



GENERAL
PUBLIC
UTILITIES
CORPORATION

1983 Annual Report

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GPU—A Profile of the System and the Customers It Serves

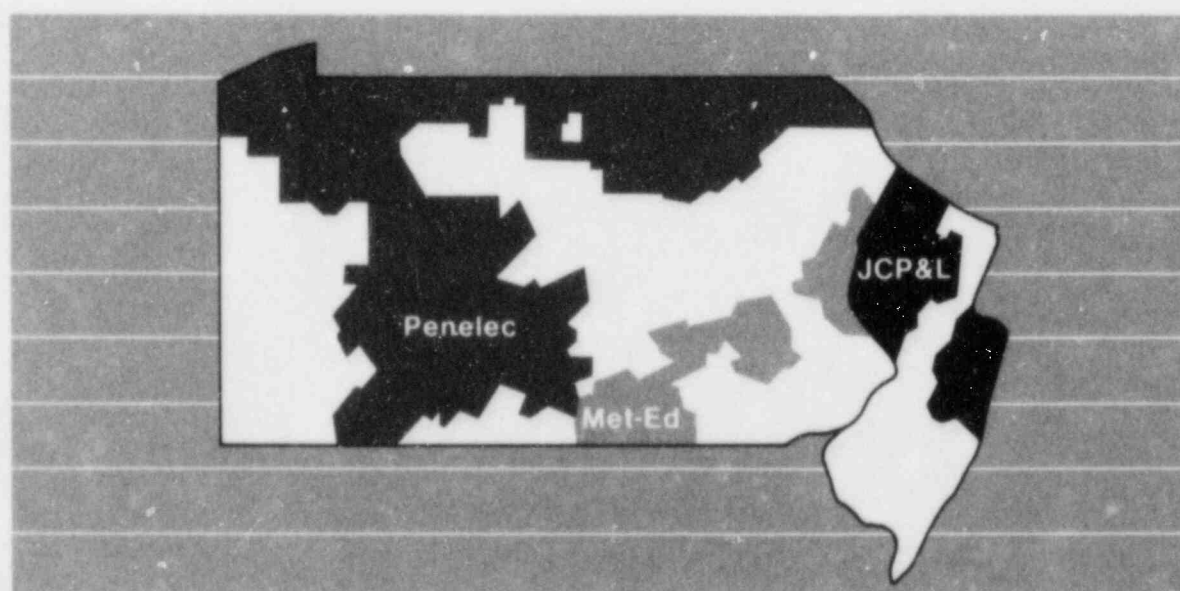
The General Public Utilities System companies provide some 31.5 billion kilowatt-hours of electricity for about 1.6 million customers (and a total population exceeding 4 million) in service territories encompassing about half the land area of Pennsylvania and New Jersey.

The operating companies are Jersey Central Power & Light Company (JCP&L)

and, in Pennsylvania, Metropolitan Edison Company (Met-Ed) and Pennsylvania Electric Company (Penelec). Another subsidiary, GPU Service Corporation, provides a broad range of professional services to the operating companies, while a fifth subsidiary, GPU Nuclear Corporation, is responsible for the operation, maintenance and management of the System's nuclear facilities.

About 35 percent of the electricity distributed by the operating companies is used by residential customers, 26 percent by commercial accounts, 34 percent by industry and 5 percent by other customers.

The peak load periods of the operating companies are in balance, with winter peaks in Pennsylvania and summer peaks in New Jersey.



Operating Companies' Statistics—1983

	Revenues (\$000)	Total Assets (\$000)	Sales Mix: Residential, Commercial, Industrial			Customers- Year-End	Electric Sales (MWH)	Peak Load (MW)	Number of Employees
JCP&L	\$1,272,926	\$2,465,432	40%	30%	27%	740,509	13,209,558	2,988	3,626
Met-Ed	\$ 563,862	\$1,312,638	33%	24%	39%	371,983	7,682,620	1,451	2,573
Penelec	\$ 649,554	\$1,529,801	29%	24%	38%	522,908	10,607,857	1,701	4,047
GPU	\$2,480,304	\$5,333,870	35%	26%	34%	1,635,400	31,500,035	6,140	12,719*

* Includes employees of GPU Nuclear and GPU Service Corporations.

1983 Financial Summary

	1983*	1982*
Net income before extraordinary items (000)	\$ 66,907	\$ 33,734
Net income after extraordinary items (000)	\$ 50,889	\$ 37,507
Per share (before extraordinary items)	\$ 1.09	\$.55
Per share (after extraordinary items)	\$.83	\$.61
Common shares outstanding, year-end (000)	62,864	61,264
Number of stockholders	112,058	122,884
Book value per share	\$ 23.67	\$ 23.45
Megawatt-hour sales (000)	31,500	31,353
Operating revenues (000)	\$2,480,304	\$ 2,405,527
Construction expenditures (000)	\$ 285,388	\$ 248,615
Cost of fuel and purchased power (000)	\$1,168,449	\$ 1,020,681
Total assets (000)	\$5,333,870	\$5,196,759
Generating capacity (megawatts)**	8,251	8,251
Peak load (megawatts)	6,140	6,442
Customers served at year-end	1,635,400	1,610,589
Number of employees at year-end	12,719	12,420

* See Notes 1 and 3 to Consolidated Financial Statements and Report of Auditors.

** Includes both TMI Units rated at a total of 1,706 megawatts.

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To The Stockholders

The struggle for the financial recovery of the Company in 1983 again centered around the Three Mile Island nuclear plants. While we were able to make some forward steps, there were also disappointments, and as we near the end of the first quarter of 1984, significant uncertainties remain; approval for the start-up of TMI Unit 1 has still not been received and the funding plan for the cleanup of Unit 2 is not yet adequately assured.

Nevertheless, the Company has achieved significant progress in the five years since the TMI accident in almost every area: debt reduction, nuclear reorganization, cleanup steps, improved rate regulation and resolution of some important litigation.

In 1983, the Company aggressively moved to convince all concerned of its readiness to safely operate TMI-1. Nevertheless, continuing emphasis on open issues, primarily associated with people and events of five years ago, continues to delay restart.

On February 28, 1984, Metropolitan Edison Company pleaded guilty to one count of an eleven count indictment involving the handling of water inventory tests at TMI-2, handed down by a federal grand jury last November. This was a painful admission of employee misconduct in 1978-79 that simply cannot and will not be tolerated. The details of this matter are discussed on page 15.

Both the Nuclear Regulatory Commission and the Company have been unable to pursue appropriate investigations of the allegations while three separate grand juries conducted inquiries over the past 3½ years. The settlement will enable those investigations to proceed to identify the full extent of wrongdoing and the individuals guilty of misconduct. We can assure you there is no place in this organization for anyone who knowingly committed such wrongs.

Reviews by outside, independent groups have attested to the readiness of the physical plant at TMI-1 and the competence of the organization we have in place today to operate that unit. In late 1983 the NRC staff identified the conditions under which the Unit could be authorized for restart. Subsequently, the NRC indicated that a decision could be reached by June, 1984.

The past year's efforts on TMI-2's cleanup saw the last cask of radioactive waste from the accident-generated water leave the island. Core examination and planning for the all-important damaged fuel removal went ahead, although slowed by four employees' charges of procedural irregularities by GPU and its principal contractor, Becintel. Independent investigation showed that safety was never compromised, and the procedural problems have since been rectified. However, there continue to be political and public concerns linking Unit 2 cleanup progress with Unit 1 restart approval.

We are working hard to convince regulators, government officials, legislators and the public of the massive changes that have taken place in the nuclear operations of this Company since the accident. There is no doubt that critics of the Company and of nuclear power in general, as well as the uninformed, center their concerns on the past, with too little recognition of what the Company has done and where it stands today.

We have taken additional steps to demonstrate to the regulators and the public GPU Nuclear Corporation's single-minded dedication to the safe operation of all our nuclear plants. These steps include the appointment of a new outside chairman of GPU Nuclear Corporation and three additional outside members to the GPU Nuclear board. The three outside members constitute a Nuclear Safety and Compliance Committee to independently monitor the operation and maintenance of the System's nuclear units, with specific attention to adherence to procedures and license requirements. We have been fortunate in obtaining the services of three highly qualified and experienced men in the field to fill these positions.

We firmly believe that the remaining "open issues" that have been raised can be separated from a decision on the restart of TMI-1. Because of the extensive management changes in the responsibility for that unit, the resolution of those issues can be pursued without direct relevance to the competence of those individuals today responsible for the safe operation of TMI-1. We shall continue to aggressively pursue that course because we believe the early return to safe operating service of TMI-1 is in the best interests of our customers in Pennsylvania and New Jersey and our shareholders.

During 1983, while having to devote an enormous portion of management and employee attention to the TMI issues, we have also continued to provide electricity reliably to the 4.5 million people we serve, at rates in line with those of neighboring utilities to our service area. The continued reliable service under adverse conditions has been recognized by our regulators and the financial community. We have continued our program of close financial controls, expanded the conservation and load management programs so as to limit future construction needs, and maintained the forward-looking capacity planning required to support capacity expansion when necessary. These accomplishments are important to our shareholders in terms of what they can mean to the future financial health of the Company, once the TMI issues have been resolved.

The recovery plan we are following has several major elements and three distinct timeframes, all intended to preserve the shareholders' investment and bring the System back to a point where a meaningful, sustainable dividend can be established.

The elements of the plan include:

- the safe restart and normal operation of TMI-1 and its inclusion in customers' rates, which will help restore financial health and reduce customer costs;
- the safe decontamination of TMI-2 and, at the appropriate point, a decision as to its rehabilitation or decommissioning; and,
- the assurance of an adequate supply of economical energy through long-term purchases, the enhancement of transmission capability and continued emphasis on energy management programs. The success of this program will delay the time when the System will have to construct new transmission and generating facilities.

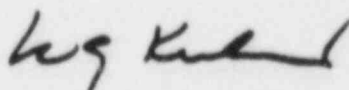
The three phases of this plan are:

- the time between now and the restart of TMI-1, marked by continuing to maintain expenditures within the bounds of available internal cash sources.
- the period between TMI-1 restart and completion of the major portion of the TMI-2 cleanup, including removal of the damaged fuel core. During this period, when uncertainties are being reduced, the Company will continue to minimize capital expenditures and rely primarily on internally-generated cash.

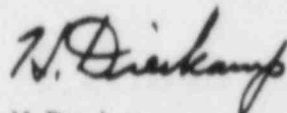
—the third phase of the plan occurs when the cleanup at TMI-2 is essentially assured. At that time the Company will be in a position to access capital markets, necessary to expand construction expenditures in order to provide for new generating capacity as needed. The extent to which any new generation will be necessary depends on the Company's ability to secure long-term, economical power purchases and on load growth.

The early reinstatement of a dividend—cash or stock—remains a major objective. We recognize both the strong shareholder concern and the patience you have exhibited with the continued omission of any form of dividend return. At the same time, we believe that a dividend resumption today would be counterproductive to rebuilding the System from its near financial collapse following the TMI accident. We are still in a tight cash position. We are also seeking support from others for the cleanup of TMI-2. However, once Unit 1 is operating, and the program to fund the cleanup of Unit 2 is better assured, primarily by the availability of utility industry support, we believe that we will be able to adopt a sustainable dividend in the best interests of the shareholders. We are dedicated to that end.

During the year, GPU employees across the System responded to the many challenges that these difficult times have imposed. Despite our current problems, there are positive signs for the days ahead. With the continued support of employees and shareholders, we believe that the coming year could show a major turnaround in the outlook for your Company's future.



W. G. Kuhns
Chairman and Chief Executive Officer



H. Dieckamp
President and Chief Operating Officer

March 1, 1984

The Financial Report

Earnings Increase

GPU's 1983 net income before an extraordinary item was \$66.9 million, compared with the \$33.7 million recorded in 1982. Earnings per share before the extraordinary item were \$1.09 compared with 55 cents per share, before extraordinary items, in 1982.

The increase in net income was attributable to several factors, primarily rate increases granted the GPU subsidiaries in 1982 and 1983, lower interest expense resulting from redemptions of long-term debt in 1983, lower levels of short-term debt outstanding and the deferral of certain outage-related expenses attributed to the Oyster Creek plant.

Partially offsetting those changes were increased operating and maintenance expenses.

The most significant impairment to earnings remains the lack of return on the GPU System's investments in the Three Mile Island (TMI) units and on the abandoned Forked River plant and of recovery through rates of the bulk of the TMI-1 operating costs.

As a result of regulatory action in 1982, GPU's Pennsylvania subsidiaries have been collecting some revenues from customers to amortize their investments in TMI-2 but, as mentioned above, are not receiving a return on such investments.

JCP&L has not been permitted to amortize its investment in TMI-2 but has been amortizing its investment in the cancelled Forked River Nuclear Station as a result of 1981 regulatory action. However, no return is permitted on the Forked River investment.

Also during 1983, a charge to income as an extraordinary item at the parent company level of \$16 million, net of tax benefits, or 26 cents per share, resulted from settlement of share-

holder class action suits brought against the Company following the Three Mile Island accident. In 1982, net income was affected by extraordinary income items of \$3.8 million, net of taxes, or 6 cents per share. (These extraordinary items are discussed in Note 3 to the Financial Statements, page 32).

Sales of electricity were 31.5 billion kilowatt-hours in 1983, about the same as in 1982. Residential sales improved slightly from 1982 to 1983. Industrial sales at mid-year 1983 compared to 1982 showed a 9 percent decline, but by the end of 1983, they recovered so that the decline was only 1.3 percent from the previous year. This improvement resulted from an economic recovery in the second half of the year. Commercial sales increased slightly compared to 1982. Revenues for 1983, not including those related to energy costs, increased to \$1.5 billion or 11 percent over 1982 due to rate increases granted the GPU companies.

Bank Credit Agreement Extended

In August 1983, the GPU System established an extended bank credit agreement to provide for working capital needs into 1985. The previous agreement was to expire at the end of 1983. The revised Revolving Credit Agreement (RCA) reflects an improvement in terms with the consortium of participating banks.

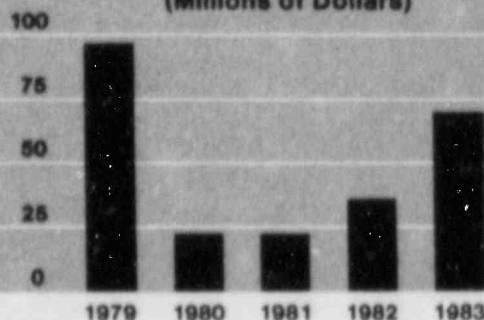
Under the revised RCA, the GPU System reduced the amount of credit from \$200 million to \$125 million, consistent with the System's anticipated reduced borrowing needs. The banks, concurrently, reduced the interest rates on borrowings and the commitment fee.

The new agreement continues to provide a source of cash to supplement GPU's internal cash generation.

At year-end 1983, borrowings under the revised RCA stood at \$10 million, a dramatic improvement from the \$326 million peak in short-term borrowing experienced in 1980. (For further information, see Management's Discussion, page 16).

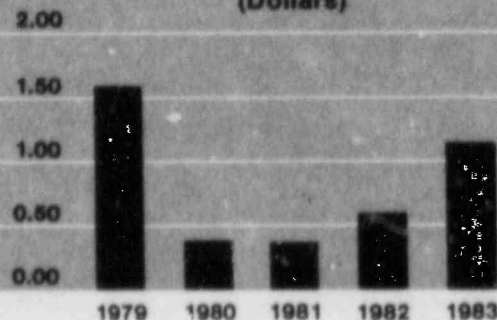
Net Income Before Extraordinary Items

(Millions of Dollars)



Earnings Per Share Before Extraordinary Items

(Dollars)



Cash Position Improved; Borrowing Needs, Capital Expenditures Stabilized

The cash position of GPU was substantially strengthened in 1983. Most significantly, the Company, in early May, was able to pay off all short-term debt. Subsequently, only limited amounts were borrowed from time to time in order to meet anticipated working capital obligations.

Continued close controls over expenditures and the maintenance of construction spending in line with available internally-generated funds, have reduced the Company's anticipated borrowing in 1984 and 1985. Other factors contributing to the improved cash position of the Company since the TMI-2 accident include sales of nuclear fuel and continuing success in securing economical long-term purchases of replacement power, along with timely recovery of fuel costs.

Although earnings would continue to be impaired, strong economy measures would enable the GPU System to meet all cash requirements for an extended period of time, even without the return of TMI-1 to service and to rates.

Borrowings in 1984 and 1985 are expected to be modest. JCP&L will, however, require significant borrowings early this year and at the time of its major state tax payments. Nevertheless, short-term debt at year-end 1984 should be minimal for all the GPU companies.

In 1983, the GPU System had \$463 million of capital expenditures, with almost two-thirds of these funds, \$285 million, going to plant improvements and modifications to existing generating stations, including substantial refurbishment of the Oyster Creek Nuclear Generating Station. The remaining \$178 million was used to retire long-term maturing debt. In 1984, about \$475 million has been budgeted for capital expenditures, an increase of only \$12 million, or 2.6 percent, over 1983.

Penelec Bonds Redeemed Early

On August 1, 1983, GPU's Pennsylvania Electric Company subsidiary redeemed a 10% percent first mortgage bond issue. The \$45 million issue was redeemed at par, a year in advance of normal maturity. By redeeming the bonds early, Penelec was able to reduce interest expense by utilizing available internally-generated cash.

The Rate Regulatory Report

As a result of rate regulatory actions in 1983, the GPU Companies were permitted to implement increases totalling \$154 million in annual base rate revenues, which contributed to the GPU 1983 rise in earnings over 1982.

Most significantly, as a result of intensive 1983 rate-making activity and decisions:

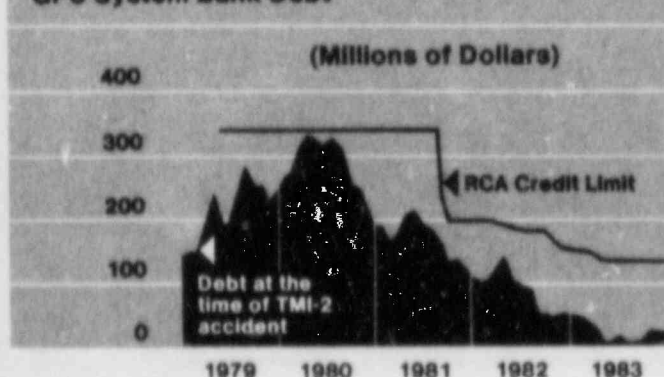
- increased operating and maintenance costs for Oyster Creek are being recognized;
- timely adjustments were made in energy cost recoveries; and,
- regulators in both states have provided for the updating of TMI costs, to become effective with the return to service of TMI-1.

Even with these actions, GPU customers' bills remained at levels in line with those of neighboring utilities.

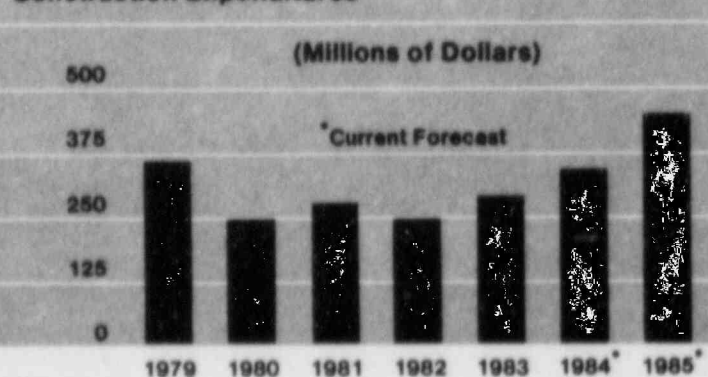
Certain adverse decisions by our regulatory agencies in response to the TMI-2 accident still remain. The most serious of these is the continued exclusion from customer rates of most of the costs associated with both TMI units.

In New Jersey, still to be resolved is the determination by the Board of Public Utilities (BPU) of

GPU System Bank Debt



Construction Expenditures



any "fault" of JCP&L associated with the TMI accident. If JCP&L is found to be at fault, the BPU must also determine any resulting penalties and mitigating measures, as mandated by legislation enacted in 1983. On February 8, 1984, the New Jersey Public Advocate filed a motion requesting summary disposition by the BPU on the issue of JCP&L's fault. On February 27, 1984 JCP&L filed a brief in response to the Advocate's motion.

Also to be resolved in New Jersey are the BPU's final conclusion and recommendations on options it has studied since 1980 on the ability of JCP&L to provide continued reliable service to customers in the aftermath of the TMI-2 accident. The Company maintains that JCP&L's continued viability and the significant progress

made by JCP&L to recover from the financial effects of the TMI accident supports JCP&L's continued operation as part of the GPU System.

In early 1984, all three GPU operating companies filed retail base rate increase requests for an aggregate of \$121 million in revenues to offset inflation, increases in non-TMI costs and, in JCP&L's case, recognition of the capital costs associated with TMI-2.

In a separate action, the Pennsylvania companies also filed for a reallocation of existing revenues in order to increase customer contributions to the full level identified in Governor Thornburgh's cost-sharing plan for TMI-2 cleanup, independent of TMI-1 restart status.

For details on the major ratemaking actions in 1983 and 1984 see the Chronology that follows.

Chronology of Major Rate Regulatory Actions in 1983 and 1984

1983 Pennsylvania Rate Actions

January 21 . . .

Pennsylvania Electric Company (Penelec) filed with the Pennsylvania Public Utility Commission (PUC) for a \$75 million retail base rate increase and requested a \$10.2 million increase upon TMI-1's return to service.

Metropolitan Edison Company (Met-Ed) filed for a \$60 million retail base rate increase and requested a \$22.7 million increase upon TMI-1's return to service.

April 15 . . .

Met-Ed and Penelec filed final data with the PUC for changes in their Energy Cost Rates (ECR), effective with May sales; Penelec's proposed ECR would decrease customer charges for energy costs by \$71.4 million annually; Met-Ed's requested ECR increase was \$7.3 million annually.

April 29 . . .

PUC approved Met-Ed's and Penelec's ECR filing of April 15, effective with May sales.

October 14 . . .

The PUC approved a \$25.1 million non-TMI-1 related retail base rate increase for Met-Ed and a \$44.8 million non-TMI-1 related retail base rate increase for Penelec, effective October 19, 1983. The PUC also updated previously set rate provisions for TMI-1 upon the unit's return to service by \$12.2 million for Met-Ed and \$5.4 million for Penelec.

November 18 . . .

Pennsylvania Commonwealth Court rejected Met-Ed's and Penelec's consolidated appeals of the PUC's Orders entered June 8, 1981 and July 27, 1981 and affirmed the subject PUC orders. The PUC's June 8, 1981 Order dismissed Met-Ed's and Penelec's complaints against the temporary rates established by the PUC when TMI-1 capital and operating costs were removed from base rates. The PUC's July 27, 1981 Order established new, higher base rates for both companies without, in the companies' view, addressing the just and reasonable standards of those rates, and ordered the normalization of TMI related reserve capacity credits.

December 17 . . .

Met-Ed and Penelec filed with the Pennsylvania Supreme Court a Petition for Allowance of Appeal from the Commonwealth Court's decision upholding the PUC's denial of rate relief. The basis of the Companies' petition is that they believe the PUC ignored proper ratemaking principles in its 1981 orders.

1984 Pennsylvania Rate Actions

January 10 . . .

Met-Ed and Penelec filed a petition with the PUC for an accounting change that would allow \$8.3 million from Met-Ed and \$7.5 million from Penelec current revenues to be directed to the cleanup at TMI-2, with no change in customer charges.

January 25 . . .

Met-Ed filed for a \$19.8 million retail base rate increase for non-TMI related costs. Penelec requested a \$41.7 million retail base rate increase for non-TMI related costs.

February 28 . . .

Met-Ed filed for a \$38.4 million ECR increase and Penelec filed for a \$37.5 million increase in its ECR.

1983 New Jersey Rate Actions

January 28 . . .

Jersey Central Power & Light Company (JCP&L) filed for a \$123.4 million retail base rate increase and requested a decrease of \$102.9 million in the Company's Levelized Energy Adjustment Clause (LEAC). The base rate request was subsequently split into two phases.

February 24 . . .

The New Jersey Board of Public Utilities (BPU) approved payment of \$25 million in dividends by JCP&L to its parent company, GPU; the payment, the first for the utility since the March 1979 accident at TMI-2, was used in conjunction with Penelec dividends to GPU to help repay \$31 million in short-term bank loans.

Operations Report

TMI-1 Readied for Restart; NRC Decision Remains

All major physical steps necessary to return Three Mile Island Unit 1 (TMI-1) to service were completed during 1983. At year-end the unit, undamaged in the March 1979 accident at TMI-2, was physically ready for restart, but required authorization from the Nuclear Regulatory Commission (NRC).

Preparations for bringing the unit back to commercial operation were extensive, including

the implementation of a wide range of NRC-mandated "lessons learned" modifications resulting from the TMI-2 accident as well as the repair of the plant's steam generators. Extensive testing of the generators in 1983 verified the integrity of the repairs. Only a few plant modifications which can only be verified during the start-up phase remain to be completed.

Favorable Supreme Court Decision

On April 19, 1983, the U.S. Supreme Court removed a major obstacle to restart in a decision that stated the NRC need not consider psychological stress to the residents of surrounding communities as part of its deliberation on restart.

Chronology Continued . . .

April 25 . . .

BPU awarded ICP&L a Phase I retail base rate increase of \$54.1 million and a \$111.0 million annual LEAC decrease effective immediately. This decision represented a settlement for Phase I of the base rate case with the entire base rate case to be reviewed during Phase II of the proceeding.

June 9 . . .

BPU denied ICP&L motion for reconsideration of the Board's order preventing recovery of about \$7 million in costs associated with the cancelled Ontario Hydro project.

June 15/20 . . .

BPU announced commencement of "fault" proceedings and issued its Order initiating investigation into fault for the TMI-2 accident, pursuant to legislation signed into law on March 11, 1983.

July 15 . . .

ICP&L petitioned the BPU for a \$37.7 million annual decrease in its LEAC.

August 18 . . .

ICP&L's Residential Energy Conservation Action Program (RECAP) is approved by the BPU; RECAP is the centerpiece of an aggressive \$70 million conservation program being implemented by ICP&L; under RECAP, the utility has a first-year goal of weatherizing at least 9,000 electrically-heated homes in its service area.

October 14 . . .

The BPU granted permission for ICP&L to pay GPU a \$3.5 million dividend.

November 15 . . .

Concluding Phase II of the January base rate request, the BPU issued an order confirming the \$54.1 million Phase I increase in retail base rates that became effective in April and granted an additional \$30 million increase in retail base rates; updated the TMI-1 costs, to become effective with TMI-1's return to service and approved a \$37.7 million LEAC decrease, effective November 16, 1983. In addition, the provision for ICP&L's share of TMI-1's costs when it returns to service, first included in the BPU's July 1982 orders, was increased to \$44.5 million.

1984 New Jersey Rate Actions

January 11 . . .

ICP&L filed a request with the BPU for a \$92.6 million annual LEAC increase.

January 27 . . .

ICP&L filed for a \$59.3 million retail base rate increase.

Federal Rate Actions:

Final determination of FERC proceedings previously reported in the 1982 GPU Annual Report as interim increases, subject to possible refund.

March 31, 1982 . . .

ICP&L filed with FERC for a \$5.7 million wholesale increase.

June 10, 1982 . . .

Penelec filed with FERC for a \$9.3 million wholesale increase.

December 3, 1982 . . .

Met-Ed filed with FERC for a \$1.84 million wholesale increase.

May 17, 1983 . . .

FERC granted approval of a \$6.1 million wholesale increase for Penelec.

May 31, 1983 . . .

FERC granted approval of a \$4.9 million wholesale increase for ICP&L.

June 20, 1983 . . .

FERC granted approval of a \$1.4 million wholesale increase for Met-Ed.

NRC Deliberations Continue

In 1981 and 1982 an Atomic Safety and Licensing Board (ASLB) of the NRC issued partial initial decisions stating that TMI-1 can be operated safely by GPU Nuclear Corporation. Appeals were taken from those rulings, both to the NRC and to an NRC Atomic Safety and Licensing Appeal Board (ASLAB). In May 1983, the ASLAB reaffirmed the technical findings of the ASLB but left open the appeal on management issues. Motions are pending before the ASLAB to reopen the record and to hold additional hearings on these issues. Also in May 1983, the NRC staff said it could not reach a conclusion on the management issues that remain open until it had completed additional investigations. The open issues were referred to the NRC Office of Investigations (OI). These include a number of items going back to plant operations prior to the TMI-2 accident, safety allegations relative to TMI-2 cleanup procedures and the Company's handling of consultant reports as well as its own internal investigation into the Company's handling of the TMI-2 accident.

On October 7, 1983 the NRC issued a Notice to which was attached a schedule setting forth the Commission's estimate of the time which would be required for the completion of the investigations by the NRC's Office of Investigations (OI), and possibly for further hearings, depending upon the results of the OI investigations. On that approach, the Notice stated that, even assuming those investigations are completed at the earliest practicable date and result in findings most favorable to the Company, an NRC decision on restart would not occur prior to mid-1984. It also stated that, if the OI investigations demonstrated the need for further hearings, an NRC decision on restart might not be made until mid-1985 or later. The Notice also stated that given those time estimates, the NRC was prepared to consider alternate approaches.

In response, at a public meeting on November 28, 1983 GPU presented to the NRC plans to add three outside directors to the board of GPU Nuclear Corporation who would form an independent Nuclear Safety and Compliance Committee as a further assurance that TMI-1 would be operated safely. At the same time, the Company announced the resignation of Mr. Robert C. Arnold as president and a director of GPU Nuclear Corporation. Mr. Arnold's resignation was offered by him as further evidence to the NRC and to the public that TMI-1 is now being operated by a new organization with different management from that which was in place at the time of the TMI-2 accident.

Mr. Philip Clark, previously executive vice

president, was elected president, and Mr. Edwin E. Kintner, vice president of administration, was elected executive vice president of GPU Nuclear Corporation. Both Mr. Clark and Mr. Kintner joined the GPU System subsequent to the TMI-2 accident.

The Company announced these additional management changes on November 28 to enable the NRC to proceed with its TMI-1 restart decision while the remaining "open issues" are investigated and resolved.

GPU Nuclear Outside Directors Named

On January 26, 1984 the first of the three GPU Nuclear outside directors, Mr. Robert V. Laney, was elected to the GPU Nuclear board. Mr. Laney, a consultant in nuclear and energy project management, was deputy director of the Argonne National Laboratory from 1972 to 1979 and was involved in the Naval Nuclear Program from 1948 to 1950.

On February 6, 1984, GPU announced further changes in the board and management of GPU Nuclear. As a result, Mr. Clark was named chief executive officer and Mr. John F. O'Leary, former Deputy Secretary of the U.S. Department of Energy and a member of the GPU Board of Directors since October 1979, was named chairman of GPU Nuclear Corporation. Mr. Herman Dieckamp, former chairman and chief executive officer of GPU Nuclear since its inception, remains a director of the nuclear subsidiary and continues to hold the positions of president, chief operating officer and a director of GPU.

Two additional GPUNC board members who hold positions within GPU Service Corporation, Dr. Shepard Bartnoff and Mr. Bernard H. Cherry, resigned from the GPU Nuclear board. Their resignations completed a shift in emphasis from a board originally comprised entirely of inside members to a planned composition of seven inside members and four outside members, including the chairman.

These moves, along with other changes, completed the appropriate separation of the management of the nuclear organization from other GPU System responsibilities.

On February 23, 1984, the two additional outside directors were elected to the GPU Nuclear board. With their election, Mr. Lawrence L. Humphreys and Dr. Warren F. Witzig joined Mr. Laney in comprising the previously mentioned Nuclear Safety and Compliance Committee. Mr. Humphreys has served since 1980 as chief executive officer of UNC Nuclear Industries. From 1960-68 he worked at research and development facilities of the federal government near Richland, Washington, attaining the position of

nuclear reactor supervisor. From 1968-80, Mr. Humphreys worked for electric utilities, attaining the position of executive vice president and holding responsibilities in nuclear plant engineering and construction, safety, regulatory compliance and steam plant operation. Dr. Witzig is chairman of the Nuclear Engineering Department at The Pennsylvania State University, where he has also served as a professor since 1967. From 1960-67, Dr. Witzig was a senior vice president and director of NUS Corporation, a nuclear consulting firm. He worked in various nuclear research programs from 1942-60 and is now engaged in research in the disposal of radioactive waste, the nuclear fuel cycle and emergency planning.

TMI-1 Steam Generator Repairs

Operation of the repaired TMI-1 steam generators requires approval by the NRC of an amendment to the TMI-1 operating license. Such amendment requires a public hearing. However, if the NRC determines that such amendment involves "no significant hazards consideration," the license amendment can be approved by the NRC prior to the completion of the hearing. The NRC staff has recommended that the NRC Commissioners determine that the amendment involves no significant hazards consideration. On January 10, 1984 two NRC Commissioners voted to approve such amendment and two voted against such approval. The fifth Commissioner stated that he was not yet ready to vote on the matter. In the interim, an Atomic Safety and Licensing Board, established by the NRC in August 1983, has been proceeding along a normal path toward a hearing later this year. If completion of the hearing and appellate process is required before issuance of the license amendment, the operation of TMI-1 could be delayed.

NRC Staff Outlines Conditions For Limited Restart

At a December 5, 1983 hearing, the NRC staff outlined certain conditions, including power limitations, under which restart of TMI-1 could proceed, before pending investigations are completed and a final NRC determination can be made on its continued operation.

On January 27, 1984 the NRC voted 3-2 to separate the remaining "open issues" on management from the technical or "hardware" issues associated with the TMI-1 restart decision. This action, according to the Commission chairman, provides a reasonable pathway for a final NRC decision on restart by June 1 of this year.

Rickover Report Underscores TMI-1 Readiness

In early September 1983, GPU Chairman William G. Kuhns asked Admiral Hyman G. Rickover to make an assessment of GPU Nuclear Corporation, including the soundness of its organization and senior management, in anticipation of the operation of TMI-1.

On November 22, Admiral Rickover issued a report focusing on TMI-1 and Oyster Creek. In his report, Admiral Rickover concluded,

"Based on the assessment of the GPU Nuclear Corporation and its organization and senior management as reported herein, the team concludes that GPU Nuclear Corporation has the management competence and integrity to safely operate the TMI-1 plant."

The report and its recommendations were reviewed by GPU senior management and provided to the NRC and the parties in the TMI-1 restart proceeding as further evidence that the plant can be operated safely.

In a December 1983 letter to a number of key U.S. congressional representatives, Admiral Rickover outlined the depth of his study and reiterated his earlier favorable assessment, concluding that,

"It is my opinion that the plant should be permitted to start operation now. This is the action I would take if it were a naval plant for whose operation I was responsible."

(The Preface, Summary & Conclusions from Admiral Rickover's report are reprinted on pages 10 and 11).

TMI-2 Cleanup Continues

At the damaged Three Mile Island Unit 2, extensive cleanup operations continued during 1983, including stepped-up frequency of manned containment building entries, a detailed analysis of the damaged nuclear fuel core and shipment off the island of all of the radioactive waste from the accident-generated water.

With the exception of the damaged Unit 2 fuel core, the August shipment marked the removal of about 95 percent of the radioactivity released into the coolant water at the time of the TMI-2 accident.

Detailed analysis of fuel core damage using sophisticated sonar "mapping," coupled with visual inspections through the use of underwater television cameras and the first actual sampling of the core, provided valuable data necessary for the ultimate removal of the fuel, the next major step in the cleanup effort. Actual defueling of the reactor is projected for 1986, subject to cleanup funding levels.

Meanwhile, manned entries into the Unit 2 containment building increased, with activity

(Continued on page 12)

An Assessment of The GPU Nuclear Corporation Organization and Senior Management and Its Competence to Operate TMI-1

by Admiral H. G. Rickover, USN

November 19, 1983

Reprinted here are portions of the report submitted by Admiral H. G. Rickover, USN, to GPU Chairman and Chief Executive Officer William G. Kuhns on November 19, 1983. Included are the Admiral's "Preface" and the full text of his "Conclusions and Recommendations." Copies of the full report are available on request.

Preface

By letter of September 2, 1983, Mr. William G. Kuhns, Chairman, General Public Utilities, requested me to assess the GPU Nuclear Corporation, including the soundness of the organization and its senior management, in anticipation of the operation of the undamaged nuclear plant at Three Mile Island (TMI-1). He assured me of complete and open access to all GPU personnel, facilities, and information, as well as freedom to use whatever other resources, personnel, or sources of information I might wish.

I am often asked how I ran the Naval Reactors Program, sometimes by people hoping to find methods for use in their own work. Frequently there seems to be an expectation that I could tell them about some simple, easy procedure which made the Naval program function. Unfortunately there is none. Any successful program functions as an integrated whole of many factors. Trying to select one as the key will not work. Each element depends on all the other elements.

This is something that can be learned only through personally experiencing operating responsibility and making hard decisions. A lack of operating experience in people responsible to evaluate the competence of organizations leads too often to focusing on trivial details or on vague generalizations. Attaining competence and reliability in a nuclear operation is difficult, but recognizing them is not. In fact, with experience in operation, it is possible to lay down certain principles which are essential to safety, and are observable and verifiable.

Mr. Kuhns' request offered me the opportunity to apply the successful principles on which the Naval program was based to an evaluation of GPU Nuclear's competence to operate TMI-1. Although commercial nuclear plants and Naval nuclear plants differ in many ways, they do not differ in the underlying principles which make for safe operation. These apply equally to both. It is my hope that, by performing this assessment, those principles will become more widely understood and practiced. Since nuclear power is clearly here to stay, such attitudes and principles must, in my opinion, become industry's standard. I therefore accepted Mr. Kuhns' invitation.

Fortunately, I was able to enlist the support of three of my early associates from the Navy program: James M. Dunford, Jack C. Grigg, and Robert V. Laney. These people spent many years assisting me in developing, building, and operating nuclear power for the Navy. They are well-versed in the principles which guided that work and are practiced in discerning where these principles are being used or ignored. They assisted me throughout this assessment.

We made two early decisions affecting the scope of the assessment:

First, we would focus on the competence of the present GPU Nuclear organization and the people who are now responsible to manage it, rather than on managers who are now absent.

Second, we would focus on the management of GPU Nuclear's operational reactor at Three Mile Island and, to a lesser extent, Oyster Creek, but exclude the TMI-2 salvage operation.

We were aided in our assessments by several recent evaluations of GPU Nuclear. These include two detailed assessments by the staff

of the Nuclear Regulatory Commission, two by the Institute of Nuclear Power Operations, and one by the Atomic Safety and Licensing Board. Although different in scope, these focused on specific organizational features and management practices.

While noting that these assessments all reach conclusions which are favorable to GPU Nuclear, our assessment is based on our own direct observations. However, because these previous reviews all focus on traditional management functions, our assessment is directed much more toward management's fundamental understanding and practice of underlying principles of operation.

I have mentioned the principles of operation which I used in building the Naval Reactor Program. I emphasize that these are principles, not procedures or practices. Procedures or practices must be changed as circumstances change. Principles are constant and can be applied now and in the future. If a management is imbued with these principles and accustomed to using them, it will adapt to change. The principles are defined in the body of the assessment report, Section II-E; they are stated here in the form of management objectives:

1. Require rising standards of adequacy.
2. Be technically self-sufficient.
3. Face facts.
4. Respect even small amounts of radiation.
5. Require relentless training.
6. Require adherence to the concept of total responsibility.
7. Develop the capacity to learn from experience.

These principles express attitudes and beliefs. They acknowledge the complex technology. They recognize that safe nuclear operation requires painstaking care. They declare that a nuclear management must be responsible—all the time. Although easily stated and readily defined, these principles are exceedingly demanding of a management which chooses to adopt and follow them. If management has chosen such a course, it will lead to a competent and dependable operation.

It is extremely important that senior management become technically informed and be personally familiar with conditions at the operating plant. They should visit the plants frequently, at irregular hours, inspect selected portions, and leave a written record of what they observed and how long they remained. These would be surprise inspections for which people could not prepare ahead of time. In this way, the pressure will be to maintain the plant in excellent condition at all times.

I believe that our criteria, and the principles on which they are based, measure more than the structural or technical adequacy of an organization. If used knowledgeably, they can expose a management's motivation to act responsibly, which we call integrity. A lack of integrity would be incompatible with conformance to these criteria.

Based on the assessment of the GPU Nuclear Corporation, including the soundness of its organization and senior management as reported herein, I conclude that the Corporation has the management competence and integrity to safely operate TMI-1.

/s/ H. G. Rickover

November 19, 1983

I. Summary

A. Scope. This is an assessment of the GPU Nuclear Corporation, including the soundness of its organization and senior management, in anticipation of the operation of TMI-1. The focus is expressly on the present management and its qualifications to operate nuclear plants. The methods and criteria used in the evaluation were selected for that purpose.

The assessment team is aware of a number of questions currently being reviewed by the NRC which, in varying degrees, are perceived as bearing on "fitness to operate." These questions relate to events which took place several years ago or to recent events related to the conduct of salvage operations at TMI-2. We address neither of these. The early events are excluded from the evaluation because the competence of the present management could not credibly be measured by events which took place under a previous management so thoroughly different. The TMI-2 operation is excluded because it is, in a technical sense, a very different kind of activity than power plant operation.

The assessment thus concentrates on the fitness of the present management of the GPU Nuclear Corporation and its TMI-1 and Oyster Creek Stations. The information obtained from these sources is used, together with criteria described below, to assess management's qualifications to operate TMI-1.

B. Method. The existence of several recent and valuable evaluations by the Nuclear Regulatory Commission, the Institute of Nuclear Power Operations, and the Atomic Safety and Licensing Board, uniformly structured around traditional management functions, argued strongly that this assessment should not follow the same pattern. We intend to provide a fresh perspective on the meaning of "fitness to operate" and a different approach to measuring it. This is an appraisal of management's understanding and application of tested "principles of operation" which are fundamental to all nuclear power activities. These principles and the measurement criteria derived from them are described in Section II-E of this report.

The assessment was conducted by reviewing numerous documents describing the management structure and its current performance; by inspecting TMI-1 and Oyster Creek Stations and related training facilities; by interviewing a representative sample of managers; and by applying the principles of operation and related criteria to the information thus obtained.

The assessment team was given full access to people, facilities, and records of its choice, and its questions were answered promptly and frankly.

The documents reviewed (Appendix A) were selected to give the team an understanding of differing points of view about management competence; to use previous assessments as a means of directing our own inquiries toward management areas which had previously been questioned by others; and to review enough examples of management's written policies and procedures to form a basis for assessing its operating standards.

The list of managers interviewed (Appendix B) in this assessment includes most of the senior managers at corporate headquarters and a representative sample of managers at the TMI-1 and Oyster Creek Stations, including the Vice Presidents/Site Managers, and many of their principal subordinates and support function managers located at the stations. We interviewed individuals five levels below the Corporate President, four levels below the Station Manager, and at various levels in between. In total, 49 managers were interviewed.

The assessment team members, all having extensive experience in conducting similar interviews, directed their questions toward the following specific objectives:

—to learn, within the range of the respondent's direct observation and field of expertise, the conditions and management attitudes as they were in 1979.

—to learn the respondent's observations as to present conditions and management attitudes, within the range of his personal observation and expertise.

—to obtain the respondent's assessment of the differences between 1979 and the present, his explanation of the reasons for these differences, and to test his credibility.

—to assess each individual's qualifications for the responsibilities of his job.

C. Criteria of Competence. While the physical aspects of commercial nuclear power stations differ substantially from Navy nuclear propulsion plants, the same underlying precepts must govern the operation of both. It is important that these precepts be clearly understood. The criteria used to assess the competence of the GPU Nuclear Corporation to operate TMI-1 are:

1. Require rising standards of adequacy.
2. Be technically self-sufficient.
3. Face facts.
4. Respect even small amounts of radiation.
5. Require relentless training.
6. Require adherence to the concept of total responsibility.
7. Develop the capacity to learn from experience.

We believe that these criteria are qualitatively different from and in some respects superior to functional criteria customarily used to evaluate a management's performance. They go beyond questions of the adequacy of organizational structure and the number and quality of staff. The criteria described below address management's basic attitudes toward safe operation, explore their underlying motivation, and examine the force of the example given to the rest of the organization. In addition to testing present fitness to operate, these criteria can also tell us something about how a management is likely to respond to future events.

D. Conclusion and Recommendations.

1. Conclusions. Based on the assessment of the GPU Nuclear Corporation and its organization and senior management as reported herein, the team concludes that GPU Nuclear Corporation has the management competence and integrity to safely operate the TMI-1 plant.

2. Recommendations. In the course of the investigation, several items were observed which, if adopted, would enhance the operation of the TMI-1 plant. While they are not considered necessary prior to restart, the team recommends they be adopted.

a. GPU Nuclear should devise a plan to upgrade the operation and support of the TMI-1 and Oyster Creek plants, to achieve a ranking in the top one-sixth of all commercial nuclear plants in the Institute of Nuclear Power Operations (INPO) evaluations. Milestones should be set in each area and progress measured against these milestones.

b. GPU and GPU Nuclear senior management should become technically informed and personally familiar with conditions at the operating plant. They should visit the plants frequently, at irregular hours, inspect selected portions, and leave a written record of what they observed and how long they remained.

c. Some personnel in the TMI-1 Training Department responsible for training licensed operators are not yet qualified Senior Reactor Operators. We recommend that these personnel complete qualification procedures on TMI-1 as soon as possible.

d. GPU Nuclear should continue to reduce its dependence on the use of consultants. The organization should become self-sufficient to the point where use of such personnel would be necessary only in special circumstances where development of in-house capability could not be justified.

e. The general announcing system for the TMI plant distracts personnel in the control room. The system should be modified to significantly reduce these broadcasts to the control room. This will prevent distraction of operators from their primary duties. Also, too many people are in the control room. Only those essential to the operation of the plant should be there. Instructions to this effect should be posted and complied with.

Note: GPU has accepted the conclusions and recommendations of Admiral Rickover and is in the process of implementing them at its nuclear operations.

focusing on shielding sources of radioactivity to reduce workers' exposure and improve productivity. Extensive efforts were also made to refurbish and test the crane inside the containment, which will be used to lift the reactor head so the damaged fuel core can be removed. On November 18, 1983 the NRC staff approved load testing of the crane to qualify it for head removal. On February 29, 1984 load testing of the polar crane was successfully completed.

Cleanup Allegations Refuted

A seven-month independent investigation ordered by GPU Nuclear Corporation into allegations by four employees of safety and management deficiencies at TMI-2 concluded in November 1983 that, based on the weight of the evidence, the allegations were largely unfounded and that the safety of this operation had been maintained.

A 12,000 page report of the investigation, encompassing 15-volumes, covered the period from June 1982 through March 1983, when the alleged deficiencies in the cleanup supposedly occurred. The investigation was conducted by Edwin H. Stier, the former director of the New Jersey Division of Criminal Justice. Mr. Stier and a staff of lawyers and engineers were commissioned by GPU Nuclear Corporation to perform an unlimited investigation of the allegations.

In addition to concluding that the bulk of the allegations were unfounded, Mr. Stier also found that,

"Those allegations which have basis in fact do not support the sweeping criticisms of management and safety at TMI-2. Any legitimate issue raised relating to the safe operations of the plant was being addressed by TMI-2 management prior to the accusations."

Findings of the Stier investigation were submitted to the NRC and to the parties in the TMI-1 restart proceeding.

TMI-2 Cleanup Funding

The future pace of the TMI-2 cleanup effort will be determined by the availability of funds. Efforts to secure all the components of an equitable cost-sharing plan for the total cleanup continued in 1983 with some progress. Until funding is further assured, program levels for the cleanup in 1984 will be kept at about the same levels as in 1983.

In 1983, the PUC denied a request by the Pennsylvania companies for a reallocation of revenues, to keep in step with the "Thornburgh Plan," that would have provided \$15.8 million of additional annual customer funding for the

TMI-2 cleanup. With a corresponding reduction in TMI-2 amortization, this change would result in no increase in customer charges. The Pennsylvania companies again requested the reallocation of revenues in a petition filed with the PUC on January 10, 1984.

Some additional cleanup funding sources were secured in 1983. These included approval by the state of New Jersey of a portion of the cleanup costs and up to \$37 million over the next 10 to 15 years in the form of rebates on future purchases of about \$270 million in services and equipment resulting from the Company's 1983 settlement of the litigation with the Babcock & Wilcox Company (B&W).

An additional source of cleanup funding was identified in December 1983 when the Japanese Federation of Electric Power Companies (FEPC) announced its intent to participate in research and development programs at TMI. The Japanese decision to participate, under an agreement between the FEPC and the U.S. Department of Energy, will permit assignment of up to 22 engineers to the research and development effort, with a participation fee under the five-year pact of \$18 million to be paid by the Japanese utilities. The Company continues to press for increased participation of this type from other foreign utilities and from the domestic utility industry.

In late December 1983 the Internal Revenue Service (IRS) ruled that contributions to the TMI-2 cleanup from non-affiliated utilities could be deducted as "ordinary and necessary business expenses." GPU viewed the IRS ruling as a favorable development in that it could encourage additional utilities to participate in the voluntary program for cleanup cost-sharing, as endorsed by the electric utility trade association, the Edison Electric Institute (EEI).

Under the EEI-endorsed plan, non-affiliated utilities would contribute an aggregate of \$150 million toward the cleanup, with the industry program effective where a threshold of \$100 million was pledged. At this writing, a total of 38 utilities have pledged some \$78.1 million toward the \$100 million "trigger" for industry sharing in the cleanup effort. Industry support for the plan was reaffirmed at a January 1984 meeting of the EEI Board of Directors.

Oyster Creek Upgraded

In February 1983, the Oyster Creek Nuclear Generating Station was taken out of service for refueling and for the most extensive program of modifications and upgrading in the plant's 14-year history. An increased work scope, the limited availability of some plant parts and high summer temperatures inside the plant extended

the original outage schedule by about four months, to June 1984. The work program at Oyster Creek represents one of the most comprehensive refurbishments ever undertaken in the nuclear industry. Following an expected 17 months of operation after the return to service, another extended outage will help assure plant reliability for its full expected lifetime to the end of this century.

Coal Plant Performance

The wisdom of the decision to undertake upgrading and equipment modifications at major coal plants across the GPU System to improve efficiency and reliability was clearly demonstrated in 1983.

Coal-fired generating stations owned and operated by Penelec and Met-Ed boasted impressive operating records in 1983, both in terms of their availability and in generation of electricity.

Power Purchases Continue

In early July 1983, GPU announced the signing of another long-term power purchase agreement with Pennsylvania Power Company, a subsidiary of the Ohio Edison Company. This agreement and other long-term contract power purchases provide significant energy cost savings to customers over what the same amount of power would cost if purchased as interchange from the other members of the Pennsylvania-New Jersey-Maryland (PJM) Interconnection, the regional power pool.

On February 8, 1984 GPU announced that an agreement in principle had been reached with Pennsylvania Power & Light Company (PP&L) to purchase from PP&L, 945 megawatts of power through 1995, with the amount then declining uniformly each year through 1999.

The long-term contract purchases are part of the Company's continuing and aggressive efforts to provide for the future energy needs of customers through economical agreements with other utilities and reinforces the ability of GPU to

provide significant savings to customers.

Improvements have been made to the regional transmission network to further assure the Company's ability to import the power and move it across the GPU System to where customer needs are greatest, thereby improving System reliability and economy. These actions are in accordance with the Company's plan to defer new generation construction.

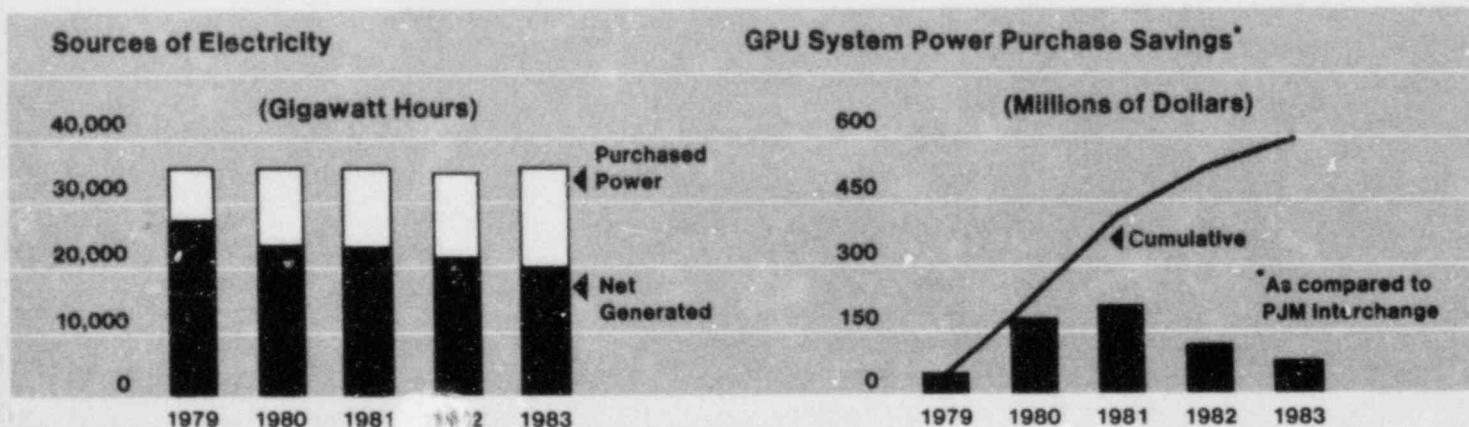
Conservation, Energy Management, Cogeneration Efforts Expanded

The year 1983 saw continued expansion of GPU's extensive efforts in the areas of conservation, energy management and cogeneration. The GPU System companies announced plans and received regulatory approval for Residential Energy Conservation Action Programs aimed at improving the energy efficiency of some 15,000 all-electric homes across the GPU System.

Additionally, efforts to expand the number of residential customers on Time-of-Day (TOD) rates continued. With more than 31,000 TOD residential customers on-line, GPU has the largest number of TOD customers in the country. By encouraging customers to shift heavier uses of electricity to off-peak hours, the TOD rates allow the Company to get more use from its bigger, more efficient generating stations. This enables the Company to provide customers with lower cost energy.

Also in 1983, the GPU companies were able to sign contracts for several innovative cogeneration and small power production contracts with commercial and industrial customers.

In cogeneration, heat or steam from an industrial process that might otherwise be wasted is used for a second purpose—to generate electricity. In small power production, a private developer finances and constructs a facility with the purpose of selling power to a utility. Both types of projects, coupled with GPU's conservation and energy management programs, augment the System's ability to meet customer needs and, at the same time, defer construction



of new generating facilities and the capital costs associated with them.

The new projects, expected to be placed in service before 1985, will supply about 27 megawatts of power to the GPU System through, among other methods, the recovery of methane from landfills, reclamation of anthracite coal waste (culm), small hydroelectric plants and through the purchase of excess power produced in industrial processes.

GPU already has 21 cogeneration facilities in operation, having a total capacity of about 215 megawatts. The goal is to double that amount over the next ten years.

Legal Report

Since the March 28, 1979 accident at TMI-2, the GPU companies have been involved in considerable litigation. Significant progress was made in 1983 in resolving some of it.

B&W Litigation Settled

In January 1983, GPU and the Babcock & Wilcox Company (B&W) jointly announced settlement of the suit brought by GPU against B&W stemming from the TMI-2 accident.

Under terms of the agreement, B&W will provide rebates of up to \$37 million on services and equipment purchases of some \$270 million over the next 10 or 15 years. The proceeds from such rebates are being applied to the TMI-2 cleanup.

Proceedings in a similar suit initiated by GPU against the NRC for recovery of the same accident-related damages remain halted by the court, pending completion of an appellate review.

(For further details see Note 1 to Financial Statements, page 29).

Shareholder Litigation Settled

In early April 1983, the Company announced a settlement had been reached in class action litigation pending since 1979 against GPU and certain of its directors. The plaintiffs' primary contentions were that GPU failed to disclose in its prospectuses and reports, issued prior to the March 28, 1979 accident at TMI-2, that it might suffer severe financial consequences in the event of an accident at one of its nuclear plants, and that its property damage and decontamination insurance would not cover the costs and losses that GPU might experience from such an accident.

Under terms of the settlement, approved by the Court on September 15, 1983, GPU has deposited \$6 million in escrow for the plaintiff class. The individual defendants, through their insurance carrier, have contributed an additional \$4 million to an escrow fund for the class. Interest earned on all cash funds, pending administration of the settlement, will be added to the settlement proceeds.

In addition, GPU will issue 1.6 million shares of its common stock to the plaintiff class, and has established a fund of \$750,000 to be used to pay disbursements and expenses in connection with the litigation and administration of the settlement. The cutoff date for filing claims was August 12, 1983.

The amounts contributed will be distributed to class members on the basis of their established proof of loss. No distribution of the settlement proceeds will be made to class members until all claims have been reviewed, a process which will take some time to complete. (See Shareholder Notes, Inside Back Cover).

GPU believes the settlement serves as further assurance to the financial community of the Company's dedication to resolving the uncertainties that remain as a result of the TMI-2 accident and helps underscore the Company's continued viability by minimizing its cash exposure. (For additional information see Note 3 to the Financial Statements, page 32).

Partial Settlement Reached in Fuel Storage Litigation

Litigation that began in 1982 concerning the storage and removal of some 224 spent fuel assemblies from Oyster Creek Nuclear Generating Station that are currently stored at a now-defunct fuel reprocessing facility at West Valley, New York has been partially resolved between the GPU System and New York State Energy Research and Development Authority (NYSERDA). Two other utilities are similarly involved in removing fuel from this facility.

Under terms of the settlement, assuming there are no intervening obstacles, the spent fuel will be returned to the Oyster Creek site for storage by May 31, 1985, under an agreed-upon schedule. In return, NYSERDA will, if the schedule is met, agree to drop any trespass claims against the GPU companies. Still to be resolved are claims by NYSERDA and Nuclear Fuel Services against JCP&L for certain storage fees.

(For a further discussion on nuclear fuel litigation, see Note 1 to the Financial Statements, page 30).

Settlement Reached On Met-Ed Indictment

On November 7, 1983 the U.S. Attorney's office in Harrisburg, Pennsylvania announced that a federal grand jury had handed down an 11-count indictment against Met-Ed as the operator of TMI-2, related to the alleged falsification of leak-rate test data at TMI-2 prior to the March 1979 accident at the facility.

The matters in the indictment had been the subject of grand jury investigations since 1980. Jury selection in the subsequent trial was to begin in January but was subsequently postponed.

On February 29, 1984 Met-Ed and the U.S. Attorney for the Middle District of Pennsylvania received court approval of a settlement of the regulatory violations by Met-Ed that were charged in the November indictment.

Under terms of the settlement, Met-Ed pleaded guilty to one count, charging that over a six-month period it operated TMI-2 with an inaccurate and unreliable water inventory testing procedure. Met-Ed also pleaded no contest to six other counts. The remaining four counts, including the charge that Met-Ed knowingly and willfully concealed from the NRC the inadequacies of the water inventory testing, were dismissed on the recommendation of the U.S. Attorney.

As a result of the settlement, Met-Ed will pay fines totalling \$45,000 and provide \$1 million to establish a fund for emergency planning to directly benefit the area around TMI. The Company will not claim the sum for either tax or rate-making purposes and has charged such amounts against other income and deductions on its 1983 income statement.

GPU believes the settlement brings to a conclusion a major uncertainty that has existed for over four years that potentially stood in the way of TMI-1 restart and TMI-2 cleanup. The settlement was made because it would not serve the purpose of either the Company or the government to go through the costly and lengthy process of a trial and possible appeals in light of the evidence presented.

At the time of the settlement, the Company announced that the public interest is better served by the earliest resolution of this and other open issues. Toward that end, the Company's counsel renewed a request to the court that it make public the grand jury records and evidence. This would enable the Company to conclude its own examination of the events and the NRC to conclude its regulatory investigation.

As part of the settlement, the U.S. Attorney stated that the indictment did not charge a "legal nexus," or connection, between the testing inadequacies and the 1979 TMI-2 acci-

dent, nor did the Company's pleas constitute an admission of such a nexus. The U.S. Attorney also stated that no evidence was found of improper behavior in any other surveillance testing at TMI-2. The government's statement of facts also made it clear that there was no involvement of any kind by the officers and directors of GPU Nuclear or the directors of Metropolitan Edison Company.

Nevertheless, the Company noted that the behavior identified by the U.S. Attorney relating to the water inventory tests was totally unacceptable and that such conduct would not be tolerated. The new operator of TMI, GPU Nuclear Corporation, has been structured, and strict procedures have been established, to assure regulatory compliance and the health and safety of the public. Internal controls and safeguards are in place to ensure that the types of behavior that resulted in the indictment cannot recur.

(For additional discussion of legal matters, see Note 1 to the Financial Statements, page 29).

Administration

Change in GPU Board of Directors

Dr. Patricia K. Woolf, visiting research sociologist and co-director of the Ethics and Science Project at Princeton University, was elected to the GPU Board of Directors on August 4, 1983.

Dr. Woolf, who holds a Masters Degree from the University of Washington in Chemistry and a Ph.D. from Johns Hopkins University in Scientific Communication, is a member of the National News Council and serves on the board of the Cordis Corporation of Miami, Florida.

Other Management Changes

Recognizing some 35 years of service with GPU and its affiliated companies, the Corporation on March 31, 1983 accepted the retirement of Mr. Robert H. Sims as vice president—power supply at GPU Service Corporation. Mr. Richard O. Bright, manager of power supply since 1977, was named to fill the vacancy created by Mr. Sims' retirement.

JCP&L Elects New Board Member

On July 25, 1983, Gelorma "Chomie" Persson of Middletown Township, NJ was elected to the JCP&L board. Mrs. Persson is a

member of the United States Small Business Administration and is currently president of the New Jersey Small Business Unity Council. She is the owner of a family business in Little Silver, NJ. Mrs. Persson becomes the third outside director of JCP&L, joining Stephen B. Wiley and Stanley Van Ness, named to the JCP&L board in November 1982 and January 1983, respectively.

Changes in Employment Levels

There was an increase of GPU System employees during 1983 of 299.

In the five years since the accident at TMI, the number of GPU System employees has increased by 1,573. This net increase is due to a combination of a reduced work force at the non-nuclear subsidiary companies of 139 employees and an increase of 1,712 employees associated with the formation of GPU Nuclear Corporation.

Ongoing attention to the administration of Affirmative Action programs continued within the GPU System companies during 1983, increasing employment levels of women and minorities.

Statement of Management

The management of General Public Utilities Corporation is responsible for the information and representations contained in the financial statements and other sections of this annual report. The financial statements have been prepared in conformity with generally accepted accounting principles consistently applied. In preparing the financial statements, management makes informed judgments and estimates of the expected effects of events and transactions that are currently being reported.

To fulfill its responsibilities for the reliability of the financial statements, management has developed and maintains a system of internal accounting control. This system is intended to provide reasonable assurance that assets are safeguarded and transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles.

The Board of Directors, through its Audit Committee, consisting solely of outside directors of the Company, is responsible for reviewing

and monitoring the Company's financial reporting and accounting practices. The Audit Committee meets with management and internal auditors periodically to review the work of each and to monitor the discharge by each of its responsibilities. The Audit Committee also meets periodically with the independent auditors who have free access to the Audit Committee, without management present, to discuss internal accounting control, auditing, and financial reporting matters.

Coopers & Lybrand, independent public accountants are engaged to examine and express an opinion on the financial statements. Their opinion, which appears on page 20, refers to the contingencies and uncertainties resulting from the nuclear accident at Three Mile Island.

Reference is made to Notes 1 and 3 to the accompanying financial statements and to Management's Discussion and Analysis of Financial Condition and Results of Operations below for further discussion of the effects and impact of the accident.

Management's Discussion and Analysis of Financial Condition and Results of Operations

Liquidity and Capital Resources

The GPU System cash position has improved dramatically since August 1980 when \$326 million of short-term debt was outstanding under a Revolving Credit Agreement (RCA) with a consortium of 45 banks. All remaining debt was paid off early in 1983 and only minor borrowings were required during the rest of the year. At December 31, 1983, the GPU System had only \$10 million of such debt outstanding under the RCA. Also at December 31, 1983, the GPU System held temporary cash investments of \$42 million and held \$27 million for redemption of bonds due within one year and had retired \$142 million of first mortgage bonds during 1983, including an early redemption by Penelec of \$45 million.

Progress has been made in 1983 in strengthening the GPU System cash position. The RCA was renegotiated for a period

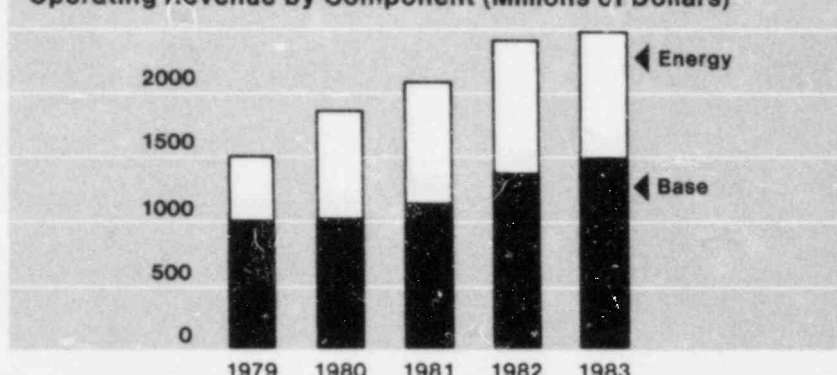
extending through March, 1985 and resulted in, among other things, a reduction in interest costs and a reduction in the commitment fee. The credit limit was reduced from \$200 million to \$125 million for the GPU System reflecting a stabilization in the cash flow situation. We have also secured lines of credit outside the RCA in which the GPU System limit is \$25 million. For additional information see Note 5 to financial statements.

Borrowings in 1984 and 1985 are expected to be modest. JCP&L, however, will require significant borrowings in early 1984 and at the time of its major state tax payments. It is expected that short-term debt at the end of 1984 will be minimal for all the GPU Companies.

The GPU System cash position has been further strengthened as a result of receiving amortization revenues for TMI-2 and Forked River. In 1981, the NJBPU issued an order allowing for recovery through rates of the abandoned Forked River plant and in 1982, the PaPUC permitted the recovery through rates of the Pennsylvania subsidiaries' portion of their TMI-2 plant investment. Although such amortization revenues improve the GPU System's cash position, neither the NJBPU nor the PaPUC permitted a return on the unamortized investments and so there is no improvement in net income. For additional information see Notes 2 and 3 to financial statements.

As a result of the March 1979 TMI-2 accident, the GPU System has depended largely upon the RCA and to a minor extent, other outside lines of credit for external sources of funds. The subsidiaries have not regained access to the capital markets because of major uncertainties resulting from the TMI-2 accident and, until recently, due to lack of adequate interest and preferred stock earnings coverage. As of December 31, 1983, two of the GPU System's

Operating Revenue by Component (Millions of Dollars)

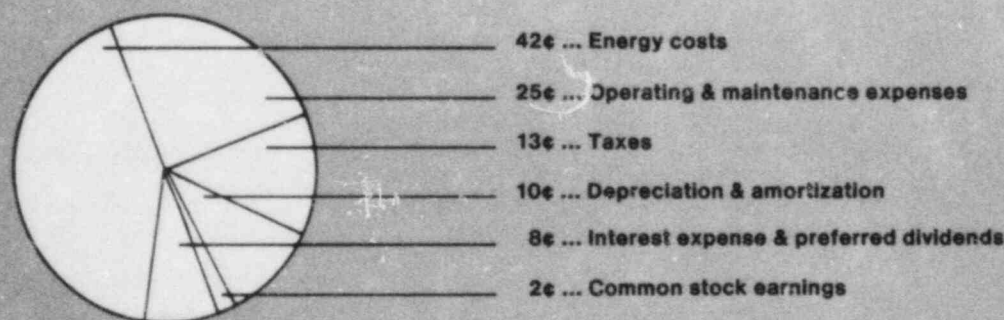


subsidiaries had adequate earnings in order to meet the coverage test for the issuance of first mortgage bonds.

In 1982 and 1983, the NJBPU and the PaPUC issued rate orders to GPU's subsidiaries which included the restoring to rates the capital and operating costs of TMI-1 upon the unit's return to service and meeting certain operating criteria. See "TMI-1 Restart" in Note 1 to financial statements for additional information on the NRC's position regarding restart.

The cleanup of TMI-2 is expected to be completed in 1988 at a cost of about \$1 billion. This estimate remains subject to major uncertainties including the regulatory environment, the full scope of challenges in decontaminating the reactor, the impact of government regulations on the issue of waste disposal and the availability of funds. At December 31, 1983, the subsidiaries have spent about \$409 million for cleanup and have utilized \$393 million from funding sources. We are continuing to make progress in securing funding sources but all elements of such sources are not yet in place. For additional information see "TMI-2 Cleanup" in Note 1 to financial statements.

Where the 1983 Revenue Dollar Went



Results of Operations

Net income, before extraordinary items, for 1983 was \$66.9 million or \$1.09 per share, for 1982 \$33.7 million or 55 cents per share and for 1981 \$20.5 million or 33 cents per share.

Although 1983 net income, before extraordinary items, increased over 1982 and 1982 increased over 1981, earnings levels continue to be severely impacted by the regulatory treatment accorded the investments in TMI-1, TMI-2 and Forked River. At December 31, 1983, such investments totaled about \$1.4 billion (net of amortization) all of which, as mentioned above, are not earning a return. For additional information see "Accounting for Investment in TMI" in Note 1 to financial statements, page 27.

For a further discussion of events subsequent to the TMI accident and for a discussion of extraordinary items, see Notes 1 and 3, respectively, to financial statements.

1983 vs 1982

The increase in net income, before extraordinary items, of \$33.2 million over 1982

resulted primarily from rate increases received by the subsidiaries from the NJBPU and the PaPUC in 1982 and 1983, a decrease in interest expense resulting from the redemption of long-term bonds during 1983 and lower levels of short-term debt outstanding at lower interest rates and the deferral of maintenance expenses related to the Oyster Creek outage which results from a 1983 NJBPU rate order permitting amortization over 5 years. Partially offsetting such increases to income was an increase in operating and maintenance expenses.

1982 vs 1981

The increase in 1982 net income, before extraordinary items, of \$13.2 million over 1981 resulted primarily from rate increases received by the subsidiaries in 1982 and a decrease in interest expense resulting from lower levels of short-term debt outstanding during 1982. Partially offsetting these increases to income was an increase in operating and maintenance expenses and a 2.1% decline in kilowatt-hour sales.

Quarterly Financial Data (Unaudited)

In Thousands Except Per Share Data

	First Quarter		Second Quarter		Third Quarter		Fourth Quarter	
	1983	1982	1983	1982	1983	1982	1983	1982
Operating revenues	\$648,965	\$647,831	\$580,279	\$559,325	\$645,491	\$599,962	\$605,569	\$598,409
Operating income	\$60,999	\$70,215	\$53,802	\$50,180	\$71,833	\$66,679	\$68,438	\$49,447
Income (loss) before extraordinary items	\$11,996	\$18,446	\$7,172	\$(1,246)	\$25,858	\$14,951	\$21,881	\$1,583
Extraordinary items (Note 3)	\$(14,647)			\$7,636			\$(1,371)	\$(3,863)
Net income (loss)	\$(2,651)	\$18,446	\$7,172	\$6,390	\$25,858	\$14,951	\$20,510	\$(2,280)
Earnings (loss) per share								
before extraordinary items	\$.20	\$.30	\$.12	\$(.02)	\$.42	\$.24	\$.35	\$.03
Extraordinary items (per share)	\$(.24)			\$.12			\$(.02)	\$(.06)
Earnings (loss) per share	\$(.04)	\$.30	\$.12	\$.10	\$.42	\$.24	\$.33	\$(.03)
Average shares	61,264	61,264	61,264	61,264	61,264	61,264	62,313	61,264

During the first and second quarters of 1983, adjustments were made to certain liabilities to more accurately reflect future liabilities. As a result of such adjustments, first and second quarter income before extraordinary items increased \$1.9 million and \$2.7 million, respectively.

Third quarter net income increased \$2.1 million as a result of capital stock tax settlements, in which Met-Ed and Penelec reversed prior years' accruals.

Income before extraordinary items for the fourth quarter of 1983 reflects an increase of \$10.9 million due to a rate order in November 1983 by the NJBPU reversing Oyster Creek O&M expenses recognized in the prior quarters of 1983. Such expenses are outage related and considered in excess of normal Oyster Creek O&M. The NJBPU is permitting revenues for amortization of such expenses over a five year period.

See Note 1 which contains information with respect to rate orders and their effect on quarterly earnings.

Consolidated Financial Statements and Notes to the Financial Statements

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Report of Auditors

To the Board of Directors and Stockholders
General Public Utilities Corporation
Parsippany, New Jersey

We have examined the consolidated balance sheets of General Public Utilities Corporation and Subsidiary Companies as of December 31, 1983 and 1982, and the related consolidated statements of income, retained earnings and changes in financial position for each of the three years in the period ended December 31, 1983. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

As more fully discussed in Note 1 to Consolidated Financial Statements, the Corporation is unable to determine the ultimate consequences of the accident at Unit No. 2 of the Three Mile Island Nuclear Generating Station (TMI-2) and of the response of rate-making and other regulatory agencies to that accident. Among the contingencies and uncertainties which have resulted as a direct or indirect consequence of this accident are questions concerning:

- a. The recovery of the approximately \$610 million unamortized investment in TMI-2;
- b. The recovery of the indeterminable amount of uninsured costs yet to be incurred in connection with the anticipated cleanup of TMI-2;
- c. The recovery of the approximately \$465 million investment in the Three Mile Island Unit No. 1 Nuclear Generating Station;
- d. The recovery of the excess, if any, of amounts which might be paid in connection with claims for damages resulting from the accident over available insurance proceeds; and
- e. Any action of rate-making agencies with respect to any portion of the replacement power costs for which recovery is now permitted.

As more fully discussed in Note 1 to Consolidated Financial Statements, the Corporation's New Jersey subsidiary is engaged in litigation with a nuclear fuel supplier involving the pricing of nuclear fuel. At this time, the outcome of the litigation and the rate-making treatment of any increased fuel costs which might result from an adverse legal determination are uncertain.

In our report dated March 3, 1983, our opinion on the 1982 and 1981 consolidated financial statements expressed an uncertainty as to the ability of the Corporation to continue as a going concern. As more fully discussed in Note 1 to

Consolidated Financial Statements, the Pennsylvania Public Utility Commission and the New Jersey Board of Public Utilities have taken rate actions which have permitted the Corporation's subsidiaries to remain solvent. These actions include the collection from customers of a portion of the cleanup cost required for TMI-2, the continued recovery of replacement power costs, and, in the case of the Pennsylvania subsidiaries, the recovery of a portion of the investment in TMI-2. In addition, the Commonwealth of Pennsylvania and the State of New Jersey have approved the funding of certain cleanup expenditures and the Federal government is providing some research and development funds related to TMI-2 cleanup activities. Accordingly, the Corporation's cash position, supported by the continuation of the restated revolving credit agreement (see Note 5 to Consolidated Financial Statements) and strengthened by the Corporation's ability to obtain long-term purchases of replacement power, has been sufficiently improved to reasonably assure the short-term viability of the Corporation and its subsidiaries even though the Corporation's subsidiaries have not regained access to the capital markets. Accordingly, our present opinion on the 1982 and 1981 consolidated financial statements, as presented herein, is different from that expressed in our previous report in that we no longer express an uncertainty with regard to the Corporation's continuation as a going concern.

In our opinion, subject to the effect, if any, on the consolidated financial statements of such adjustments as might have been required had the outcome of the uncertainties discussed in the second and third paragraphs been known, the aforementioned statements (pages 21 through 36) present fairly the consolidated financial position of General Public Utilities Corporation and Subsidiary Companies at December 31, 1983 and 1982 and the consolidated results of their operations and the consolidated changes in their financial position for each of the three years in the period ended December 31, 1983, in conformity with generally accepted accounting principles applied on a consistent basis.

COOPERS & LYBRAND

March 1, 1984
1251 Avenue of the Americas
New York, New York 10020

Consolidated Statements of Income (Note 1)

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General Public Utilities Corporation and Subsidiary Companies

	<i>In Thousands</i>		
For the Years Ended December 31,	1983	1982	1981
Operating Revenues	\$2,480,304	\$2,405,527	\$2,065,487
Operating Expenses:			
Fuel	427,747	429,067	437,931
Power purchased and interchanged, net	740,702	591,614	496,494
Deferral of energy costs, net (Note 2)	(115,800)	106,495	74,157
Other operation and maintenance (Note 13)	600,445	522,539	452,755
Depreciation and amortization (Notes 2 and 3)	219,593	202,725	145,962
Amortization of property losses (Note 16)	27,023	26,547	11,312
Taxes, other than income taxes (Note 13)	221,900	218,507	189,260
Total	2,121,610	2,097,494	1,807,871
Operating income before income taxes	358,694	308,033	257,616
Income taxes (Notes 2 and 11)	103,622	71,511	23,946
Operating Income	255,072	236,522	233,670
Other Income and Deductions:			
Allowance for other funds used during construction (Note 4)	7,979	6,663	7,486
Other income, net	13,509	15,838	15,913
Litigation settlement (Note 1)	(1,045)		
Income taxes on other income, net (Notes 2 and 11)	(6,773)	(7,726)	(6,411)
Total other income and deductions	13,670	14,775	16,988
Income Before Interest Charges and Preferred Dividends	268,742	251,297	250,658
Interest Charges and Preferred Dividends:			
Interest on long-term debt	157,058	171,770	178,226
Other interest	8,413	13,594	31,122
Allowance for borrowed funds used during construction—credit (net of tax) (Note 4)	(3,643)	(7,960)	(15,229)
Income taxes attributable to the allowance for borrowed funds (Notes 4 and 11)	(1,046)	(1,583)	(6,432)
Preferred stock dividends of subsidiaries	41,053	41,742	42,427
Total interest charges and preferred dividends	201,835	217,563	230,114
Income Before Extraordinary Items	66,907	33,734	20,544
Extraordinary Items, Net of Taxes (Note 3)	(16,018)	3,773	(36,448)
Net Income (Loss)	\$ 50,889	\$ 37,507	\$ (15,904)
Earnings Per Average Share Before Extraordinary Items	\$ 1.09	\$.55	\$.33
Extraordinary Items Per Share	(.26)	.06	(.59)
Earnings (Loss) Per Share	\$.83	\$.61	\$ (.26)
Average Common Shares Outstanding	61,526	61,264	61,264

Consolidated Statements of Retained Earnings (Note 1)

General Public Utilities Corporation and Subsidiary Companies

	<i>In Thousands</i>		
For the Years Ended December 31,	1983	1982	1981
Balance, beginning of year	\$ 527,765	\$ 490,258	\$ 506,162
Add, net income (loss) (Note 3)	50,889	37,507	(15,904)
Balance, end of year (Note 10)	\$ 578,654	\$ 527,765	\$ 490,258

The accompanying notes are an integral part of the consolidated financial statements.

Consolidated Balance Sheets (Note 1)

General Public Utilities Corporation and Subsidiary Companies

In Thousands

December 31,	1983	1982
Assets		
Utility Plant (at original cost):		
In service	\$4,078,403	\$3,846,108
Less, accumulated depreciation (Note 2)	1,268,626	1,165,724
Net	2,809,777	2,680,384
Investment in Three Mile Island:		
Unit 1	505,561	490,560
Unit 2	787,586	783,932
Less, accumulated depreciation and amortization (Notes 2 and 3)	247,974	164,430
Net	1,045,173	1,110,062
Construction work in progress	148,493	153,582
Held for future use	29,462	42,735
Nuclear fuel, net of amortization (Note 2)	153,655	172,740
Net utility plant	4,186,560	4,159,503
Investments:		
Other physical property, net	3,598	5,284
Loans to non-affiliated mining companies (Note 12)	14,125	15,575
Other, at cost	763	774
Total	18,486	21,633
Current Assets:		
Cash	7,169	5,392
Temporary cash investments	42,266	103,047
Funds held by subsidiaries for retirement of bonds due within one year	27,000	79,800
Funds held in special deposits for TMI cleanup	22,300	13,895
Special deposits	17,223	6,851
Accounts receivable:		
Customers, net (Note 5)	181,212	174,613
Other	16,732	11,629
Inventories, at average cost or less:		
Materials and supplies for construction and operation	85,599	76,971
Fuel	54,910	62,299
Deferred energy costs (Note 2)	71,794	(35,961)
Deferred income taxes (Notes 2 and 11)	34,228	28,541
Prepayments	14,375	12,803
Total	574,808	539,880
Deferred Debits:		
Unamortized property losses (Note 16)	327,190	344,808
Deferred costs—nuclear accident, net of recoveries	(17,302)	(17,702)
Deferred costs—health and safety and restart of TMI-1 (Note 3)	9,228	9,059
Deferred income taxes (Notes 2 and 11)	86,541	78,957
Deferred costs—nuclear fuel disposal fee (Note 2)	64,212	
Deferred costs—Oyster Creek outage, net	20,112	
Other	64,035	60,621
Total	554,016	475,743
Total Assets	\$5,333,870	\$5,196,759

The accompanying notes are an integral part of the consolidated financial statements.

December 31,	In Thousands	
	1983	1982
Liabilities and Capital		
Long-Term Debt, Capital Stock and Consolidated Surplus:		
Long-term debt (Notes 5 and 6)	\$1,894,965	\$1,998,700
Cumulative preferred stock—mandatory redemption (Note 7)	69,000	74,350
Less, capital stock expense	1,806	2,076
Total	67,194	72,274
Cumulative preferred stock—no mandatory redemption (Note 8)	423,391	423,391
Premium on cumulative preferred stock	1,348	1,348
Total	424,739	424,739
Common stock and consolidated surplus (Notes 5, 9 and 10):		
Common stock	153,229	153,229
Consolidated capital surplus	774,196	773,946
Less, capital stock expense	18,056	18,056
Consolidated retained earnings	578,654	527,765
Total	1,488,023	1,436,884
Less, reacquired common stock	70	70
Total	1,487,953	1,436,814
Total	3,874,851	3,932,527
Current Liabilities:		
Securities due within one year (Notes 5, 6 and 7)	58,440	128,567
Notes payable to banks (Note 5)	14,000	19,000
Accounts payable	234,954	181,651
Customer deposits	10,366	8,507
Taxes accrued (Note 11)	89,627	93,870
Deferred income taxes—energy (Notes 2 and 11)	32,048	(18,311)
Interest accrued	37,990	43,165
Other	69,452	68,734
Total	546,877	525,183
Deferred Credits and Other Liabilities:		
Deferred income taxes (Notes 2 and 11)	579,444	502,165
Unamortized investment tax credits (Notes 2 and 11)	116,896	131,073
Deferred credits—nuclear accident:		
Insurance funds held by trustee	3,840	2,420
Cleanup revenues held in escrow	20,549	13,678
Nuclear fuel disposal fee	76,060	
Reserve capacity (Note 2)	72,302	51,832
Other	43,051	37,881
Total	912,142	739,049
Commitments and Contingencies (Note 1)		
Total Liabilities and Capital	\$5,333,870	\$5,196,759

Consolidated Statements of Changes in Financial Position (Note 1)

General Public Utilities Corporation and Subsidiary Companies

For the Years Ended December 31,	In Thousands		
	1983	1982*	1981*
Source of Funds:			
Operations:			
Income before extraordinary items	\$ 66,907	\$ 33,734	\$ 20,544
Principal non-cash charges (credits) to income:			
Depreciation and amortization (Notes 2 and 3)	219,593	202,725	145,962
Amortization of nuclear fuel and spent fuel costs (Note 2)	4,240	10,307	9,908
Amortization of property losses (Note 16)	27,023	26,547	11,312
Investment tax credits, net (Notes 2 and 11)	(15,273)	76,444	(4,104)
Deferred income taxes, net (Notes 2 and 11)	115,244	(32,211)	25,093
Allowance for other funds used during construction (Note 4)	(7,979)	(6,663)	(7,486)
Total from operations	409,755	310,883	201,229
Extraordinary items, net of taxes (Note 3)	(16,018)	3,773	(36,448)
Extraordinary items (non-cash portion)	10,510	(3,773)	36,448
Nuclear fuel disposal fee	76,060		
Deferred costs—nuclear fuel disposal fee (Note 2)	(76,060)		
Long-term debt (Note 6)			32,237
Decrease in funds held for retirement of bonds	52,800		
Deferred energy costs, net (Note 2)		106,495	74,157
Reserve capacity (Note 2)	20,470	28,672	23,160
Sale of nuclear fuel	36,096	34,193	16,558
Decrease in other working capital items (a)	72,176		26,581
Other, net	11,028		
Total source of funds	\$596,817	\$480,243	\$373,922
Application of Funds:			
Construction expenditures —Utility plant	\$273,784	\$241,632	\$239,627
—Nuclear fuel	11,604	6,983	24,333
Allowance for other funds used during construction (Note 4)	(7,979)	(6,663)	(7,486)
Decrease in bank borrowings (Note 5)	5,000	41,300	95,700
Increase in funds held for retirement of bonds		79,800	
Retirement or redemption of long-term debt and preferred stock	178,096	71,828	29,677
Deferred energy costs, net (Note 2)	115,800		
Deferred costs—nuclear accident, net	400	18,866	(9,136)
Deferred costs—Oyster Creek outage, net	20,112		
Increase in other working capital items (a)		18,494	
Other, net		8,003	1,207
Total application of funds	\$596,817	\$480,243	\$373,922
(a) Changes in components of other working capital:			
Temporary cash investments	\$ (60,781)	\$ 60,753	\$ (6,006)
Accounts receivable	11,702	30,784	(17,624)
Special deposits	10,372	3,076	(118)
Accounts payable	(53,303)	(38,231)	(2,822)
Other, net	19,834	(37,888)	(11)
Total	\$ (72,176)	\$ 18,494	\$ (26,581)

* Reclassified to conform to 1983's presentation.

The accompanying notes are an integral part of the consolidated financial statements.

Notes to Consolidated Financial Statements

1. Commitments and Contingencies

Three Mile Island Nuclear Accident

On March 28, 1979, an accident occurred at Unit No. 2 of the Three Mile Island nuclear generating station (TMI-2) resulting in significant damage to TMI-2, and a release of some radioactivity which published reports of governmental agencies indicated did not constitute a significant public health or safety hazard. TMI-2 is jointly owned by the Corporation's subsidiaries as follows: Jersey Central Power & Light Company (JCP&L), 25%; Metropolitan Edison Company (Met-Ed), 50%; and Pennsylvania Electric Company (Penelec), 25%. At December 31, 1983, the subsidiaries' total investment in TMI-2, net of \$141 million of amortization and \$37 million of depreciation, was \$610 million.

Three Mile Island nuclear generating station Unit No. 1 (TMI-1), which adjoins TMI-2, was out of service for a scheduled refueling and was not directly involved in the accident. TMI-1 is jointly owned by the Corporation's subsidiaries in the same percentages as TMI-2. At December 31, 1983, the subsidiaries' total investment in TMI-1, net of depreciation, was \$435 million. The unamortized investment in TMI-1's nuclear fuel core at December 31, 1983 and 1982 of \$30 million and \$28 million, respectively is reflected on the balance sheets as nuclear fuel.

TMI-1 Restart: Following the accident at TMI-2, by orders dated July 2, 1979 and August 9, 1979, the Nuclear Regulatory Commission (NRC) directed that TMI-1 remain shut down until resumption of operation is authorized by the NRC. Hearings before the NRC's Atomic Safety and Licensing Board (ASLB) on the restart of TMI-1 commenced on October 15, 1980. During 1981, the ASLB issued two partial initial decisions, in which it found, among other things, that the licensee "has demonstrated (its) managerial capability and technical resources to operate Unit 1 . . ." that plant design and emergency planning for the unit were adequate and recommended that, subject to various conditions, operation of TMI-1 should be permitted. The ASLB later reopened the record in these proceedings to consider incidents of cheating on, and test administration procedures used in connection with, operator training examinations given to TMI-1 control room operators. On July 27, 1982, the ASLB, in a third partial initial decision, stated that the issues in the reopened proceedings had been satisfactorily resolved, and reaffirmed its recommendation to the NRC that TMI-1 be allowed to resume operation. In May 1983, the Atomic Safety and Licensing Appeal Board (ASLAB), which is hearing appeals from the ASLB's partial initial decisions, affirmed the portion of the ASLB's second partial initial decision dealing with plant design subject to the results of start-up testing and additional interim measures to be taken pending the correction of certain specific problems. The NRC has granted a petition by one of the intervenors to review certain aspects of the ASLAB design decision. The ASLAB is continuing to review management issues. The ASLAB has ordered the ASLB to reopen the record to address allegations that leak rate test data with respect to TMI-2 had been falsified prior to the accident. The NRC temporarily stayed these proceedings before the ASLB and is considering a further stay until the NRC's Office of Investigations (OI) completes a study of these matters. Subsequently, the OI's investigation was suspended by the NRC at the request of the Justice Department pending completion of the trial on the indictment of Met-Ed

handed down on November 7, 1983. See "Investigations" on page 28. In September 1983, following an ASLAB review of the ASLB decision on emergency planning, the NRC determined that the emergency planning for TMI-1 was adequate.

On July 22, 1983, the NRC staff, with the concurrence of the majority of the NRC, proposed that civil penalties of \$40,000 be imposed for violations of certain voluntary commitments made by Met-Ed regarding the conduct and implementation of its training and testing program for operators. In addition, the NRC staff proposed civil penalties of \$100,000 be imposed upon Met-Ed for allegedly making materially false statements to the NRC staff regarding recertification of an operator in 1979. The \$40,000 civil penalty has been paid, but Met-Ed is awaiting further information from the NRC prior to determining whether to contest the proposed \$100,000 civil penalty.

In April 1983, the NRC staff conducted a review to reevaluate its previous position that the partial initial decision by the ASLB on the issue of management integrity and competence provided a basis for the NRC to authorize the unit's restart. The NRC staff report of May 17, 1983 concluded that management's policies and practices do support the restart of TMI-1. However, by a separate memorandum, the NRC staff stated that it could draw no conclusion regarding management integrity. The memorandum identified several unresolved issues including questions of possible falsification of leak rate test data for TMI-2 prior to the accident, information produced during the course of the Corporation's litigation against The Babcock & Wilcox Company (B&W), allegations of procedural violations and unsafe practices in the TMI-2 cleanup and information contained in and the handling of two consultant reports.

On September 13, 1983, OI issued a report concluding that the allegations of violations connected with the TMI-2 cleanup were true. In November 1983, an investigation commissioned by GPU Nuclear Corporation (GPUNC) concluded that the great majority of these allegations was unfounded. The OI report recommends a detailed review of the cleanup project and the NRC has asked its staff for a plan to assure compliance with required safety rules and indicated enforcement action may be taken against GPUNC. The NRC has also received two requests from members of the public to suspend the TMI-2 cleanup pending resolution of alleged deficiencies in the cleanup program.

In a memorandum issued September 6, 1983, the NRC staff expressed new concerns regarding the manner in which leak rate testing was conducted at TMI-1. This issue has been referred to OI for investigation. An intervenor in the restart proceeding has filed a motion with the ASLAB to reopen the hearing with respect to this matter.

On October 3, 1983, the NRC staff reported that none of the B&W lawsuit information reviewed would cause the staff to alter its previous technical conclusions regarding the TMI-1 restart. However, it stated that there were a number of possible management issues growing out of that review requiring further investigation by OI.

By notice dated October 7, 1983, the NRC set forth a temporary schedule for making a restart decision assuming the NRC were to await completion of review of all outstanding management competence and integrity issues and invited suggestions for alternate ways of proceeding. The Corporation submitted to the NRC on November 28, 1983 a plan to augment the board of directors of GPUNC with three outside directors who would also constitute a Nuclear Safety and Compliance Committee to monitor the operation and maintenance of the System's nuclear facilities. The Corporation also announced other personnel changes.

In November 1983, retired Admiral Hyman G. Rickover, who was retained by the Corporation to evaluate GPUNC, issued a report stating that GPUNC " . . . has the management competence and integrity to safely operate TMI-1."

On December 5, 1983, the NRC staff advised the Commission that in view of the Corporation's November 28, 1983 submission and its earlier proposal of June 10, 1983 to remove from management positions at TMI-1 persons who were involved in the direct overview of TMI-2 at the time of the accident, pending the completion of the ongoing inquiries by OI into unresolved issues of management competence and integrity, the staff believed the NRC could authorize operation of TMI-1 at 25% of maximum power without posing an undue risk to the public health and safety. The staff recommended, however, that the NRC condition any such authorization upon, among other things, a satisfactory completion by OI of its review of alleged leak rate test irregularities at TMI-1.

On January 24, 1984, the NRC made available a memorandum setting forth a "List of Integrity Issues." The NRC stated that the list was prepared by two sections of the Commission's staff, in response to a request by one of the Commissioners for a list of any and all issues which could bear on the integrity issue, without regard to significance, status or resolution. The memorandum requested that the parties to the TMI-1 restart comment on whether the list is accurate and complete, whether the listed issues are considered to be resolved or unresolved, and which unresolved issues in their opinion must be resolved before a restart decision. The memorandum also stated that, after a complete set of issues is identified, the NRC can proceed to determine the significance of those issues, if any, to a restart decision, and that, after the significance of those issues is determined, they will be reflected in a proposed plan of action on TMI-1 restart. The memorandum stated that it did not include issues referred to the OI which have not been made public. The list consists of 63 items, and the memorandum noted that some of the issues listed have been addressed in various forums.

On January 27, 1984, three of the five NRC Commissioners issued a memorandum setting forth their current views on certain management integrity issues and plans for reaching a final TMI-1 restart decision. They emphasized that the memorandum was provided only to keep the parties informed, that it was not a TMI-1 restart decision and does not authorize restart, and that their current views and plans are subject to possible change.

Subject to those qualifications, the memorandum stated that the three Commissioners had tentatively concluded that, in principle, temporary separation from nuclear operation of some employees of the Corporation and other actions, including those proposed by the Corporation, can serve as an interim solution to the unresolved management integrity issues, pending resolution of such issues. It also stated that they presently believe that the only ongoing investigation which may require further resolution before a decision on the management issues is the TMI-1 leak rate investigation, and that they intended to obtain additional information regarding that matter before making a restart decision.

The memorandum also stated that the three Commissioners hold the view, based on the currently available information, that neither the Corporation's chairman nor its president will have to be temporarily or permanently separated from nuclear operations prior to restart. It said that the NRC may, however, require restrictions beyond those proposed by the Corporation, which could include requiring additional individuals be separated from nuclear operations pending completion of the ongoing NRC investigations of integrity issues or of the Met-Ed indictment discussed below.

The plan for a TMI-1 restart decision set forth in the memorandum is that, after reviewing further information concerning the TMI-1 leak rate matter and the parties' comments on various matters, the NRC will issue a tentative draft decision on the management issues for comment by the parties. After reviewing such comments, the memorandum states, the NRC would then reach a final decision on management issues, which it hopes would be issued by June 1984.

The memorandum noted that the NRC's process for making a decision on the management issues will not affect the ASLAB review of those issues or other ongoing investigations, which will continue. It also stated that the NRC still has under consideration the resolution of the hardware issues in the TMI-1 restart proceeding and whether or not the license amendment for the repaired TMI-1 steam generators involves a "significant hazards consideration," which issues are being separately addressed.

The other two NRC Commissioners disagreed with the majority's views and plans and, on January 27, 1984, issued memoranda setting forth their views.

In late 1981, it was discovered that tubes in the TMI-1 steam generators had experienced cracking. A program to repair substantially all the tubes and to test the tubes as so repaired has been completed. By an order dated August 5, 1983, the NRC directed a hearing on the application for an amendment to the TMI-1 operating license regarding such repairs. Based upon the determination of the NRC staff, if approved by the NRC, that the repairs involved "no significant hazards consideration," the Atomic Energy Act would permit issuance of the required technical specification change prior to completion of the steam generator hearing process. The NRC staff has asked the Commission itself to review their determination. If the NRC rejects the staff determination of "no significant hazards consideration" or finds that notwithstanding such a determination prior hearings are "in the public interest," it could substantially delay the restart of TMI-1. The subsidiaries have charged the cost of the TMI-1 steam generator repairs, totaling approximately \$41 million, to maintenance expense.

On January 20, 1984, an intervenor in the restart proceeding filed a petition with the NRC requesting continuation of the suspension of the TMI-1 operating license because of alleged deficiencies in the plant's emergency feed water system. The petition has been referred to the NRC staff which has requested comments from GFUNC. The intervenor has, however, objected to such referral and requested a decision on the petition by the NRC.

At this date, the Corporation is unable to predict the impact of these developments upon the TMI-1 restart.

TMI-2 Cleanup: Current projections provide for the cleanup of TMI-2 to be completed in 1988, at a cost of approximately \$1 billion (including post 1983 escalation). The cleanup estimate is subject to major uncertainties, including (a) regulatory requirements, (b) the full scope of the challenges in decontaminating the reactor, (c) the effect of government regulations on the issue of waste disposal and (d) the availability of funds.

As of December 31, 1983, the subsidiaries had spent \$409 million on costs associated with the cleanup of TMI-2. Of such costs, \$39 million has been charged to capital additions to the plant, \$46 million has been charged to maintenance expense and the balance of \$324 million has been deferred pending recovery of such costs. As of December 31, 1983, the subsidiaries have credited against such deferrals \$287 million of insurance proceeds (including interest of \$5 million), \$5 million of contributions from the Commonwealth of Pennsylvania, \$28 million of cleanup revenues from customers, \$19 million of U.S. Department of Energy (DOE) funding of certain tasks and \$2 million from other sources. Current recoveries in excess of current costs will be applied to future cleanup expenditures.

The subsidiaries' first mortgage bond indentures provide for insurance proceeds to be held by their respective trustees for reimbursement to the company for either expenditures on repair of damaged property (including decontamination) or construction of other bondable property. Insurance proceeds of \$4 million remained on deposit with the subsidiaries' trustees and cleanup revenues from customers of \$18 million were in escrow accounts at December 31, 1983. Such amounts are recorded on the balance sheet as funds

held in special deposits for TMI-2 cleanup. The New Jersey Board of Public Utilities (NJBP) has not yet approved a trust agreement under which revenues which have been collected from New Jersey customers are to be held and disbursed for cleanup purposes.

The subsidiaries are seeking financial assistance from the Federal government, the utility industry and others for the TMI-2 cleanup. Management believes that any loss suffered by the subsidiaries for which they do not receive financial assistance, or reimbursement from suppliers or others, should be recoverable through the ratemaking process, but recognizes this is not assured. It is management's intent to seek to recover such costs in rate and/or judicial proceedings. Under these circumstances, the amount of loss, if any, suffered by the Corporation and its subsidiaries resulting from the cleanup of TMI-2 is not presently determinable and, therefore, no provision has been made in their accounts. See Note 17.

A plan has been proposed by the Governor of Pennsylvania providing for the estimated remaining cost of the cleanup as of January 1, 1982 (\$760 million) to be shared as follows: the subsidiaries, \$245 million; the Federal government, \$190 million; the nuclear industry, \$190 million; insurance, \$90 million; the State of New Jersey, \$15 million; and the Commonwealth of Pennsylvania, \$30 million. The cleanup costs contemplated by this plan include all ongoing costs of the facility.

Rate settlement agreements approved by the Pennsylvania Public Utility Commission (PaPUC) in 1982 and PaPUC rate orders issued in 1983 together with rate orders issued by the NJBP in 1982 and 1983, allow for collection of cleanup revenues at the level called for by the Governor's plan described above, namely \$49 million per year. However, in the case of the Pennsylvania subsidiaries, collection of a part of such cleanup revenues is not to begin until restart of TMI-1, so that the aggregate annual amount currently being collected from customers in Pennsylvania and New Jersey is \$33 million. The PaPUC, in 1983 rate orders, disallowed requests by the Pennsylvania subsidiaries that would have transferred an aggregate of about \$16 million of additional customer funding to the TMI-2 cleanup from amortization revenues currently being received for TMI-2 in order to bring Pennsylvania customer participation up to the level called for by the Governor's plan. In January 1984, the Pennsylvania subsidiaries filed petitions with the PaPUC again requesting a transfer to customer funding of TMI-2 cleanup from amortization of TMI-2 of about \$16 million annually.

The Edison Electric Institute (EEI), the national trade association of investor owned electric utilities, in January 1983, recommended that its members make voluntary contributions to cleanup funding in connection with the Governor of Pennsylvania's plan. Assuming all members of EEI contribute in accordance with this recommendation, \$150 million (\$25 million per year for six years) would be raised for the TMI-2 cleanup. For the program to become effective, \$100 million must be committed by the association's members. Solicitation of the EEI membership is continuing. In December 1983, the Internal Revenue Service issued separate letter rulings to two utilities stating that contributions to the TMI-2 cleanup would be tax deductible. Although the letters cannot be used as a precedent, they appear to indicate general applicability to the industry.

The Federal government is providing some research and development funds related to TMI-2 (a portion of which would directly offset anticipated cleanup expenses) for certain activities engaged in during the course of the cleanup. The total amount of such assistance to be realized from the Federal government is currently estimated at \$80 million of which approximately \$50 million has been authorized by the U.S. Congress. The DOE has agreed to take responsibility for the disposal of certain wastes and the damaged fuel core. In addition, a consortium of Japanese power companies has announced its intent to fund an \$18 million research and development program at TMI-2.

Consistent with the Governor's plan, the Commonwealth of Pennsylvania has enacted legislation which provides \$5 million per year for certain cleanup expenditures in 1983 and 1984, and it is anticipated that similar legislation will be enacted in subsequent years. The State of New Jersey has also approved funding of TMI-2 cleanup expenditures in the amount of \$1.8 million for fiscal 1984.

On January 24, 1983, the subsidiaries entered into a settlement agreement with B&W, the supplier of the TMI-2 nuclear steam supply system. Under the agreement, B&W is to pay the subsidiaries rebates of up to \$37 million on anticipated future purchases of up to \$270 million of services and equipment to be made from B&W over a period of ten to fifteen years. The subsidiaries intend to apply such rebates to cleanup costs. Through December 31, 1983, rebates totaling approximately \$1 million have been received.

Repair and Restoration of TMI-2: A final decision concerning the future of TMI-2 must await completion of a major portion of the cleanup, assessment of the usability of the major components and an evaluation of the economic appropriateness and licensing feasibility of restoration.

Accounting for the Investment in TMI:

Investment in TMI-2: In the April 1981 rate orders, the PaPUC directed Met-Ed and Penelec to cease the accrual of depreciation on TMI-2 effective approximately when the operating and capital costs of TMI-2 were eliminated from base rates (January 1, 1979 for Met-Ed and April 1, 1979 for Penelec). Met-Ed and Penelec have ceased the accrual of depreciation as more fully described in Note 3.

The January 1982 rate settlement agreements provided for the amortization of Met-Ed's and Penelec's investment in TMI-2 based on the unrecovered original cost of the facility, the nuclear fuel in the reactor at the time of the accident in March 1979 and capital additions from that time to the date of the settlements. Effective January 14, 1982, Met-Ed and Penelec began amortizing their investments in TMI-2 by amounts equivalent, after consideration of the related tax consequences, to the revenues being collected for such purpose. Such amortization has accumulated to \$141 million at December 31, 1983. Of such amount, \$75 million and \$66 million were included in depreciation expense in 1983 and 1982, respectively.

The NJBP has not issued a directive to JCP&L with respect to the accrual of depreciation on the TMI-2 plant. Accordingly, JCP&L has continued to accrue depreciation on TMI-2, which has accumulated to about \$31 million at December 31, 1983. The annual depreciation charge by JCP&L for TMI-2 is about \$6 million.

Investment in TMI-1: In April 1981 rate orders, the PaPUC directed Met-Ed and Penelec to cease the accrual of depreciation on TMI-1 effective June 1, 1980, the date when the operating and capital costs of TMI-1 were eliminated from base rates. Met-Ed and Penelec have ceased the accrual of depreciation as more fully described in Note 3.

The January 1982 rate settlement agreements and PaPUC rate orders dated October 1983, allow for the future recognition in Met-Ed's and Penelec's base revenues for the operating and capital costs associated with TMI-1 at 1983 levels and reductions in energy cost rates, contingent upon that facility generating power at a specified level.

The July 1982 rate orders of the NJBP directed JCP&L to cease the accrual of depreciation effective April 1, 1980 (the date its operating and capital costs were removed from base rates) on that portion of its investment in TMI-1 subject to NJBP's jurisdiction (98% of JCP&L's 25% ownership). The reversal of previously accrued depreciation was accounted for as an extraordinary item in 1982 (see Note 3). The November 1983 rate order of the NJBP also makes provision, upon TMI-1's return to service, for an increase

in base rates to cover TMI-1 operating and capital costs at 1983 levels after further review by the NJBPU and TMI-1's satisfaction of certain operating criteria.

Rate Proceedings: Both the NJBPU, which regulates JCP&L's retail rates, and the PaPUC, which regulates the retail rates of Met-Ed and Penelec, have taken various significant actions following the TMI-2 accident.

New Jersey: In June 1979 and April 1980, the NJBPU issued orders removing from base rates the capital and operating costs associated with JCP&L's investments in TMI-2 and TMI-1, respectively.

In July 1981 and July 1982, the NJBPU issued orders granting part of the base rate increases that JCP&L requested. JCP&L appealed such orders to the New Jersey Superior Court, Appellate Division, primarily on the ground that the rate increases authorized by those orders do not meet the criteria for just and reasonable rates. On July 28, 1983, the Appellate Division affirmed these NJBPU orders and dismissed the appeals. On December 6, 1983, the Supreme Court of New Jersey declined to review the Appellate Division decision. JCP&L intends to seek review by the U.S. Supreme Court.

Legislation enacted by the New Jersey Legislature in 1983 requires the NJBPU to establish a special hearing procedure and to conduct a hearing or hearings if an electric utility which has suffered an accident (before or after enactment of that legislation) at a generating or transmission facility seeks to recover more than \$10 million of accident-related costs through rates. It also provides that if the utility was at fault and such fault contributed substantially to the accident, the NJBPU must disallow such accident-related costs, except to the extent that the NJBPU determines it is appropriate to approve a program whereby the utility may mitigate such fault costs. The NJBPU has initiated proceedings relating to the TMI-2 accident. On February 8, 1984, the New Jersey Public Advocate filed a motion requesting summary disposition by the NJBPU on the issue of JCP&L's fault. JCP&L is unable to predict the outcome or impact of these proceedings.

JCP&L filed a petition with the NJBPU on January 11, 1984 requesting an increase of \$92.6 million in its levelized energy adjustment clause (LEAC), to be effective March 1, 1984. On January 27, 1984, JCP&L filed with the NJBPU a petition for a \$60 million annual retail base rate increase.

Pennsylvania: In April 1979, the PaPUC removed from base rates the capital and operating costs associated with the investments made by the Pennsylvania subsidiaries in TMI-2 and prescribed lower temporary rates.

In June 1979, the PaPUC ordered that the temporary rates become permanent. In May 1980, the PaPUC took similar action to remove TMI-1 costs from customer rates and to prescribe lower temporary rates. Also in the May 1980 order, the PaPUC allowed for full energy cost recovery from June 1 to December 31, 1980 and permitted recovery of the then outstanding post-accident deferred energy costs in the form of a surcharge. The PaPUC stated that the amounts of such costs are subject to review by the PaPUC and to a later determination whether specific amounts of energy costs were imprudently or unreasonably incurred. The PaPUC also stated that it would take notice of a judicial or administrative determination that Met-Ed had been negligent in the operation of the TMI facility.

In 1980, the Pennsylvania subsidiaries filed complaints with the PaPUC against the temporary rates prescribed by the May 1980 orders and filed proposed increases in base rates. In April 1981, the PaPUC granted part of the rate increases sought by the Pennsylvania subsidiaries and in May 1981 the PaPUC denied the complaints against the temporary rates. The Pennsylvania subsidiaries appealed those orders and on November 18, 1983, the Pennsylvania Commonwealth Court affirmed the PaPUC's actions.

On December 16, 1983, the Pennsylvania subsidiaries filed petitions for review with the Pennsylvania Supreme Court.

On January 25, 1984, Met-Ed and Penelec filed with the PaPUC for annual increases in retail base rates of \$19.8 million and \$41.7 million, respectively. Also on January 25, 1984, Met-Ed and Penelec filed with the PaPUC preliminary data to increase their energy cost rates.

Investigations: On October 30, 1979, the President's (Kemeny) Commission on the Accident at Three Mile Island issued its report. The report states, in part, that its "investigation has revealed problems with the 'system' that manufactures, operates and regulates nuclear power plants" and the shortcomings which turned the incident into a serious accident "are attributable to the utility, to suppliers of equipment and to the Federal commission that regulates nuclear power." The NRC's Special Inquiry Group (Rogovin) and the U.S. Senate Subcommittee on Nuclear Regulation (Hart Committee) issued the results of their investigations of the accident at TMI-2 in January 1980 and July 1980, respectively. Their conclusions with respect to these matters were similar to those of the Kemeny Commission. In January 1980, the NRC imposed civil penalties against Met-Ed of \$155,000 for safety, maintenance, procedural and training violations at TMI-2. The NRC has also stated that, depending upon the findings of continuing investigations into the TMI-2 accident, it may take additional enforcement action, such as assessing additional civil penalties or ordering the suspension, modification or revocation of the license to operate TMI-2.

On November 7, 1983, a Federal grand jury returned an 11 count indictment charging Met-Ed with criminal misconduct in connection with the performance of water inventory testing beginning sometime before October 18, 1978 and continuing through March 28, 1979. Five of the counts contained in the indictment allege violations of provisions of the TMI-2 operating license; five additional counts charge that Met-Ed failed to comply with various requirements under NRC regulations, and the remaining count charges that Met-Ed had violated the Federal false statement statute.

On February 29, 1984 Met-Ed and the U.S. Attorney for the Middle District of Pennsylvania received court approval of a settlement of regulatory violations by Met-Ed that were charged in the indictment mentioned above.

Under the settlement, Met-Ed pleaded guilty to one count, charging that over a six-month period it operated TMI-2 with an inaccurate and unreliable water inventory testing procedure. Met-Ed also pleaded no contest to six other counts. The remaining four counts, including the one that charged Met-Ed with a violation of the general federal criminal code, as distinguished from the other counts, which charged violations of an NRC regulation or TMI-2's license, were dismissed on the recommendation of the U.S. Attorney.

Met-Ed will pay fines totaling \$45,000 and provide \$1 million to establish a fund for emergency planning to directly benefit the area around TMI. Met-Ed will not claim such amounts for either tax or ratemaking purposes and has charged such amounts against other income and deductions on the 1983 income statement.

In March 1980, the NJBPU requested an independent analysis of strategic options for JCP&L in response to the extreme financial pressures experienced by JCP&L following the TMI-2 accident, for the purpose of identifying options that would minimize additional costs to JCP&L's customers and continue to provide an adequate supply of power. The report, which was submitted to the NJBPU in April 1981, stated, in part, that (i) a Regional Power Authority owning and operating TMI would best provide the financing capability to fund the TMI-2 cleanup and reduce its cost to the ratepayer and (ii) some form of public ownership of JCP&L has the greatest likelihood of significantly moderating the growth in electric rates.

The other options, as stated in the report, including "merger, divestiture, bankruptcy and a state-owned generating company would provide limited long-term benefits to the ratepayer and involve substantial legal, economic and political risks." During 1982, the NJBPU held fourteen public hearings to receive comments on the report's recommendations. JCP&L does not know what further action, if any, the NJBPU may take in this proceeding.

Other investigations and inquiries into the nature, causes and consequences of the TMI-2 accident commenced by various federal and state bodies are continuing. The Corporation and its subsidiaries are unable to determine the outcome or consequences of these investigations. The Corporation and its subsidiaries are also unable to determine the impact, if any, the results of such investigations may have on (i) the proceedings to return TMI-1 to operation, (ii) the efforts to cleanup TMI-2, (iii) the rate regulatory agency decisions with respect to the ultimate recoverability from ratepayers of the replacement power costs necessitated by the unavailability of TMI-1 and TMI-2 and (iv) the recovery of the unamortized investment in TMI-2.

Litigation: As a result of the accident, the Corporation, and/or its subsidiaries and certain of their officers and directors, have been named as defendants in various lawsuits. The suits include (i) individual suits as well as purported and actual class actions for alleged personal and property damages (including claims for punitive damages) resulting from the accident and (ii) suits to enjoin the future operation of TMI-2.

Questions as to whether certain of these claims, that are material in amount and arise out of both the accident itself and the cleanup and decontamination efforts, are (a) subject to limitation of liability set by the Price-Anderson Act and (b) outside the insurance coverage provided pursuant to the Price-Anderson Act, have not yet been resolved.

In September 1981, a settlement agreement between the insurance companies and representatives of the class in certain class actions seeking recovery for economic losses and the costs of medical detection services for persons, businesses and entities within a 25 mile radius of TMI-2, was approved by the U.S. District Court for the Middle District of Pennsylvania. The settlement provides for the insurance companies to establish a fund of \$20 million for economic loss claims and a separate fund of \$5 million for public health purposes. Earlier, the court had held that personal injury claims (other than for medical detection services) could not be pursued in class action proceedings and the settlement agreement does not deal with such claims. Approximately 300 individual personal injury claims (including some claims for punitive damages) are pending. Purported class action complaints for alleged economic injury by reason of increased charges for electricity were dismissed by the District Court but the plaintiffs have appealed the dismissal.

The Commonwealth of Pennsylvania has brought suit seeking recovery of certain costs in responding to the accident and two municipalities (as a purported class action) brought a similar suit in which they sought both monetary damages and injunctive relief. In 1982, the U.S. District Court for the Middle District of Pennsylvania granted the defendants' motion for summary judgment. In June 1983, the U.S. Court of Appeals for the Third Circuit affirmed the District Court's order in certain respects but held that the plaintiffs should be granted an opportunity to define and clarify certain of the claims and the alleged factual basis for such claims. Also, in June 1983, the U.S. District Court for the Middle District of Pennsylvania dismissed a suit against the NRC Commissioners, Met-Ed and two GPU System Company officers alleging personal injury and economic loss as a result of venting of certain gases from TMI-2 which was effected pursuant to NRC authorization in 1980. The plaintiffs have appealed this decision with respect to the NRC Commissioners only.

Class suits for alleged damages on behalf of purchasers of the Corporation's common stock were instituted in May 1979 against the Corporation and certain of its directors as a result of the accident at TMI-2. The plaintiffs claimed, among other things, that the Corporation failed to disclose in its prospectuses and reports the severe financial consequences it might suffer in the event of an accident at one of its nuclear plants. On September 15, 1983, a settlement of these claims was approved by the U.S. District Court for the District of New Jersey. Pursuant to that agreement: (i) the Corporation has deposited \$6 million in escrow for the plaintiff class, of which approximately \$1.8 million, pursuant to court order, has been paid as fees to the plaintiffs' counsel, (ii) the individual defendants (the Corporation's directors in office at the time of the TMI-2 accident) have contributed, through their insurance carrier, an additional \$4 million to an escrow fund for the plaintiff class, (iii) the Corporation has established a \$750,000 fund to pay for disbursements and expenses in connection with the litigation and administration of the settlement and (iv) the Corporation will issue 1.6 million shares of its common stock to the plaintiff class which consists of eligible purchasers of the Corporation's common stock from February 8, 1974 through April 1, 1979, who establish that they suffered losses as provided in the settlement agreement. On November 2, 1983, the Securities and Exchange Commission (SEC) approved the issuance of such shares of common stock. The cash and shares of common stock will be distributed after individual claims have been determined. See Notes 3 and 9. In early February 1984, about 330,000 shares were issued to the plaintiffs' counsel in payment of fees, which will leave approximately 1,270,000 shares to be issued to the plaintiff class.

On November 30, 1982, the U.S. District Court for the Eastern District of Pennsylvania denied a motion of the U.S. Government to dismiss the suit brought by the Corporation and its subsidiaries in December 1981 against the Government under the Federal Tort Claims Act for damages and losses (estimated at approximately \$4 billion) suffered by the Corporation and its subsidiaries and its customers as a result of the accident. The complaint alleges that the NRC violated its statutory and common law duties to warn of defects and hazardous conditions in equipment, analysis, procedures and training at TMI-2. The Government has appealed to the U.S. Court of Appeals for the Third Circuit the District Court's decision that the suit was not barred by exceptions to the Federal Tort Claims Act. The District Court has halted further proceedings pending such appellate review.

Insurance: At the time of the TMI-2 accident, the subsidiaries maintained property damage and decontamination insurance of \$300 million applicable to both TMI-1 and TMI-2. This insurance has been reduced by claims paid which aggregated approximately \$286 million as of December 31, 1983. The insurance carriers have reinstated the coverage for the TMI site, but with regard to property insurance for TMI-2, such coverage has been reinstated only for possible damage which might result from a non-nuclear accident during the unit's cleanup and restoration period. Effective January 10, 1983, on a prospective basis, the primary property damage insurance coverage was raised to \$500 million on the site.

Effective April 1, 1981, JCP&L became a member of Nuclear Mutual Limited (NML). Such membership provides JCP&L with \$500 million of primary property damage insurance for its Oyster Creek station. As a member of NML, JCP&L is subject to annual assessments of up to 14 times its annual premium, or approximately \$28.4 million, in the event that losses as a result of an accident at a nuclear plant of any member company exceed the accumulated funds available to NML.

Effective January 15, 1982, the subsidiaries increased their property damage insurance for damages in excess of \$500 million at each of their nuclear generating sites. The policies currently limit coverage to \$520 million for losses in excess of \$500 million. This

excess insurance is provided by Nuclear Electric Insurance Limited (NEIL), a mutual insurance company, and American Nuclear Insurers/Mutual Atomic Energy Liability Underwriters and provides that expenses for decontamination and debris removal shall be paid before any payments in respect of claims for property damage. Under the NEIL portion of this coverage, the subsidiaries are subject to a retrospective premium of up to \$15.1 million in the event of an accident at a nuclear plant of any member company.

The Price-Anderson Amendments to the Atomic Energy Act presently limit liability to third parties to \$580 million for each nuclear incident. Coverage of the first \$160 million of such liability is provided by private insurance. The next \$420 million is provided by assessments of up to the limit of \$5 million per nuclear reactor per incident, but not more than \$10 million per reactor in any calendar year. Based on the ownership of three nuclear reactors, the subsidiaries' maximum potential assessment under these provisions would be \$15 million per incident but not more than \$30 million per calendar year for claims covered by this insurance. The current Price-Anderson legislation expires in 1987. The NRC has recommended to Congress that such legislation be extended but amended to replace the limitation on liability with an annual assessment limitation of \$10 million per reactor per incident.

Effective September 15, 1980, JCP&L, with respect to incremental replacement power costs resulting from an extended accidental outage at its Oyster Creek nuclear generating station became a member of NEIL. Such coverage under NEIL provides for a weekly indemnity of \$2.5 million, beginning 26 weeks after an outage caused by an accident, for the incremental cost of replacement power. The policy limits covered outages to 52 weeks at 100% of the weekly indemnity and 52 additional weeks at 50% of the weekly indemnity. As a member of NEIL, JCP&L is subject to an annual retrospective premium assessment limited to \$7.3 million, which is five times its annual premium, in the event that losses exceed the accumulated funds available to NEIL. The subsidiaries expect to obtain similar coverage with respect to TMI-1 upon that unit's return to operation.

Some potential losses or liabilities to which the Corporation and its subsidiaries may be subject are not insurable or the amount of insurance carried may not be sufficient to meet potential losses and liabilities. Under those circumstances, such losses or liabilities could have a material adverse effect on their financial condition.

Nuclear Fuel Litigation

In 1971, JCP&L entered into a contract for the purchase of three nuclear fuel reloads for the Oyster Creek station, with an option for five additional reloads beginning in 1976. JCP&L believes that it effectively exercised the option in the initial contract and accepted the supplier's offer to extend the contract to cover five additional reloads beginning in 1981. The supplier disputed this position and, in November 1978, submitted bills for material and services in the aggregate amount of approximately \$33 million, covering reloads supplied in 1977, 1978 and 1979. Of this amount, JCP&L has paid the supplier \$3.8 million. On January 26, 1979, the supplier filed suits in the U.S. District Court for the District of Washington against JCP&L, the Corporation and GPU Service Corporation (GPUSC). In response, JCP&L sought a declaratory judgment confirming its view of the supplier's contractual commitments and damages. In 1982 the court upheld JCP&L's position of the existence of a binding contract for the sale of the reload batches, and in 1983, determined the number of fuel assemblies subject to the contract and the date at which the value of fuel assemblies is to be measured. The court has not yet determined the amount of damages. JCP&L does not know whether the supplier will appeal any or all of the decisions of the District Court, but believes that any additional amount that it might be required to pay if the supplier is successful in any appeal would be valid costs and should be recognized for ratemaking pur-

poses. However, there can be no assurance that this will be the case. If the supplier were to appeal successfully and the suits were ultimately resolved in the supplier's favor, JCP&L would incur \$18.3 million in additional fuel expense, based on the amount of fuel consumed through December 31, 1983.

Since 1975, JCP&L has been storing 224 spent nuclear fuel assemblies discharged from the Oyster Creek station at West Valley, New York Nuclear Fuel Receiving Facility (Facility) under agreements with Nuclear Fuel Services, Inc. (NFS), and JCP&L has paid NFS storage charges in accordance with those agreements. In April 1982 the New York State Energy Research and Development Authority (Authority), the owner of the Facility, submitted invoices for increased storage charges for the period January 1, 1981 through March 30, 1982 of \$1.3 million. Additional invoices for the period of April 1982 through June 30, 1983 amounting to \$1.7 million have since been received. GPUSC and JCP&L refused to pay such increased charges (other than \$235,200 paid in 1983 covering the period February 25, 1982 to September 30, 1983 at the rate under the agreement with NFS).

In May 1982, the Authority commenced an action in the U.S. District Court for the Western District of New York against the Corporation, GPUSC, JCP&L, NFS and its parent and two non-affiliated electric public utilities which also have spent nuclear fuel stored at the Facility, alleging, among other things, that the defendants have unlawfully failed and refused to remove spent nuclear fuel from the Facility. In April 1983, the Court ruled that the utilities are liable to the Authority for storage charges after February 25, 1982 at a rate to be determined by the Court and that the Authority's claims for trespass and unjust enrichment for periods prior to February 25, 1982 were subject to review. The GPU defendants and the Authority have entered into a Partial Settlement Agreement and Stipulation (Settlement Agreement). The Settlement Agreement, which has been approved by the Court, provides, among other things, that subject to the receipt and maintenance of all necessary regulatory and other approvals and the satisfaction of other specified contingencies, JCP&L shall commence the removal of its spent nuclear fuel as soon as practicable but not later than October 1, 1984 and that the removal of such spent fuel shall be completed not later than May 31, 1985. The Authority has agreed that in the event JCP&L removes its spent nuclear fuel as provided in the Settlement Agreement, it will no longer assert any claim that JCP&L or GPUSC has trespassed upon the Facility or that there is any liability on the part of JCP&L or GPUSC for damages for any delay or interference with the clean-up of the Facility. Claims against JCP&L and GPUSC for additional storage charges and possible other monetary damages are still pending before the District Court.

Other

The subsidiaries' construction programs, which extend over several years, contemplate expenditures of approximately \$330 million during 1984. In connection with these construction programs, the subsidiaries have incurred commitments.

The staff of the Federal Energy Regulatory Commission (FERC) conducts periodic audits of the accounts of electric utilities subject to the Federal Power Act. In the course of its current audits of Met-Ed, Penelec and JCP&L, the FERC staff had raised various questions, the most significant of which concerns the issue of accrual of allowance for funds used during construction (AFC) associated with nuclear fuel. The AFC issue is pending based on future rate case determinations for Met-Ed and Penelec. All such issues for JCP&L have been settled.

The subsidiaries have entered into long-term contracts with non-affiliated mining companies for the purchase of coal for certain generating stations in which they have ownership interests. These contracts, which expire between 1997 and the end of the remaining life of the generating station concerned, require the purchase of

minimum amounts of the station's coal requirements. The price of the coal is determined by formulas providing for the recovery by the mining companies of their costs of production. The subsidiaries' share of the cost of coal purchased under these agreements amounted to \$96 million, \$101 million and \$84 million for the years 1983, 1982 and 1981, respectively.

The subsidiaries have entered into agreements with other utilities for the delivery of an aggregate of more than 1400 megawatts of capacity and energy for various periods through 1990. The price of the energy is determined by formulas providing for recovery by the sellers of their costs. Payments pursuant to these agreements are estimated to aggregate about \$230 million for 1984. Other possible long-term purchases are the subject of pending negotiations.

JCP&L has reached an agreement in principle with Pennsylvania Power & Light Company (PP&L) for the purchase of 945MW of capacity and energy in the form of a pro-rata share of each of PP&L's generating units. The agreement provides for the capacity to be available through the end of 1995 and to be reduced by 20% in each year from 1996 through the end of 1999. The 945MW of capacity is expected to produce about 4.5 million megawatt hours of generation or about 31% of JCP&L's current annual system requirement. The agreement is subject to the approval of the NIBPU, the PaPUC and FERC.

Since the TMI-2 accident, the subsidiaries have suspended or delayed construction on various proposed generating projects. Investments in such projects at December 31, 1983 aggregate about \$30 million of which \$6 million is primarily related to land and will be assignable to a future project. The remaining \$24 million is not assignable to future projects, and the subsidiaries, for ratemaking purposes, are requesting amortization of \$8 million in currently pending rate cases and are amortizing \$16 million over various periods.

The Oyster Creek nuclear generating station, owned by JCP&L, has been out of service for scheduled repairs, maintenance and refueling since February 1983. The outage is expected to last to June 1984. In 1983, the NIBPU authorized additional revenues providing for a five year amortization of incremental outage related operating and maintenance expenses of up to \$21 million over normal levels of such expenses. Such revenues will approximate \$4.2 million annually. Such expenses, for which recovery is currently permitted, were deferred in the fourth quarter of 1983. A second lengthy outage is expected to begin in late 1985 and JCP&L expects that the capital, operating and maintenance costs of this outage will be substantial.

The subsidiaries are engaged in negotiations with various suppliers relating to the latter's claims for delay or termination charges or increased fees which such suppliers assert result from the subsidiaries' revisions of their construction plans and schedules and/or from the increased scope of supply. The subsidiaries' managements do not expect at this time that such negotiations will result in any material increase in costs that would not be valid costs properly recognizable through the ratemaking process.

Claims for damages arising out of the operation of the Oyster Creek station have been asserted in two suits, one of which was a class action which was decided in favor of JCP&L on the liability issue. The U.S. Supreme Court, without opinion, has reversed the lower courts' decision on the liability issue and remanded the case for further consideration in light of the Supreme Court decision in *Silkwood v. Kerr-McGee Corporation*. JCP&L filed, on January 27, 1984, a motion with the New Jersey Supreme Court for direct certification to that court and for leave to the parties to file supplemental briefs on the issues of 1) whether or not the case is moot by virtue of the determination in the trial court that the plaintiffs' damages were not proximately caused by JCP&L, and 2) whether this case is distinguishable from the *Silkwood v. Kerr-McGee* decision. The other suit is presently inactive pending the outcome of the class

action. JCP&L is unable to estimate its financial exposure in the event that the suits are ultimately resolved in the plaintiffs' favor.

Suits for damages have been instituted against Penelec by four dairy farmers claiming damages for losses as a result of neutral to ground voltage. Penelec is unable to estimate its financial exposure in the event that the suits are ultimately resolved in the plaintiff's favor.

As a result of existing and proposed legislation and regulations dealing with environmental matters, the GPU subsidiaries may be required to incur substantial additional costs to modify or replace existing and proposed equipment and to improve environmental sites currently or formerly used by them. The GPU subsidiaries are unable to estimate the extent of such possible costs or the impact thereof on future operations.

2. Summary of Significant Accounting Policies

General

The consolidated financial statements include the accounts of all subsidiaries.

It is the general policy of the subsidiaries to record additions to utility plant at cost, which includes material, labor, overhead and AFC. The cost of current repairs (except for certain costs described in Note 1) and minor replacements is charged to appropriate operating expense and clearing accounts and the cost of renewals and betterments is capitalized. The original cost of utility plant retired, or otherwise disposed of, is charged to accumulated depreciation.

Operating Revenues

Revenues are generally recorded on the basis of billings rendered.

Deferred Energy Costs

Energy costs are recognized in the period in which the related energy clause revenues are billed.

Reserve Capacity Credit

Since April 1981, Met-Ed and Penelec have been recognizing a charge to current expense equivalent to the revenues provided by the PaPUC for possible future reserve capacity payments to other members of the Pennsylvania-New Jersey-Maryland Interconnection. Pursuant to rate orders received in October 1983, the annual provision for such payments was reduced and a substantial portion of the accumulated reserve is being returned to customers over three years.

Depreciation

The subsidiaries provide for depreciation at annual rates determined and revised periodically, on the basis of studies, to be sufficient to amortize the original cost of depreciable property over estimated remaining service lives, which are generally longer than those employed for tax purposes. The subsidiaries use depreciation rates which, on an aggregate composite basis, resulted in an approximate annual rate of 3.27%, 3.24% and 3.21% for the years 1983, 1982 and 1981, respectively. Reference is made to Notes 1 and 3 regarding the accrual of depreciation on TMI-1 and TMI-2.

Amortization of TMI-2 Investment

The Pennsylvania subsidiaries are amortizing their investments in TMI-2 in accordance with PaPUC orders providing revenues for the recovery of the original cost of the facility and nuclear fuel in the reactor at the time of the accident plus capital additions subsequent thereto. Revenues have not been provided for a return on the investment in TMI-2. See Note 1.

Amortization of Property Losses

Property losses are amortized and recovered through rates as prescribed by the NIBPU and the PaPUC. See Note 16.

Nuclear Plant Decommissioning Costs

JCP&L, in accordance with rate determinations, is charging to expense and crediting to a reserve amounts intended to provide over their service lives for the cost of decommissioning nuclear plants at the end of their useful lives. Current estimates for ratemaking determinations range between \$27 million and \$54 million assuming in-place entombment. During 1982, such charges to expense for TMI-1 were discontinued as a result of a NIBPU order directing the cessation of depreciation accruals discussed in Note 3.

Met-Ed and Penelec, prior to the cessation of depreciation accruals discussed in Note 3, were charging to expense amounts intended to provide over their service lives for the decommissioning of their shares of the radioactive components of their nuclear units (approximately \$24 million per unit in then current dollars). During 1981, such charges to expense were discontinued retroactive to the dates that the TMI units were removed from base rates in Pennsylvania.

The subsidiaries believe that any additional cash requirements with regard to nuclear plant decommissioning should be recoverable through the ratemaking process.

Amortization of Nuclear Fuel and Waste Disposal

Amortization of Nuclear Fuel: The amortization of nuclear fuel is provided on a unit of production basis. Rates are determined and periodically revised to amortize the cost over the useful life.

Waste Disposal: JCP&L is providing for estimated future handling costs for the spent Oyster Creek nuclear fuel, and similar treatment will be provided for future handling costs for the spent TMI nuclear fuel when TMI returns to service. Previously accumulated estimated residual credits, net of previously accumulated estimated costs of reprocessing, for the Oyster Creek station nuclear fuel are being amortized to fuel expense on a unit of production basis. In accordance with the Nuclear Waste Policy Act of 1982, in June 1983 the subsidiaries entered into contracts with the DOE for the disposal of spent nuclear fuel. The total liability at December 31, 1983, including interest from April 7, 1983, amounts to \$76 million. As the actual liability under these contracts is substantially in excess of the amount heretofore recovered from ratepayers, the subsidiaries have reflected such excess, which totals \$64 million at December 31, 1983, as deferred costs. The rates presently authorized for the subsidiaries recognize these levels of excess costs and provide for collection over eight years for Met-Ed and Penelec and fourteen years for JCP&L.

Income Taxes

The Corporation and its subsidiaries file consolidated Federal income tax returns. All participants in a consolidated Federal income tax return are severally liable for the full amount of any tax, including penalties and interest, which may be assessed against the group.

The revenues of the subsidiaries in any period are dependent to a significant extent upon the costs which are recognized and allowed in that period for ratemaking purposes. In accordance therewith, the Corporation's subsidiaries have employed the following policies:

Tax Depreciation: The subsidiaries generally utilize liberalized depreciation methods and accelerated cost recovery allowances and the shortest lives permitted by the Internal Revenue Code in computing depreciation deductions and provide for deferred income taxes where permitted in the ratemaking process. However, in 1980, with respect to TMI-2, the subsidiaries elected to utilize straight-line tax depreciation.

Investment Tax Credits: Investment tax credits (I.T.C.) are being amortized over the estimated service lives of the related facilities.

3. Extraordinary Items

As a direct or indirect consequence of the nuclear accident at TMI-2, consolidated net income for 1983, 1982, and 1981 reflects the following extraordinary items, net of any related income tax effects:

In Millions	1983	1982	1981
(a) Stockholder Litigation Settlement	\$(16.0)		
(b) Write-off of Ontario Hydro Project		\$(3.9)	
(c) Reversal of TMI-1 depreciation		3.0	\$ 2.7
(d) Reversal of expenses incurred for public health and safety and restart of TMI-1		4.6	
(e) Abandonment of the Forked River project			(26.9)
(f) Reversal of TMI-2 depreciation			18.6
(g) Write-off of the excess of investments in subsidiaries over related net assets			(30.8)
Net	\$(16.0)	\$ 3.7	\$(36.4)

(a) As described in Note 1, a settlement was reached in class suits for alleged damages as a result of the accident at TMI-2 to purchasers of GPU common stock. An adjustment in the amount of \$16 million (\$19.6 million less \$3.6 million of related income tax benefits) to reflect the effect on the Corporation of the settlement, has been recorded as an extraordinary charge.

(b) In November 1981, JCP&L entered into contracts for the purchase of large quantities of electricity from a major Canadian supplier and for joint construction of transmission facilities to deliver that power to the United States. In June 1982, the NIBPU approved JCP&L's request to cancel the project due to uncertainties of cost, scheduling and financing and the availability of economic alternatives. In a decision of November 1982, the NIBPU directed that JCP&L may not recover from customers the costs associated with the project. As a result, JCP&L wrote-off \$3.9 million (\$6.8 million of costs less \$2.9 million for income taxes) as an extraordinary charge.

(c) As described in Note 1, the NIBPU issued rate orders in July 1982 directing JCP&L to cease the accrual of depreciation on TMI-1 retroactively to April 1, 1980. For the five months ended May 31, 1982, depreciation expense for TMI-1 in the amount of \$1.6 million was charged to current operations. The adjustment to reflect the reversal of the previously accrued depreciation in the amount of \$7.7 million for TMI-1 for the period April 1, 1980 to May 31, 1982, net of related income tax charges of \$4.7 million, has been accounted for as an extraordinary credit.

As described in Note 1, Met-Ed and Penelec, pursuant to April 1981 rate orders of the PaPUC, ceased the accrual of depreciation on their investment in TMI-1 subject to the PaPUC's jurisdiction retroactive to June 1, 1980. Met-Ed and Penelec, during the five months ended May 31, 1981, charged to operations depreciation expense for TMI-1 of \$4 million. The adjustment to reflect the reversal of \$9.3 million of depreciation accrued from June 1, 1980 through May 31, 1981, net of \$6.6 million of related income tax charges, was accounted for as an extraordinary credit.

(d) The July 1982 NIBPU rate orders also directed JCP&L to defer certain operating and maintenance expenses incurred for TMI-1 related to restart, public health and safety protection due to the extraordinary levels of expense and to the nature of the items. The adjustment in the amount of \$8.6 million to reflect the reversal of expense incurred for the period April 1, 1980 to December 31, 1981, net of related income tax charges of \$4.0 million, has been accounted for as an extraordinary charge. The rate orders also indicated that these expenses would be charged to customers over an eight-year period commencing with the restart of TMI-1.

(e) In November 1980, as a result of regulatory, cost and other uncertainties following the accident at TMI-2, JCP&L abandoned its effort to proceed with the construction of the Forked River nuclear project. Subsequent to this decision, the investment of \$413.7 million in the project was reclassified to deferred debits (unamortized property losses). The NIBPU, on July 31, 1981, issued a rate order which permits JCP&L to recover, in part, over a 15 year period, its investment in the Forked River project. The order provided for JCP&L to recover \$225.4 million of its net investment of \$252.3 million after giving effect to \$142.2 million in anticipated income tax benefits and \$19.2 million in anticipated salvage value. However, the order excludes the recovery of AFC accrued during the period April 4, 1979, the date of the suspen-

sion of construction activities at the project, through March 31, 1980, the effective date that JCP&L ceased the accrual of AFC on the project. In view of this order, in June 1981, JCP&L recorded an extraordinary charge of \$26.9 million relating to the disallowed AFC.

(f) As described in Note 1, pursuant to the January 8, 1982 rate orders of the PaPUC, Met-Ed and Penelec have ceased the accrual of depreciation on their investment in TMI-2 subject to the PaPUC's jurisdiction retroactive to the approximate dates the unit's operating and capital costs were removed from base rates (Met-Ed—January 1, 1979 and Penelec—April 1, 1979). Met-Ed and Penelec, for the eleven months ended November 30, 1981, charged to operations, depreciation expense for TMI-2 of \$15.5 million. The adjustment to reflect the reversal of \$45.6 million of depreciation accrued by Met-Ed from January 1, 1979 through November 30, 1981 and by Penelec from April 1, 1979 through November 30, 1981, net of \$27 million of related income tax charges, was accounted for as an extraordinary credit.

(g) Since 1946, in accordance with applicable regulations of the Securities and Exchange Commission (SEC) under the Public Utility Holding Company Act, the Corporation carried its investment in its subsidiaries at amounts that were \$30.8 million in excess of the related net assets. In December 1981, the Corporation concluded that, in light of present and proposed ratemaking, the investment in the subsidiaries in excess of related net assets had no realizable value and wrote-off such excess as an extraordinary charge.

4. Allowance for Funds Used During Construction

The applicable regulatory Uniform System of Accounts provides for AFC which is defined as including the net cost during the period of construction of borrowed funds (allowance for borrowed funds used during construction) used for construction purposes and a reasonable rate on other funds (allowance for other funds used during construction) when so used. While AFC results in a current increase in utility plant to be recognized for ratemaking purposes and represents current compensation, AFC is not an item of current cash income; instead AFC is assumed to be realized in cash after the related plant is placed in service by means of an allowance for depreciation charges based on the total cost of the plant, including AFC.

To the extent permitted in the ratemaking proceedings of the subsidiaries, the income tax reductions associated with the interest component of AFC have been allocated to reduce interest charges and, correspondingly, have not reduced income taxes charged to operating expenses. Pursuant to such rate orders, the Pennsylvania subsidiaries employ a net of tax accrual rate for AFC. JCP&L is essentially employing a gross AFC rate.

The subsidiaries have accrued AFC using rates which, on an aggregate composite basis, resulted in annual rates of 10.86%, 11.03% and 10.64% for the years 1983, 1982 and 1981, respectively.

5. Short-Term Borrowing Arrangements

On October 3, 1983, the Corporation and its subsidiaries entered into a Second Restated Revolving Credit Agreement (Restated Credit Agreement) with a consortium of banks. The Restated Credit Agreement, which expires on March 31, 1985, provides for an aggregate borrowing limit of \$125 million. Individual borrowing sublimits applicable to each company are as follows: the Corporation—\$5 million; JCP&L—\$50 million; Met-Ed—\$25 million; Penelec—\$50 million.

The notes issued under the Restated Credit Agreement bear interest at $\frac{1}{4}$ % above Citibank's alternate base rate as in effect from time to time in the case of Penelec and $\frac{1}{2}$ % above that rate in the cases of the Corporation, JCP&L and Met-Ed. The Restated Credit Agreement provides for payment of an annual agent's fee of \$150,000 and an annual commitment fee of $\frac{1}{4}$ of 1% on the unused portion of the banks' total commitment.

The Corporation has guaranteed all borrowings by its subsidiaries outstanding under the Restated Credit Agreement. As collateral for

such guarantee, the Corporation has pledged the common stock of JCP&L, Met-Ed, Penelec, GPUSC, and GPUNC.

Met-Ed has pledged as collateral for its indebtedness under the Restated Credit Agreement (i) \$40 million of first mortgage bonds, (ii) its customer accounts receivable (\$36.6 million at December 31, 1983) and (iii) its coal inventory (\$11 million at December 31, 1983).

The Restated Credit Agreement and the purchase agreements for certain bonds sold by JCP&L (\$97.5 million) and Penelec (\$50 million) subsequent to the accident at TMI-2 contain provisions for the immediate payment of the indebtedness involved upon the occurrence of an event deemed by specified majorities of the lenders or holders of an issue to have a materially adverse effect on the borrower.

The Corporation and its subsidiaries have additional informal bank lines of credit, under which aggregate borrowings outstanding at any one time are restricted by the Restated Credit Agreement to a maximum of \$25 million, with individual sublimits as follows: the Corporation—\$5 million; JCP&L—\$15 million; Met-Ed—\$15 million; Penelec—\$15 million. Borrowings under these lines of credit bear interest at the prime rate and provide for various compensating balance requirements.

6. Long-Term Debt

At December 31, 1983, the Corporation's subsidiaries had long-term debt outstanding, excluding amounts due within one year, as follows:

<i>In Thousands</i>	<i>Interest Rates</i>			
Maturities	1% to 6¼%	7% to 8¼%	9% to 13¼%	Total
First Mortgage Bonds:				
1985-1990	\$160,702	\$ —	\$ 80,000	\$ 240,702
1991-2000	278,952	134,869	184,495	598,316
2001-2009	25,120	392,742	399,698	817,560
Total	\$464,774	\$527,611	\$664,193	1,656,578
Bond Sinking Funds				(3,990)
Total				1,652,588
Debentures:				
1986-1990	\$ 43,100	\$ —	\$ —	43,100
1991-1998	23,100	122,880	18,500	164,480
Total	\$ 66,200	\$122,880	\$ 18,500	207,580
Other long-term debt				37,572
Unamortized net discount				(2,775)
Total				\$1,894,965

For the years 1984, 1985, 1986, 1987, and 1988, the subsidiaries have long-term debt maturities of \$58 million, \$128 million, \$60 million, \$54 million and \$57 million, respectively, including cash sinking fund requirements.

As reflected in the balance sheets at December 31, 1983 and 1982, the subsidiaries had \$27 million and \$79.8 million, respectively held for retirement of bonds due within one year. Such bonds for 1982 were redeemed during 1983.

Substantially all of the subsidiaries' properties are subject to the lien of their respective mortgages.

GPUSC and the DOE have entered into an agreement for the repayment in monthly installments ending in 1986 of amounts owed

DOE since 1979 by the subsidiaries under certain uranium enrichment contracts. Interest on these amounts is accrued using the Current Value of Funds Rate, as determined quarterly by the U.S. Treasury Department (9% at December 31, 1983). At December 31, 1983 and 1982, the aggregate amounts payable to DOE with interest under this agreement were \$28.9 million and \$32.2 million, respectively.

As a result of the foregoing, amounts payable by the subsidiaries to the DOE due after one year from the balance sheet date are reflected as long-term debt on the December 31, 1983 and 1982 balance sheets.

7. Cumulative Preferred Stock—Mandatory Redemption

At December 31, 1983 and 1982, the subsidiaries had outstanding the following issues of cumulative preferred stock which are subject to mandatory redemption requirements:

	Shares Outstanding		Stated Value In Thousands	
	1983	1982	1983	1982
JCP&L:				
13.5% Series F	137,500	150,000	\$13,750	\$15,000
11% Series G	187,500	200,000	18,750	20,000
Due within one year	(12,500)	(12,500)	(1,250)	(1,250)
Penelec:				
11.72% Series J	150,000	162,500	15,000	16,250
10.88% Series K	256,000	272,000	25,600	27,200
Due within one year	(28,500)	(28,500)	(2,850)	(2,850)
Total	690,000	743,500	\$69,000	\$74,350

JCP&L has had annual redemption requirements of 12,500 shares of the Series F preferred stock since 1975 and 12,500 shares of the Series G preferred stock since 1980. The 1984 Series G redemption requirement was met during 1983.

Penelec has had annual redemption requirements of 12,500 shares of the Series J preferred stock since 1976 and 16,000 shares of the Series K preferred stock since 1980.

All redemptions are at the stated values of the shares, plus accrued dividends. No redemptions of preferred stock may be made unless dividends on all of that subsidiary's preferred stock for all past quarterly dividend periods have been paid or declared and set aside for payment. If dividends upon any shares of preferred stock of any subsidiary are in arrears in an amount equal to the annual dividend, the holders of preferred stock, voting as a class, are entitled to elect a majority of the board of directors of that subsidiary until all dividends in arrears have been paid.

Through 1988, the subsidiaries' aggregate mandatory redemption requirement for all issues of cumulative preferred stock outstanding at December 31, 1983 is \$5,350,000 per year.

No shares of cumulative preferred stock have been sold during the three years ended December 31, 1983.

8. Cumulative Preferred Stock—No Mandatory Redemption

At December 31, 1983 and 1982, the subsidiaries had outstanding the following issues of cumulative preferred stock, which are redeemable solely at the option of the issuers:

	Shares Outstanding	Stated Value In Thousands
JCP&L:		
4.00% Series	125,000	\$ 12,500
9.36% Series	250,000	25,000
8.12% Series	250,000	25,000
8.00% Series	250,000	25,000
7.88% Series	250,000	25,000
8.75% Series H	2,000,000	50,000
Met-Ed:		
3.90% Series	117,729	11,773
4.35% Series	33,249	3,325
3.85% Series	29,175	2,917
3.80% Series	18,122	1,812
4.45% Series	35,637	3,564
8.12% Series	160,000	16,000
7.68% Series G	350,000	35,000
8.32% Series H	250,000	25,000
8.12% Series I	250,000	25,000
8.32% Series J	150,000	15,000
Penelec:		
4.40% Series B	56,810	5,681
3.70% Series C	97,054	9,705
4.05% Series D	63,696	6,370
4.70% Series E	28,739	2,874
4.50% Series F	42,969	4,297
4.60% Series G	75,732	7,573
8.36% Series H	250,000	25,000
8.12% Series I	250,000	25,000
9.00% Series L	1,400,000	35,000
Total	6,783,912	\$423,391

At December 31, 1983 and 1982, the subsidiaries were authorized to issue 37,035,000 shares (JCP&L—15,600,000 shares, Met-Ed—10,000,000 shares, and Penelec—11,435,000 shares) of cumulative preferred stock, no par value. No shares of cumulative preferred stock have been sold during the three years ended December 31, 1983.

9. Common Stock and Capital Surplus

Of the 75 million authorized shares of \$2.50 par value common stock of the Corporation at December 31, 1983 and 1982, 61,264,000 shares were issued and outstanding and 28,000 shares were recorded as reacquired at \$2.50 per share. In addition, 1,600,000 shares are considered issued in 1983 as a result of a litigation settlement which is described under "Litigation" in Note 1.

10. Consolidated Retained Earnings

Under the Restated Credit Agreement described in Note 5, the Corporation and its subsidiaries have agreed to maintain consolidated retained earnings of at least \$500,000,000.

In accordance with JCP&L's supplemental indenture dated June 1, 1979, common dividends payable by JCP&L are limited, to the extent they are not matched by cash capital contributions from the Corporation, to an amount equal to 25% of earnings for the years 1979 and 1980 and 100% of earnings thereafter. As of December 31, 1983, pursuant to that provision, \$50.8 million of retained earnings of \$113.8 million was available for declaration and payment of dividends on JCP&L's common stock. The NIBPU has requested that JCP&L notify it before declaring dividends on its common stock.

In accordance with Met-Ed's supplemental indenture dated March 1, 1952, \$3.4 million of the balance of Met-Ed's retained earnings is restricted as to the payment of dividends on its common stock. As of December 31, 1983, pursuant to that provision, \$9.6 million of retained earnings of \$13.0 million was available for declaration and payment of dividends on Met-Ed's common stock.

In accordance with Penelec's supplemental indenture dated June 1, 1979, the aggregate amount of any declaration or payment of dividends on common stock after December 31, 1978 cannot exceed Penelec's earnings available for common stock for the period commencing January 1, 1979 and terminating at the end of the last fiscal quarter preceding the date of such restricted payment. As of December 31, 1983, pursuant to that provision, \$17.7 million of retained earnings of \$54.8 million was available for declaration and payment of dividends on Penelec's common stock.

11. Income Taxes

Examinations of Federal income tax returns through 1978 have been completed and the years 1979 through 1982 are currently under review.

Income tax expense for the years 1981 through 1983 was different from the amount computed by applying the statutory rate to book income subject to tax as follows:

In Millions	1983	1982	1981
Operating income before income taxes	\$359	\$308	\$258
Other income, net	13	16	16
Litigation settlement (Note 1)	(1)		
Total	371	324	274
Interest expense	(165)	(185)	(209)
Book income subject to income tax	\$206	\$139	\$ 65
Income tax at statutory rate	\$ 95	\$ 64	\$ 30
Effect of difference between tax and book depreciation for which deferred taxes were not provided (Note 2)	9	7	2
Amortization of TML-2 (Note 2)	13	11	
Amortization of I.T.C. (Note 2)	(8)	(5)	(3)
Other adjustments		1	(5)
Income tax expense	\$109	\$ 78	\$ 24
Effective income tax rate	53%	56%	37%

Income tax expense is comprised of the following:

In Millions	1983	1982	1981
Federal income tax	\$ (3)	\$ 10	\$ (2)
State income tax	6	18	5
Income taxes on other income, net	8	7	7
Income taxes attributable to the allowance for borrowed funds (Note 4)	(1)	(2)	(6)
Provisions for taxes currently payable	10	33	4
Deferred income taxes:			
Liberalized depreciation (Note 2)	35	33	44
Deferral of energy costs (Note 2)	51	(52)	(39)
Forked River abandonment loss (Note 3)	(11)	20	42
N.J. Revenue taxes	(6)	(8)	(7)
Reserve capacity credit (Note 2)	(11)	(15)	(12)
Nuclear fuel disposal fee	30		
Deferral of O&M expense—Oyste. Creek (Note 1)	9		
Other	18	(9)	(4)
Deferred income taxes, net	115	(31)	24
Current I.T.C. (a)	(8)	81	(1)
Amortization of I.T.C.	(8)	(5)	(3)
Income tax expense	\$109(d)	\$ 78(c)	\$ 24(b)

million, \$21 million, \$23 million, \$24 million, and \$26 million expire in 1994, 1995, 1996, 1997, and 1998 respectively.

(b) Does not include \$34 million (deferred income tax expense related to liberalized depreciation—\$33 million and amortization of I.T.C.—\$1 million) related to extraordinary items (see Note 3).

(c) Does not include \$6 million (deferred income tax expense related to liberalized depreciation—\$9 million and currently payable tax benefit relating to an abandonment loss of \$3 million) related to extraordinary items (see Note 3).

(d) Does not include a \$3.6 million tax benefit resulting from a litigation settlement (see Note 3).

12. Loans to Non-Affiliated Mining Companies

Penelec is providing financing to non-affiliated mining companies supplying coal to the Homer City generating station under long-term contracts. These loans bear interest at a rate which is 1½% per annum above the prime interest rate.

13. Supplementary Income Statement Information

Maintenance and other taxes charged to operating expenses consisted of the following:

In Millions	1983	1982	1981
Maintenance	\$192	\$175	\$135
Other taxes:			
State and local gross receipts	\$135	\$134	\$114
Gross revenue and franchise	38	35	30
State surtax	16	15	13
Real estate and personal property	14	15	13
Other	19	20	19
Total	\$222	\$219	\$189

14. Pension Plans

The subsidiaries have several pension plans applicable to all employees, the accrued costs of which are being funded. Prior service costs applicable to all plans are being amortized and funded over 25-year periods.

Total pension cost for the years 1983, 1982 and 1981 amounted to approximately \$33.1 million, \$30.6 million and \$25.9 million, respectively.

Based on the latest available actuarial reports, the subsidiaries' plans had accumulated benefits and net assets as follows:

In Millions	January 1, 1983	January 1, 1982
Actuarial present value of accumulated benefits:		
Vested	\$304.3	\$278.6
Nonvested	45.2	40.1
	\$349.5	\$318.7
Net Assets available for benefits	\$404.1	\$315.2

The assumed rate of return used in determining the actuarial present value of accumulated plan benefits was 8 percent for both 1983 and 1982.

(a) Unused I.T.C. available for carryforward to future years as of December 31, 1983 aggregate \$96 million (which includes \$13 million of credits related to the Corporation's Employee Stock Ownership Plan), of which \$2

15. Jointly Owned Generating Stations

36 The subsidiaries participated with non-affiliated utilities in the following jointly owned generating stations at December 31, 1983:

Station	% Ownership	Balance (In Millions)	
		In Service	Accumulated Depreciation
Homer City	50	\$320.6	\$64.7
Keystone	16.67	41.6	13.2
Conemaugh	16.45	49.5	13.6
Yards Creek	50	17.1	2.8
Seneca	20	13.3	2.3

Each participant in a jointly owned generating unit finances its own portion and charges the appropriate operating expenses with its share of direct expenses. The dollar amounts shown above represent only those portions of the units owned by the subsidiaries.

16. Unamortized Property Losses

The subsidiaries are amortizing costs associated with certain properties for ratemaking purposes over various periods ranging from 5 to 20 years. The total amount of the unamortized balance of such properties at December 31, 1983 was about \$327 million of which \$303 million was related to the abandoned Forked River project (see Note 3).

The related Federal income tax reductions are being amortized over similar periods. The above process does not provide a return on investment during the recovery period.

17. Impact of Statement of Financial Accounting Standards (FAS) 71

As a result of criteria set forth in FAS 71, which is a financial accounting standard issued by the Financial Accounting Standards Board in December 1982, the subsidiaries will be required to modify present financial reporting practices and to make certain additional disclosures beginning in 1984.

FAS 71 requires that known liabilities of a regulated entity be reflected on the balance sheet and allows the recording on the balance sheet of a deferred asset under certain circumstances. Such liability can be eliminated by a regulatory commission only if such commission imposed the liability. Probable, although not certain, future recovery through the ratemaking process or other funding sources would permit establishment of such deferred asset. Accordingly, the subsidiaries would reflect in the 1984 financial statements a deferred asset and corresponding liability for the following:

(1) The remaining costs of cleanup of the TMI-2 plant. See the first and second paragraphs under "TMI-2 Cleanup" in Note 1 to Financial Statements.

(2) The effects of certain leases which would be considered to be capital leases pursuant to the criteria of FAS 13, an accounting standard on leases. Such leases which fall under the criteria of FAS 71 are considered to be immaterial at December 31, 1983.

(3) The effects of nuclear plant decommissioning costs which are currently accruable and not yet funded by the regulatory process. At December 31, 1983, such costs are considered to be immaterial.

Also in accordance with FAS 71, regulated companies will be required to disclose the cumulative net amount of income tax timing differences for which deferred income taxes have not been provided. At December 31, 1983, such timing differences amounted to about \$388 million. For additional information regarding accounting policy for income taxes, see Note 2.

System Statistics

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General Public Utilities Corporation and Subsidiary Companies

	1983	1982	1981	1980	1979
Generating Capacities and Peaks (MW):					
Installed capacity (at year end)(a)	8,251	8,251	8,251	8,254	8,262
Annual hourly peak load	6,140(b)	6,442(c)	6,215(c)	6,161(b)	6,173(c)
Reserve (%) (a)	34.4	28.1	32.8	34.0	33.8
Net System Requirements (in thousands of MWH):					
Net generation	20,635	20,841	22,266	22,659	26,891
Power purchased and interchanged, net	14,333	13,336	12,659	12,346	7,982
Total Net System Requirements	34,968	34,177	34,925	35,005	34,873
Load Factor (%)	65.0	60.5	64.1	64.9	64.5
Production Data:					
Cost of fuel (in mills per KWH of generation):					
Coal	14.90	16.35	16.11	13.76	12.95
Oil	52.31	58.16	62.29	62.49	39.01
Nuclear	5.85	4.08	3.83	3.80	3.18
Other	55.55	64.06	56.82	42.29	35.77
Average	19.94	19.80	19.06	17.17	12.48
Generation by fuel type (%):					
Coal	87	81	78	81	67
Oil	3	2	3	5	6
Nuclear		9	11	8	25
Other (gas & hydro)	10	8	8	6	2
Total	100	100	100	100	100
Electric Energy Sales (in thousands of MWH):					
Residential	10,901	10,604	10,707	10,810	10,754
Commercial	8,322	8,173	7,949	7,687	7,359
Industrial	10,608	10,752	11,535	11,520	11,974
Other	1,669	1,824	1,821	1,821	1,908
Total	31,500	31,353	32,012	31,838	31,995
Electric Operating Revenues (in thousands):					
Residential	\$ 978,743	\$ 919,532	\$ 793,056	\$ 719,166	\$ 597,757
Commercial	687,773	661,910	548,367	470,123	360,859
Industrial	673,101	694,291	609,177	531,369	431,104
Other	105,113	101,712	91,591	87,535	77,512
Total from KWH Sales	2,444,730	2,377,445	2,042,191	1,808,193	1,467,232
Other Revenues	32,140	24,391	20,097	21,102	20,479
Total	\$2,476,870	\$2,401,836	\$2,062,288	\$1,829,295	\$1,487,711
Customers-Year End (in thousands):					
Residential	1,456	1,434	1,422	1,405	1,386
Commercial	166	164	163	161	157
Industrial	10	10	10	9	10
Other	3	3	3	3	5
Total	1,635	1,611	1,598	1,578	1,558
Price per KWH-all customers (cents)	7.76	7.58	6.38	5.68	4.59

(a) Includes the installed capacity of the Three Mile Island nuclear generating station Unit No. 1 of 800 MW and Unit No. 2 of 906 MW for all periods. The reserve (%), excluding these units for 1983, 1982, 1981, 1980 and 1979 would be 6.6%, 1.6%, 5.3%, 6.3% and 6.2% respectively.

(b) Summer peak.

(c) Winter peak.

Supplementary Information Concerning Inflation Effects (Unaudited)

Introduction: The following supplementary information is supplied in accordance with the requirements of FAS No. 33, "Financial Reporting and Changing Prices." FAS No. 33 requires companies to explain the effects of inflation upon their operations by applying two methods to adjust conventional historical cost financial statements for the effects of changing prices. These methods are: (1) the "constant dollar" method, and (2) the "current cost" method.

Both methods employ a number of judgements and experimental estimating procedures prescribed by FAS No. 33 in an attempt to approximate the effects of inflation. Consequently, the Corporation cautions readers to view these data as estimates, rather than as any precise measurement.

Constant Dollar Basis: Constant dollar amounts represent dollars of equal purchasing power, as measured by the Consumer Price Index for All Urban Consumers (CPI-U). By this method, historical investments in physical plant items are restated, using the CPI-U, to amounts in present day dollars having the same purchasing power as the historical dollars had when originally invested.

Current Cost Basis: Current cost amounts also restate historical physical plant investments to present day dollars. However, specific price indexes applicable to the various types of plant equipment are applied rather than the general inflation CPI-U index. Specific price indexes more closely reflect the changes in purchasing power of surviving plant investments from the dates these were originally

acquired. The specific price indexes employed are individual company equipment cost indexes or the Handy-Whitman Indexes of Public Utility Construction Costs.

Monetary and Non-Monetary Items: A key concept in understanding the data adjusted for inflation is the distinction between monetary and non-monetary assets and liabilities.

Monetary items are those assets or liabilities which are or will be converted into, or paid by, a fixed number of dollars regardless of inflationary charges. Holding assets, such as receivables, prepayments, and inventories, during periods of inflation results in a loss of purchasing power because the amount of dollars received in the future will purchase less. Holding cash as an asset also results in a loss, similar to what happens to savings accounts, as these dollars will buy less in the future due to inflation. Conversely, holding monetary liabilities during periods of inflation results in a purchasing power gain because payment in the future will be made with dollars of diminished purchasing power similar to what occurs with a home mortgage.

Non-monetary assets and liabilities, such as property, plant, and equipment, do not gain or lose purchasing power solely as a result of general price level changes, but rather are affected by changes in specific prices for the related physical property. For this reason, the Corporation considers the current cost method to be preferable to the constant dollar method which applies the CPI-U to all physical

Consolidated Statement of Income Adjusted for Changing Prices

In Thousands

For the Year Ended December 31, 1983	Conventional Historical Cost	In Average 1983 Dollars	
		Constant Dollar	Current Cost
Income Statement			
Operating Revenues*	\$2,480,304	\$2,480,304	\$2,480,304
Energy Costs	1,052,649	1,052,649	1,052,649
Depreciation	219,593	433,095	452,895
Other Operating Expenses	849,368	849,368	849,368
Income Taxes	103,622	103,622	103,622
Total Operating Expenses	2,225,232	2,438,734	2,458,534
Operating Income*	255,072	41,570	21,770
Other Income and Deductions	13,670	13,670	13,670
Interest Charges, Net	160,782	160,782	160,782
Preferred Dividends	41,053	41,053	41,053
Income (Loss) Before Extraordinary Items	66,907	(146,595)	(166,395)
Extraordinary Items	(16,018)	(16,018)	(16,018)
Income (Loss) Available for Common (excluding current year adjustment to recoverable cost)*	\$ 50,889	\$ (162,613)	\$ (182,413)
Earnings (Loss) per Common Share	\$.83	\$ (2.64)	\$ (2.96)
Effect of Changing Prices on Assets and Liabilities			
Current Cost Increase in Net Plant Held During 1983			\$ 252,597
Less: Increase in Current Cost Net Plant Attributed to General Inflation during 1983			298,620
Current Cost Increase, Net of General Inflation			(46,023)
Current Year Adjustment to Recoverable Cost		\$ 66,557	132,112
Reductions Due to Depreciation Differences			
—Expensed		(213,502)	(233,302)
—Capitalized		(1,533)	(1,265)
Total 1983 Reduction to Recoverable Cost		(148,468)	(148,468)
Gain from Decline in Purchasing Power of Net Amounts Owed		78,212	78,212
Net Erosion of Common Stockholders' Equity		\$ (70,256)	\$ (70,256)

* Revenues, operating income, and income (loss) available for common have been adversely affected by regulatory disallowances of operating expenses and return requirements associated with TMI-1 and TMI-2 (see Note 1).

property investments without regard to specific property and equipment price changes.

Plant, Property, and Equipment: These investments are considered to be non-monetary items. Estimated utility plant was determined under both the constant dollar and current cost methods by applying the indexes specified above to the historical cost of utility plant by vintage and to related accumulated depreciation. Neither of these restatements of the purchasing power invested in surviving utility plant should be viewed as representing replacement cost or current value of existing plant productive capacity. The actual replacement of present facilities will occur over many years as future facilities, different in kind from present facilities, are constructed and placed into service.

Gain from Decline in Purchasing Power of Net Monetary Items Owed:

Since the Corporation owed net monetary liabilities (primarily long-term debt) during a period in which the purchasing power of the dollar declined, the inflation adjusted statements show the Corporation experiencing a net gain in purchasing power. This gain is strictly an economic concept and unfortunately is not realized in cash. As a result, this gain amount does not represent funds available for actual use or for distribution to shareholders.

Depreciation Expense: The current year's provision for depreciation for each inflation cost method was determined by applying the same methods and rates as used in the historical financial statements to the related property, plant, and equipment investments.

Other Items: In accordance with FAS No. 33, revenues and all expenses other than depreciation are considered to reflect the average price level for the year and accordingly remain unchanged

from those amounts as reported in the Corporation's primary financial statements.

Energy costs, including fuel, power purchased and interchanged, and changes in deferred energy cost balances, have not been restated from their historical costs. Regulation limits the Corporation's recoveries of these items to actual historical cost through energy cost adjustment clauses in basic rate schedules. Consequently, energy and fuel costs, and related fuel inventories, are effectively monetary items.

Income taxes included in the inflation adjusted statements remain unchanged from those amounts presented in the primary financial statements, since present tax laws do not allow deductions for depreciation adjusted for inflationary effects.

Inflation Effects and Rate Regulation: Present regulatory ratemaking limits the Corporation's recovery of plant investments and other expenses to historical cost amounts in charges for service to customers. Therefore, the excess of constant dollar or current cost utility plant over historical cost is not recoverable in rates. Significant non-recoverable amounts are included in the constant dollar and current cost depreciation figures for 1983. A further amount related to inflation during 1983 is shown as a Current Year Adjustment to Recoverable Cost plant. The Total 1983 Reduction to Recoverable Cost is indicative of the additional cash flow from depreciation required to preserve the purchasing power of invested capital. While this effect is partially offset by the gain from holding long-term debt, the Corporation has a net purchasing power loss that erodes common shareholder interests and which can be overcome only as a result of appropriate recognition in the rate regulatory process.

Five Year Comparison of Selected Financial Data*

In Thousands Except Per Share Data

Year Ended December 31,	1983	1982	1981	1980	1979
Operating revenues					
As reported	\$2,480,304	\$2,405,527	\$2,065,487	\$1,831,741	\$1,490,154
In 1983 average purchasing power	2,480,304	2,482,910	2,262,633	2,214,714	2,045,363
Income (Loss) before extraordinary items					
As reported	\$ 66,907	\$ 33,734	\$ 20,544	\$ 20,591	\$ 95,783
In constant dollars	(146,595)	(175,110)	(160,318)	(145,884)	(16,328)
In current cost dollars**	(166,395)	(196,807)	(182,669)	(175,198)	(59,213)
Earnings (Loss) per share before extraordinary items					
As reported	\$ 1.09	\$ 0.55	\$ 0.33	\$ 0.34	\$ 1.56
In constant dollars	(2.38)	(2.86)	(2.62)	(2.38)	(0.27)
In current cost dollars**	(2.70)	(3.21)	(2.98)	(2.86)	(0.97)
Cash dividends per common share					
As reported	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 1.20
In 1983 average purchasing power	0.00	0.00	0.00	0.00	1.67
Market price per common share at year-end					
As reported	\$ 7.750	\$ 6.750	\$ 6.750	\$ 5.000	\$ 8.625
In 1983 average purchasing power	7.620	6.889	7.155	5.774	11.195
Net plant assets (in 1983 year-end dollars)***					
In historical cost dollars	\$4,006,480	\$3,958,438	\$3,871,243	\$3,729,452	\$4,084,619
In constant dollars	7,846,452	8,036,429	8,148,121	8,173,937	9,018,028
In current cost dollars**	8,031,084	8,325,797	8,437,248	8,520,640	9,504,652
Net assets at recoverable cost					
In historical cost dollars	\$1,912,692	\$1,861,553	\$1,823,244	\$1,807,323	\$1,785,556
In constant dollars	1,880,618	1,899,758	1,932,732	2,087,139	2,318,306
In current cost dollars**	1,880,618	1,899,758	1,932,732	2,087,139	2,318,306
Current cost increases, net of general inflation, after current year adjustment to recoverable cost**	\$ 86,099	\$ 77,811	\$ (159,784)	\$ (364,237)	\$ (499,934)
Gain from decline in purchasing power of net amounts owed	\$ 78,212	\$ 81,497	\$ 186,605	\$ 308,667	\$ 386,519
Selected balance sheet data at year-end (historical costs)					
Total Assets	\$5,333,870	\$5,196,759	\$5,063,298	\$5,076,485	\$5,004,640
Long-term debt	1,894,965	1,998,700	2,109,336	2,105,439	2,148,972
Cumulative preferred stock—mandatory redemption	67,194	72,274	77,335	82,376	87,396
Average common shares outstanding	61,526	61,264	61,264	61,264	61,218
Average consumer price index	298.4	289.1	272.4	246.8	217.4
December consumer price index	303.5	292.4	281.5	258.4	229.9

* All constant dollar and current cost amounts expressed in 1983 average dollars, except as noted.

** Prior years' current cost amounts adjusted to 1983 by applying the CPI-U indexes, as required.

*** Includes \$3,598 for Other Physical Property and excludes \$30,023 for the TMI-2 damaged core. The latter is treated as a monetary item for FAS No. 33 disclosure purposes.

Directors

Louis J. Appell, Jr.^{1,2}

President
Susquehanna Broadcasting Co.
York, Pennsylvania 17405
(Communications and Consumer Products)

Donald J. Bainton^{1,2}

Chairman and Chief Executive Officer
Viatech, Inc.
Syosset, N.Y. 11791
(Engineering, Architectural and Surveying Services)

John F. Burditt^{1,2}

Former Chairman and Chief Executive Officer
ACF Industries, Inc.
New York, New York 10017
(Equipment Manufacturing)

Herman Dieckamp

President and Chief Operating Officer
General Public Utilities Corporation
Parsippany, New Jersey 07054

Dr. David L. Grove^{1,3}

President
David L. Grove, Ltd.
Armonk, New York 10504
(Economic Consultants)

William G. Kuhns

Chairman and Chief Executive Officer
General Public Utilities Corporation
Parsippany, New Jersey 07054

John F. O'Leary^{1,3}

Energy Consultant
Washington, D.C. 20015

Dr. John W. Oswald^{1,3}

President Emeritus
The Pennsylvania State University
Ogontz Campus
Abington, Pennsylvania 19001

Paul R. Roedel^{1,2}

President and Chief Executive Officer
Carpenter Technology Corporation
Reading, Pennsylvania 19603
(Specialty Metals)

Dr. Patricia K. Woolf^{1,3}

Visiting Research Sociologist
Princeton University
Princeton, New Jersey 08542

¹ Member of the Board of Directors

² Member of the Executive Committee

³ Member of the Nominating Committee

Officers

General Public Utilities Corporation

William G. Kuhns

Chairman and Chief Executive Officer

Herman Dieckamp

President and Chief Operating Officer

Verner H. Condon

Vice President
and Chief Financial Officer

Edward J. Holcombe

Comptroller

John G. Graham

Treasurer

William B. Murray

Secretary

Grace Wade

Assistant Secretary

Subsidiary Company Presidents

Philip R. Clark

GPU Nuclear Corporation

Herman Dieckamp

GPU Service Corporation

James R. Leva

Pennsylvania Electric Company

Floyd J. Smith

Metropolitan Edison Company

William A. Verrochi

Jersey Central Power & Light Company

James B. Liberman

General Counsel

Shareholder Notes

1984 Annual Meeting

The Annual Meeting of Stockholders of General Public Utilities Corporation will be held at 10 a.m. EDT, May 9, 1984 at the Rajah Theater, 136 North Sixth Street, Reading, Pennsylvania.

New Transfer Agent

Effective December 1, 1983 Manufacturers Hanover Trust Company became Transfer Agent, Registrar, Dividend Disbursing Agent and Dividend Reinvestment Agent for General Public Utilities Corporation. All correspondence with the Transfer Agent should be mailed to:

Manufacturers Hanover Trust Company
P.O. Box 24935
Church Street Station
New York, NY 10249

Transfers can also be hand-delivered to:

Manufacturers Hanover Trust Company
Securities Window, Street Level
130 John Street
New York, NY

Too Many Reports?

You may be receiving multiple copies of the GPU Annual Report because of multiple accounts within your household. To stop the extra copies, please write to Manufacturers Hanover Trust Company, P.O. Box 24935, Church Street Station, New York, NY 10249 and enclose the mailing labels from the extra copies.

GPU Stockholder Class Action Suit Settlement

GPU stockholders who purchased shares between February 8, 1974 and April 1, 1979, and who did not sell such shares prior to March 28, 1979, were entitled to participate in the class action settlement. Claim forms were mailed to eligible stockholders in June 1983. The deadline for filing the claim form with Heffler & Co., the accountants retained by the Settlement Committee to process claims, was August 12, 1983.

Heffler & Co. has advised GPU that it is not sending out any automatic acknowledgement of receipt of claim forms. Heffler & Co. has also advised GPU that it estimates it will be late 1984 before shareholder distribution of settlement proceeds can be made.

The GPU System Companies

General Public Utilities Corporation

100 Interpace Parkway
Parsippany, NJ 07054-1149
(201) 263-6500

GPU Service Corporation

GPU Nuclear Corporation

(Same address and telephone number as GPU Corporation)

Jersey Central Power & Light Company

Madison Avenue at Punch Bowl Road
Morristown, NJ 07960
(201) 455-8200

Metropolitan Edison Company

2800 Pottsville Pike
Reading, PA 19640-0001
(215) 929-3601

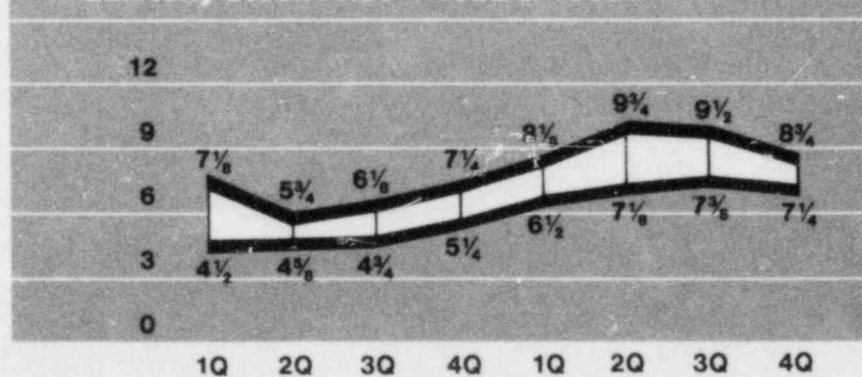
Pennsylvania Electric Company

1001 Broad Street
Johnstown, PA 15907
(814) 533-8111

For Further Information

Copies of GPU's *System Statistics* and the Corporation's *1983 10-K Annual Report* to the Securities and Exchange Commission will be available after March 31, 1984. Write to Mr. William B. Murray, Secretary, General Public Utilities Corporation, 100 Interpace Parkway, Parsippany, NJ 07054-1149.

Quarterly Stock Price—1982 & 1983



General Public Utilities Corporation is listed as GPU on the New York Stock Exchange. At December 31, 1983 there were 112,058 registered holders of GPU Common Stock. With respect to restriction on the payment of common stock dividends by GPU, see Note 10 to the Financial Statements.

General Public Utilities Corporation
100 Interpace Parkway
Parsippany, NJ 07054-1149
(201) 263-6500



GPU Nuclear Corporation
Post Office Box 388
Route 9 South
Forked River, New Jersey 08731-0388
609 971-4000
Writer's Direct Dial Number:

April 11, 1984

Director
Office of Nuclear Reactor Regulation
U.S. Nuclear Regulatory Commission
Washington, DC 20555

Attention: Document Control Desk

Dear Sir:

Subject: Oyster Creek Nuclear Generating Station
Docket No. 50-219
Annual Financial Report

Enclosed with this letter are ten (10) copies of the General Public Utilities Corporation 1983 Annual Report as required by 10 CFR Part 50, Appendix C, Section III and 10 CFR 50.71(b).

Very truly yours,

Peter B. Fiedler
Vice President and Director
Oyster Creek

PBF:MAM:dam
Enclosures

cc: NRC Resident Inspector
Oyster Creek Nuclear Generating Station
Forked River, NJ 08731

MOO4
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