 I think that's about the extent to which I could  
4 elaborate on that matter.

5 Perhaps we would have to call on somebody to, you  
6 know, respond more specifically to your concern.

7 Q Well, the concerns I have are the degree to which,  
8 if any, this proposal has anticipated or taken into account  
9 any of the various problems, issues, occurrences which might  
10 take place in the event of bankruptcy, and the degree to which  
11 it does not address it in any way.

12 A I would have to say, Mr. Packard, that the plans for  
13 management combinations were founded upon the presumption that  
14 the organization's yield remains solvent, and the plan has in  
15 no way been constrained or in no way designed or special con-  
16 sideration given to how the combined management could respond  
17 in the case of bankruptcy of one or both of the subsidiaries.

18 Again, we have been proposing a success oriented  
19 program. We have felt that over the intervening period since  
20 the accident, there has been a growing realization of the very,  
21 very negative aspects of bankruptcy, and we felt that our  
22 obligation was to try to respond in a way that would put in  
23 place the best possible management team to do whatever was in  
24 the discretion and flexibility of that team to contribute toward  
25 preventing bankruptcy.

1 I think one would have difficulty if one tried to  
2 somehow straddle the fence, between an organization that some-  
3 how was designed for the best possible and most effective  
4 possible management, to contribute to the avoidance of  
5 bankkruptcy, versus the greatest degree of flexibility if and  
6 when bankkruptcy came about.

7 I would find it very similar to posing a dilemma  
8 that would not be beneficial.

9 Q The second issue, or concern, that Trial Staff would  
10 like to raise is one of timing.

11 Perhaps I can phrase it in this way:

12 Why change horses in midstream, when the Indians  
13 are on the attack?

14 The question really is, given all the problems that  
15 you are currently dealing with or facing, why propose to  
16 implement this plan now, even if it, in this long run, might  
17 be a very excellent plan? Why devote the resources, manage-  
18 ment intention, the financial investment, at this point in  
19 time, given all the other things that you have to worry about?

20 A I would agree that this may not be the optimum time;  
21 on the other hand, I don't know that when the Indians are on  
22 the attack, that that is not a time for some aggressive manage-  
23 ment responses in order to solve the problem.

24 Then, if we go back over the history of this matter,  
25 it seems to us that the Commission itself anticipated that

1 there would be management responses and organizational change  
2 and, in their order of June-something 1979, ordered us to  
3 report on all such plans in management and organizational  
4 changes and approaches.

5           Following up on that, I think a significant initiator  
6 was our decision to consolidate our nuclear operations and form  
7 GPU Nuclear, so as to be able to best respond not only to the  
8 Three Mile Island, but to all of the nuclear challenges that  
9 we were facing, and to be able to do that job better.

10           That action immediately had the effect of reducing  
11 the level of generation engineering and maintenance and tech-  
12 nical support personnel available for the Met-Ed fossil gene-  
13 tion.

14           That, in turn, then, led us to the feeling that we  
15 could greatly benefit if, in a manner analogous to the consoli-  
16 dation of nuclear activities, we, at least within the confines  
17 of Pennsylvania, consolidated our fossil-fired activities,  
18 again recognizing that once a degree of health is restored, we  
19 expect to see coal-fired generation, a major opportunity  
20 in Pennsylvania, that we will want to and we'd be called upon  
21 to pursue with the full capabilities that we can bring to that  
22 town.

23           And, as part of that, we made the further decision  
24 to not just consolidate the resources of Penelec and Met-Ed,  
25 but to bring in some of the people from the service companies

1 who were experts in fossil-fired plants, design and construc-  
2 tion and, also, in fossil fuel procurement, so as to indeed  
3 what we like to refer to as a center of our excellence for  
4 qualified generations within these designed Pennsylvania sub-  
5 sidiaries.

6           Having then seen the need to go that far, we were  
7 then faced with the question that said, "What prevents us from  
8 going the next step further, of a fuller management combina-  
9 tion?"

10           The thing that we saw there was that one of the fail-  
11 outs, or kickbacks from the accident was an extreme amount of  
12 customer unrest, customer unhappiness, certainly the times of  
13 rate increases that had to be imposed, particularly upon the  
14 Met-Ed customers, and that caused a real challenge in terms of  
15 being able to continue to convince the customers that they were  
16 being served effectively and efficiently and by a dedicated  
17 management.

18           So that the thought that came to mind then was the  
19 one that if you look back over time, it's probably true that  
20 there was a tendency to select division managers, the people  
21 who had the closest intimacy with the customers, on the basis  
22 of their expertise in terms of line construction or line  
23 maintenance, and install this, then, in the form of combina-  
24 tions, an opportunity to introduce a n approach, a new  
25 style, where we would somewhat segregate the functions within

1 the operating divisions and give more prominence to the  
2 customers' service side, or at least a separate degree of  
3 prominence to it, as contrasted with the management of the  
4 Line Department, as to how is the best way to string lines and  
5 put up poles.

6 So you'll also see that embodied as one of the  
7 features of the plan.

8 So I think, in a sense, while I agree with you that  
9 this may not be the optimum time for this kind of a transition,  
10 but when you look back at the number of changes that were  
11 triggered by the accident and you ask yourself the question,  
12 "Do I go part-way, or do I go ahead and make some other chang  
13 and go all the way," we reached the decision that now was a  
14 good time to make this change and, hopefully, get to the point  
15 where, with a combined management we have more uniformed  
16 policies and more dedication to serving all of our Pennsylvania  
17 customers, better identification with the Public Utility Commis-  
18 sion, better identification with all of our customers, and the  
19 like.

20 And that was the basis for the announcement that  
21 Mr. Kuhns made in his January 17th memo.

22 Q Does Met-Ed have the final resources, at this point  
23 in time, to implement this management plan?

24 A Yes, I think we do. When you look at the costs  
25 associated with some of the transfers of people, and things of

1 that sort, while these costs are identifiable, they certainly  
2 are not a -- almost a perception -- it's a perceptible fraction  
3 of the total cost and burdens of Met-Ed does face.

4 I think our feeling would be -- I don't know exactly  
5 what the number is, but if it's a million dollars -- I'm just  
6 putting that out as a for-instance kind of a number -- we think  
7 it would be a mistake to let that sum of money interfere with  
8 what we see as a rational plan and a reasonably -- what we  
9 think is a constructive step toward improving all of our  
10 Pennsylvania operations.

11 MR. PACKARD: Staff has no further questions of Mr.  
12 Dieckamp.

13 JUDGE CASEY: All right. I have a few, and then we  
14 will wind up as quickly as possible.

15 Mr. Dieckamp, the GPU Nuclear Corporation contemplates  
16 a new company, which will be New Jersey Corporation; is that  
17 correct?

18 THE WITNESS: Yes.

19 JUDGE CASEY: And that New Jersey Corporation will  
20 maintain offices in Parsippany, New Jersey; is that also  
21 correct?

22 THE WITNESS: That's correct.

23 JUDGE CASEY: And they will be operating the  
24 Pennsylvania nuclear plant as an absentee manager, under an  
25 operating agreement; is that correct?

1 THE WITNESS: Well --

2 JUDGE CASEY: Except for the fact that they will  
3 have their employees operating the plant, physically, in  
4 Middletown, Pennsylvania; is that right?

5 THE WITNESS: I'm troubled by the absentee charac-  
6 terization, Your Honor. I would suggest that to have certain  
7 of the central management and support functions located in  
8 Parsippany is not that much more absentee than having had them  
9 in Reading.

10 When we look at the need to supply a centralized  
11 facility of engineering and supervision of some of the activity,  
12 Parsippany is not a bad intermediary position between Oyster  
13 Creek and Three Mile Island.

14 In reality, the staff at --

15 JUDGE CASEY: It may not be in the overall scheme.  
16 I don't want to cut you off, but I want to pursue a little bit  
17 further.

18 THE WITNESS: Yes, sir.

19 JUDGE CASEY: Wouldn't this show that the Pennsyl-  
20 vania Public Utility Commission will no longer have any regula-  
21 tory control, whatsoever, over the operation of TMI-1 and TMI-2  
22 if this change goes into effect as proposed?

23 THE WITNESS: Your Honor, I would suggest that the  
24 would have exactly the same control that they have today,  
25 because all of the -- well, first of all, the plant ownership

1 will remain, the Pennsylvania ownership will remain with  
2 Metropolitan Edison and Penelec; there will be no transfer of  
3 ownership.

4           Secondly, the license from the Nuclear Regulatory  
5 Commission will still be held by Pennsylvania, Met-Ed and  
6 Penelec.

7           To the degree that the PUC supervises the property  
8 of Penelec and Met-Ed, that station is still the property of  
9 those two companies.

10           All of the costs will show up in the rate case filings  
11 for Penelec and Met-Ed; and in that form, there will be oppor-  
12 tunity for PUC oversight and supervision, if you will.

13           So I do not see a dramatic shift there.

14           JUDGE CASEY: Are you saying that Penelec and Met-Ed,  
15 or Penelec East and Penelec West would still be answerable to  
16 the Nuclear Regulatory Commission with respect to the safety  
17 of that operation?

18           THE WITNESS: They will be the licensees; they will  
19 have delegated responsibility for operations to GPU Nuclear  
20 Corporation.

21           Whatever relationship there is with the NRC, Penelec  
22 and Met-Ed will not be totally absolved of.

23           As I mentioned earlier, we see the Board of Directors  
24 as a mechanism whereby the owners exercise due diligence in  
25 their delegation of that responsibility. They will maintain

1 oversight. They will function relative to GPU Nuclear, just  
2 as though it was a department of their own organization.

3 So, in that sense, I don't see any creation of  
4 barriers or severances of relationships. We see it, really, as  
5 just a mechanism whereby we can gain the strength of a dedi-  
6 cated combined operation.

7 JUDGE CASEY: From reading the proposed GPU Nuclear  
8 Corporation's operating agreement, I see that the Nuclear  
9 Corporation may also hire outside people, third parties, to  
10 come in and operation some portions of that plant.

11 Is that correct?

12 THE WITNESS: That is a normal part of the operation  
13 today and would be a normal part of the operation after GPU  
14 Nuclear. We do use a number of outside contractors in the  
15 operations for maintenance activities, for some construction  
16 activities.

17 So, again, there's no intention of a definite shift  
18 in our manner of operations.

19 Our approach, our theory, or our belief is that to  
20 the extent that it's economically sensible, we could fully man  
21 those stations with our own personnel, so that we'd gain the  
22 loyalties and continuity of people that come with that; on the  
23 other hand, those kinds of operations, as the nuclear plants,  
24 have significant peaks and valleys of efforts, when we go into  
25 maintenance outages, and the like, which inherently requires

1 outside contractors, and we will always have requirements for  
2 some specialty contracts.

3 JUDGE CASEY: Prior to the accident --

4 MR. MESSER: Your Honor, would it be all right if we  
5 leave?

6 JUDGE CASEY: Yes, you may.

7 MR. MESSER: Thank you, Your Honor.

8 JUDGE CASEY: Prior to the accident on March 28,  
9 1979, were there people operating the plant itself that were  
10 not on Metropolitan Edison Company's payroll, to your knowl-  
11 edge?

12 THE WITNESS: I would say not operating the plant.

13 Again, we would not expect under GPU Nuclear to have  
14 people operating the plant. We would have people performing  
15 some support functions within the plant, under GPU Nuclear,  
16 who were outside contractors, just as they were prior to the  
17 accident.

18 We, for example, always have employed someone like  
19 Catalytic or Krause for maintenance personnel, to assist, but  
20 they do not end up with operating responsibilities, as such.

21 They are not licensed by the NRC, and they conduct  
22 limited activity.

23 JUDGE CASEY: They're independent contractors.

24 THE WITNESS: Yes.

25 JUDGE CASEY: You're talking about Catalytic

1 Construction Company --

2 THE WITNESS: Yes.

3 JUDGE CASEY: -- of Philadelphia?

4 THE WITNESS: Yes, I am.

5 JUDGE CASEY: All right.

6 THE WITNESS: As an example.

7 JUDGE CASEY: They are paid for their services --  
8 well, they were paid by Met-Ed; is that correct?

9 THE WITNESS: Yes, sir.

10 JUDGE CASEY: Were you the Corporate Officer who  
11 testified in the Year 1978 before Judge Joseph Cohen in connec-  
12 tion with a rate case, that TMI-2 was licensed and ready to  
13 go into rate base as of December 30, 1978?

14 THE WITNESS: I certainly testified in that rate  
15 case concerning Three Mile Island-2, and to the extent the  
16 record supports it, I may well have supported that determina-  
17 tion on our part, that the plant was ready to be declared  
18 commercial on that date.

19 JUDGE CASEY: Well, before the plant was ready to  
20 be declared commercial, when it was undergoing test operations  
21 during certain periods; wasn't it shut down for several months  
22 during the summer of 1978, due to defective valves?

23 THE WITNESS: That's correct, in the course of the  
24 startup program for the plant -- and the purpose of that start-  
25 up program is to purposely exercise various systems of the

1 plant, specifically some of these safety and relief valves.

2           Some deficiencies were found, and it was necessary  
3 to modify the plant and to change out those valves.

4           JUDGE CASEY: After the Lonerghan manufactured  
5 valves were removed and replaced with the Babcox and Wilcox  
6 valves and the plant went into test operations again, was it  
7 open for a period of more than one month before it went into  
8 the rate base?

9           Did it start up again before November of 1978?

10           THE WITNESS: My memory doesn't serve me the exact  
11 time between the completion of that modification and the  
12 declaration of the plant as being ready for commercial service;  
13 on the other hand, I would want to remind Your Honor that  
14 there's a considerable record about the detailed test program  
15 and the manner in which that test program was followed and  
16 executed, in order to arrive at a position that not only satis-  
17 fied the licensing conditions set forth by the NRC, but also,  
18 in our minds, provided a reasonable assurance that the plant  
19 was ready to be declared in service.

20           I might also just add, if I can anticipate your line  
21 of questioning, that the issue of safety and licensing is a  
22 matter separate and apart from the judgment as to whether or  
23 not the plant met the conditions for declaration of commercial  
24 services.

25           JUDGE CASEY: I quite agree with that observation.

1 THE WITNESS: Yes, sir.

2 JUDGE CASEY: I'm simply approaching the problem from  
3 the standpoint of management judgment as exercised by yourself  
4 and other corporate officers of Met-Ed and the GPU system, as  
5 to whether it was both safe and appropriate to put the plant  
6 on line, so to speak, at the end of the calendar year of 1978,  
7 when less than three months later, there was the nuclear  
8 accident, or failure, which, apparently, also involved some  
9 kind of a valve failure, at 4:00 a.m. in the morning.

10 Is that what happened?

11 THE WITNESS: That is correct. However, I must  
12 point out that that valve is a completely different valve,  
13 both in terms of its detail of design and its function, than  
14 the valves that caused the trouble during the start-up program,  
15 and that valve had been exercised numerous times during the  
16 start-up program, and there were some problems with it that  
17 were corrected during the course of the start-up program, but  
18 there was no evidence of a failure mode, that ultimately  
19 caused the accident on March 28th.

20 JUDGE CASEY: Is TMI-2 substantially similar in  
21 design to TMI-1?

22 THE WITNESS: I would say, substantially similar,  
23 in terms of the major systems, the major support systems and  
24 the mechanisms that contribute to the safety of the plant.

25 There are certainly many detail differences. There's

1 impervical layouts and details of some of the supporting sys-  
2 tems.

3 JUDGE CASEY: Were there management decisions made  
4 by people in your organization to the effect that the design  
5 of TMI-2 should change from TMI-1's design; in other words,  
6 update the state-of-the-art, or make improvements, things of  
7 that nature?

8 THE WITNESS: That is a function of at least two  
9 major decisions; one, a decision that goes back to the early  
10 days of the TMI-2 plant, to utilize Burns and Roe as the  
11 engineers, whereas, Gilbert Associates have been the Architect  
12 Engineer for TMI-1; and, inherently, when one uses a different  
13 designer for a plant, one inherently gets different approaches  
14 to certain system layouts, certain designs, certain component  
15 selections, and the like.

16 Secondly, during the time differential between the  
17 design of TMI-1 and TMI-2, there were considerable changes in  
18 the NRC Regulatory Requirements that caused the need for  
19 designing differences between the two plants.

20 Indeed, the two plants are different; however, again,  
21 I think if one looked at the real basic elements, the plants  
22 are very similar.

23 For example, the valve that failed on March 28th,  
24 that same valve, of the same design, of the same supplier, is  
25 in the TMI-1 plant.

1 JUDGE CASEY: It hasn't developed any problems?

2 THE WITNESS: I knew --

3 JUDGE CASEY: -- to your knowledge?

4 THE WITNESS: -- they had had some problems, but not  
5 of a nature that suggested that we would experience the kind  
6 of thing that did occur during the accident.

7 The principal problem that we had was one associated  
8 with the electrical controls of the valves in TMI-2, and some  
9 modifications were made in response to those observations. We,  
10 in effect, corrected that problem, but we did not correct the  
11 problem that resulted in the accident.

12 JUDGE CASEY: Did Met-Ed double its management  
13 personnel and its labor force at Three Mile Island when it  
14 brought TMI-2 on line, or did you have people who were perform-  
15 ing the operations function at TMI-1 take over TMI-2 at that  
16 time?

17 THE WITNESS: A number of things.

18 Some people from the TMI-1 operation were moved over  
19 to TMI-2, over a period of time -- and I would say that that  
20 time period extended over, at least, two to three years prior  
21 to the declaration of TMI-2 being in service.

22 Secondly, a significant number of people were indeed  
23 added to the staff -- and I guess I would not quarrel with that  
24 factor of two.

25 Again, though, I would point out --

1 JUDGE CASEY: I think you did at least double your  
2 compliment --

3 THE WITNESS: Of that order; however, those people  
4 were acquired and brought onboard, again, during this two- to  
5 three-year period, because the Met-Ed provided the operating  
6 people, the maintenance people, during the period of start-up,  
7 and start-up testing of the plant was extended for a consider-  
8 able period of time prior to either the loading of fuel or that  
9 subsequent declaration of the plant being in service.

10 I guess what I want to say, there was a step change  
11 of a factor of two. It was a ramping up, over a period of two  
12 to three years, to man that station.

13 JUDGE CASEY: How many times in an expected life-  
14 span of, say, 30 years, or, perhaps, 40 years, at the outside,  
15 does a nuclear plant have to shut down routinely for refueling?

16 THE WITNESS: The normal designs have been to shut  
17 down the plants annually for refueling; and by refueling, you  
18 really mean to change out somewhere in the neighborhood of  
19 one-third to one-fourth of the fuel outage, not the total coal.

20 Over the last couple of years, there has been a  
21 tendency on the part of plant operators to move in the direc-  
22 tion of an 18-month cycle, to load the coals so that you have  
23 enough energy producing capability that you can go 18 months  
24 between shutdown for refueling, only.

25 JUDGE CASEY: How long does the refueling operation

1 THE WITNESS: Well, we usually combine, then, the  
2 refueling with major maintenance, major parts of the station.

3 If one were able to just do refueling, alone, that  
4 operation would probably take something less than four weeks,  
5 or of that order, but by the time you add in a large number of  
6 other maintenance tasks that you want to also do on that same  
7 annual or 18-month frequency, and you add in things like the  
8 major inspections of the turbine machinery, again on a similar  
9 frequency, then you find that -- I think the industry experi-  
10 ence on outages will range all the way from as low as six  
11 weeks to three months, or something like that.

12 Today these outages are running a lot longer because  
13 plants are also faced with installing a lot of modifications,  
14 brought on by the lessons learned from the accident.

15 JUDGE CASEY: And this happens about once a year or  
16 every 18 months --

17 THE WITNESS: Yes.

18 JUDGE CASEY: -- the cycle?

19 THE WITNESS: Yes.

20 JUDGE CASEY: You would have a six-week shutdown,  
21 perhaps two months?

22 THE WITNESS: Yes.

23 JUDGE CASEY: And during the outage, as you have  
24 termed it, you have to make arrangements for replacement  
25 power; is that correct?

1 THE WITNESS: Yes, we do.

2 JUDGE CASEY: Replace the megawatts that are not  
3 being supplied to customers.

4 THE WITNESS: Correct.

5 JUDGE CASEY: Is that a regular contingency plan that  
6 you have, by either using purchased power or electricity  
7 supplied by your own company, your own fossil fuel facility,  
8 to replace that loss of power?

9 THE WITNESS: It's a combination of our own facility,  
10 except, probably more importantly, it's a future of our parti-  
11 cipation in the TJM pool.

12 The six-member company jointly plan their major  
13 station outages so as to ensure that there will be back-up  
14 energy supplies available when those major baseload stations  
15 are out.

16 Unfortunately, however, many times that replacement  
17 energy comes from incremental generation which is oil-fired,  
18 and that is very expensive in comparison to what the nuclear  
19 energy would be.

20 JUDGE CASEY: All right, I'm not going to ask anymore  
21 questions -- and I'm sure everybody is happy about that.

22 We will --

23 MR. RUSSELL: May I just ask just one or two on  
24 redirect?

25 JUDGE CASEY: Redirect.

1 MR. RUSSELL: Mr. Jolles has to catch a plane, so  
2 if he may be excused?

3 JUDGE CASEY: You may be excused, Mr. Jolles.

4 MR. JOLLES: Thank you.

5 REDIRECT EXAMINATION

6 BY MR. RUSSELL:

7 Q Mr. Dieckamp, it was in late December of 1978, was  
8 it not, that TMI-2 was declared to be in commercial operation?

9 A Late December of 1978, yes -- I think, December 30,  
10 1978.

11 Q Now, if a decision were made at that time not to  
12 declare it in commercial operation, what changes, if any,  
13 would you have made in the level of operation at which the  
14 plant was operated, say, in January, February or March?

15 A That declaration made no difference to the operating  
16 plan for the station. We had gone through the tests necessary  
17 to qualify the plant for full power operation, in accordance  
18 with the NRC license.

19 We would have proceeded to continue to operate the  
20 plant within its capability. I see no differences that would  
21 have in any way influenced the subsequent failure that led to  
22 the accident, one way or the other.

23 Q Do you foresee any correlation between the commerc  
24 declaration on December 30, 1978, and the occurrence of the  
25 accident on March 28, '79?

1           A     I do not, again, because we had gone through a  
2 carefully laid-out, fully planned and previously documented  
3 test program necessary to check out the various systems and  
4 the abilities of the plant to perform in accordance with its  
5 specifications, and those had all been completed and the plant  
6 was ready to operate, to the best of our knowledge.

7                     Now, that's not to say that the plant was without any  
8 known deficiencies.

9                     I think that it's almost impossible to conceive that  
10 a plant as complex as Three Mile - 1 or- 2, or any other nuclear  
11 plant, can, on any one day, be to the point where there's  
12 absolutely no punch list of items that need some correction.

13                     Indeed, it normally then takes a period of time  
14 during which these kinds of problems are worked off; however,  
15 judgments have to be made as to whether or not those defi-  
16 ciencies do or do not impact safety.

17                     Again, when we go back to the accident, whatever  
18 deficiencies were known in early '79 did not truly contribute  
19 to the accident, its cause or the operator response, or the  
20 levels of uncertainty about system behavior that, in turn,  
21 conditioned the operator response that were the true elements  
22 of the accident.

23                     Again, this was not a judgment made by me, but a  
24 judgment made by the various investigations.

25                     MR. RUSSELL: That's all.

1 JUDGE CASEY: My question intended to suggest that  
2 there would have been a longer period, longer than 30 days, o  
3 perhaps 45 days, and it was started up after the valve work  
4 had completed, for the company to monitor the performance of  
5 the plant and, perhaps it might have had some effect, or maybe  
6 not, on the incident that occurred in March of 1978.

7 THE WITNESS: Your Honor --

8 JUDGE CASEY: But there were tax considerations,  
9 were there not?

10 THE WITNESS: Well, there were Federal tax con-  
11 siderations, rate case considerations --

12 JUDGE CASEY: Rate case considerations.

13 THE WITNESS: -- test year considerations

14 JUDGE CASEY: Yes.

15 THE WITNESS: But, again, I think it's very impor-  
16 tant to understand that the declaration of the plant being in  
17 commercial service, of itself, does nothing but change the  
18 bookkeeping.

19 It's when we keep capitalizing O&M expenses, we  
20 begin to take depreciation and we keep taking AFC.

21 JUDGE CASEY: I understand.

22 THE WITNESS: It's wholly separate and apart from  
23 the requirements for meeting the regulations, for performing  
24 the tests -- and I think that was the thrust of Mr. Russell  
25 redirect question as to whether or not the activities at the

1 plant, the technical activities at the plant, the levels of  
2 operation, the degree of monitoring those operations, would  
3 have, of themselves, been different had the accountants not  
4 changed the bookkeeping on December 30th.

5 Now, I, for one, have just no ability to suggest  
6 that they would have been different.

7 As a matter of fact, if you look at the investment  
8 tax credit issue, we had met the test for taking the invest-  
9 ment tax credit many months before that declaration of in  
10 commercial service on December 30th.

11 So that, of itself, I think, was not a major con-  
12 sideration and, again, did not really change the technical  
13 program.

14 I think one just has to recognize that when one has  
15 \$700- to \$750 million invested in a lot of generating stations;  
16 rate cases going; the customers are anxious to derive the  
17 benefits of that energy production capacity and the company  
18 was concerned about getting that plant into rate base.

19 There clearly is a sense of urgency about solving  
20 the technical problems and getting that plant into a state of  
21 readiness.

22 I still think that one should look back to the  
23 fact that early in the spring, we filed with the PUC a detailed  
24 plan of all of the tests that were going to be performed on  
25 that plant and the sequence of those steps. Those steps were

1 also specified as being prerequisites for full power, as part  
2 of the NRC full power license.

3 We performed all of those tests in accordance with  
4 the plan; so there was no short-cutting of those tests, either  
5 in terms of a sequence, a duration, or the like. These were  
6 all on a pre-announced kind of a basis.

7 So, again, I don't know of any specific short-  
8 cutting that in any way contributed to the accident, but at  
9 the same time, I'll have to say to you, that when you have a  
10 facility of that magnitude, clearly, the organization is  
11 dedicated to putting it into production.

12 Again, when you look at the specific item that  
13 failed, the specific operator response that magnified the  
14 effect of that failure, and when you look at the level of  
15 industry understanding that contributed to the operator's  
16 understanding on that response, those things had nothing to do  
17 with the state of the plant, in terms of what we did discover  
18 during the start-up testing or might have discovered in the  
19 next few months of operation, had that been more protracted.

20 It's a very complicated task --

21 JUDGE CASEY: I understand that.

22 I know you've also indicated in pleadings, in a  
23 suit in the Federal Court, that the Davis Bessie problem  
24 occurred at your plant, and that Babcox and Wilcox did not  
25 give your people an adequate briefing on emergency procedures;

1 I'm wondering whether that same state of circumstances existed  
2 with respect to TMI-1?

3 THE WITNESS: It actually --

4 JUDGE CASEY: Couldn't that problem have occurred  
5 at TMI-1?

6 THE WITNESS: It absolutely did. The operators  
7 had the same perception of plant understanding.

8 Now, if you're interested and want to spend a  
9 minute, let me just describe, very simply, what the problem  
10 was.

11 You have this big loop of water that circulating,  
12 and off to the side you have this device called a pressurizer,  
13 I would call it, like a storage tank; it has a static level of  
14 water, and it's what imposes the pressure on the system.

15 Safety Analysis has always been extremely concerned  
16 about the loss of that cooling water, or the loss of coolant  
17 accidents, and, in general, the analyses have always said that  
18 if you have a leak from that primary system that's circulating  
19 water, that is beginning to jeopardize your ability to cool  
20 that plant, that leak will also be accompanied by a decrease  
21 in the level in that pressurizer, because as you lose water  
22 from the system, it will be made up by water being forced out  
23 of that pressurizer or surge tank.

24 So a major fraction of the procedures in the oper-  
25 ator training were based upon that general analytical

1 diagnostic impression that a loss of coolant accident would  
2 be accompanied by a decrease in pressurizer level.

3 Also, there was great concern about ever letting  
4 that pressurizer become totally filled with water, because  
5 then extreme pressures could be generated, with slight tem-  
6 peratur variations, and challenge the integrity of the  
7 pressure containing boundaries.

8 JUDGE CASEY: It's going solid.

9 THE WITNESS: Right. So, what that meant, then,  
10 was that as the pressurizer level tends to go up, the operators  
11 were trained to turn off the injection of water, outside water,  
12 to Emergency Cooling System.

13 What happened the day of the testing?

14 The pressurizer relief valve stopped opening, just  
15 as it did at TMI-2, not previously anticipated.

16 Now, when that happens, and you begin to lose water,  
17 rather than pressurizer level go down, pressurizer level starts  
18 going up, because you generate a steam bubble in some other  
19 portion of the system and you force water out of the cooling  
20 pipe into the pressurizer.

21 People had not recognized the unique behavior of  
22 the plant or that unique position of the leak.

23 The operator that day was beckoned on seeing a  
24 rising pressurizer level turned off. He injected emergency  
25 for cooling water -- exactly what the TMI-2 operator did.

1 After that experience at Davis Bessie, both BNW  
2 and the NRC made note of the fact that that operator response  
3 was inappropriate for that specific carrier mode, but did not  
4 communicate that learning to other operators at the plant.

5 Thus, our operators made the same response that the  
6 Davis Bessie operators made.

7 The one thing they didn't do, though:

8 The Davis Bessie operators, by some means -- and I  
9 don't know whether to attribute it to luck or experience, or  
10 knowledge, happened to turn off another valve that was in  
11 series with the bail valves and ceased the leakage, after  
12 20 minutes.

13 Our operators did not take that action until after  
14 two hours and 20 minutes.

15 Also, at TMI-2, the plant was operating at full  
16 power, and the Davis Bessie had been operating at 9 percent of  
17 power.

18 That's the difference between Davis Bessie and the  
19 TMI-2 accident.

20 Had that inappropriate operator response and that  
21 inappropriate understanding of system behavior, as observed and  
22 noticed by BNW and the NRC, of Davis Bessie been translated  
23 to our operators or to our plant staff, I think it's very  
24 reasonable to suggest that that accident would have never  
25 occurred.

1                   So we have had the problem, then, of uncovering  
2 detailed sophistications with the behavior of the complicated  
3 system.

4                   JUDGE CASEY: That circumstance that you just  
5 described, that's not the only potential mode of failure, is  
6 it?

7                   THE WITNESS: No, no. There has to be other modes.

8                   Again, I think that the designers or the regulators,  
9 that make tremendous efforts to try to anticipate all of the  
10 failure modes and to provide back-up systems to protect  
11 against them, I think those are part of the lessons learned.

12                   There's been a greater awareness that our engineering  
13 and book paper level study may not have covered every last  
14 possible combination and permutation.

15                   One of the major changes after the accident was  
16 to increase the emphasis on making sure that operating obser-  
17 vations and operating experience was fully evaluated and broad-  
18 cast and distributed throughout the industry, on a more effec-  
19 tive and more efficient basis.

20                   And I think that will have to continue to be the  
21 case, because any complexed system, we ultimately cannot  
22 learn everything about it on paper; we have to learn a lot  
23 from experience, as do the operator.

24                   JUDGE CASEY: Thank you very much, Mr. Dieckamp.

25                   THE WITNESS: Thank you, sir.

JUDGE CASEY: You're excused now from this pro-  
ceeding.

(Witness excused.)

JUDGE CASEY: We will resume the hearings at  
10:00 a.m., on Monday, December 8, 1980.

(Whereupon, at 5:19 p.m., the hearing was adjourned  
to reconvene on Monday, December 8, 1980.)

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C E R T I F I C A T E

I hereby certify, as the stenographic reporter,  
that the foregoing proceedings were taken stenographically  
by me and thereafter reduced to typewriting by me or under  
my direction; and that this transcript is a true and accurate  
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