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July 10, 1985

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Re Cleveland Electric Illuminating Co. (Perry Nuclear Power
Plant, Units 1 and 2), Docket Nos. 50-440 and 50-441 *OL*

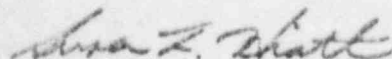
Gentlemen:

For your information, Intervenor Ohio Citizens for Responsible Energy ("OCRE") is enclosing a news article concerning the merger of the Cleveland Electric Illuminating Co. and the Toledo Edison Co. As indicated in the article, the new company plans to form a nuclear unit to manage the 2 Perry reactors and the Davis-Besse nuclear station.

This is a matter of concern, as it renders the Staff's conclusions in sections 13 (Conduct of Operations) and 17 (Operational Quality Assurance) of the SER invalid. The possibility that persons responsible for the notoriously poor management of Davis-Besse (characterized by Regional Administrator James Keppler before Congress recently as the weakest in Region III) may manage the Perry facility is especially disturbing.

OCRE therefore urges the Licensing Board to direct Applicants to file a complete report on the merger and its effect on the management of Perry.

Sincerely,



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Enclosure: as stated
cc: Service List
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CEI Chairman Robert M. Ginn
"The time seemed right."

CEI, Toledo Edison will merge

By JAMES LAWLESS

STAFF WRITER

The Cleveland Electric Illuminating Co. agreed yesterday to merge with Toledo Edison Co., creating an \$8 billion company with nearly 1 million customers — the largest Ohio electric company and one of the top 20 in the nation.

Reactions from industry analysts and regulators were generally favorable, with Ohio's top regulator suggesting the merger might be the start of a mega-utility, which might eventually include Ohio Edison Co.

The large utility might be organized under federal regulations and therefore be accountable to more lenient

New firm to be based here, could duck PUCO oversight

federal regulators, rather than to the Public Utilities Commission of Ohio, the state official said.

The merger, which creates a holding company — a company that manages the assets of other companies — was announced jointly in Toledo and Cleveland by the chairmen of the two companies. It followed votes of approval for the new company by each utility's board of directors.

Robert M. Ginn, CEI's chairman, and chief executive officer of the

unnamed new company, said the merged company would be the first utility created in 20 years. He said the company would be based in the Cleveland area, but be separate from CEI headquarters. The two original companies will remain intact as separate subsidiaries.

Ginn said it was too early to say what the change would mean to customers. "Electric rates will be lower than would otherwise be the case," he said.

The new company would serve 985,000 total customers, including 888,816 residential, 84,825 commercial and 11,441 industrial customers.

Toledo Edison now provides electricity to 271,000 customers in all or part of eight counties in Northwest Ohio from the Indiana border to Oak Harbor. CEI serves 714,000 customers in Cuyahoga, Ashtabula, Lake and Geauga counties.

Ginn said the major benefits to the two companies were long-range coordination of transmission and generating facilities, lower borrowing costs, combined computer strengths and

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Merge

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savings in nuclear and coal costs from increased purchasing power.

Toledo Edison Chairman John P. Williamson said the merger would "result in a streamlined, efficient, financially strong organization."

Ginn said, "We have had these discussions for two to three years, but they never really got anywhere. The discussions became intensive in the last two to three months. The time was right, and it seemed to make sense."

Ginn said the new company had only three employees: Ginn, as president and the chief executive officer; Williamson, as chairman, and Richard Miller, CEI's president, as executive vice president.

Ginn said Ohio Edison would not be involved initially in the new company, but he said the new firm's incorporation papers had been written so other companies could join it easily.

Thomas Chema, PUCO chairman, said, "I would be very surprised if (Ohio Edison) had not been involved in the negotiations. I have heard it is very possible there could be subsequent moves downstream and that Ohio Edison is one of the major players."

Ralph DiNicola, a spokesman for Ohio Edison, said, "The proposed con-

solidation of Toledo Edison and CEI comes as no surprise. We have made our own exhaustive analysis of such a consolidation with Toledo Edison and have concluded that there would be little to be gained for either our customers or our investors at this time.

"It is understandable that CEI's criteria or needs may well be different from our own, and we wish both companies nothing but the best results from their decisions."

Asked if Ohio Edison might join the company later, DiNicola said, "I have nothing more to add."

Chema said the new holding company could be federally organized so that it would not be accountable to the PUCO but to the Federal Energy Regulatory Commission.

He said the new company would find a more favorable atmosphere with the FERC under control of the Reagan administration than with the PUCO.

The PUCO, under the administration of Gov. Richard F. Celeste, has severely restricted rate hikes for utilities around the state.

"I think they (the new company) would find it more to their liking (at FERC) than at the PUCO," he said. He said the company might spin off elements of one or both of the subsidiaries so that portions would be regu-

lated by FERC.

CEI spokesmen said they were not sure which way the new company would be structured.

Utility analysts here and in New York said they were surprised by the merger. They said it should benefit both companies and shareholders, in the long run.

Toledo Edison, the weak link in many of CEI's partnerships, will no longer be in jeopardy of failing to meet any financial obligations, said Timothy O'Brien of Provident National Bank.

Ginn said he did not know how many employees the company would eventually have, but he said it was not the intention to create a layer of bureaucracy. He said he expected it would develop a nuclear unit, which would provide leadership for both the Davis-Besse nuclear plant in Oak Harbor and the \$6 billion Perry nuclear power plant, which is under construction.

He said he expected there would be a nuclear management and engineering team, which would assume responsibility for the three units.

Ginn said, "Perry Unit 2 remains in limbo." CEI has not decided whether it will be completed and has stopped construction on that unit while it finishes the first unit.

About problems at Davis-Besse, Ginn said, "It has been difficult for us to assume management of Davis-Besse without taking control of the company (running it)."

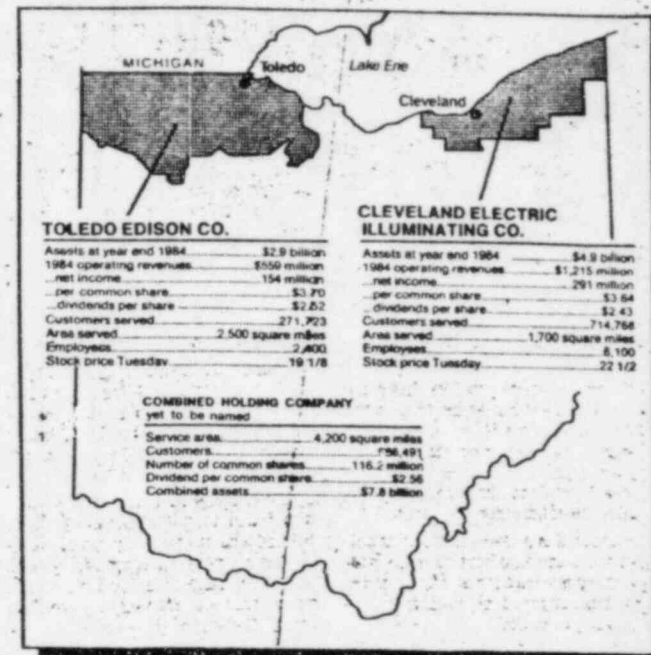
He said he thought there would be better long-range control of all of the plants under the new company's leadership. He denied Davis-Besse's problems had anything to do with the merger.

Toledo Edison hired Joe Williams, a new vice president for nuclear operations, last week to run Davis-Besse. Ginn said Williams had a reputation as a tough manager and said he expected him to get "that plant running well."

Richard Miller, CEI's president, said, "We are marking the end of the nuclear construction period and have developed backup lines of credit."

Common stock will be exchanged on a one-for-one basis for Toledo Edison shareholders, while CEI stock owners will receive 1.11 shares for each share now owned.

CEI stock sold at \$22.50 per share yesterday, and Toledo Edison's cost \$19.125 per share. Trading of each utility's stock was suspended yesterday afternoon. Executives of both companies were to meet this morning with security analysts in New York.



Reaction to the merger of Cleveland Electric Illuminating and Toledo Edison companies ranges from approval to suspi-

cion, Page 4-B. Analysts call a united Toledo Edison and CEI a good move. Page 5-B.