



PDR

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November 26, 1979

Mr. Richard H. Vollmer  
Director, Three Mile Island-2 Support  
Office of Nuclear Reactor Regulation  
U. S. Nuclear Regulatory Commission  
7920 Norfolk Avenue  
Bethesda, Maryland 20014

RE: NRC Docket No. 50-289 -- TMI-1 Restart Proceeding

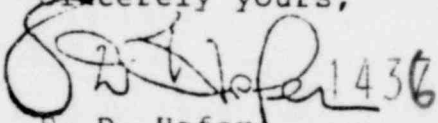
Dear Mr. Vollmer:

In response to the NRC's supplementary requests for financial information telecopied to C. W. Smyth on November 9, 1979, enclosed are 8 copies of the following:

1. Initial response to Supplementary Financial Information Request No. 8 (description of the GPU Companies' regulatory environment).
2. Response to Supplementary Financial Information Request No. 9 (Pa PUC's Order requiring Met-Ed to "show cause why its certificate of public convenience should not be revoked."
3. Response to Supplementary Financial Information Request No. 10 (NJBPU's inquiry as to alternative means of supplying Jersey Central's service territory).

Please acknowledge receipt of this material by signing, dating and returning the enclosed copy of this letter. A stamped, pre-addressed envelope is enclosed for that purpose.

Sincerely yours,

  
F. D. Hafer  
Vice President,  
Rate Case Management

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FDH/cod

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cc: J. C. Petersen - no enclosures; to be distributed by NRC  
H. Silver - no enclosures; to be distributed by NRC

Person Responsible for Preparation:  
F. D. Hafer, Vice President - Rate  
Case Management, GPU Service Corp.  
Telephone: (201) 263-6013  
Date: November 26, 1979

GENERAL PUBLIC UTILITIES CORPORATION  
Metropolitan Edison Company, Pennsylvania Electric Company  
and Jersey Central Power & Light Company  
NRC Docket No. 50-289  
Three Mile Island Unit No. 1 Restart Proceeding

Response to NRC Staff's Supplemental Financial Information Request No. 8,  
telecopied 11/9/79 (item number refers to initial request dated 9/21/79):

"(10.b ) A description of each licensee's regulatory environment was not submitted. See item 10.b of the Staff's request dated September 21, 1979."

Response:

In response to this request, enclosed are profiles of the Pennsylvania and New Jersey state commissions prepared by Argus Research in March (Pa PUC) and October, 1979 (NJBPUC). The Pennsylvania Commission has jurisdiction over Met-Ed's and Penelec's retail electric sales, which together account for about 56% of GPU's total electric sales. Jersey Central's retail sales, representing about 39% of GPU's total sales, are regulated by the New Jersey Commission. Also enclosed is a copy of Argus' research notes dated 11/15/79 that describe the backgrounds of the three new Pennsylvania Commissioners that were confirmed by the Pennsylvania State Senate on 11/13/79.

A description of the state commissions' regulatory policies as they have been applied to the GPU companies, as well as a brief description of GPU's federal regulatory environment, will be furnished in a subsequent response.

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# Argus Utility Scope

## REGULATORY SERVICE



RESEARCH NOTES

PENNSLVANIA  
November 15, 1979

### THREE COMMISSIONER NOMINEES CONFIRMED

On November 13, 1979, the Pennsylvania Senate confirmed Governor Thornburgh's three nominees to the Pennsylvania Public Utility Commission. They are expected to be sworn in during the next week. The paragraphs that follow contain brief biographical information concerning the appointees:

Linda C. Taliaferro (Ind.) is 31 years of age and is presently an attorney with Westinghouse Electric in Pittsburgh. She joined Westinghouse in 1976 and is manager of Government Support Programs for the corporation's Advanced Power Systems Division. Prior to joining Westinghouse, she was a staff attorney with New York Life Insurance Company from 1973 to 1976. Miss Taliaferro graduated from Skidmore College in 1969 and received a law degree from the Boston University School of Law in 1973. She has been appointed to a 10-year term running to April 1989.

James H. Cawley (Dem.) was appointed to the unexpired term previously held by Louis Carter, which runs to April 1981. Mr. Cawley is 34 years of age, and has been chief counsel to the Senate Democratic Majority since 1977. From 1975 through 1977, he was counsel to the Senate Consumer Affairs Committee and as such, participated in the drafting of legislation revising the acts governing the Public Utility Commission. He has participated in a private law practice since 1974. Mr. Cawley graduated from St. Bonaventure University in 1967 and Notre Dame Law School in 1970.

*g a*  
Susan Schanamen (Rep.) was appointed to the unexpired term previously held by Helen O'Bannon, which runs to April 1983. Ms. Schanamen is 33 years of age and has served as legal counsel to the Senate Republicans since 1975. From 1971 thru 1975, she was an assistant counsel for the PUC. Ms. Schanamen graduated from Lebanon Valley College with a B.A. in Psychology in 1968 and from Dickinson School of Law in 1971.

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# Argus Utility Scope

## REGULATORY SERVICE



BASIC ANALYSIS

PENNSYLVANIA  
March 1979

### Regulatory Authority

Pennsylvania Public Utility Commission  
P.O. Box 3265  
Harrisburg, Pennsylvania 17120  
(717-783-1704)

The Pennsylvania Public Utility Commission (PUC) consists of five full-time members appointed by the Governor for 10-year terms. Members must be confirmed by a two-thirds vote of the Senate before assuming office on a permanent basis. The Chairman of the Commission is appointed by the Governor and receives an annual salary of \$42,500. Each other Commissioner receives an annual salary of \$40,000. The Governor, Richard Thornburgh (Rep.) is serving an initial four-year term which runs to January 1983.

<u>Commissioners</u>	<u>Party</u>	<u>Age</u>	<u>Became Commr.</u>	<u>Term Ends</u>	<u>Background</u>
W. Wilson Goode (Chairman)	Dem.	40	3/15/78	4/1/87	Headed non-profit agency involved in low and moderate- income housing.
Robert K. Bloom	Rep.	53	1/19/71	4/1/79*	Sales exec., Executive Secretary to Governor.
Louis J. Carter	Dem.	54	11/10/71	4/1/81	Pvt. law pract., PUC Asst. Counsel, law lecturer.
Michael Johnson	Dem.	66	12/16/75	4/1/85	Exec. V.P. of Pa. AFL-CIO, labor lobbyist.
Vacancy	--	--	--	4/1/83	---

\*Commissioner Bloom is currently recovering from heart surgery and is not expected to return to the Commission prior to the end of his present term, however, he has been nominated for a new term by Governor Thornburgh.

### General Information

There are 599 staff positions allotted to the PUC, of which approximately 575 are currently filled. The Commission's budget is \$15.7 million for the fiscal year ending June 30, 1979,

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and will approximate \$16.6 million in fiscal 1980. Funds for the budget are raised by an assessment (a maximum of 3/10 of 1%) against the revenues of all regulated utilities in the state. Members of the staff are selected by the Commission and, other than division chiefs, are covered by civil service. Commission hearings are generally conducted by Administrative Law Judges. The staff furnishes information to the Commission and participates in cross-examination of witnesses. Following enactment of new legislation requiring that the PUC staff testify, the staff has taken a more active role and testifies in most rate cases.

The PUC has been substantially reorganized in the past couple of years, partly as a result of legislation enacted in 1976. Each Commissioner is now entitled to five personal assistants and one clerk. In addition, certain other staff personnel report directly to the Commission. Most other staff personnel report to the newly created position of the Director of Operations, who is now responsible for the operation of the Commission on a day-to-day basis. As a result of the 1976 legislation, the Bureau of Conservation, Economics and Energy Planning was created, as were the Bureaus of Law, Administrative Law Judges, and Consumer Services. While the structural reorganization of the PUC appears to be complete, the Chairman is attempting to make numerous other changes within the present structure, so as to assure the timely handling of all matters coming before the PUC, and, in particular, rate increase petitions.

In addition to gas, telephone, and electric utilities, the PUC has jurisdiction over private water and sewer companies, railroads, buses, trucking and taxicab companies, intrastate air transport, water carriers and certain intrastate pipelines. The Commission holds a public meeting once a week, usually on Thursdays. Its sessions are open to the public and all Commission decisions are made at these meetings.

#### Court of Review

Commission decisions may be appealed to the Commonwealth Court and then directly to the State Supreme Court. A number of cases have been appealed to the Commonwealth Court in the past couple of years and, in some instances, the Court has remanded cases to the PUC for further action.

West Penn Power Company appealed the Commission's July 7, 1976 order permitting it only a \$9.9 million rate hike out of the \$24.9 million sought on September 30, 1974. The Commonwealth Court remanded this case back to the PUC, requiring additional detail concerning the basis of the Commission's findings. The PUC staff and the company agreed to a settlement of the remaining issues in this case. However, the Consumer Advocate objected to the proposed settlement and, therefore, it is still awaiting final PUC action.

Pennsylvania Gas and Water Company appealed a PUC order dated July 7, 1976, in which the Commission permitted the company only \$1.3 million of the \$2.6 million sought on January 15, 1975.

The Commonwealth Court held that the PUC's finding concerning the fair value of the company's property reflected "arbitrary and capricious action on the part of the PUC and a manifest abuse of its discretion." The Court therefore again admonished the Commission to "disclose in some detail in its adjudications the figures upon which its conclusions are based and the methods employed in arriving at those conclusions." The Court determined that a reasonable fair-value finding would have entitled the company to the full increase sought and, therefore, it remanded the case to the PUC and directed it to enter an order dismissing the complaints and allowing, as permanent rates, each of the rates proposed by the company.

There are a number of cases currently before the Commonwealth Court, probably the most significant being Bell Telephone of Pennsylvania's appeal of its most recent permanent rate decision. The company is appealing a number of issues, including the method of calculating taxes, but the most important issue is the way the PUC calculated fair value. Other cases before the Commonwealth Court deal with the issue of fair value versus original cost.

#### Legislative Information

The Pennsylvania General Assembly is bicameral and meets annually, starting the first Tuesday in January. The present composition of the 50-member Senate is 27 Democrats and 22 Republicans; there is one vacancy. The 203-member House of Representatives is comprised of 103 Republicans and 100 Democrats. Utility matters and the PUC have ranked high on the list of attention-getting items of the General Assembly during the past few years, with 1976 being a particularly active year in which several major pieces of legislation were enacted. During 1976, a bill was passed providing for the creation of a Consumer Advocate within the Department of Justice to be appointed by the Governor with the approval of the Senate. Also passed were two bills (Senate Bills 1216 and 1217) proposed by the Senate Consumer Affairs Committee, which is chaired by Franklin L. Kury (Dem.). Senate Bill No. 1216 amended the basic Act relating to the regulation of public utilities. It provided that no general increase may be suspended for longer than seven months beyond the proposed effective date, which is generally 60 days after filing. The enactment of this bill has led to more timely rate decisions by the PUC. Senate Bill No. 1217 amended the basic Act that created the PUC and defined its powers and duties. It required the Commissioners to serve full time and increased their salaries. The Office of Administrative Law Judge was created and the bill provided for the establishment of Bureaus of Law; Conservation, Economics and Energy Planning, and Consumer Services. It also required the staff to appear and present testimony in major rate cases.

A number of bills were introduced during the 1977 and 1978 sessions dealing with such matters as the proposed election of Commissioners, rate structures, directory-assistance charges, fuel-adjustment clauses, and the establishment of a Department of Energy. The only substantial legislation passed during this time

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span was legislation imposing a gross receipts tax on electricity produced in Pennsylvania and transmitted to another state. This legislation was enacted on December 21, 1977, effective retroactively to January 1, 1977.

A number of utility-related bills are again pending in the General Assembly. The one that is probably receiving the greatest attention is Senate Bill No. 411. This bill has been referred to the Consumer Affairs Committee. It contains additional provisions concerning ex parte communications, original-cost rather than fair-value rate base, particular requirements related to the use of a future test year, initial decisions, temporary rates, and the consideration of the effects of inflation or deflation when determining a reasonable rate of return on rate base, among other things. There seems to be increasing support this year for the mandating of original-cost rate base versus fair-value, and such legislation may well be enacted during the current session.

#### Consumer Representation

The PUC staff is charged with the responsibility of bringing all facts before the Commission in rate cases and, consequently, plays an important role in support of consumer interests. Following legislation enacted in 1976, the staff has taken a more aggressive stance in presenting cases before the PUC. In addition, the consumer advocate office brings another strong voice before the Commission pleading the interests of consumers. The present Consumer Advocate Office is headed by Mark Widoff. Funds for the consumer advocate's budget, which for fiscal 1980 is estimated at \$1.4 million, are raised by an assessment against the revenues of the state's utilities. Major newspapers in the state include the Harrisburg Patriot-Evening News, the Philadelphia Inquirer, the Philadelphia Bulletin, the Pittsburgh Press, and the Pittsburgh Post-Gazette.

#### Regulatory Innovations

In certain cases, the PUC allows a portion of non-revenue-producing construction work in progress to be included in rate base, and also has allowed a portion of land held for future use to be considered as part of rate base. The PUC had required flow-through of liberalized depreciation tax savings, but in some instances, has permitted normalization for post-1969 plant additions. Tax savings attributable to interest on funds borrowed for construction projects may be normalized for rate-making purposes. Prior to the past few months, the PUC permitted state tax benefits to be normalized; however, it has required flow-through of these benefits in recent cases, and we expect this treatment to become standard in the future.

The PUC requires the staff to extensively audit internally energy cost adjustment increase filings and regular rate case data. The PUC has established criteria for management audits and has announced that it will conduct, or cause to be conducted, management audits of the major utilities in the state. The first



companies that were audited in 1978 were Pennsylvania Gas & Water, Pennsylvania Power, and Philadelphia Suburban Water. Philadelphia Electric is currently undergoing an audit. The Commission has formed a 13-to-17 member Consumer Advisory Council, which meets quarterly, to keep the PUC informed about the public's thinking on utility matters. It also has created a Utility Technical Advisory Council to advise it on financial and technical matters relating to the regulation of fixed utilities.

Significant innovations relating to Pennsylvania regulation were brought about by legislative action during 1976. These include substantial salary increases for the Commissioners, the requirement that they serve full time, and changes in the method and timing of approving rate increases. The new law required the Commission to set guidelines for future test year filings. The PUC has determined that future test years shall consist of a period of 12 consecutive months which shall start immediately after the historical year. Considering the time it takes a company to prepare a case and the PUC to prosecute it, the future test year is historical by the time rates can be made effective.

During 1978, the PUC implemented energy cost adjustment clauses for all of the state's utilities and also permitted emergency energy surcharges for certain companies. These actions are discussed more fully under the section on Adjustment Clauses.

During 1978, the PUC initiated a procedure known as "annual review." Under this plan, it is proposed that each major company meet annually with Commission and staff members, in a public session, to discuss the many issues and decisions made during the year and about which the parties could not communicate because of ex parte and other restrictions in the public utility law. Among the items to be discussed are the company's construction plans and forecasts, its financing plans, and its rate case results, and the reaction to these by the financial community, the company's management and the public. The sessions will also provide the opportunity for review of management audits, consumer complaints and special problems developing with relation to a particular company. These annual reviews were initiated under the Chairmanship of Louis Carter and have been continued by Chairman Goode.

During 1978, the PUC adopted service standards and termination procedures for the utilities of the state. It also voted to give itself veto power over planned service disconnections of residential customers during the 1978-79 winter. In February 1979, the PUC issued an order defining reporting requirements of the utilities concerning service terminations.

The most recent regulatory innovation adopted by the PUC was its approval, on March 22, 1979, of flexible pricing tariffs for Bell Telephone of Pennsylvania. A Research Note providing additional detail on this action will be issued in early April.

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Chairman Goode, wishing to make regulation more responsive and timely than it has been in the past, has undertaken a review of all of the Commission's processes and policies in order to streamline the Commission for more effective action in the future. Included in his program is a catalogue of all the policies previously determined by the Commission and a resolve to set policies in a number of areas so as to speed up the rate case process. The Chairman's objective is to process rate cases in less than the nine months mandated by law. PUC statements on a number of policy issues are expected during the third quarter of this year.

#### Recent Commission Actions

The PUC rate decisions issued since July 1974 are summarized on the table on pages 8 and 9. Most of the major rate decisions contained in this table have been discussed in Research Notes issued shortly after the date of the decision. For additional detail concerning these cases, please refer to the appropriate Research Notes.

#### Major Cases Pending

There are currently three major rate actions pending before the PUC. In addition, there are a number of generic actions being considered by the Commission. The highlights of the rate cases are outlined below.

On October 27, 1978, West Penn Power, a subsidiary of Allegheny Power, requested a \$71.6 million (19.5%) permanent electric rate increase. The company's petition was based on its request to earn a 14.5% return on common stock equity (38.4% of capital) and a 9.88% rate of return on a year-end rate base for a test period ended June 30, 1978. An ALJ decision is expected to be issued in this case by late June, and final PUC action is required by August 30, 1979. (Docket No. R-78100685)

On December 29, 1978, Columbia Gas of Pennsylvania requested a permanent gas rate increase of \$26.5 million (8.6%), based on its petition to earn a 14.5% return on common equity (47.1% of capital) and a 9.9% rate of return on a year-end rate base for a test period that ended September 30, 1979. An ALJ decision in this case is expected by late July 1979 and final PUC action is required by September 28, 1979. (Docket No. R-78120724)

On January 26, 1979, Duquesne Light Company requested a \$106.6 million (20.3%) permanent electric rate increase based on its petition to earn a 14.5% return on common stock equity (36% of capital) and a 9.88% over-all rate of return on a year-end rate base for a test period ended September 30, 1978. The company alternatively proposed it be permitted a lesser increase of \$93.3 million promptly. If this increase was authorized, it proposed that it would withdraw its permanent request. The PUC has denied this request. The end of the final suspension period in this case is October 27, 1979. (Docket No. R-79010740)

### Regulatory Accounting

The PUC permits normalization of investment tax credit benefits. In the past, the Commission had required the flow-through of liberalized depreciation tax benefits related to all electric and gas utility plant for those companies that did not elect normalization under the 1969 Tax Reform Act. During the mid-70's, however, it permitted normalization of such tax benefits for property added after 1969. The PUC appears to have adopted a new stance concerning further changes, however, and has recently denied the requests of Pennsylvania Power Company and West Penn Power Company to adopt normalization for liberalized depreciation tax benefits. In a Philadelphia Electric rate order in which it discussed tax normalization, the PUC stated "we consider it improper to allow normalization except: (1) upon evidence that the deferred taxes will in fact be paid within the foreseeable future; or (2) where normalization is required by law in order to obtain the benefits of accelerated depreciation." In line with that policy, the company was treated on a flow-through basis for state income tax benefits. These same state tax benefits were flowed through in the recent Pennsylvania Power case and in the Pennsylvania Electric case as well. Several companies have been permitted normalization of the tax benefits attributable to interest on funds borrowed for construction projects. This treatment was recently continued for Philadelphia Electric in its rate case, but the PUC indicated that this tax issue would be treated on a case-by-case basis in the future.

### Adjustment Clauses

The state's largest utilities have historically had some type of fuel-adjustment mechanism. Prior to 1978, some of the companies had an energy-cost-adjustment clause and some a fuel-adjustment clause. During the coal strike, the PUC ordered that a temporary ceiling be placed on all clauses so that they not exceed the rate in effect in March 1978. The PUC ordered all the state's utilities to prepare for implementation of an energy clause. The Commission permitted Duquesne Light and West Penn Power, both of which were hard hit by the coal strike, to implement emergency energy surcharges. These were designed to allow the companies to recover extraordinary purchased power expenses incurred as a result of the coal strike. As a result of the PUC action, each of the state's major electric utilities has now implemented a net energy clause. This clause requires the utilities to pass through to customers net gains from increases in interchange sales, but also provides for recovery of net reductions in interchange transactions. The energy charge of the state's utilities contains an automatic factor which insures that the utilities collect only for the actual cost of energy consumed. For most utilities in the state, the average lag in the electric energy cost adjustment clause is approximately five months. The PUC has also adopted a levelized gas cost rate adjustment clause.

The Commission has authorized the creation of an independent auditing team to completely check all fuel cost surcharges automatically passed on to customers by electric and gas utilities. Checks by these auditors and others have revealed

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# MAJOR RATE DECISIONS IN PENNSYLVANIA SINCE JULY 1974

Company Case Citation	Type of Svc.	Increase Requested		Increase Authorized		Test Period End Mo./Yr.	Rate Base	ROR %	Attri- tion Adj. % or \$Mil.	Common Equity as % Cap.	ROE %
		Date	Amt. (\$Mil.)	Date	Amt. (\$Mil.)						
Duquesne Light C-R.I.D. 89	Elec.	4/30/73	62.5	7/30/74	74.8(I)	12/73	YE/FV	8.75	-0-	32	14.3
C-R.I.D. 198	Elec.	11/27/74	80.6	7/13/76	36.3(I)	7/74	YE/FV	9.3	-0-	33	14.9
C-R.I.D. 373	Elec.	10/1/76	127.9	9/28/78	81.6(I)	6/76	YE/FV	9.11	-0-	35	12.6
Metropolitan Edison C-R.I.D. 170&171	Elec.	7/26/74	71.7	6/22/76	29.8(I)	3/74	YE/FV	9.82	-0-	39	13.7
C-R.I.D. 434	Elec.	7/1/77	44	5/31/78	2.6	3/77	YE/FV	9.74	-0-	37	13.6
C-R-780606	Elec.	6/30/78	78.8(R)	3/22/78(1)	49E	3/79	YE/FV	9.67	-0-	35	13.4
Pennsylvania Electric C-R.I.D. 172&173	Elec.	7/29/74	68.0	6/2/76	33.3(I)	3/74	YE/FV	9.53	-0-	35	14.8
C-R.I.D. 392	Elec.	2/1/77	67.8	6/8/78	24.7(I)	12/77	YE/FV	9.56	-0-	33	13.43
Pennsylvania Power C-R.I.D. 243	Elec.	5/30/75	8.0	1/27/77	4.1(I)	2/75	YE/FV	10.05	-0-	35	14.7
C-R-77110521	Elec.	11/28/77	35.5	8/31/78	23.6	7/77	YE/FV	10.1	-0-	36.1	13.5(E)
Pennsylvania Power & Light C-R.I.D. 221&251	Elec.	3/31/75	78.3(R)	8/26/76	78.3(I)	7/75	YE/FV	9.83	-0-	31	14.28
Philadelphia Electric C-R.I.D. 51&60	Gas	12/5/72	12.0	9/10/74	12.0(I)	9/72	YE/FV	8.24	-0-	36	10.3(F)
C-R.I.D. 129	Elec.	1/31/74	136.0	3/25/75	105.0(I)	6/74	YE/FV	9.92	-0-	33	15
C-R.I.D. 227	Gas	4/3/75	14.0	11/22/76	9.2(I)	12/74	YE/FV	9.9	-0-	35	14(E)
C-R.I.D. 295	Elec.	11/12/75	94.6	2/3/77	72.0(I)	8/75	YE/FV	9.91	-0-	34	14.1
C-R.I.D. 438	Elec.	8/5/77	115.8(R)	12/28/78	78.9(I)	12/77	YE/FV	9.84	-0-	34	13.5
West Penn Power C-R.I.D. 183	Elec.	9/30/74	24.9	7/7/76	9.9(I)	6/74	YE/FV	8.63	-0-	33.6	12.9
C-R.I.D. 369	Elec.	9/29/76	46.9	5/23/78	10.6(I)	6/76	YE/FV	9.32	-0-	35	14.16
Columbia Gas C-R.I.D. 340	Gas	5/3/76	21.0	1/24/78	6.7(I)	12/75	YE/FV	9.92	-0-	39	13.56

# Equitable Gas

C-R.I.D. 135	Gas	3/29/74	10.9	8/20/74	9.4	12/73	YE/FV	9.3	-0-	--	--
C-R.I.D. 317	Gas	3/31/76	19.5	9/13/77	11.3	12/75	YE/FV	9.94	-0-	42	13.6(E)
C-R.I.D. 78-040598	Gas	4/28/78	27.5	10/23/78	15.8(2)	12/77	YE/FV	10.19	-0-	--	13.4(E)

# National Fuel Gas

C-R-77110514	Gas	5/1/78	13.0	9/22/78	5.5(3)	12/77	--	--	--	--	--
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# Pennsylvania Gas & Wtr.

C-R.I.D. 296	Gas	11/14/75	11.1	5/11/78	5.9(1)	8/75	YE/FV	9.52	-0-	34	13.68
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# Peoples Natural Gas

C-R.I.D. 99	Gas	6/29/73	17.7	9/10/74	12.2(1)	3/73	YE/FV	8.25(F)	-0-	52	10(F)
C-R.I.D. 205	Gas	12/31/74	17.1	5/17/76	13.5(1)	12/74	YE/FV	8.9(F)	-0-	50.5	14.5(E)
C-R.I.D. 308	Gas	1/29/76	14.9	7/25/77	2.2(1)	12/75	YE/FV	10.4	-0-	50	13.6
C-R-78010545	Gas	1/27/78	14.3	10/27/78	3.6	9/77	YE/FV	10.54	-0-	50	13.5

# U.G.I. Corp.

C-77110518	Gas	11/28/77	12.6	8/25/78	4.6	3/78	YE/FV	10.14	-0-	40	13.4
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# Bell Tel. of Pennsylvania

C-R.I.D. 196	Tel.	11/15/74	116.4	6/22/76	83.3(1)	7/75	YE/FV	9.88	-0-	55	12
C-R.I.D. 367	Tel.	11/5/76	139	12/15/77	38(4)	6/77	YE/FV	9.65	-0-	49	12.37
C-k-78120719	Tel.	12/12/78	156.3	3/22/79(1)	77.3(5)	9/79	--	9.65	-0-	--	--

- (1) Date of PUC vote. Formal order not yet issued.
- (2) Rates became effective 10/23/78 following PUC acceptance of settlement.
- (3) Settlement agreement approved by PUC.
- (4) Revised to roughly \$48 million 5/11/78.
- (5) Company agreed to lesser increase in order to stay within wage and price guidelines and implement flexible pricing promptly. Based on ROR of last case.

C - Case Number

F - Return on fair value

FV - Fair value

I - Interim increase implemented prior to issuance of final order

L - Amount of request lowered while case was in progress (latest request shown)

R - Amount of requested increase raised while case was in progress (latest request shown)

ROE - Return on original-cost common equity

ROR - Over-all rate of return on original-cost rate base

YE - Year-end

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what the Commission considers certain discrepancies. Accordingly, the PUC has issued a number of show-cause orders to the various utilities directing them to show cause why they should not refund certain monies to customers because of the failure to enforce specific coal purchase contracts. The alleged excess prices were paid during a period when suppliers were threatening to cut off utilities' coal supplies. No final PUC action has yet been taken in any of the cases, and it appears to us that refunds, if any, will not be substantial.

Surcharge clauses to pass on increases or decreases in certain state taxes are permitted.

#### Regulatory Timing

As a result of the public utility bills passed in 1976, substantial changes occurred in the regulatory timing in Pennsylvania. Senate Bill No. 1216 provided that for cases filed subsequent to October 7, 1977, no general rate increase was to be permitted without a hearing. The Commission is permitted to suspend a proposed rate increase, but for not more than seven months beyond the proposed effective date. By the end of seven months, a majority of PUC members serving are to issue a final decision and set forth the reason for their action. If no decision is issued, the filed rates become effective subject to refund. When filing for a rate increase, the company must give 60 days notice, bringing the total elapsed time from a rate application to a rate decision to nine months. A requested increase of 3% or less is not considered a general increase and, therefore, is not subject to these hearing and suspension provisions.

A utility may seek "extraordinary rate relief" if a rate hike is "immediately necessary for the maintenance of financial stability," and if the increase will provide "no more than the rate of return on the utility's common equity" allowed in its last case. The PUC has adopted a policy requiring that comprehensive financial and operating data be filed with a request for extraordinary interim rate increases. Requests must be accompanied by information showing the increase is needed to maintain financial stability, continue normal maintenance and service, and to prevent substantial job reductions. The PUC must hold and conclude hearings and must issue decisions on requests for extraordinary relief within 30 days. Under the new law, no temporary rates are involved and, thus, no recoupment (or retro-active charges) will result.

#### Rate Base Determination

Regulatory law in Pennsylvania requires that a utility be allowed a "fair return on the fair-value of its property used and useful in the public service." In arriving at its fair-value determination, the Commission ostensibly gives consideration to the original cost of construction of the property and its reproduction cost at fair average prices. While this is what is supposed to happen, what clearly appears to happen in the state is that the dollar amount of the rate increase is determined by

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PUC 1041

considering the return on original-cost common equity. Generally a return in the range of 12.5-14% is selected and, following its selection, the return on fair-value rate base is determined arithmetically. Year-end rate base is customarily used, with annualizing adjustments made to the income statement accounts. Senate Bill No. 1216 provides that, in supporting a rate increase under the new rules, a utility may utilize a future test year. Such rules have been promulgated by the PUC, but they provide that the future test year must start immediately after the historical year, which generally makes it historical by the time the new rates are placed into effect. In certain instances, the PUC has permitted amounts of construction work in progress in rate base when certain standards are met. The property must generally be completed within a short time after the end of the test period and be non-revenue producing.

#### Rate of Return

In recent electric rate cases, the PUC has permitted returns on original-cost rate base in the 9.11%-10.1% range and returns on equity of between 12.6% and 14.16%. Common equity has comprised between 33% and 37% of the capital structures. In the most recent gas company cases, the utilities were permitted rates of return of 10.14%-10.54% and returns on equity of 13.4%-13.68%. Common equity comprised 40%-50% of the capital structures of these utilities. (For additional detail concerning rates of return authorized on rate base and on equity by the PUC since July 1794, refer to the table on pages 8 and 9.)

#### Rate Structure

During 1976, the State Senate and House passed joint resolutions requiring the PUC to examine the subject of rate structure and to look specifically into such alternatives as: inverted rates, seasonal peak and off-peak pricing, higher tail block prices, energy conservation discounts, and lifeline rates. The PUC responded by conducting an investigation (PRMD-7) into electric utility rate structures to determine whether rate structure redesign would conserve power and benefit consumers. The socio-economic effects of rate structure revisions were also considered in the inquiry. The PUC filed its conclusions with the General Assembly in December 1977, noting that the data gathered contained internal inconsistencies and that it was often possible to support alternative policies. The PUC considered its report to be both "generic and preparatory." It therefore considered the recommendations not the end, but the beginning. The Commission reported that it learned that there is no single rate structure or group of structures that will solve, in a simple manner, Pennsylvania's electric energy problems.

The Commission decided to commence the implementation of certain recommendations where applicable and appropriate. Among these recommendations are the following: (1) that electric rate structures should be based on cost-of-service principles; (2) certain preferential rate schedules should be merged into appropriate regular rate schedules; (3) declining block rates

should be phased out; (4) optional load factor rates should be offered to all large residential customers; (5) extensive load studies should be undertaken; (6) experimental time-of-day rates should be offered; (7) off-peak rates should be promoted; (8) the maximum single peak monthly peak demand should be utilized for all demand metered rates; (9) master metering should be limited to existing locations and all new construction initiated prior to January 1, 1978; and (10) marginal cost concepts should be considered in the development of electric rates.

The PUC has continued to move relatively slowly in the area of rate structure, but has made some changes. In Pennsylvania Power's last case, it permitted the company to implement a customer charge, with no energy in this block, and required the flattening of its residential rate structure. In Pennsylvania Electric's case it provided for a customer charge and a flat rate for all energy used. The company was required to discontinue its special heating rate in the future and to provide a time-of-day rate for residential customers, with a premium to be charged to these customers. The PUC has also introduced some new rate structure ideas in the telephone industry. Its most innovative action came just days ago when, on March 22, 1979, it approved flexible pricing tariffs for Bell Telephone of Pennsylvania. This case will be more fully discussed in a Research Note to be issued by early April.

#### For Additional Information

For general information, contact David M. Bramson, Director of Public Relations (717-787-5722); William P. Thierfelder, Director of Operations (717-783-5331); or Joseph J. Klovekorn, Director of the Office of Special Assistants (717-787-1827). For financial, accounting and rate information, contact Robert L. Packard, Director, Bureau of Rates (717-787-4886).

#### Argus Evaluation

Until very recently, regulation in Pennsylvania was highly politicized and extremely slow. The most certain thing about regulation in Pennsylvania was that it would be most uncertain. As a result of legislation enacted in 1976, the time lag in the PUC's decisions on rate cases has improved materially. In addition, there seems to be a sincere desire on the part of the PUC to react to the utilities' petitions more promptly and consistently. Based on the changes in the law and the PUC's more constructive action in its most recent major rate cases, we recently raised our rating of Pennsylvania regulation from "below average" to "slightly below average."

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Major Utilities in Pennsylvania	Tot. Rev. 1978 (\$Mil.)	Tot. Cap. Incl. S.T. Debt 12/31/78 (\$Mil.)	Co. Eq. s % To : Cap. 12/31/78	Ret. on Avg. of Beginning End of Year Common Equity 1977 1978	Pretax Coverage of Fixed Charges 1977 1978	Approx. Eff. F1T Rate 1978	Fis. Cust. (Cents) 1976 1977
<u>ELECTRIC</u>							
Duquesne Light	\$ 573	\$ 1,795	32.2%	9.4%	8.4%	2.6x 2.3x	26 4.7 5.1
Metropolitan Edison(a)	311	1,091	33.9	13.1	12.9	3.4 NA	20 4.5 4.9
Pennsylvania Electric Co. (a)	432	1,235	33.2	10.3	9.9	2.8 NA	31* 4.1 4.5
Pennsylvania Power Co. (b)	119	422	35.6	9.0	7.1	2.2 2.0	9 4.1 4.0
Pennsylvania Power & Light	789	2,975	33.0	14.3	11.7	3.2 2.9	25 3.6 3.9
Philadelphia Elec- tric	1,457	4,302	34.3	9.6	6.3	2.3 2.4	25 4.9 5.3
West Penn Power Co. (c)	440	997	34.1	14.5	13.1	3.9 NA	39* 3.3 3.4
<u>GAS</u>							
Equitable Gas Co.	194*	262*	44.8*	11.9	NA	3.3 NA	39* -- --
National Full Gas	550	430	46.0	9.7	10.3	2.9 2.9	31 -- --
Peoples Natural Gas(d)	227*	208	55.4*	8.6	NA	3.3 NA	41* -- --
UGI Corp.	220*	244*	43.3*	10.6	NA	3.4 NA	38* -- --
<u>TELEPHONE</u>							
Bell Telephone of Pennsylvania	1,456*	2,935*	58.4	10.1	NA	4.3 NA	41* -- --
General Tel. of Pa.	118*	267*	42.6*	11.8	NA	3.2 NA	41* -- --

- (a) A subsidiary of General Public Utilities  
 (b) A subsidiary of Ohio Edison  
 (c) A subsidiary of Allegheny Power  
 (d) A subsidiary of Consolidated Natural Gas

\*1977 Results

March 1979



NEW JERSEY  
October 1979

Regulatory Authority

New Jersey Board of Public Utilities  
101 Commerce Street  
Newark, New Jersey 07102  
(201-648-2017)

The New Jersey Board of Public Utilities (BPU) consists of three full-time members appointed by the Governor for overlapping six-year terms. Members must be approved by the Senate before assuming office. Legislation was enacted in 1977 creating the Department of Energy (DOE). The Act created a new cabinet-level department and transferred the old Department of Public Utilities and its functions to the Board of Public Utilities, which is a part of the DOE. The President of the BPU is designated by the Governor (with the consent of the Senate). Each Commissioner is paid an annual salary of \$49,000. The present Governor, Brendan Byrne, (Dem.), is serving a second four-year term, which will conclude in January 1981.

<u>Commissioners</u>	<u>Party</u>	<u>Age</u>	<u>Became Commr.</u>	<u>Term Ends</u>	<u>Background</u>
George H. Barbour (President)	Dem.	62	10/5/76	3/15/79*	State Assembly Ass't. Majority Leader, State Deputy Atty. Gen., pvt. law practice.
Richard B. McGlynn	Rep.	40	3/3/76	3/15/83	County Ass't. Prose- cutor, State Dep. Atty. Gen., County Dist. Court Judge.
Edward H. Hynes	Dem.	33	3/16/78	3/15/81	Private law practice, State Assemblyman.

\*May continue to serve pending appointment and confirmation of successor.

General Information

The staff of the BPU consists of approximately 230 members and its budget for fiscal 1980 is roughly \$6 million. Funds for the budget are raised by a maximum one-sixth of one percent assessment against the revenues of all regulated utilities in the state. Most of the members of the staff are selected on



the basis of Civil Service examinations. As a result of 1978 legislation, hearings in contested cases are now conducted by Administrative Law Judges (ALJ's) assigned by the state Office of Administrative Law. If no BPU action is taken on an ALJ's proposed order within 45 days of issuance, then the proposed order becomes final. The Commissioners sit in on some portions of special cases and also hear oral argument on particular issues. During 1979, all three Commissioners heard the entire Jersey Central Power & Light Company case. They did so because of the urgency of the matters in the case, which was related to the Three-Mile-Island incident. Staff members, from time to time, appear as witnesses and present testimony in certain proceedings, and the staff regularly furnishes the Board with position papers on major issues.

In addition to gas, telephone, and electric utilities, the BPU has jurisdiction over private water companies, sewage and solid-waste disposal companies and cable TV companies. Regular Board conferences are generally held on Thursday mornings and major decisions are usually issued following these meetings. All Board meetings are now open to the public.

#### Court of Review

BPU decisions may be appealed to the Appellate Division of Superior Court of the State of New Jersey and then to the New Jersey Supreme Court. By and large, state court decisions have upheld the Board on most major issues. On September 29, 1977, the Appellate Division issued a decision which essentially called on the Board to issue its rate decisions more promptly. The Appellate Division order came in a ruling on a case filed by Lambertville Water Company on June 28, 1974. A final decision was not issued in that case until March 25, 1976, with rates to become effective May 1, 1976. The Court ruled that the new rates should have become effective as of May 1, 1975, in line with state statutes providing that rate cases must be acted upon within eight months. The BPU appealed this decision, was granted certiorari and, on May 7, 1979, the State Supreme Court ruled that the original BPU action was appropriate and it therefore reversed the Appellate Division ruling. This action means that Lambertville Water will not be permitted to collect the rate increase retroactively. The Court ruled in this way because the final Board action was taken following a company request for reconsideration. It noted that the initial Commission order had been issued in a timely fashion, considering the company consent to a 30-day extension. The Court noted that as long as the Board has a rational basis for its action, its decisions will be controlling. The Court action leaves unclear whether a utility may be permitted to collect a rate increase retroactively if the BPU fails to act during the prescribed suspension period.

During 1978, the New Jersey Superior Court's Appellate Division upheld a 1976 decision of the BPU that had denied, in its entirety, New Jersey Bell Telephone's request for a permanent rate hike of \$157.8 million. The Court held that the company had not demonstrated that the Commissioners were irresponsible in the way they carried out their duty. Also during 1978, the New Jersey Supreme Court ruled that the Board had exclusive jurisdiction concerning consumer fraud complaints against a public

utility company. The Court noted that the company's cost of capital would rise if individual customers were permitted to sue the utilities and collect damages from them, thereby increasing the cost of service to all other customers over the long run.

Late in 1977, the Supreme Court issued a decision in the Redi-Flow case, which tended to question the legality of fuel-adjustment clauses in the state. There were no further challenges to fuel-adjustment clauses for a couple of years, since the Board began holding hearings under the procedures of the levelized fuel-adjustment clause. However, the Division of Rate Counsel has challenged Atlantic City Electric Company's recent bid for a fuel-adjustment increase, contending that it does not fulfill the necessary conditions of the state statutes authorizing rate increases. The Rate Counsel requested the BPU to dismiss the fuel-adjustment request, but the Board denied this proposal. The Rate Counsel appealed the Board action, and it may be finally adjudicated in the State Supreme Court. In this particular instance, the issue is not so much whether the company should be entitled to collect revenues to offset higher fuel costs, but the timing of the revenue collection.

#### Legislative Information

The New Jersey legislature is bicameral, with the Governor having veto power. It meets annually and the normal meeting days throughout the year are Mondays and Thursdays. The makeup of the Assembly is 53 Democrats, 26 Republicans, and there is one vacancy; that of the Senate is 27 Democrats, 12 Republicans, and there is one vacancy. During 1977, a number of utility bills were introduced, discussed and not adopted. However, a significant utility-related bill was enacted -- establishing the Department of Energy. The Act created a new cabinet level department and gave it broad powers to regulate the production, distribution, conservation and consumption of energy. It abolished the old Department of Public Utilities, which is a part of the new Department of Energy. Joel R. Jacobson was installed as Commissioner of the DOE and Governor Byrne appointed Commissioner Barbour to be President of the Board of Public Utilities, replacing Mr. Jacobson in that position. The Board was designed to be "independent of any supervision or control by the Department or any officer or employee thereof, except as otherwise expressly provided" in the Act. The Act provides that only the BPU be involved in determining utility revenue requirements. During the 1978 and 1979 sessions, there have been substantial discussions concerning the possible reorganization of the state Department of Energy so as to eliminate excess bureaucracy. Among the proposals is one that would fold the BPU into the Department of Energy, so as to form one strong agency. Under the proposal being discussed, the new agency might have three commissioners, rather than the four Commissioners (three at the BPU and one at the DOE) under the present organizational structure. The combination of the two organizations may well occur before the end of 1979.

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On October 16, 1978, the DOE presented its Energy Master Plan to the Governor and the legislature. This plan is a policy document which establishes long-range energy goals for New Jersey. The document reflects the intention of the DOE to determine the future energy needs for the state and to play an integral part in the decisions on the siting of whatever types of energy facilities are proposed to be constructed in New Jersey. The Energy Master Plan does make recommendations to the BPU relative to the pricing of natural gas and electricity. These recommendations suggest development of cost-of-service methodologies incorporating marginal and incremental cost considerations, among other things; however, to a large extent, these methodologies are already used by New Jersey utilities.

During 1978, the legislature enacted life-line legislation that largely proved unworkable. Consequently, during 1979, new legislation was enacted. Under the present law, the state raised the casino gambling tax from 8% to 12% and determined that the revenue from this higher tax be used to pay a portion of the utility bills of approximately 400,000 needy-elderly or disabled residents of the state. The disbursements are scheduled to begin in October of this year, and will be made as \$100 payments toward the electricity or natural gas bills of disabled New Jersey citizens or those elderly with annual income of \$9,000 or less (\$12,000 annually for couples). Eligibility for the payment is largely established by verifying participation in the states pharmaceutical assistance program. If customers receive both electric and gas service, they will receive the first \$50.00 of each service without charge beginning in October. The legislation calls for the benefits to rise to \$125.00 in 1980 and with the credits to begin with July utility bills. As discussed earlier, the legislature also created the state Office of Administrative Law, with its ALJ's assigned to conduct contested rate cases.

#### Consumer Representation

Early in 1974, the state created a Department of Public Advocate. A sector of that Department is the Division of Rate Counsel, which is charged with representing the public's interest before the Board. The current Public Advocate is Stanley Van Ness and the Director of the Division of Rate Counsel is William Gural. Various consumer groups also represent private interests before the Board in many rate cases. Senior citizens' groups have been appearing before the Board with increasing frequency and effectiveness in recent years. The only New Jersey newspaper circulated statewide is the Newark Star Ledger.

#### Regulatory Innovations

The BPU allows certain utilities to include a portion of construction work in progress (CWIP) in rate base with no offsetting credits to income. Another major policy stance of the BPU is that it has increasingly leaned toward the leveling of rate structure to encourage energy conservation and to recognize cost of service. The introduction of life-line rates for electric and gas service is discussed under the Legislative Information section. The Board also ordered New Jersey Bell to institute a life-line offering in its 1976 case.

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In an effort to reduce regulatory lag, the Board encourages the parties involved in rate cases to stipulate to certain matters in pending cases so as to facilitate the processing of the cases in a timely manner. This practice has been increasingly successful during the past couple of years, but its success has been somewhat uneven. It appears likely that in future major rate cases, many of the issues which involve lesser number of dollars will be stipulated to by the principal parties in the cases.

The Board is continuing to look very closely at the rate structure area, and has taken certain actions related thereto. It has ordered Jersey Central Power & Light and Public Service Electric & Gas Company to offer curtailable rates to large industrial customers and they have done so. There is considerable agitation in the state for the Board to be innovative in this particular area and the Board continues to encourage time-of-day pricing experiments and also actual tariffs based on time-of-day charges.

The BPU initiated an investigation, in 1976, into the construction practices of the state's utilities. This generic investigation was largely concluded in February 1979, when the BPU generally determined that the practices of the companies were satisfactory and that the utilities were doing an adequate job of forecasting future needs. The investigation included a view of the construction alternatives of the companies; the New Jersey Department of Public Advocate recommended the use of small coal-fired generators, while the utilities supported use of nuclear units. The BPU determined that it would not usurp the prerogatives of management in determining the long-run power supply in the state, so long as the companies pursued reasonable and acceptable alternatives. The BPU also considered the appropriateness of Public Service Electric & Gas Company's construction spending on its Salem generating unit. The Public Advocate had recommended that the company be ordered to reduce rates because of overspending on the unit. However, on March 29, 1979, the BPU issued an order which concluded that the company managed the construction of its Salem unit in a reasonable and prudent manner and that no Salem expenditures should be excluded from rate base.

In early 1977, a majority of the New Jersey Board ordered the state's utilities to provide interest-free funding for home insulation. The companies are required to offer customers interest-free loans of up to \$500 for three months. After three months, the loans incur a 12% annual interest charge. Among other things, the utilities are responsible for checking on the quality and pricing of the work done by the contractors. The BPU took innovative action in a recent water case, in which Toms River Water was proposing to acquire Green Island Water for a price above book value. Owing to the benefits expected to accrue to the customers of Green Island Water, the BPU determined that the company will be permitted to amortize the acquisition costs above book value above the line. This was the first time such an action had been taken in New Jersey. Also during 1979, the utilities were required to increase from 6% to 9% the interest

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paid on customer deposits. The only other substantial innovation in the ratemaking practices of the state occurred in relation to the BPU's treatment of General Public Utilities and the Three-Mile-Island incident. Because of the unusual nature of this case, there were a number of BPU actions which did not fit the mold of its actions in previous circumstances. In one of the most unusual actions, because of the urgency of the case, all three Commissioners sat on the hearings and heard them in their entirety and issued a very prompt decision. Further innovative regulatory response will probably be required before the full ramifications of this incident are over. Presently, the BPU is considering retaining a consulting firm, to study and report on the options open to GPU or to the state so as to better assure continued electric service to the customers presently served by General Public Utilities. Among the alternatives to be considered are the merger of Jersey Central with other utilities in the state and the examination of the use of public power. Any such study would be paid for by JCP&L.

#### Recent Board Actions

Since mid-1974, the BPU has issued one or more permanent rate decisions for each of the largest New Jersey utilities. These decisions are outlined in the table on pages 8 and 9. Comments concerning the permanent rate decisions issued by the BPU in the last 18 months are outlined in the paragraphs below.

On May 19, 1978, the BPU approved rate increases totaling \$153.1 million for Public Service Electric & Gas Company (PSE&G). The BPU action permitted the company to raise its electric rates by \$130.7 million (8.9%) and its gas charges by \$22.4 million (3.6%), effective June 1, 1978. In approving the rate hike, the BPU accepted a stipulation entered into by all the active parties in the case on May 10, 1978. The case was originated on November 21, 1977, when PSE&G filed for a \$304.4 million (20.7%) electric increase and a \$90.6 million (15.2%) gas rate hike. This filing was based on the company's petition to earn a 9.19% rate of return on a year-end rate base for a test period ending June 30, 1978. The return requested on common equity was 14%. The company revised its request downward from a total of \$395 million to \$351.3 million (\$276.5 million electric and \$74.8 million gas) on February 24, 1978. The updated filing was based on an over-all rate of return of 9.28%.

On May 10, 1978, the New Jersey Public Advocate's Office and all intervenors in the case signed a stipulation calling for electric and gas hikes totaling \$153.1 million. At the time the stipulation was filed, PSE&G effectively withdrew its request to earn a cash return on an additional \$250 million of CWIP. The stipulation was approved by the BPU on May 19, 1978. The authorized electric and gas rate increases were based on the same 13% return on equity allowed in the company's last rate case and on an over-all rate of return of 8.83% on a year-end rate base for a test period ending June 30, 1978. As part of the stipulation, \$226.8 million of PSE&G's investment in a proposed off-shore nuclear station was removed from rate base, with

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the parties agreeing that PSE&G would be able to amortize this investment over a 20-year period, should the unit be cancelled. The BPU order made it clear that it would further review the investment in the nuclear unit to assure that only the legitimate costs related to the project would be passed on to the ratepayer. As part of the stipulation, the company was required to agree not to file for additional increases in base rates that would become effective before March 1, 1980. The company also stipulated that if the tax rate were actually reduced from 48% to 46% it would reduce rates accordingly and this required a \$17 million rate reduction, effective January 1, 1979. (For a more detailed summary, see Reserach Note dated May 24, 1978.)

On January 31, 1979, the BPU permitted New Jersey Bell Telephone (NJBT) a \$51.2 million rate hike. This case had been initiated by the company on November 30, 1977, when it requested a \$148.8 million rate hike based on its petition to earn a 14.5% return on common equity and a 9.31% rate of return on a year-end rate base for a projected calendar-1979 test year. On January 31, 1978, the BPU ruled that the test year to be considered would be the 12 months ended June 30, 1978. The company amended its petition in line with this test year and subsequently entered into a stipulation which had the effect of reducing its request to \$97.6 million. NJBT agreed not to press for new methods for computing federal income taxes and the Public Advocate's Division of Rate Counsel agreed not to propose double leverage. The revised rates would have produced a 9.34% rate of return on a year-end rate base for a test year ending June 30, 1978, according to company calculations. By the time the case was ready for decision, it became clear that during the first full year the rates would be in effect, a 46% federal income tax (FIT) rate would be in effect, versus 48% previously. Although the company did not officially revise its request, it did not oppose the utilization of a 46% FIT rate. The BPU decision permitting a rate hike was based on its authorization of a 13% return on common equity (43.12% of capital) and an 8.89% rate of return on a year-end rate base for a test period ended June 30, 1978. (For a more detailed summary, see Research Note dated February 15, 1979.)

Also on January 31, 1979, the BPU allowed Jersey Central Power & Light Company (JCP&L), a subsidiary of General Public Utilities, a phase-two increase of \$33.8 million. This case was initiated by JCP&L on October 15, 1976, when it requested a \$107 million rate increase. It was permitted a \$20.2 million phase-one increase on September 1, 1977 and, during the course of the proceedings, eventually finalized its phase-two request at an additional \$62.8 million. The phase-two request was based on the company's petition to be permitted a 13.5% return on equity (34.46% of capital) and a 9.7% rate of return on a year-end rate base for a test period ended August 31, 1978. The company's phase-two request was largely dependent on its placing in service its Three-Mile-Island (TMI) unit No. 2. The BPU considered this unit as plant in service in the test period, even though it did not begin commercial operation until December 30, 1978. The BPU decision was issued following a stipulation entered into by the

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MAJOR NEW JERSEY RATE DECISIONS SINCE JULY 1974

Company Case Citation	Type of Svc.	Increase Requested		Increase Authorized		Test Period End Mo./Yr.	Rate Base	ROR %	Attri- tion Adj. % or \$Mil.	Common Equity as % Cap.	ROE %
		Date	Amt. (\$Mil.)	Date	Amt. (\$Mil.)						
Atlantic City Electric											
D-738-679	Elec.	8/31/73	14.2	7/11/74	12.1	12/73	YE/OC	8.31	-0-	34.24	13.00
D-748-640	Elec.	8/30/74	30.8	6/27/75	10.7	12/74	YE/OC	8.47	-0-	33.5	13.00
D-758-842	Elec.	8/15/75	28	1/29/76	9.3	12/75	YE/OC	8.65	-0-	32.4	13.00
D-772-113	Elec.	2/11/77	16.5	1/19/78	8.0	12/76	YE/OC	8.88	-0-	36.6	13.00
D-783-253	Elec.	3/31/78	35.7	6/27/79	24.8 (1)	12/78	YE/OC	9.14	-0-	38.6	13.07
Jersey Central P&L											
D-743-184	Elec.	3/5/74	56.7	6/5/75	47.3 (1)	12/73	YE/OC (P)	9.1	-0-	36.22	13.0
D-759-899	Elec.	9/2/75	125 (L)	6/10/76	59.2	3/76	YE/OC (P)	9.7	-0-	34.15	13.5
D-7610-1021&22	Elec.	10/15/76	107 (1)	9/1/77	20.2 (1)	3/77	YE/OC (P)	9.7	-0-	34.46	13.25
D-7610-1021	Elec.	--	62.8 (2)	1/31/79	33.8 (2)	8/78	YE/OC (P)	9.62	-0-	33.25	13.25
D-795-427	Elec.	5/4/79	113 (3)	6/18/79	45.0 (3)	--	--	--	--	--	--
Public Svc. Elec. & Gas											
D-744-335	E&G	4/30/74	257.4	10/31/75	217.9 (1)	12/74	YE/OC (P)	8.82	-0-	34.18	13.0
D-761-8	E&G	1/5/76	318 (L)	10/14/76	136.5	6/76	YE/OC (P)	8.83	-0-	35.81	13.0
D-7711-1107	E&G	11/21/77	351.3 (L)	5/19/78	153.1 (4)	6/78	YE/OC (P)	8.83	-0-	36.03	13.0
Rockland Electric											
D-7412-849	Elec.	12/2/74	11.0 (R)	2/5/76	8.3 (1)	12/74	YE/OC	9.88	-0-	35.1	13.0
D-7611-1100	Elec.	11/10/76	7.9	11/23/77	5.8	3/77	YE/OC	9.89	-0-	36.8	13.0
Elizabethtown Gas											
D-748-641	Gas	8/30/74	13.0	9/11/75	9.5 (1)	6/74	YE/OC	10.4	-0-	43	13.5
D-789-1319	Gas	9/1/78	16.6	9/21/79	11.3 (1)	6/78	YE/OC	10.89	-0-	49.28	13.5
New Jersey Nat. Gas											
D-759-901	Gas	9/3/75	9	7/8/76	2.9 (5)	6/75	YE/OC	9.23	-0-	35.23	13.25
D-7610-1023	Gas	10/15/76	8.4	12/8/77	3.4	9/76	YE/OC	9.61	-0-	37.8	13.5
D-7812-1681	Gas	12/29/78	14.4	6/27/79	9.2	9/78	YE/OC	10.3	-0-	37.7	13.5
South Jersey Gas											
D-7412-872	Gas	12/11/74	6.1 (L)	12/22/75	5.3 (1)	8/74	YE/OC	9.14	-0-	32.8	13.75
D-769-988	Gas	9/28/76	8.7	3/2/78	2.2 (6)	6/76	YE/OC	9.86	-0-	39.7	13.5

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081

New Jersey Bell

D-747-522	Tel.	7/18/74	154.9	9/18/75	79.4	3/75	YE/OC	8.56	-0-	42.30	12
D-7512-1251	Tel.	12/2/75	151.5(L)	11/5/76	-0-	6/76	YE/OC	8.49	-0-	42.75	12
D-7711-1136	Tel.	11/30/77	97.6(L)	1/31/79	51.2	6/78	YE/OC	8.89	-0-	43.12	13

- (1) Interim decision by BPU settled first phase of case. Fuel clause revenues were simultaneously reduced by a roughly similar dollar amount. Final decision deferred until TMI#2 nuclear generating station was placed in service.
- (2) Phase II of 10/15/76 case. Fuel clause revenue was simultaneously reduced by roughly \$25.5 million.
- (3) Sought to recover TMI replacement energy costs over 12 month period. Order granted recovery over 18 months and reduced base rates by \$29 million to reflect removal of carrying costs of TMI-2 unit which is out of service.
- (4) Increased based on BPU approval of a stipulation between the parties in the case. Amount later reduced by \$17 million to reflect 46% FIT rate.
- (5) Parties to case had stipulated to \$4.5 million increase.
- (6) BPU order followed stipulation by the parties.

KEY:

- D - Docket Number
- E - Estimated
- I - Interim increase implemented prior to issuance of final order.
- L - Amount of requested increase lowered while case was in progress (latest request shown).
- OC - Original Cost
- P - Partial inclusion of CWIP in rate base without AFC offset.
- R - Amount of requested increase raised while case was in progress (latest request shown).
- ROE - Return on common equity.
- ROR - Overall rate of return.
- YE - Year-end.

1436-082

parties concerning most of the major issues in the case. The rate decision was based on a 13.25% return on common equity (33.25% of capital) and a 9.62% rate of return on a year-end rate base for the company-proposed test year. At the same time the Board approved a permanent rate hike, it also approved a revised levelized fuel-adjustment charge, which reduced customer charges by approximately \$13.3 million annually. The rate structure implemented reflected somewhat greater summer/winter energy and demand differentials and also provided that space heating rates and riders be eliminated. (For a more detailed summary, see Research Note dated February 8, 1979.)

On June 18, 1979, the BPU took further action concerning JCP&L. This action permitted the company to raise its rates by \$74.7 million annually via the levelized fuel-adjustment clause and required a \$29 million decrease in base rates. This case was initiated on May 4, 1979, when JCP&L requested a net rate increase of \$113 million. The company proposed to trim base rates by approximately \$9 million to reflect elimination of one-half of the common equity return on its TMI No. 2 generating unit, which was out of service owing to an accident. The BPU decision required that the full carrying charges related to the TMI No. 2 unit be eliminated from base rates and, therefore, it required a base rate reduction of \$29 million. The over-all increase in customer charges as a result of this action was \$45.7 million. Also in this rate action, the BPU adopted a staff proposal that JCP&L not be permitted to pay dividends to the parent company during the remainder of 1979. (For a more detailed summary of this action, see Research Note dated June 22, 1979.,

On June 27, 1979, the BPU approved a permanent \$9.2 million rate increase for New Jersey Natural Gas Company. This case was initiated on July 29, 1978, when New Jersey Natural requested a \$14.4 million (13.7%) permanent gas rate increase based on its petition to earn a 15% return on common equity (41.15% of capital) and a 10.94% rate of return on a year-end rate base for a test period ended September 30, 1978. The BPU action followed a stipulation entered into by the parties in the case. The increase approved implies a 13.5% return on common stock equity (37.7% of capital) and a 10.3% rate of return on a year-end rate base for the company-proposed test period. The new rates became effective July 1, 1979 and, as part of the stipulation, the company will not be permitted to make a further increase effective prior to April 1, 1981.

Also on June 27, 1979, the BPU allowed Atlantic City Electric (ACE) a permanent rate hike of \$24.8 million. This action came in a case that was initiated by ACE on March 31, 1978, when it sought a \$35.7 million increase. This filing was based on its petition to earn a 13.5% return on common stock equity (37.85% of capital) and a 9.15% rate of return on a year-end rate base for a calendar-1978 test year. The company was permitted to implement a partial rate hike of \$14.8 million on July 19, 1978 and, therefore, the BPU action permitted an additional increase of \$10 million. The BPU did not address all the issues in the case, but its decision essentially approved a stipulation entered into by the parties. The increase approved

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implies a 13.07% return on common equity and a 9.14% rate of return on a year-end rate base for a calendar-1978 test year. The new rates became effective for service on and after July 1, 1979. As part of the stipulation, ACE will not be permitted to seek a further base rate increase to become effective before July 1, 1980. The largest difference between the amount granted by the BPU and the request supported by the company was accounted for by the failure of a stipulation to include rate base and operating expenses related to the company's participation in the construction of the Salem No. 2 generating unit. It now appears that this unit will not be in service at any time during 1979. (For a more detailed summary of this rate action, see Research Note dated July 11, 1979.)

On September 21, 1979, the BPU issued a definitive order indicating its reasons for permitting an \$11.3 million permanent rate hike for Elizabethtown Gas Company, a subsidiary of National Utilities and Industries. This case was initiated on September 1, 1978, when Elizabethtown Gas requested a permanent rate hike of \$16.6 million and an interim rate rise of \$6.2 million. The permanent rate hike was based on the company's petition to be permitted a 15% return on common equity (44.4% of capital) and an 11.2% rate of return on a year-end rate base for a test period ended June 30, 1978. The company was authorized an interim rate hike of \$5 million on March 21, 1979. The BPU decision permitting an interim increase was based on its authorization of a 13.5% return on common equity (49.28% of capital) and a 10.89% rate of return on a year-end rate base for the company-proposed test year. (For a more complete summary of this rate action, see Research Note dated September 25, 1979.)

#### Major Cases Pending

Public Service Electric & Gas currently has electric and gas rate petitions pending BPU action and Rockland Electric Company is seeking an electric rate increase. The highlights of these petitions are discussed in the paragraphs that follow.

On April 2, 1979, PSE&G filed an application for a \$289.6 million (17.8%) electric rate increase and an \$84.9 million (11.4%) gas rate hike. The company seeks a 14.25% return on common equity (36.8% of capital) and a 9.5% rate of return on a calendar-1979 year-end rate base. Owing to sharp increases in fuel costs, the company also proposed that the BPU authorize the recovery of approximately \$100 million of anticipated unrecovered fuel costs at December 31, 1979, over a two-year period. The company seeks a cash return on an additional \$250 million of CWIP and also seeks amortization of the Atlantic generating station loss over a 20-year period.

On May 1, 1979, Rockland Electric Company, a subsidiary of Orange & Rockland Utilities, requested a \$4.5 million (7.9%) permanent electric rate increase. This request was based on the company's petition to earn a 14.8% return on common stock equity (40.5% of capital) and a 9.95% rate of return on a year-end rate base for a calendar-1979 test year. BPU action is not expected on this request until February 1980.

1436 084

### Regulatory Accounting

The BPU permits investment tax credits and job development credits to be amortized over the life of the property involved. Job development credits are generally permitted to earn at the over-all rate of return. In recent years, the Board has generally permitted normalization of rapid depreciation tax benefits for electric and gas utilities for post-1969 property additions. The BPU has permitted the two largest electric companies to cease accruing allowance for funds credits on certain portions of construction work in progress that it has included in rate base.

### Adjustment Clauses

Fuel adjustment and purchased gas adjustment clauses are permitted. For the major electric companies, the clauses are, in effect, levelized energy adjustment clauses and include purchased power. The state's electric utilities were required to institute levelized energy adjustment clauses during 1977. The clauses are similar to previously required levelized gas raw materials adjustment clauses. Under the levelized clause, the energy adjustment charge is based on the projected average cost of energy produced, purchased, and interchanged, over base costs, for a 12-month period, during which the charge remains in effect. Any under- or over-recovery is collected in the following 12-month period. A change in the charge can be instituted during the 12-month period if there is a significant increase or decrease in the cost of energy, but only following BPU hearings and approval. A 1977 New Jersey Supreme Court decision in the Redi-Flow case cast some doubt on the legality of fuel-adjustment clauses and their legality is presently being challenged by the Rate Counsel in a fuel-adjustment procedure concerning Atlantic City Electric. Owing to the fact that extensive hearings are held and audits are conducted of all fuel-adjustment collections, the Courts may well uphold the fuel-adjustment procedure currently utilized by the BPU. When the levelized clauses were adopted, the BPU rolled more fuel cost charges into base rates. The unamortized electric fuel costs which remained were spread over a period of years, to be recovered through base rates. On July 2, 1979, the BPU granted PSE&G's request to increase its electric energy adjustment clause for the 12 months ended June 30, 1980 to reflect projected increases in energy costs and to recover approximately \$33 million of previously uncollected amounts. The new charge increased annual revenues by approximately \$147 million. Owing to subsequent unit outages and fuel cost increases, the company now believes that this amount will under-collect costs by approximately \$150 million during the current 12-month period and, therefore, it has proposed to recover a portion of this under-collection in its permanent rate case.

In January 1976, PSE&G was permitted to implement a levelized raw materials adjustment (RMA) surcharge. It was designed to stabilize the sharp fluctuation in gas cost increases and, at the same time, allow the company to recover its purchased, natural and synthetic gas expenses more quickly. In determining the new adjustment factor, differences between recoveries and actual costs are deferred and reflected in costs for subsequent periods.

1436 085

A comprehensive adjustment clause was approved for New Jersey Bell in 1974 on a trial basis. In a rate decision issued on September 18, 1975, the BPU indefinitely suspended any further implementation of this clause.

#### Regulatory Timing

The BPU is required by law to act on all rate petitions within eight months of the requested effective date. Since the company filing for a rate increase must give 30-day notice, in effect, there is a nine-month statutory limit within which the Board must act. When an interim increase is permitted, it is usually conditioned upon the company's waiving its right to collect the full increase at the end of the statutory period. Prior to 1976, most cases took more than a year to process; however, the BPU embarked on more accelerated hearing schedules in 1976 and, as a result, final decisions have generally been forthcoming within six to 12 months. Since 1976, the timing of Board action on rate cases has importantly depended on whether or not stipulations had been entered into by the parties. Where the parties have been willing to stipulate major issues, the action of the BPU has been accelerated considerably. The Board is authorized to grant interim rate increases, and has occasionally done so in recent years.

#### Rate Base Determination

The Board uses a depreciated original-cost investment rate base. In most recent major rate cases, it has used year-end rate base, although average rate base is used occasionally. The BPU permits a company to submit a future test year, but only once has it issued a rate decision based upon a test period that has not already been completed. In that case, which was the 1978 PSE&G case, the rate decision was stipulated to by the parties and the company was prohibited from filing for a future increase for a substantial period of time following the decision. Certain post-test-year changes are recognized. In PSE&G cases, the BPU includes all construction work in progress in rate base and directs that no allowance for funds credits be taken on a portion of that CWIP, thereby allowing the company a current return on at least a portion of its funds. JCP&L is allowed to include a portion of CWIP in rate base without an AFC offset to net income.

#### Rate of Return

During 1977, 1978 and 1979, the BPU has permitted 13% to 13.5% common equity returns for the major utilities. The over-all rates of return permitted have ranged roughly from 8.1% to 10.9% during the last three years. (For additional detail concerning the Board's rate of return findings, refer to the table on pages 8 and 9.)

#### Rate Structure

The subject of rate structure continues to be hotly debated in the state. In recent decisions, the Board has generally required the energy companies to implement flattened

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rate structures and has moved toward increasing summer/winter differentials for the electric companies in the interest of conservation. The legislature has enacted life-line legislation, which is discussed more fully under the Legislative Information section. In its decision on New Jersey Bell Telephone's rate increase request, issued in 1976, the BPU approved the initiation of a life-line rate which permits low-use residential customers to receive a lower rate, with an allowance of 20 message units. The base rate for these customers is set at 70% of the basic residential rate, with additional message units over 20 charged at \$0.10 each. The Board explained that this service "is to enable senior citizens and others on fixed or low incomes to have a vitally important service in their homes at a price they can more easily afford."

In the 1976 PSE&G case, the BPU authorized the company an interruptible rate schedule. A curtailable schedule for large industrial customers has subsequently been ordered for Jersey Central Power & Light Company. In March 1977, the BPU authorized an experimental peak-load pricing test for 700 residential customers of PSE&G. As part of the 1978 PSE&G case, the company was also authorized to implement a time-of-day rate schedule for its largest industrial customers and to implement an optional time-of-day rate schedule for residential customers.

#### For Additional Information

For general administrative information, contact Anthony Zarillo, Executive Officer (201-648-2015); for financial and economic information, contact Dr. Fred Grygiel, Chief Public Utility Economist (201-648-3860); and for revenue requirement information, contact Gerry Tobia, Chief, Bureau of Rates (201-648-3595).

#### Argus Evaluation

During the past couple of years, New Jersey regulation has become more consistent and its actions have been taken on a more timely basis. Particularly during the past 12 months, the Board has generally acted in a manner which has provided the utilities a greater opportunity to earn the rates of return allowed. For these reasons and those discussed throughout this report, we regard New Jersey regulation as "average."

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Major Utilities In New Jersey	Tot. Rev. 1978 (\$Mil.)	Tot. Cap. Incl. S.T. Debt 12/31/78 (\$Mil.)	Com Eq. as % Tot. Cap. 12/31/78	Ret. on Avg. of Beginning & End of Year Common Equity 1977 1978		Pretax Coverage of Fixed Charges 1977 1978		Approx. Eff. FIT Rate 1978	Avg. Rev./KWH Res. Cust. (Cents) 1977 1978	
<u>ELECTRIC</u>										
Atlantic City Electric	\$255	\$610	38.0%	10.0%	10.5%	3.2x	3.6x	39%	4.9	5.1
Jersey Central Power & Light(a)	591	1,671	34.8	12.7	10.1	3.0	2.6	29	5.4	5.5
Orange & Rockland Electric	258(b)	466	36.7	9.7	12.7	2.6	3.4	40	7.2	7.9
Public Service Electric & Gas	2,220(c)	4,410	39.6	10.8	10.9	3.5	3.8	40	6.3	6.6
<u>GAS</u>										
National Utilities & Industries (d)	108	112	40.2	9.9	7.1	3.0	2.0	33	--	--
New Jersey Natural Gas (d)	100	87	43.7	11.1	12.7	2.5	3.3	44	--	--
South Jersey Gas Co. (f)	99	94	37.2	11.5	11.8	3.1	3.2	40	--	--
<u>TELEPHONE</u>										
New Jersey Bell(g)	1,536	2,834	59.8	11.0	11.4	5.9	5.6	43	--	--

(a) Subsidiary of General Public Utilities.

(b) Approximately 21% of revenues are derived from service in New Jersey.

(c) 70% electric; gas 30%.

(d) Fiscal years end September 30.

(e) Approximately 11% of revenues derived from non-utility operations.

(f) Subsidiary of South Jersey Industries, Inc.

(g) Subsidiary of American Telephone & Telegraph Company.

Person Responsible for Preparation:  
F. D. Hafer, Vice President - Rate  
Case Management, GPU Service Corp.  
Telephone: (201) 263-6013  
Date: November 26, 1979

GENERAL PUBLIC UTILITIES CORPORATION  
Metropolitan Edison Company, Pennsylvania Electric Company  
and Jersey Central Power & Light Company  
NRC Docket No. 50-289  
Three Mile Island Unit No. 1 Restart Proceeding

Response to NRC Staff's Supplemental Financial Information Request No. 9,  
telecopied 11/9/79 (item numbers refer to initial requests dated 9/21/79):

"(10.b and 10.c) Subsequent to our September 21, 1979 request, it was reported (Wall Street Journal, November 2, 1979, p. 12) that the Pennsylvania Public Utility Commission (PPUC) issued a show cause order to Met-Ed regarding the company's ability to provide utility service in Pennsylvania. Provide copies of the PPUC order and copies of Met-Ed's response to the order, when available. Continue to keep the NRC Staff informed of all developments in the show cause proceeding. Provide copies of all subsequent PPUC orders and other directives and Met-Ed responses related to this proceeding."

Response:

A copy of the Pa PUC's Order entered 11/1/79 in Docket No. I-79040308 requiring Met-Ed to "show cause why its certificate of public convenience should not be revoked" was included with our supplementary response to Financial Information Request No. 10-(c) dated 11/6/79. We will continue to keep the NRC informed of all developments in this and other regulatory proceedings affecting the GPU companies and are accordingly enclosing copies of the following:

1. Pa PUC's Prehearing Order in Docket No. I-79040308 dated 11/16/79. This order consolidates the Pa PUC's joint Met-Ed and Penelec TMI-1 show cause proceeding (see response to Financial Information Request No. 10-(c) dated 10/15/79, Item 23), Met-Ed's energy clause increase filing (see supplementary response to Financial Information Request No. 10-(c) dated 11/6/79, Item 2), and the Pa PUC's Met-Ed franchise show cause proceeding (see supplementary response to Financial Information Request No. 10-(c) dated 11/6/79, Item 1).
2. Transcript of the initial prehearing conference, consolidated proceedings in Pa PUC's Docket No. I-79040308, held 11/13/79 in Harrisburg.

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COMMONWEALTH OF PENNSYLVANIA  
PENNSYLVANIA PUBLIC UTILITY COMMISSION  
P. O. BOX 3265, HARRISBURG, PA. 17120

November 16, 1979

IN REPLY PLEASE  
REFER TO OUR FILE

I-79040308

TO ALL PARTIES OF RECORD

Pennsylvania Public Utility Commission, et al.  
v.  
Metropolitan Edison Company and Pennsylvania  
Electric Company

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NOTICE

We attach hereto copy of a prehearing order in connection  
with the above entitled proceeding.

Very truly yours,

William P. Thierfelder  
Secretary

Attachment

186-5201

11-18-79  
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PENNSYLVANIA  
PUBLIC UTILITY COMMISSION  
Harrisburg, PA 17120

Pennsylvania Public Utility :  
Commission, et al. :  
 :  
v. : Docket No. I-79040308  
 :  
Metropolitan Edison Company and :  
Pennsylvania Electric Company, :  
Respondents :

PREHEARING ORDER

At the Public Meeting on November 8, 1979, the Commission ordered the consolidation of the following matters at this docket, for the purpose of hearing:

1. the Order to Show Cause adopted September 20, 1979 against Metropolitan Edison Company ("Met Ed") and Pennsylvania Electric Company ("Penelec") regarding the used and useful status of TMI-1,
2. the Petition For Modification filed on November 1, 1979 by Met Ed requesting an increase in its leveled energy cost rate, and
3. the Order to Show Cause adopted November 1, 1979 against Met Ed regarding revocation of its certificate of public convenience.

Those consolidated matters were the subjects of a prehearing conference at this docket held on November 13, 1979 before presiding commissioners W. Wilson Goode, Chairman and Michael Johnson. This order contains the rulings and determinations at that prehearing conference.

1436 091

A. Conduct of the hearings

The Commission will preside at the reception of the evidence and will render a decision based on the record without the interjection of a recommended decision by an administrative law judge. It is the intent and desire of the presiding commissioners that any new members of the Commission who may be confirmed while this record is open should participate fully in the final



determination on the record, to the extent consistent with according all parties due process of law.

Advisory counsel may be permitted to question witnesses on the record. The Commission's advisors in this proceeding are, in addition to commissioners' assistants and the staff of the Office of Special Assistants, Steven A. McClaren, William T. Hawke, Frank Dorsey, John Steslow, Jack Polk, Glenn Bartron, and Ken Villwock.

All filings and submittals should be addressed to the Secretary unless otherwise directed. Attached to this order is a tentative service list of persons upon whom service must also be made. All persons not included on that list who desire to be parties in this proceeding should make that request in writing to the Commission and should appear at the continued prehearing conference scheduled for November 27, 1979. The official service list will be made final subsequent to that continued prehearing conference.

#### B. Parties

The presiding commissioners recognized as parties or allowed the intervention of the following persons:

1. Respondents, Metropolitan Edison Company and Pennsylvania Electric Company
2. Commission staff
3. Consumer Advocate
4. St. Regis Paper Company of York, Airco Speer Carbon Graphite of St. Marys, Autex Corporation of Meadville, Avtec Fibers, Inc. of Lewistown, and P.H. Glatfelter Company of Spring Grove, jointly ("St. Regis, et al.")
5. Patricia Street, Dr. Timothy Percarpio, and Three Mile Island Alert, Inc., jointly ("Patricia Street, et al.")
6. Senior Power Action Group of York and Louise Riley, jointly ("Senior Power Action Group, et al.")
7. Holly Keck and Deep Run Farm, Inc., jointly ("Holly Keck, et al.")
8. Bethlehem Steel Corporation
9. Standard Steel Division, Titanium Metals Corporation of America ("Standard Steel")
10. Citibank, N.A., Agent ("Citibank")

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Attorneys, John Fullerton and C.B. Zwally, were listed on the Commission's appearance sheet on behalf of what appears to be unspecified industrial customers of Respondent. These counsel did not respond or appear when the presiding commissioners asked if other counsel were present who desired to request the intervention of other persons; nor are we aware that they have filed a written request to intervene.

The Commission had previously received a complaint docketed at C-79101682 and filed by Limerick Ecology Action and Louise Dufour. At the request of one of the complainants, Louise Dufour, the complaint at C-79101682 was consolidated for purposes of hearing with these proceedings at Docket No. I-79040308.

Mrs. Patricia Smith appeared and stated her desire to represent the people of Newberry Township, York County. The presiding commissioners deferred ruling on her request to intervene until receipt of a written statement from Mrs. Smith.

### C. Issues

The presiding commissioners stated their views on the issues to be addressed, as follows:

The Commission is of the opinion that the broader issues of the viability of Met Ed as a public utility and of the long-term actions to be taken by the GPU Companies as a result of the TMI accident must be developed on the record before the Commission can consider and address the narrower ratemaking issues presented by the Order to Show Cause regarding the used and useful status of TMI-1 and the request of Met Ed to increase its energy cost rate. The Commission comes to this prehearing conference unwilling to set rates for Met Ed and Penelec without considering the long-term circumstances of Met Ed and the GPU Companies.

Therefore, the following matters should be developed on the record early in this proceeding:

a. a statement by the GPU Companies describing, in chronological order, every significant action that Met Ed, Penelec and GPU are or will be taking within the next four years. (for example, major securities issuances, studies of feasibility of converting the TMI plants, changes in management structure),

b. a study by the GPU Companies of its sources and uses of funds, by month and by major category, over the next four years,

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c. a projection by the GPU Companies, by month, of the revenues to be required from ratepayers over the next four years, and

d. a projection by the GPU Companies, by month and by major category, of the revenues to be required from securities financing over the next four years.

The Commission expects and requests of the prosecutory staff, in memorandum or testimony, its recommendations on the most appropriate analysis for the Commission to employ in assessing the long-term financial viability of Met Ed as a public utility. In presenting a recommended analysis, the staff should include consideration of the costs to be incurred by Met Ed, its ability to finance those costs through securities financing, and the probable required level of rates or revenues to be collected from ratepayers.

The narrower issues before the Commission in this proceeding appear to require that the following matters be developed on the record:

a. a description of the status of TMI-1,

b. a detailed breakdown of the costs associated with TMI-1 which are currently reflected in the base rates of Met Ed and Penelec, and

c. a detailed presentation of the monthly energy costs projected to be incurred by Met Ed through the end of calendar year 1980.

All counsel were directed to submit to the Commission, not later than November 23, 1979, memoranda addressing the parties' positions with respect to the issues to be addressed in these proceedings, the order in which those issues should be addressed, and identifying any special witnesses to be presented.

Further definition of the issues will be considered at the prehearing conference to be continued on November 27, 1979.

#### D. Scheduling of hearings

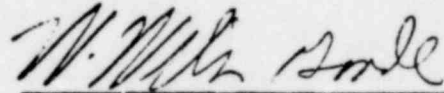
1436 094

The presiding commissioners set November 27, 1979, at 10:00 a.m. in Hearing Room No. 1 in Harrisburg, Pennsylvania for the continuation of the prehearing conference.

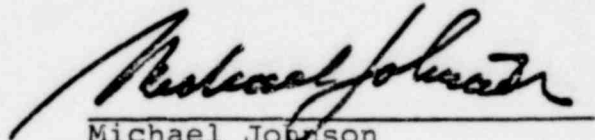
The hearings in this proceeding will begin December 10, 1979 and continue thereafter on a schedule to be determined.

Remaining matters relating to the conduct of these proceedings will be dealt with at the continued prehearing conference.

This order may be amended or supplemented as additional matters relating to the conduct of these proceedings are considered.



W. Wilson Goode,  
Chairman



Michael Johnson  
Commissioner

Presiding Commissioners

DATED: November 16, 1979

ACC 3841

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FD

HARRISBURG FIELDING UTILITY COMMISSION

Ex No: HB-73040300 - Pennsylvania Public Utility Commission  
versus Metropolitan Edison Company, et al.

- - - - -

Stenographic report of hearing held  
in Hearing Room No. 1, North Office  
Building, Harrisburg, Pennsylvania,

Tuesday,  
November 13, 1979  
at 9:00 o'clock a.m.

W. WILSON GOODE, CHAIRMAN  
MICHAEL JOHNSON, COMMISSIONER

APPEARANCES:

STEPHEN A. McCLAREN, ESQ.  
Deputy Chief Counsel  
North Office Building  
Harrisburg, Pennsylvania  
Principal Advisor to the Commission

SAMUEL B. RUSSELL, ESQ.  
W. EDWIN OGDEN, ESQ.  
ALAN M. SELTZER, ESQ.  
P. O. Box 679  
Reading, Pennsylvania  
For - Met Ed, et al

MARK P. WIDOFF, ESQ.  
3552 Old Gettysburg Road  
Camp Hill, Pennsylvania  
For - Patricia Street, Timothy Percapio,  
TEL Alert, Inc.

ALAN LINDER, ESQ., Central Pa. Legal Services  
10 S. Prince Street  
Lancaster, Pennsylvania  
For - Senior Power Action Group & Louise Riley

POOR ORIGINAL

1436 096

1 APPEARANCES: (Continued)

2 WALTER COHEN, ESQ., Consumer Advocate  
 3 CRAIG BURGRAFF, ESQ.  
 4 DAVID BARASCH, ESQ.  
 1425 Strawberry Square  
 Harrisburg, Pennsylvania  
 For - Office of Consumer Advocate

6 JOHN B. FULLERTON, ESQ.  
 407 North Front Street  
 Harrisburg, Pennsylvania 17101  
 and

8 C. B. ZWALLY, ESQ.  
 1801 North Front Street  
 Harrisburg, Pennsylvania 17108  
 For - National Forge Co., et al

10 GERALD GORNISH, ESQ.  
 12th Floor, Packard Building  
 11 Philadelphia, Pennsylvania 19102  
 For - Citibank, N. A., Agent

13 JOSEPH MALATESTA, ESQ.  
 14 ALBERT W. JOHNSON, III, ESQ.  
 North Office Building  
 Harrisburg, Pennsylvania  
 For - PUC Trial Staff

16 MAURICE FRATER, ESQ.  
 100 Pine Street  
 Harrisburg, Pennsylvania  
 For - Avtex, Inc., et al

18 BERNARD J. RYAN, ESQ.  
 800 North Third Street  
 Harrisburg, Pennsylvania  
 For - Bethlehem Steel Corp.

21 STEPHEN A. GEORGE, ESQ.  
 600 Grant Street  
 Pittsburgh, Pennsylvania  
 For - Standard Steel Division of Titanium Metals  
 Corporation of America

24 LOUISE DUFOUR  
 Box 10  
 25 Oaks, Pennsylvania 19456  
 For - Limerick Ecology Action

POOR ORIGINAL

1432 097

## 1 APPEARANCES: (Continued)

2 PATRICIA A. SMITH  
3 Box 52, R. D. No. 1  
4 Etters, Pennsylvania  
5 For - Newberry Township, TMI Steering Committee

6 **POOR ORIGINAL**  
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1 THE CHAIRMAN: We would like to call this  
2 pre-hearing conference to order. We would like to be as  
3 informal as possible, but very well organized, and so we will  
4 proceed and I have a number of things to cover and then I  
5 will get to the point of having your input into this  
6 conference.

7 This is a pre-hearing conference in the case of  
8 Pennsylvania PUC versus Metropolitan Edison and Pennsylvania  
9 Electric Company, Docket number is I-79040308.

10 At the public meeting on November 8, 1979,  
11 the Commission ordered the consolidation for the purpose  
12 of hearing of the following matters at this docket. Number  
13 one, the order to show cause adopted September 20, 1979  
14 against Met Ed and Penelec regarding the used and usefulness  
15 of TMI-1 and number two, the petition for modification  
16 filed on November 1, 1979 by Met Ed requesting an increase  
17 in its levelized energy cost rates and number three, the  
18 order to show cause adopted November 1, 1979 against Met Ed  
19 regarding revocation of its certificate of public  
20 convenience.

21 These consolidated matters are the subjects  
22 of this pre-hearing conference. The Commission has decided  
23 to hear the evidence and to render a decision based upon  
24 the record without the interjection of a recommended decision  
25 by the Administrative Law Judge.

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1 It is the desire of the Commission that any  
2 new members of the Commission who may be confirmed while this  
3 record is open should participate fully in the final  
4 determination on the record to the extent consistent  
5 with according all parties due process of law.

6 From time to time, during the conduct of  
7 these proceedings, the presiding Commissioners may confer  
8 with the advising counsel and may permit advising counsel  
9 to question witnesses on the record. In order to fully  
10 advise all parties in the proceedings and advise the function  
11 of the staff in this proceeding, we will identify advisors  
12 of the Commission.

13 In addition to the Commission's assistance  
14 and staff of the Office of Special Assistants, the Commission's  
15 principal advisor is Stephen A. McClaren, Deputy Chief  
16 Counsel, along with the following staff members: From the  
17 Law Bureau, William Hawk. From the Office of Special  
18 Assistants, Frank Dorsey; from the Bureau of Rates, John  
19 Steslow and Jack Polk; from the Bureau of Audits,  
20 Glenn Bartron and from the Bureau of CEEP, Ken Villwock.

21 Prosecutory Staff is ready to identify all  
22 parties of the identity of the Prosecutory Staff in these  
23 proceedings. Do you have those names down, Mr. Malatesta?

24 MR.MALATESTA: I can prepare a document with  
25 all names.

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1 THE CHAIRMAN: All filings and submittals  
2 should be addressed to the Secretary unless otherwise  
3 directed. Subsequent to this pre-hearing conference,  
4 the Commission will distribute an official service list  
5 of persons upon whom service must also be made, which will  
6 consist of all active parties and our principal advisor.

7 We will follow an outline during this proceeding  
8 in order to, though it be informal, to try and develop  
9 some order that we may expeditiously dispose of the matters  
10 we have to dispose of this morning.

11 The topics for discussion at this pre-hearing  
12 conference are as follows:

13 Number one, identity of parties with their  
14 participation.

15 Two, issues to be addressed.

16 Third, scheduled hearings.

17 Number four, order of evidence, witnesses.

18 Number five, matters of discovery and submission  
19 of direct testimony.

20 The Commission recognizes a necessary party  
21 to this proceeding, the respondent, Met Ed and Penelec.  
22 We would like to ask Counsel for Met Ed and Penelec at this  
23 time to identify yourself and state your full name and  
24 address for the purpose of service documents and also  
25 identify anyone else who is with you, Mr. Russell.

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1 MR. RUSSELL: My name is Samuel B. Russell,  
2 Post Office Box 699, Reading, Pennsylvania, 19603 and  
3 associated with me in this proceeding are Messrs. W. Edwin  
4 Ogden and Alan M. Seltzer of our firm of Ryan, Russell &  
5 McConaghy of the same address.

6 With me at the table is Mr. Fred D. Hafer,  
7 Vice-President of Rates of GPU Service Corporation.  
8 Mr. Eugene Carter, Assistant Vice-President, Rates, of the  
9 same company and Mr. Floyd J. Smith, Senior Vice-President  
10 of Metropolitan Edison Company.

11 THE CHAIRMAN: Is that it? Will you represent  
12 the respondent in all matters before this Commission in this  
13 hearing?

14 MR. RUSSELL: I expect to and we may very well  
15 have further participation in the legal representation on the  
16 part of these respondents by James B. Lieberman of the firm  
17 of Berlach, Israel & Lieberman of New York.

18 THE CHAIRMAN: Would counsel for the  
19 prosecutory staff identify yourself and state your full  
20 name and address for the purpose of service of documents?

21 MR. MALATESTA: Joseph J. Malatesta, Jr.  
22 and with me is Albert W. Johnson, III, both of us can be  
23 served at Room G-28, North Office Building, Harrisburg,  
24 Pennsylvania, 17120.

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25 THE ADMINISTRATIVE LAW JUDGE: For the

7  
1 prosecutory staff, will you participate fully in all matters  
2 before this Commission?

3 MR. MALATESTA: Yes, sir. We will.

4 THE CHAIRMAN: We would like to ask the  
5 Consumer Advocate if you may identify yourself and state  
6 your full name and address for the purpose of service of  
7 documents and also the name of the parties that you represent,  
8 the public, of course and the name and address for service  
9 and reason for it et cetera. The reason for intervention  
10 and so on.

11 MR. COHEN: Walter W. Cohen, Consumer  
12 Advocate and Assistant Consumer Advocate's Craig Burgraff  
13 and David Barasch, 1425 Strawberry Square, Harrisburg,  
14 Pennsylvania 17120 representing the Office of Consumer  
15 Advocate and the Consumers under our mandate through the  
16 statute creating the office.

17 And we will be present on all issues in the  
18 proceeding.

19 THE CHAIRMAN: Okay. There are some persons  
20 here who filed petitions to intervene. Some of those we  
21 have accepted and dealt with. We would like to have each of  
22 those persons identify yourself, name of counsel, name of  
23 the parties you represent, name and address for purposes  
24 of service and the reason for intervention.

25 If you forget the four things I mentioned, you



1 may proceed, sir.

2 MR. FRATER: Maurice A. Frater, McNees, Wallace  
3 & Nurick, P. O. Box 1166, Harrisburg, Pennsylvania 17108  
4 representing St. Regis Paper Company of York, Pennsylvania,  
5 Airco Spear Carbon Graphite of St. Marys, Pennsylvania,  
6 Autex Corporation, Meadville, Pennsylvania, Avtec Fibers,  
7 Inc., Lewistown, Pennsylvania and P. H. Glatfelter Company,  
8 Spring Grove, Pennsylvania, all of which are customers of  
9 either of the respondent companies in this proceeding.

10 We plan to participate on the issue of the  
11 Met Ed rate increase request and on the issue of the show  
12 cause order with respect to the certificate of public  
13 convenience.

14 Our witnesses on each of those cases are  
15 be  
16 expected to/presented.

17 MR. WIDOFF: My name is Mark P. Widoff,  
18 for purposes of service of documents and our address is  
19 P. O. Box 1547, Harrisburg, Pennsylvania 17105. We have this  
20 morning filed with the Commission a petition to intervene  
21 on behalf of Patricia Street, Dr. Timothy Percarpio and  
22 Three Mile Island Alert, Incorporated. Patricia Street  
23 is a customer of Metropolitan Edison Company as is  
24 Dr. Percarpio, Three Mile Island Alert is the Pennsylvania  
25 Non-profit corporation which has many members who are  
customers of Metropolitan Edison Company and many others who

1 reside near the nuclear reactor at Three Mile Island.

2 At this point, we would tentatively say,  
3 Mr. Chairman, that we are hopeful of being able to participate  
4 in all three issues that are before you, but we would have  
5 to say that that would depend, a great deal, on the decisions  
6 that are made today regarding scheduling and the time frame  
7 within which we might be able to prepare.

8 The reason for our participating as customers  
9 of respondent Metropolitan Edison Company as we allege in our  
10 petition, customers have a strong interest in any decisions  
11 that might be made regarding all three issues in this proceeding  
12 and petitioner, Three Mile Island Alert has a strong interest  
13 both because of its membership of customers of Metropolitan  
14 Edison Company and the many residents of this area who are  
15 deeply concerned about the decisions that may be made in  
16 the coming weeks by this Commission.

17 MR. LINDER: My name is Alan Linder from  
18 Central Pennsylvania Legal Services. Mailing address for  
19 service of documents would be 10 South Prince Street,  
20 Lancaster, 17603. We represent the Senior Power Action  
21 Group of York and Louise Riley. Louise Riley is a customer  
22 of Metropolitan Edison. All the members of the Senior  
23 Power Action Group of York are customers of Metropolitan  
24 Edison. They are all low income and elderly persons.

25 We participated in the previous proceedings in

1 this case and we have petitioned to intervene on the basis  
2 that we are customers of Metropolitan Edison and particularly  
3 low income and elderly customers.

4 We would like to participate in all three  
5 issues before the Commission. We do not know the extent of  
6 our participation at this time.

7 THE CHAIRMAN: Thank you.

8 MR. BOWERS: My name is John Bowers, papers  
9 can be served on me at the address R.D. 7, Box 383A, York,  
10 Pennsylvania 17402. I represent two intervenors. One is  
11 Holly Keck and the other, Deep Run Farm, Incorporated,  
12 both of which are consumer ratepayers of respondent  
13 Metropolitan Edison Company.

14 We expect to participate in this proceeding  
15 with respect to all issues before this Commission and in  
16 particular, to assist in whatever way we can in developing a  
17 record which will adequately enable this Commission to  
18 make a determination as to whether Metropolitan Edison  
19 Company is capable of providing safe and reliable service  
20 at just and reasonable rates.

21 THE CHAIRMAN: Are there any other attorneys  
22 here?

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23 MR. RYAN: Yes.

24 THE CHAIRMAN: Will you take a seat here,  
25 sir?

1 MR. RYAN: My name is Bernard Ryan. I can be  
2 served at 800 North Third Street, Harrisburg, Pennsylvania  
3 17102. On behalf of Bethlehem Steel Corporation, we have  
4 filed a petition to continue our intervenor status in this  
5 proceeding. We wish to be able to participate as the  
6 proceedings develop on all three issues, although the exact  
7 scope of our participation cannot be determined at this time.

8 Our primary interest is in the status of  
9 Three Mile Island Unit No. 1 and the impact that these  
10 proceedings may have both on the rates charged for the  
11 service which Bethlehem receives from both utilities as well  
12 as the continued availability of adequate and reliable  
13 electrical service sufficient to meet our needs in the future.

14 MR. GEORGE: My name is Stephen A. George.  
15 I am with the Pittsburgh firm of Buchanan, Ingersoll,  
16 Rodewald, Kyle & Buerger. Service address is my office,  
17 57th Floor, 600 Grant Street, Pittsburgh, 15219. We filed  
18 a petition to intervene on behalf of Standard Steel Division  
19 of Titanium Metals Corporation of America. Standard Steel  
20 is a large industrial customer of the Fenelec Company and  
21 the interest in this proceeding is going to be confined to  
22 issue number one, as it appears in your notice of November  
23 8, namely the order to show cause concerning the used and  
24 useful status of Three Mile Island Unit No. 1. 1436 107

25 We would not be participating in the proceeding



to the extent it concerns the request by Metropolitan Edison Company for an increase in its levelized cost rate or the proceeding concerning its certificate of public convenience.

MR. GORNISH: My name is Gerald Gornish, and for service purposes, Wolf, Block, Schoor and Solis-Cohen, Twelfth Floor Packard Building, Philadelphia, Pennsylvania 19102. Our firm represents Citibank, N.A., Agent, which is a creditor of the utility Metropolitan Edison. I intend to file a petition to intervene momentarily, as soon as I can prepare it.

We were just retained yesterday. We, at this point, are not sure how far we will participate, but obviously, we have a strong interest, especially in the third issue before the Commission, and depending on the scheduling and what else happens, this will depend on the extent of our participation.

THE CHAIRMAN: Are there any other attorneys here who represent any clients? Is there any objection by any of the parties to the intervention of those who have indicated their desire to intervene?

(No response)

THE CHAIRMAN: No objections?

MR. RUSSELL: No.

THE CHAIRMAN: The Commission will rule that the

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1 parties may intervene and send a secretarial letter to each.

2 We also have before us a complaint filed by  
3 Limerick Ecology Action, and Louise Dufour. Is there someone  
4 here who represents the complainant? You do. Do you want  
5 your complaint consolidated with this proceeding?

6 MS. DUFOUR: Yes.

7 THE CHAIRMAN: Would you come forward and  
8 just state for the record - - I will just indicate again for  
9 the record that a complaint has been filed by the Limerick  
10 Ecology Action and Louise Dufour. Would you state your name  
11 and who you represent, please?

12 MS. DUFOUR: My name is Louise Dufour and I  
13 represent Limerick Ecology Action, two of our members were  
14 parties to the initial proceeding and they are unable to  
15 attend so as co-ordinator of the group, I would like to  
16 represent them. Charles Brocini (phonetic spelling) and  
17 Philip Mester (phonetic spelling). I believe they petitioned  
18 - -

19 THE CHAIRMAN: They have filed a petition or  
20 complaint. Do you know whether they filed it?

21 MS. DUFOUR: They did file a complaint.

22 THE CHAIRMAN: Do you have any record of  
8 23 anything filed, Mr. McClaren?

24 MR. MCCLAREN: No.

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25 THE CHAIRMAN: We have no record of anything

1 being filed. However, if the Commission at any time  
2 receives a complaint or petition, they at that time will  
3 act upon it. We do not have anything before us at this  
4 time other than a complaint filed by you as Docket No. C-79101682.  
5 Docket No. 79101682. And you answered in the affirmative  
6 that you did want this complaint consolidated with these  
7 proceedings. Is that correct?

**POOR ORIGINAL**

8 MS. DUFOUR: Yes, it is.

9 THE CHAIRMAN: The Commission will act to  
10 consolidate the complaint with the proceeding before us.

11 Is there any other parties here who represent  
12 the public?

13 MRS. SMITH: My name is Mrs. Patricia Smith.  
14 I am a resident and interested party and I would like to  
15 represent the people of Newberry Township, York County.  
16 I would like to participate to the fullest extent the  
17 good Commission will accord me as an interested party.

18 THE CHAIRMAN: Do you plan to have an attorney  
19 or do you plan to simply represent yourself?

20 MRS. SMITH: No, sir. No attorney. I will  
21 represent myself and the people.

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22 THE CHAIRMAN: Thank you very much.

23 MRS. SMITH: One additional statement.  
24 We are here because we are consumers of Metropolitan Edison.  
25 Thank you.

1 THE CHAIRMAN: Well, I want to ask did you file  
2 a document with our Commission, yet?

3 MRS. SMITH: A letter which says we are  
4 a party of interest and I have something here to give to  
5 someone.

6 THE CHAIRMAN: You should file that with us  
7 so that we can act upon that document that you referred to.

8 MRS. SMITH: Shall I give it to this gentleman?

9 MR. McCLAREN: You should file it with the  
10 Secretary.

11 MRS. SMITH: May I do it this morning?

12 MR. McCLAREN: Yes.

13 THE CHAIRMAN: Is there any other person,  
14 attorney within the room here who desires to participate  
15 who has not stated your name for our record?

16 (No response)

17 THE CHAIRMAN: The second item on our agenda  
18 as we had talked was the issue to be addressed. The Commission  
19 is of the opinion that the broader issue of the viability  
20 of Met Ed as a public utility and of the long term action to  
21 be taken by the GPU company as a result of the TMI accident  
22 must be developed in the record before the Commission can  
23 consider and address the narrow rate making issues shown  
24 by the order to show cause regarding the used and usefulness  
25 status of TMI-1 and the request of Met Ed to increase its



1 energy cost rate.

2 To just put that in plainer terms, and that is  
3 that the Commission is of the opinion that the order to  
4 show cause issue on 1 November, 1979, concerning the  
5 order to show cause as to why the certificate of public  
6 convenience should not be revoked should be dealt with initially  
7 and the other two items will be dealt with following that.

8 The Commission comes to this prehearing conference  
9 unwilling to set rates for Met Ed and Penelec without  
10 considering the long term situation of Met Ed and GPU  
11 companies. Therefore, the following matters should be  
12 developed on the record early in this proceeding.

13 A, a statement by the GPU companies describing  
14 in chronological order, every significant action that Met Ed,  
15 Penelec and GPU are or will be taking within the next four  
16 years. For example, major security issues, studies of  
17 feasibility of converting the TMI plant, changes in management  
18 structure.

19 B, a study by the GPU companies of the sources  
20 and uses of funds by month and by major category over the  
21 next four years.

22 1436 112  
23 C, a projection by the GPU companies by month  
24 of the revenues to be required from ratepayers over the next  
25 four years and;

D, a projection by the GPU companies by month

1 and by major category of the revenues to be required from  
2 securities financing over the next four years. Commission  
3 expects and requests of the prosecutory staff a memorandum  
4 or testimony, its recommendation of the most appropriate  
5 analysis for the Commission to employ in assessing the  
6 long term financial viability of Met Ed as a public utility  
7 and in presenting a recommended analysis, the staff should  
8 include consideration of the cost to be incurred by Met Ed,  
9 its ability to finance those costs through securities  
10 financing and a probable required level of rates or revenues  
11 to be collected from ratepayers.

12 The narrow issues before the Commission in this  
13 proceeding appear to require that the following matters  
14 be developed on the record.

15 A, a description of the status of TMI-1.

16 B, a detailed breakdown of the costs associated  
17 with TMI-1, which are currently reflected in the base rates  
18 of Met Ed and Penelec and C, a detailed presentation of the  
19 monthly energy costs projected to be incurred by Met Ed to  
20 the end of calendar year 1980.

21 These comments on the Commission's views of the  
22 issues to be addressed are for the guidance of the parties.  
23 We now invite the parties to comment and discuss the issues  
24 that we have put forth. Before we proceed beyond this point.

25 MR. GEORGE: Sir, with respect to the energy costs

1 of Met Ed, I'm wondering if you wouldn't want to include  
2 Penelec in that.

3 THE CHAIRMAN: Are you talking about B that I  
4 mentioned last? A detailed breakdown of the costs? Which  
5 are you talking about?

6 MR. GEORGE: You were talking about the status  
7 of TMI-1 and then you said influence on current base rates  
8 of both Met Ed and Penelec and then as I understood it,  
9 you were talking about the energy costs of Met Ed. Now,  
10 was it the intention just to leave it there only because  
11 Met Ed asked to - -

12 THE CHAIRMAN: The intent was to leave it there.  
13 But we have no indication from Penelec - -

14 MR. GEORGE: The matter of looking at that,  
15 I wondered why not include them both?

16 THE CHAIRMAN: Would you want me to review the  
17 issues again?

18 MR. RYAN: Would you read them again, please,  
19 Mr. Chairman? 1436 114

20 THE CHAIRMAN: Would I read them again?  
21 I indicated that the following issues should be  
22 addressed during these proceedings.

23 A, a statement by the GPU companies describing  
24 in chronological order every significant action that Met Ed,  
25 Penelec and GPU are or will be taking within the next four

1 years and I gave examples. Major securities issues, studies  
2 of feasibility of conversion of the TMI plants and changes  
3 in management structure. Any major or significant item.

4 B, a study by the GPU companies of the  
5 sources and uses of funds by the month and by major  
6 category over the next four years.

7 C, a projection by the GPU companies by month  
8 of the revenues to be required from ratepayers over the  
9 next four years and;

10 D, a projection by the GPU companies by month  
11 and by major categories of the revenues to be required from  
12 securities financing over the next four years.

13 I then discussed what I felt were the narrow  
14 issues.

15 A, a description of the status of TMI-1.

16 B, a detailed breakdown of the costs associated  
17 with TMI-1, which are currently reflected in the base rates  
18 of Met Ed and Penelec.

19 C, a detailed presentation of the monthly  
20 energy costs projected to be incurred by Met Ed through the  
21 end of the calendar year 1980.

22 any  
23 Is there/discussion of these items thus far?

23 Or would you like for me to -- yes, Mr. Malatesta?

24 MR. MALATESTA: The last three items you read,  
25 sir, including the description of the costs associated with



1 TMI-1, the base rates, are those evidenciary materials  
2 that you expect from any particular party or do you expect  
3 that to be taken care of as we proceed?

4 THE CHAIRMAN: We would expect that the  
5 major party in presenting this material would be Metropolitan  
6 Edison and Penelec. We would expect, however, that any  
7 party who feels that the party has anything significant to  
8 offer would do so.

9 MR. MALATESTA: While I have the microphone  
10 in front of me, before it proceeds down the table, you  
11 read an expectation that the Commission has of the Commission  
12 Trial Staff in this proceeding and it was unclear to me  
13 whether that is an expectation that we are expected to  
14 meet at the beginning of the proceeding or at the end of the  
15 proceeding.

16 THE CHAIRMAN: During the proceeding.

17 MR. MALATESTA: Thank you, sir.

18 MR. RUSSELL: I think we would like to make  
19 a couple of comments. First of all, as far as the respondents  
20 are concerned, this prehearing conference today is premature.  
21 Among other things, we have a prehearing conference and  
22 proposed hearing schedule with respect to at least one matter,  
23 for example, as to one of the respondents has not been  
24 prepared and had time to file an answer. 1436 116

25 Certainly, some of the issues that the Commissioner

1 raised would be of relevancy to one or more of the  
2 proceedings that it has consolidated. We are quite satisfied  
3 there will be many more issues that will come up and have to  
4 be litigated in connection with the proceeding.

5 But in view of the premature status of this  
6 prehearing conference, we are not prepared at this point  
7 to identify and isolate the various issues that we think  
8 will be so arising in this proceeding.

9 THE CHAIRMAN: You speak, Mr. Russell, of the  
10 fact that the twenty days will elapse on the 20th and 21st  
11 of next week. Of November.

12 MR. RUSSELL: That is the time period from  
13 which we would like to file it before then. But I think I  
14 would like to remind the Commission that there is a tendency  
15 upon each unit of Government to assume that it is the only  
16 unit of Government to which a particular entity is exposed.  
17 I can assure you that is not the situation with respect to  
18 these respondents.

19 They have very substantial demands on their  
20 time and energies to provide all manner of material with  
21 respect to Governmental units at all levels of Government  
22 and I think this Commission should give consideration to that  
23 effect if due process of law is to be accorded to these  
24 respondents in this proceeding. 1436 117

25 THE CHAIRMAN: The Commission is willing to

1 give any consideration to any matter which is presented  
2 to us in the proper form, Mr. Russell, and we take very  
3 serious the matter of due process and if counsel now has a  
4 statement which he wants to make, the Commission will listen  
5 to the statement.

6 MR. RUSSELL: I'm stating to the Commission  
7 that this prehearing conference is premature with respect  
8 to any number of the issues. I think that more timely  
9 prehearing conference and a more timely hearing schedule  
10 would be most appropriate.

11 THE CHAIRMAN: Do you want to discuss those  
12 schedules today?

13 MR. RUSSELL: I think one of the issues in the  
14 Secretarial letter with respect to this prehearing conference  
15 did discuss hearing schedules as one of the items.

16 THE CHAIRMAN: Yes. That is the next item on  
17 our list.

18 MR. RUSSELL: Yes.

19 THE CHAIRMAN: We will be very glad to move  
20 to the next item.

21  
22  
23 (Transcript continues on next page)

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1 MR. BURGRAFF: We would like to make one state-  
2 ment if we could, Mr. Chairman. We think the Commission has  
3 gone to the essence of demands in this case by not piece-  
4 mealing the issues and by, in essence, deciding to consider  
5 the question on long-term viability as the paramount issue. We  
6 think that is the real question.

7 We would like to put the parties on notice  
8 that we have commissioned a study of the options available in this  
9 area concerning what type of system offers the best results as far  
10 as long term viability is concerned and serving the service  
11 territories involved.

12 We think that perhaps the order of what we are doing  
13 is not as important as the timing. I think Mr. Russell has made  
14 some inroads into that area. I would just say that if this  
15 is going to be done adequately, we are not going to piecemeal  
16 this matter. It may be necessary to withstand the timeframe  
17 that has been listed at least in the prehearing order.

18 THE CHAIRMAN: We said that we would move next  
19 -- unless there is some other question to a discussion of  
20 scheduling. Yes?

21 MR. FRATER: Mr. Chairman, I would like to ask  
22 the Consumer Advocate's Office if it were appropriate to  
23 advise us of who has been commissioned to perform the study  
24 and what the parameters of the commission to that study organi-  
25 zation are. What are their instructions.

26 MR. BURGRAFF: We have no objection to  
27 telling Mr. Frater the extent of the study. We would with-  
28 hold the name of the party at this point in time. We have

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1 no problems in informing the parties who the person is  
2 at such time as we think it is appropriate. The study  
3 will consider the bankruptcy issue. It will deal with all  
4 the options that perhaps are open to consideration in this  
5 case, including reorganization, including divestiture of  
6 either partial or total. It may not go beyond this to  
7 consider the public authority.

8 These are some of the general parameters.  
9 We would ask that we certainly not be restricted to some  
10 of the examples that we are giving. It may well encompass  
11 more than we have. I think that's a general idea of the type  
12 of study we are talking about.

13 MR. FRATER: Thank you.

14 THE CHAIRMAN: Are there any other comments  
15 from counsel on the issues. We are talking about issues  
16 only, now. Yes. Use the microphone, sir.

17 MR. LINDER: At one point, an order was issued  
18 by this Commission instituting a management investigation  
19 into GPU companies and to to some extent that might be  
20 relevant to one of the issues that we are considering here,  
21 and I wonder if the Commission is considering consolidating  
22 that management investigation into these proceedings or how  
23 that would tie into these proceedings.

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24 THE CHAIRMAN: The Commission is not considering  
25 a consolidation of the management audit and investigation  
into the management practices of GPU in this proceeding. I  
would note that the Commission order on management practices  
deals with the GPU system, at least PENELEC and Metropolitan

1 Edison. Our order of 1 November, 1979 deals only with  
2 Metropolitan Edison. The schedule for the Commission of the  
3 management audit will go into the year 1980 and therefore, would  
4 not be appropriate, available for these proceedings that we have  
5 before us.

6 Yes, sir?

7 MR. BOWERS: Mr. Chairman, in our judgment,  
8 the issues as you have outlined them are more narrow than  
9 we expected to be the case based upon your November 1 order  
10 to show cause. In our judgment, it is absolutely essential  
11 for this Commission to adequately and properly dispose of the  
12 question that it has set for itself in its November 1 order  
13 to show cause for this Commission to give very careful and  
14 thorough consideration to conclusions.

15 The Nuclear Regulatory Commission, in assessing  
16 civil penalties against Metropolitan Edison, to which the  
17 Commission made reference in paragraph 6 of its order to  
18 show cause and to the conclusions of the Presidential  
19 Commission with respect to Metropolitan Edison's management  
20 capability to operate a nuclear power plant safely to which  
21 the Commission made reference in paragraph 7 of its order to  
22 show cause.

23 We feel that the people or the authorities  
24 under whose supervision these reports were prepared should  
25 be subpoenaed to appear before this Commission in present  
proceedings and offer testimony and allow themselves to be  
cross examined and we would also suggest that the conclusions  
of those official bodies constitute or make a prima facie  
showing that Metropolitan Edison is in fact, not capable of

1 operating its nuclear generating facilities in a safe  
2 manner and that this Commission should impose upon Metropolitan  
3 Edison the burden of coming forth with evidence to rebut  
4 that prima facie showing.

5 Secondly, we would hope that this Commission in  
6 the course of these proceedings, would give attention and  
7 consideration to the consequences and the alternatives  
8 that might be available to it if it were to take the action of  
9 revoking Metropolitan Edison's certificate of public con-  
venience as stated in its order.

10 THE CHAIRMAN: Any other statements on the  
11 issues? Yes.

12 MR. RUSSELL: I would like to make --

13 MR. MALATESTA: I would like to just go back  
14 to the assignment that you sort of set forth for the prose-  
15 cutorial staff. Could you read it again? I am not sure I  
16 caught all of it.

17 THE CHAIRMAN: How about if I just give you a  
18 copy of it.

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19 MR. MALATESTA: That would be most helpful.  
20 Thank you. I also would like to make a comment in response to  
21 Mr. Bowers' comments, in particular with respect to alterna-  
22 tives, if, in fact, the Commission decides to take the  
step of revoking Met Ed's certificate of public convenience.

23 Even though we would rather not give a position  
24 or an issue by issue position at this time, at least we  
25 can say this on behalf of the trial staff, that we don't think  
there is any way that any party in this case can responsibly

1 advocate the revocation of a certificate of public  
2 convenience without absolute assurances that there would be  
3 a substitute available. So I am sure that issue will be  
4 considered.

5 THE CHAIRMAN: Any other? Mr. Russell,  
6 did you have a comment on the issues?

7 MR. RUSSELL: I was just simply going to make  
8 an observation and it did relate to prospective time  
9 schedules, that in general, the first order to show cause  
10 assumes, I would read into it, I guess, the proposition that  
11 if the Commission, for example, were to determine that  
12 TMI-1 were to be removed from base rates, that the Commission  
13 would thereupon make some adjustment in the base rates of the  
14 respective respondents. Is that correct?

15 THE CHAIRMAN: There is inherent in that order  
16 that assumption, yes.

17 MR. RUSSELL: All right. Therefore, it is  
18 inherent in that proceeding that there be, in effect,  
19 a base rate case, which would permit the Commission to have  
20 the rate making framework within which to make such rate  
21 making determination. So we are talking about not a simple  
22 issue. We are talking about a complexity of a whole  
23 sequence of issues with respect to the first order to show  
24 cause, alone.

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25 The second order to show cause clearly involves.



1 has been said, and I think there are many additional  
2 issues that would be involved, because it involves the  
3 extremely serious question as to whether or not a public  
4 utility serving some 350,000 customers in this Commonwealth  
5 of Pennsylvania shall cease to do business as an electric  
6 utility.

7 That, obviously, is not a sequence of issues  
8 that can be handled in any abbreviated time frame. The  
9 third item, the energy clause issue, is one which is of  
10 relatively narrow scope, namely shall the current customers  
11 pay a greater or lesser percentage of the current costs  
12 being incurred to provide them energy.

13 This Commission has determined those issues,  
14 that kind of issue expeditiously in the past. But certainly,  
15 as to the first two issues, the orders to show cause, we have  
16 in each case, a complex series of issues that is certainly  
17 going to involve time to prepare for hearings, to respond  
18 to prehearing requests and to have a hearing schedule which  
19 would fairly and adequately permit the development of the  
20 facts associated with each of the issues.

21 THE CHAIRMAN: May I just say two things?  
22 Number one is that as with the last proceeding that we had  
23 before us, we would invite all parties to submit to us a  
24 memorandum on the issues, and so that this, of course,  
25 is a continuing process and I would like to have each party

1 feel free to do that at these proceedings.

2 In terms of the time schedule, Mr. Russell,  
3 Met Ed, Penelec and GPU system controls that time schedule.  
4 The Commission set forth the purpose of this prehearing  
5 conference and tentative dates and we indicated that they  
6 were, in fact, tentative. And I guess that the best way to  
7 proceed at this point would be to put the question to you  
8 and that is that when would you be ready, number one, to  
9 proceed with those hearings and what kind of time frame  
10 do you see for your being able to present to this Commission  
11 the necessary factual information which will be shown to us  
12 so that we can dispose of the three matters before us.

13 I think that's the best way to move from where  
14 we are and I think that's where we are at the present time.

15 MR. RUSSELL: If you want our suggestion as to  
16 how we think the matter can proceed in an orderly fashion,  
17 we would suggest to the Commission that a further prehearing  
18 conference be held two or three weeks hence, at which time  
19 the parties will have had an opportunity to isolate the  
20 issues with some degree of particularity, to identify witnesses  
21 to respond to the various areas that are affected by these  
22 issues.

23 Hopefully to present the respondent's concepts  
24 of a rate making income statement and measures of value,  
25 which would be directed to possible rate making consequences

1 of the elimination of TMI-1 from rate base or base rates,  
2 if that were the Commission's determination, and to provide  
3 the other parties with some opportunity, if they so desire,  
4 to indulge in what is I think the inevitable prehearing  
5 discovery which we are confronted with in any such matter  
6 as a base rate case.

7 We would suggest that hearings start two to  
8 three weeks following any such prehearing conference which  
9 would, in the intervening period of time, permit responses  
10 to any discovery requests on the part of the other parties,  
11 and I think prepare the setting that hearing time can proceed  
12 and be utilized effectively in the cross examination of the  
13 data which the parties will have been supplied with at any  
14 such more timely prehearing conference.

15 THE CHAIRMAN: May I ask for the other parties,  
16 prosecutory staff, respond to what Mr. Russell has outlined?

17 MR. MALATESTA: We agree and endorse Mr. Russell's  
18 comments.

19 THE CHAIRMAN: Consumer Advocate?

20 MR. BURGRAFF: Well, I don't know about blanket  
21 endorsements, but I do think this case requires more of a  
22 time frame than was initially set forth in the prehearing  
23 memorandum. I think the two to three week time frame that  
24 Mr. Russell is discussing is appropriate.

25 MR. FRATER: No comment.

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1 THE CHAIRMAN: Mr. Widoff, Mr. Linder, Mr.  
2 Bowers? Come right along the line.

3 MR. WIDOFF: To the extent that the Commission  
4 is interested in obtaining well considered and well prepared  
5 positions from the various parties to the proceeding given the  
6 complexity of the issues and the unprecedented importance  
7 and difficulty of the issues that are going to be before you,  
8 it would be the position, our position that the time frame  
9 that is being suggested by the respondent would help  
10 substantially in making sure that all the parties to the  
11 proceeding would be able to prepare adequately to obtain  
12 at least a modicum of adequate discovery and be able to  
13 prepare meaningful positions and testimony so that the  
14 Commission can make a thoughtful and well reasoned decision.

15 MR. LINDER: Mr. Chairman, we would not object  
16 to the suggested time frame Mr. Russell set forth on the  
17 condition that the parties be supplied with direct testimony  
18 and the data from the companies as far in advance of the  
19 hearing dates as possible, because in the last set of  
20 hearings, because of time frame, often didn't get the  
21 materials until the day of the hearing or the day prior and  
22 with that proviso, we would not object to the suggested  
23 schedule.

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24 MR. BOWERS: We would agree in principle with the  
25 desirability of an extension of the time frame as set forth



1 in Secretary Thierfelder's letter.

2 MR. RYAN: We agree with F Russell's  
3 suggestion.

4 MR. GEORGE: I have no position.

5 MR. GORNISH: No position.

6 THE CHAIRMAN: We will take a ten minute  
7 recess and we will be right back.

8 (A brief recess was taken.)

9 THE CHAIRMAN: We are ready to proceed again.  
10 This Commission regards the whole matter of due process  
11 and the matter of adequate presentation of a case by the  
12 respondent as being most serious. We believe that if the  
13 public interest is to be served in this case, that everyone  
14 must have adequate time for preparation of the case.

15 Therefore, consistent with the views expressed  
16 by counsel for respondent and concurred in by all other  
17 counsel, Commission will continue this prehearing conference  
18 until 27 November, 1979. That's two weeks from today.

19 We note that Mr. Russell said two to three  
20 weeks. We took the lesser number of days.

21 MR. RUSSELL: If I didn't say, I intended to  
22 say two to three weeks from the time we have filed an answer  
23 to the second order to show cause.

24 THE CHAIRMAN: We will continue this prehearing  
25 conference on 27 November, 1979 and we will expect that counsel

1 be prepared to proceed with hearing on 10 December, 1979.  
2 That's approximately one month from today. And we will try  
3 to work out from the 10th on, a list of days of hearing  
4 during the month of December and we will take into account  
5 perhaps and we would like to have the respondent submit to  
6 us his view of what that schedule ought to be, by the end  
7 of this week.

8 MR. RUSSELL: If you care, I can give you some  
9 comments right now.

10 THE CHAIRMAN: Yes.

11 MR. RUSSELL: Subject to any confirmation  
12 or lack thereof on the part of the Commission Staff and others  
13 who have participated in base rate proceedings before this  
14 Commission heretofore, our experience has been that in view  
15 of the nature of base rate cases, the massive material they  
16 represent in terms of the initial filing and the data that's  
17 generated during the course of the proceeding, the experience  
18 we certainly have had is that more than two days hearings  
19 in any given week cannot be utilized profitably.

20 I think our experience has been that two is  
21 about the optimum amount of hearing days in any given week  
22 that can be effectively used.

23 THE CHAIRMAN: Let me also point out that the  
24 Commission will require that all counsel submit to us by  
25 23 November, 1979, a statement of what you think the issues are

1 in this case. Number two, the order in which they should be  
2 addressed.

3 I will also require that they, counsel provide  
4 for us, any special witnesses which will appear, for example,  
5 Consumer Advocate mentioned they have a special witness  
6 during this period of time. Is this any unusual witness,  
7 Mr. Malatesta?

8 COMMISSIONER JOHNSON: By that we don't mean  
9 one of your co-counsel.

10 MR. RUSSELL: Is this to be provided by the  
11 prehearing conference date?

12 THE CHAIRMAN: We would like to, if possible,  
13 have it by 23 November.

14 MR. RUSSELL: By 23 instead of 27?

15 THE CHAIRMAN: By 23 November. But we are firm  
16 about the first two items. That is about the statement of  
17 what issues you think ought to be addressed and the order in  
18 which they should be addressed and the idea of the special  
19 witnesses would be optional and we would like to have them  
20 no later than 27 November by the time of the next prehearing  
21 conference.

22 I take it that counsel, all counsel are in  
23 agreement that more than two hearings per week would not be  
24 beneficial?

25 MR. MALATESTA: We agree. Yes.

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1 MR. LINDER: I have a question. My experience  
2 isn't as -- doesn't go as far as Mr. Russell's does, but  
3 I am wondering if there is a necessity to have a full rate  
4 case to consider the issue, whether TMI-1 should be con-  
5 sidered used and useful, whether a full rate case is appro-  
6 priate for consideration of that issue.

7 MR. RUSSELL: I don't think it would be for that  
8 issue, Mr. Linder, but you may recall the question I  
9 specifically addressed to the Commissioner this morning, that  
10 if that first narrow issue is decided in favor of removal of  
11 TMI-1 from rate base, then does the Commission decide, would  
12 it intend at that time to make adjustments in base rates and  
13 the answer was yes.

14 So with that second issue, however, a very  
15 significant portion of a base rate case would be involved.  
16 To make a determination as to what adjustments should be made  
17 in base rates.

18 MR. BURGRAFF: Mr. Chairman, if I might make a  
19 statement, I think that the number of days of hearing per week  
20 perhaps is more a function of how long the parties anticipate  
21 the case to take. If you set a limit of two hearing days a  
22 week, and the case is going to take a certain amount of time,  
23 then by definition, we would be stretching it perhaps beyond the  
24 point of necessity. That perhaps could be left a little more  
25 fluid.

26 I think --

27 THE CHAIRMAN: In establishing this tentative  
28 schedule, the Commission have taken into account the concept



1 of TMI-1 remaining in rate base beyond 1 January, 1980, and  
2 the request by Metropolitan Edison for an adjustment, modifica-  
3 tion of our 15 June order, which dealt with an increase in  
4 the net energy cost. So those have some fixed time on them  
5 and it is in accordance with that that the Commission have  
6 proceeded to try and set a tentative schedule in order to  
7 try and meet those dates.

8 MR. BARASCH: Chairman Goode, if I could  
9 possibly ask a question -- excuse my voice. I don't have much  
10 of one today. I think Mr. Burgaff and I are interested in  
11 establishing first of all, as I understand the last decision  
12 of June 15, the Commission spoke of issuing a show-cause  
13 order sometime in the proximity of January 1 in the event that  
14 TMI-1 was not returned to service as opposed to an ultimate  
15 determination of the used and usefulness of TMI-1 by January 1.

16 Secondly, just to give a little perspective from  
17 how we see it proceeding, the January 1 date, as far as I can  
18 see, the only event that occurs on January 1 must occur on  
19 January 1 under the terms of your order of June 15 is that  
20 the capacity charge offset in fuel cost would expire the  
21 end of this year and that may have been of some relevance to  
22 the company, but nothing dramatic as far as I can see, occurs  
23 to the company on January 1 or January 2, if, as they claim,  
24 there is unrecovery of fuel cost, nothing dramatic occurs on  
25 January 1. It is just the Commission's order anticipated  
in coming up with a millage charge return to service of  
TMI-1 by January 1. It is a question of underrecovery;  
not so much of some catastrophic events occurring January 1,

1 and as Mr. Burgraff said earlier, it is fear of having us  
2 approaching this issue on a piecemeal fashion due to the imposition  
3 of an early deadline such as January 1 that might result in  
4 having to take positions on a fuel clause out of context  
5 with all the other matters that we believe this Commission is  
6 probably addressing.

7 We do believe that the general order in  
8 which you wish to proceed would be excellent. What we are  
9 concerned with is we are pressed to get some January 1 date  
10 that would make it difficult to develop an accurate record on  
11 some very complicated matters.

12 THE CHAIRMAN: In our view, by starting our  
13 hearings by December 10 clearly rules out any action by  
14 this Commission on the first of January. My only point is  
15 we had originally tried to set some time frame. Our view here  
16 is that there is no way we can meet that date at this point

17 The Commission will look at some hearing dates  
18 for at least the month of December and will address a memorandum  
19 to all the parties by the end of this week. Any other ques-  
20 tions?

21 (No response.)

22 THE CHAIRMAN: We will continue the prehearing  
23 conference on 27 November at 10 a.m. Yes.

24 MR. BURGRAFF: May I raise one point in the  
25 interim? I don't know if this is -- I guess it is necessary.  
We would like to, I believe, do some discovery prior to the  
date of the next prehearing conference. I don't know if we  
should work out a schedule. Perhaps we can do much of it

1 orally, but there may be some necessity for some written  
2 interrogatories.

3 THE CHAIRMAN: Mr. Russell?

4 MR. RUSSELL: I am sorry. I didn't --

5 THE CHAIRMAN: He was talking about discovery  
6 between now and the 27th of November and he thought perhaps  
7 that he might want to either orally ask for certain things and  
8 number two, address to respondent certain written interroga-  
9 tories in that time frame.

10 MR. RUSSELL: I have no objection to any such  
11 steps being taken. We would certainly respond in any way that  
12 we possibly can, and as expeditiously as we can. I might  
13 raise with the Commission and the parties the concepts we  
14 have as to the base rate data we would propose to submit, in  
15 response to the first order to show cause.

16 Our proposal is that we would use for purposes  
17 of a test year, calendar 1980 projected data, 1980 being the  
18 period in which any rate-making adjustments, if any, would,  
19 in fact, be taking place. We think that's the most appro-  
20 priate time frame within which the data can be assembled and  
21 I think used for the Commission's review. Does the Advocate  
22 have any problem with that time frame?

23 MR. BURGRAFF: Excuse me. I didn't hear the  
24 end of your statement, Mr. Russell. I'm sorry.

25 MR. RUSSELL: Does the Advocate staff or any  
other party have any presently foreseeable problems for the  
use of that time frame for test year purposes? 1436 134

MR. BURGRAFF: Well, we are not going to sign  
off on a test year, so to speak. I think that's up to you.

1 However, we would ask that if that is your intention, that  
2 perhaps a '79 actual also be submitted.

3 MR. RUSSELL: That data would be available  
4 certainly not by the prehearing conference or the hearing time.  
5 If the actual is needed, it would be sometime past the middle  
6 of January that it will be available.

7 THE CHAIRMAN: I would just ask the attorneys  
8 to address in their memorandum to be received by us by 23  
9 November the issue of what you feel is the appropriate test  
year so we can have that before us.

10 Is there any other items that anyone is desirous  
11 of bringing up before we recess this prehearing conference  
12 until November 27?

13 (No response.)

14 THE CHAIRMAN: We hope that this will give the  
15 attorneys sufficient time to be ready to go, move ahead with  
16 all deliberate speed and preparation, and that all of our  
17 hearings will be substantive and all counsel will be prepared  
18 with direct testimony and also cross examination. It is our  
expectation, having given in on our original time schedule.

19 COMMISSIONER JOHNSON: Mr. Chairman?

20 THE CHAIRMAN: Yes.

21 COMMISSIONER JOHNSON: I think the parties  
22 should be aware that we have not committed ourselves to  
23 adhere to a two hearings a week schedule. We have observed,  
24 taken judicious notice of your expressions. We will endeavor  
25 to operate these proceedings in a manner that will be fair  
and adequate for all counsel, bearing in mind the heavy



1 imposition that such a proceeding brings to the parties.

2 Three days a week is rough on the commissioners,  
3 themselves, and all of our staff, but it may be necessary,  
4 from time to time, so I think, Mr. Chairman, that judicious note  
5 ought to be taken of the effect that there has been no  
6 commitment made by the Commission that we would follow  
7 that kind of schedule.

8 THE CHAIRMAN: Is there any other comment?

9 (No response.)

10 THE CHAIRMAN: We will stand recessed, then,  
11 to continue this prehearing conference on 27 November at  
12 10 a.m. in this room.

13 (Whereupon, at 10:37 a.m., the prehearing  
14 conference recessed.)

15 I hereby certify that the proceedings are  
16 contained fully and accurately in the notes taken by me during  
17 the prehearing conference on the within cause, and this is a  
18 true and correct transcript of the same.

19 By

*Eugene W. Holbert*  
Eugene W. Holbert, RPR, CP  
11-14-79

20  
21  
22  
23 1436 136  
24  
25

Person Responsible for Preparation:  
F. D. Hafer, Vice President - Rate  
Case Management, GPU Service Corp.  
Telephone: (201) 263-6013  
Date: November 26, 1979  
Page 1 of 2

GENERAL PUBLIC UTILITIES CORPORATION  
Metropolitan Edison Company, Pennsylvania Electric Company  
and Jersey Central Power & Light Company  
NRC Docket No. 50-289  
Three Mile Island Unit No. 1 Restart Proceeding

Response to NRC Staff's Supplemental Financial Information Request No. 10,  
telecopied 11/9/79 (item numbers refer to initial requests dated 9/21/79):

"(10.b and 10.c) Subsequent to our September 21, 1979 request, it was reported (Newark Star-Ledger, November 3, 1979, p. 6) that the New Jersey Board of Public Utilities (NJBPU) is studying alternatives to JCP&L's franchise, including a possible transfer of the franchise to another authority. Provide any information available to JCP&L regarding the scope of the study alternatives to be considered and target date for the report. Provide copies of any related NJBPU orders and directives and any JCP&L responses thereto."

Response:

The NJBPU has not instituted a formal proceeding to review alternative means of supplying electricity to Jersey Central's service territory, but it has held several informal conferences with Jersey Central and others to develop an appropriate framework for considering such alternatives.

As a result of these conferences, the NJBPU now plans to retain independent consultants to study several options for continuing service to the Jersey Central territory, as outlined in the following attachments:

1. Letter dated 11/21/79 from F. S. Grygiel, Chief Economist, NJBPU Staff, to F. D. Hafer, Vice President, GPU, enclosing the NJBPU's letter to prospective consultants soliciting their attendance at a conference to be held at the NJBPU's offices in Newark on 12/13/79. Attached to the letter is an outline indicating the proposed scope of the study ("GPU/JCP&L policy options") and a tentative timetable for its completion.
2. Letter and attachments dated 11/19/79 from W. F. Hyland, Counsel for Jersey Central, to NJBPU Commissioners Barbour, McGlynn and Hynes responding to comments on Jersey Central's study proposals initially made at a public meeting of the NJBPU on 11/2/79 and later filed with the NJBPU on 11/9/79.

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3. Letter and attachments dated 11/9/79 from J. B. Kirsten, Counsel for Jersey Central, to G. A. Calabrese, Secretary, NJBPU, outlining Jersey Central's study proposals, including material describing the background and services provided by Jersey Central's recommended consultants (material referred to above).

Note that the tentative timetable included with the NJBPU's 11/21/79 letter to prospective consultants allows about a year (i.e., until December, 1980) for completion of the study.

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State of New Jersey  
DEPARTMENT OF ENERGY  
BOARD OF PUBLIC UTILITIES

FRED S. GRYGIEL  
CHIEF PUBLIC UTILITY ECONOMIST

1100 RAYMOND BLVD.  
NEWARK, N. J. 07102

November 21, 1979

Mr. Fred D. Hafer  
Vice President  
GPU Service Corporation  
100 Interpace Parkway  
Parsippany, New Jersey 07054

Dear Mr. Hafer:

Please find attached a copy of the materials sent to prospective consultants on the GPU/JCP&L policy options study. (A list of consultants is appended for your information.)

You are invited to attend this conference and fully participate in the structuring of the final scope of work that will form the basis of the Board's request for proposals.

Thank you for your continuing cooperation in this matter.

Sincerely yours,

*Fred*

Fred S. Grygiel  
Chief Economist

Attachments

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STATE OF NEW JERSEY  
DEPARTMENT OF ENERGY  
BOARD OF PUBLIC UTILITIES

GEORGE H. BARBOUR  
PRESIDENT  
BOARD OF PUBLIC UTILITIES  
NEWARK, N.J. 07102

November 21, 1979

Dear:

The New Jersey Board of Public Utilities will convene an informational conference on December 13, 1979, at 10:00 a.m., at the Board's offices in Newark. The focus of the conference will be the financial impact of the Three Mile Island incident on the future financial viability of Jersey Central Power & Light Company. The Board is committed to direct an extensive evaluation of the prospective problems that will face this utility. Given the significant scope of such an evaluation, the Board has determined that it will utilize a consultant(s) to assist it in evaluating the numerous economic, regulatory, engineering, and financial issues inherent in such a study.

The evaluation will be performed in two phases. The first phase will consist of fact finding, data collection and preliminary evaluation of a number of alternatives. A variety of different technical, financial, and structural scenarios should be reviewed and compared with continuation of present operations and structure of JCP&L.

The Phase I evaluation of alternatives will be performed in enough detail to select the leading contender strategies. These leading contenders will be evaluated in detail in Phase II. Phase I will consist of an in-depth review of the alternative strategies including customer cost, company cost, cost to other affected parties, potential difficulties with alternatives, risks and benefits. Phase II will consist of a study of actions required for implementation. At the completion of Phase II, a preferred strategy will be recommended.

Therefore, the major purpose of the informational conference will be to offer prospective consultants an opportunity to be briefed by GPU/JCP&L and the parties in the Board's investigation on the factual background leading up to the present situation and a brief overview of prospective problems. Further, GPU/JCP&L will briefly identify the relevant studies/analyses that may have a bearing on the future ability of the company to meet its statutory responsibility of providing safe, adequate and proper service to its customers.

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Finally, GFU/JCP&L and the parties will identify some preliminary alternative strategies for meeting contingencies associated with the ongoing repercussions of TMI.

Review the attached preliminary scope of work and tentative time schedule. Take note that final proposals to be submitted to the Board will be in response to a revised scope of work that is developed subsequent to the informational conference. Should you decide to attend this conference, please be prepared to discuss the extent of your firm's interest and the type of individuals that you would involve in the project. Indicate in your letter what members of your organization will be attending the conference.

Should you have any questions on this project, please contact Dr. Fred S. Grygiel, Chief Economist, at (201) 648-3860. I look forward to your prompt response to this notification.

Sincerely yours,

George H. Barbour  
President

Attachments

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New Jersey Board of Public Utilities  
Mailing List for GPU/JCP&L Policy Options Paper

Dr. Robert M. Spann, Principal  
ICF Incorporated  
1850 K Street, Northwest  
Suite 950  
Washington, D. C. 20006

Dr. Robert Wayland  
Temple, Barker & Sloan  
33 Hayden Avenue  
Lexington, Massachusetts 02173

Alan Schoc  
Director of Regulated Industries  
Gordian Associates, Inc.  
711 Third Avenue  
New York, N. Y. 10017

John S. Clarkeson  
The Boston Consulting Group, Inc.  
One Boston Place  
Boston, Massachusetts 02106

Dr. Charles Phelps  
Director of Regulatory Policies and  
Institution Programs  
Rand Corporation  
1700 Main Street  
Santa Monica, California 90406

Dr. Frank Alessio  
Criterion Analysis Inc.  
6060 N. Central Expressway  
Suite 154  
Dallas, Texas 75206

Mr. Ralph E. Renken  
A. T. Kearney, Inc.  
437 Madison Avenue  
New York, N. Y. 10022

Dr. Roy J. Shanker, Principal  
Resource Planning Associates, Inc.  
1901 L Street, N.W.  
Washington, D. C. 20036

Hugh D. Guthrie  
Director, Energy Center  
SRI International  
333 Ravenswood Avenue  
Menlo Park, California 94025

Victor L. Andrews  
Mills Bee Lane Professor of  
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Georgia State University  
33 Gilmer Street, S.E.  
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Professor William G. Shepherd  
Department of Economics  
University of Michigan  
Ann Arbor, Michigan 48106

Professor Roger Ibbotson  
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University of Chicago  
1101 E. 58th Street  
Chicago, Illinois 60637

Professor Paul Joskow  
Kennedy School of Government  
Harvard University  
79 Boylston  
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Dr. John Wenders  
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Building #23 - Department of Economics  
The University of Arizona  
Tucson, Arizona 85721

Harry M. Trebing, Director  
Institute of Public Utilities  
Professor of Economics  
Michigan State University  
Graduate School of Business Administration  
Institute of Public Utilities - Berkey Hall  
East Lansing, Michigan 48824

Dr. Douglas Jones  
The National Regulatory Research Institute  
206 West 18th Avenue  
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Dr. Myron J. Gordon  
Faculty of Management Studies  
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Louis J. Carter  
7300 City Line Avenue - Suite 120  
Philadelphia, Pennsylvania 19151

and to

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c/o Mr. Thal  
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Miami, Florida 33140

Dr. Larry Eisenberg  
Director, The Energy Center  
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J. Daniel Khazzoom  
Institute for Research in Energy  
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380 Kensington Way  
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Dr. Michael Crew  
Graduate School of Business Administration  
Rutgers - The State University of New Jersey  
92 New Street  
Newark, New Jersey 07102

Dr. Irvin Glassman, Director  
Center for Environmental Studies  
Princeton University  
Engineering Quadrangle  
Princeton, New Jersey 08540

Dr. John W. Wilson  
J. W. Wilson & Associates, Inc.  
The Dodge Center, Suite 540  
1010 Wisconsin Avenue, N.W.  
Washington, D. C. 20007

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New Jersey Board of Public Utilities  
GPU/JCP&L Policy Options Paper  
Tentative Scope of Work

- I. GPU/JCP&L Load Forecasts.
  - A. Base Case.
  - B. Maximum Conservation and Load Management Strategy.
  - C. Innovative Rate Design.
- II. GPU/JCP&L Capacity Expansion Plans.
  - A. Forked River.
  - B. New coal capacity.
- III. GPU/JCP&L Plans to Finance Capacity Additions.
- IV. GPU/JCP&L: External Sources of Generating Capacity.
  - A. PJM Purchases.
  - B. Negotiated Purchase Power Agreements.
- V. Future Sources of Generating Capacity.
  - A. Investor-owned State-wide Generating Company.
  - B. State Project Financing.
  - C. State Power Authority.
  - D. Unit Power Purchases.
  - E. PJM Purchases.
  - F. Negotiated Purchase Power Agreements.
- VI. Hypothetical Structural Remedies: Economic and Regulatory Feasibility.
  - A. Transfer of portion of JCP&L service territory to other New Jersey utilities.
  - B. Sale of all or portion of JCP&L's assets.
  - C. Merger with PSE&G.
  - D. State takeover.
  - E. Reorganization under Federal Bankruptcy Act.
  - F. Status quo with appropriate regulatory treatments.

New Jersey Board of Public Utilities  
GPU/JCP&L Policy Options Paper  
Tentative Time Schedule

<u>Date</u>	<u>Action</u>
December 13, 1979	Informational Conference.
January 2, 1980	NJBPU issue final scope of work and request for proposals.
January 21, 1980	Due date for consultant responses to request for proposals.
February 11, 1980	NJBPU selects consultant(s) to conduct GPU/JCP&L policy options paper.
February 25, 1980	GPU/JCP&L policy options study commences.
June 2, 1980	Completion of Phase I report (Fact findings and preliminary policy options identified).
December 19, 1980	Completion of Phase II report (Evaluation of selected policy options).
(To be determined)	Presentation by consultant(s) of final results of report to all relevant parties.

IRVING RIKER (1921-1969)  
CHARLES DANZIG  
EVERETT M. SCHERER  
WILLIAM F. HYLAND  
WILLIAM L. RIKER (1951-1973)  
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November 19, 1979

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J. FRED CONVERY III

The Honorable George H. Barbour  
The Honorable Richard B. McGlynn  
The Honorable Edward H. Hynes  
Board of Public Utilities  
1100 Raymond Boulevard  
Newark, New Jersey 07102

Re: Jersey Central Power & Light Company  
(Docket No. 795-427)

Dear Commissioners:

This is in response to the comments filed by the Division of Rate Counsel, the Division of Energy Planning and Conservation, and the New Jersey Public Interest Group (PIRG) on the subject of JCP&L's Preliminary Program Plan, Analysis of Strategic Options presented to the Board of Public Utilities at the meeting of November 2, 1979. The comments of each of these parties will be addressed separately.

Division of Rate Counsel

1. We agree that the Phase II engagement may require re-definition upon the completion of Phase I, or indeed, as the consultants commence their assignment. However, a preliminary definition of Phase II is essential to an understanding by the consultants of what will be expected of them.

2. The "suggested action plan" in Rate Counsel's Attachment A is basically satisfactory as a format, subject to the setting by the Board of an appropriate timetable, which probably can best be established following discussion with the proposed consultants. However, a proposed revision in the Work Scope section is attached hereto as Attachment I. The purpose of the revision is to incorporate suggestions made by Mr. Nardelli in this section of his "suggested action plan", and further refinements, particularly by way of amplification of the work scope detail.

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The Honorable George H. Barbour  
The Honorable Richard B. McGlynn  
The Honorable Edward H. Hynes  
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3. The "statement of understanding" in Rate Counsel's Attachment B is satisfactory, subject again to the setting of an appropriate timetable for each phase of the assignment. In addition, JCP&L reiterates its proposed "Attributes of Consulting Organization" found at page 4 of its written submission of November 2, 1979. There is further attention to this point in paragraph 7 herein.

4. The proposed "Letter to Consulting Groups" (Attachment C) is redundant and may create confusion concerning the precise scope of the work, since the work scope and other essentials are set forth in the "suggested action plan" (Attachment A). The action plan merely should be sent to those consultants under consideration with instructions as to the response expected.

5. Rate Counsel's comments on the "fault" issue are premature in view of President Barbour's statement at the meeting of November 2, 1979 that the Board would give consideration to this subject following its determination during the week of November 19, 1979 on the strategic options issue. However, since Messrs. Nardelli and Waters have commented on this subject in their letters to the Board, we believe we should indicate we disagree with their approach. Obviously, more detailed attention to this issue is required and, as already suggested by JCP&L, a date of November 30, 1979 would appear to allow sufficient time for the submission of briefs to the Board on how, and when, formal consideration of the issue should proceed.

In our judgment, the appropriate allocation of the economic consequences of the TMI-2 accident should be determined in a setting which gives full recognition to the regulatory framework, the past governmental encouragement for the development of nuclear power, the past and current allocations of the economic benefits nuclear power has provided, the role of governmental licensing activities, and a host of other relevant factors, including, most importantly, the long-term implications to customers of alternative courses of action open to the Board. We shall attempt in our brief on the subject to suggest a framework for consideration of these factors and concepts.

It is our view that it is unlikely that it will be necessary for the Board to hold lengthy hearings on factual matters relating to TMI-2. The investigations by the President's Commission with its more than 300 shelf-feet of depositions, documents and the like should provide a more than adequate basis for identifying and agreeing upon what actually occurred. There is likely to be, however, sharp disagreement concerning the implications of, and con-

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The Honorable Edward H. Hynes  
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clusions to be drawn from, these facts. We are hopeful that, with a continuation of the cooperation on the part of the Board and its staff and the parties that has been manifest in the last several proceedings, it will be feasible to narrow these areas of potential disagreement.

#### Division of Energy Planning and Conservation

6. JCP&L's comments in paragraph #5 herein concerning the "fault" issue are equally applicable to DEPC's arguments on this subject in its letter of November 13, 1979, and are hereby incorporated.

7. The suggestion by Mr. Waters (page 8) that consideration be given to the selection of a "panel" of consultants, "each with separate expertise", is likely to produce delay, confusion and divided responsibility in the performance of the work. JCP&L respectfully suggests that projects of such magnitude as the one about to be undertaken need the strength and depth of an integrated organization of coordinated disciplines, supplemented, if necessary, by specialists in those areas of a project that exceed the skills of an otherwise broad base of personnel. Mr. Waters' suggestion would place an unreasonable burden upon the Board and staff to coordinate and evaluate the work being done. A panel also would lack the credibility and stature present when a recognized, established consulting firm is employed.

Since the Board's staff has evinced interest in drawing upon the academic community for assistance, we respectfully suggest this can best be folded into the project through an "advisory committee" arrangement under which the selected academicians would be available to the Board and/or the consulting organization on an "as needed" basis. This will tend to avoid the fragmentation and divided responsibility that inevitably would be caused, as in the panel-approach suggested by Mr. Waters.

8. Mr. Waters' suggestions concerning a timetable are difficult to evaluate in the abstract. JCP&L recommends that the time for completion of various components of the work can best be established by the Board following a conference with the consulting firms that will be asked to submit proposals or bids. However, JCP&L joins in the observation that it is "in the public interest for the Board to be in a position to take positive action as soon as reasonably possible" and pledges cooperation to that end.

#### Public Interest Group

9. PIRG's suggestion that JCP&L was to produce by October 1 more than a framework for the extensive study about to be under-

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The Honorable Edward H. Hynes  
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taken reflects the misunderstanding expressed by Commissioner McGlynn at the hearing of November 2, 1979. JCP&L regrets any such misunderstanding, and apologized at the November 2, 1979 hearing, if it contributed in any way to an erroneous expectation concerning what was to be produced. It can only repeat its previously expressed conviction that moving ahead with all sensible dispatch in the airing and determination of the critical issues arising out of this unprecedented accident is in the interest of everyone concerned, and mostly assuredly in the public interest. The pace at which matters in this jurisdiction sensibly can proceed is affected in considerable measure by the significant involvement of GPU and its operating company personnel in the safe containment and decontamination of TMI-2, the restoration to service of TMI-1, other critical operating responsibilities, and in the variety of Congressional, Federal and state regulatory proceedings underway in the aftermath of the March 28 accident.

JCP&L and GPU will continue to devote their best efforts to discharge their New Jersey responsibilities effectively and expeditiously and to provide essential information to the BPU and the other public and private parties in this proceeding.

Very truly yours,

RIKER, DANZIG, SCHERER & HYLAND



By William F. Hyland

WFH:lh

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Work Scope:

The evaluation will be performed in two phases. The first phase will consist of fact finding, data collection and preliminary evaluation of a number of alternatives. A variety of different technical, financial, and structural scenarios will be reviewed and compared with continuation of present operations and structure of JCP&L. A possible list of these other alternatives is shown below:

- A. Technical or Operational Considerations: Assuming that some amount of additional capacity is needed, it is critical that the timing and magnitude of that generation be examined.
1. Immediate - Until TMI-1 is restored to active service.
  2. Short-term - Until TMI-2 is restored to active service.
  3. Long-term - Construction of facilities required for the future.
  4. Maximum Conservation & Load Management.
  5. PJM purchases.
  6. New Coal Capacity in New Jersey or elsewhere.
  7. Completion of Forked River Nuclear Generating Station.

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8. Purchase of portion of Hope Creek Nuclear Generating Station.
9. Continued purchases from regional sources.
10. Other potential generation purchases.

B. Financial Considerations: Assuming JCP&L remains structured as at present, it is important to study means of financing the incremental generation required over the next few years. At issue also is how long an alternative structure to finance this generation should be maintained. Among the options to be considered are:

1. Generation Company.
2. Project Financing.
3. Power Authority for Future Capacity.
4. Unit Power Purchases..

C. Structural/Legal Considerations: Assuming JCP&L is to be restructured it is important that the implications of alternative structures be fully explored.

1. Transfer a portion of JCP&L service territory to other New Jersey utilities.
2. Sale of all, or a portion, of JCP&L assets.
3. Merger with PSE&G.

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4. Takeover by Power Authority.
5. Reorganization under Federal Bankruptcy Act.

D. Objectives to measure the alternatives under consideration.

1. In terms of cost to customers and comparisons with major neighboring utilities.
2. In terms of reliability of supply.
3. In terms of diversity of technology, and adaptability to changing environments.
4. In terms of diversity of fuel supply and adaptability to changing economic conditions.
5. In terms of management structure and organization.

E. Development of Study Plan and Procedures.

1. Completion by JCP&L of Revised Load and Capacity Plan.
2. Preparation of Phase I of Preliminary Study Report.
3. Arrangements for review and critique of various sections of such Preliminary Study Report and submission of comments on, amplifications of, such Preliminary Report by

NJBPU staff, Rate Counsel, NJDOE and other interested parties.

4. Preparation of final (Phase II) Study Report in the light of such comments and amplifications.
5. Public review of such Study Report.

The Phase I evaluation of these alternatives will be performed in enough detail to select the leading contender strategies. These leading contenders will be evaluated in detail in Phase II. Phase I will consist of an in-depth review of the alternative strategies including customer cost, company cost, cost to other affected parties, potential difficulties with alternatives, risks and benefits.

Phase II will consist of a study of actions required for implementation. At the completion of Phase II, a preferred strategy will be recommended.

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DOLORES M. DELARAR

\*MEMBER N.J. & N.Y. BARS

JOSEPH HARRISON (1930-1976)  
OF COUNSEL

November 9, 1979

Gerald A. Calabrese, Secretary  
Board of Public Utilities  
Department of Energy  
1100 Raymond Boulevard  
Newark, New Jersey 07102

Re: Jersey Central Power and Light Co.  
Docket No. 795-427  
Retention of Independent Consultants  
to Evaluate Alternative Means of Con-  
tinuing the Reliable and Economic  
Supply of Electricity to the Jersey  
Central Service Territory

Dear Mr. Calabrese:

Enclosed for filing are four copies of Jersey Central  
Power and Light Company's position in the above referenced matter.

Very truly yours,

  
Jack B. Kirsten

JBK:ad  
Enclosures

cc: Comm. George H. Barbour  
Comm. Richard B. McGlynn  
Comm. Edward H. Hynes  
Dr. Fred S. Grygiel  
Mr. Anthony Zarillo  
Mr. Gerald N. Tobia  
Alfred L. Nardelli, Esq.  
Mr. A. Grey Staples  
Bartholemew T. Zanelli, Esq.

Edward Lloyd, Esq.  
Asst. Comm. Charles A. Richman  
John J. Degnan, Esq.  
Walton M. Jeffress, Jr., Esq.  
David A. Waters, Esq.  
M.B.H. Technical Associates  
Mr. Thomas Knudsen

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JERSEY CENTRAL POWER & LIGHT COMPANY  
Docket No. 795-427

Retention of Independent Consultants to Evaluate  
Alternative Means of Continuing the Reliable  
and Economic Supply of Electricity to the  
Jersey Central Service Territory

At the public meeting of the Board on November 2, 1979 Jersey Central submitted an outline of the scope of the study referred to above, and Jersey Central's recommendations as to the consultants that should be retained to perform the study. (A copy of the outline is attached for reference.) At that meeting, the Board indicated that the parties in Docket No. 795-427 should comment on the outline in writing by November 9, 1979.

Accordingly, Jersey Central is indicating to the Board that it has no changes to make to its proposed outline, and that it will respond, if appropriate, to the comments of others.

At the November 2nd meeting, the subject of whether the parties should submit memoranda to the Board stating their views as to what the Board should do if the Board were to conclude that Jersey Central were, to some degree, "at fault" in the TMI-2 accident was also discussed. It is our understanding that there was agreement that such memoranda should be submitted, but, to the best of our recollection, no specific date for the submission of such memoranda was established. Our suggestion is that the memoranda be submitted by November 30, 1979.



In conclusion, attached are copies of material describing the background and services provided by SRI International and Boston Consulting Group, Jersey Central's recommended consultants, that were not circulated at the November 2nd meeting.

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Preliminary Program Plan  
Analysis of Strategic Options  
for Jersey Central Power & Light Co.

Objective:

To evaluate the range of options available to provide the continued reliable and economic supply of electricity to the JCP&L service area within the framework of the statutory obligations and rights of the NJ BPU and JCP&L.

Rationale and Approach:

Assurance of future, reliable and economic supply of electricity to the JCP&L service area is of utmost importance to the NJ BPU as well as to JCP&L and GPU. As a result of the accident at TMI and its impact on energy cost, a comprehensive review of all possible options available to the NJ BPU and JCP&L is warranted. The review will provide guidance as to the impact and effects of each of a number of alternative courses of action on affected customers, and upon the company. Recognizing the importance of the effort to both the BPU and to the company, JCP&L agrees to provide the required supporting funds to allow a complete and comprehensive evaluation.

Structure:

The study will be carried out under the guidance of the BPU by a nationally recognized management consulting organization.

JPC&L will participate in the selection of the consulting organization. In addition, JCP&L will work with the BPU, DOE, office of the Public Advocate and others in providing input to the consultant. The final evaluation of study results should be performed in an independent manner by the consultant. The product of this effort will be a report provided to the BPU for their guidance. Neither the BPU nor any of the other participants in the study will be bound to accept the conclusions of the consulting group.

Budget:

\$500,000

Work Scope:

The evaluation will be performed in two phases. The first phase will consist of fact finding, data collection and preliminary evaluation of a number of alternatives. A variety of different technical, financial, and structural scenarios will be reviewed and compared with continuation of present operations and structure of JCP&L. A possible list of these other alternatives is shown below:

A. Technical or Operational

1. Maximum Conservation & Load Management
2. PJM purchases
3. New Coal Capacity in New Jersey or elsewhere
4. Completion of Forked River

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5. Other Potential generation purchases

B. Financial

1. Generation Company
2. Project Financing
3. Power Authority for Future Capacity
4. Unit Power Purchases

C. Structural

1. Transfer a portion of JCP&L service territory to other NJ Utilities
2. Sale of all, or a portion, of JCP&L assets
3. Merger with PSE&G
4. Takeover by Power Authority
5. Reorganization under Federal Bankruptcy Act

The Phase I evaluation of these alternatives will be performed in enough detail to select the leading contender strategies. These leading contenders will be evaluated in detail in Phase II.

Phase II evaluations will consist of an in-depth review of the contender strategies including actions required for implementation, customer cost, company cost, cost to other affected parties, potential difficulties with alternatives, risks and benefits. At the completion of Phase II, a preferred strategy will be recommended.

Schedule:

- |          |                            |
|----------|----------------------------|
| Phase I  | - 4 months from initiation |
| Phase II | - 8 months from initiation |

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Attributes of Consulting Organization:

It is most important that the organization utilized in this effort be of recognized national structure and have prior experience in the assessment of strategic alternatives for energy supply. The need for credibility of the results requires that the organization not be perceived as closely allied to either the utility industry, anti-utility or environmental organizations, or the rate regulatory community. Additionally, it is most important that the organization have existing technical and organizational depth and structure required for this complex task. These constraints significantly limit the possible consultants. JCP&L has identified two possible candidates, neither of which has heretofore been utilized by JCP&L/GPU or, to the best of our knowledge, by any of the other participants in the study:

SRI International

Boston Consulting Group

Descriptive material on each of the organizations is attached.

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# STRATEGIC MANAGEMENT ASSISTANCE

## WORLDWIDE PLANNING AND STRATEGY CONSULTING

- *Strategic Management Development*
- *Corporate Strategy Development*
- *Process and Strategy Assessment*
- *Market Research*
- *Analysis of Technological Trends*
- *Strategic Organization*
- *Issue Development*
- *Alternative Generation*
- *Diversification and Acquisition*
- *Decision Analysis Methods*
- *Financial Analysis*
- *Business/Environmental Modeling*
- *Planning*
- *General Management Consulting*



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## THE STRATEGIC MANAGEMENT CHALLENGE

Strategic management sets the strategic direction of an enterprise and is critical to long-run success. Although a strategic direction can be set by following the path of least resistance or by developing a single acceptable plan, effective strategic management permits the chief executive officer to identify and choose among significantly different strategies. Having a choice of strategic direction offers management an enormous opportunity to achieve the inherent potential of the organization consistent with its values.

The need for effective strategic management has never been greater. Rapid and sometimes radical changes are occurring in regulation, markets, product life cycles, relative productivity of nations, materials availability, distribution methods, and technology. Given the inherent complexity of today's enterprises, industries, and their environments, it is not surprising that the chief executive officer experiences severe difficulties effectively managing the strategic direction of his enterprise.

**Examples of common problems include:**

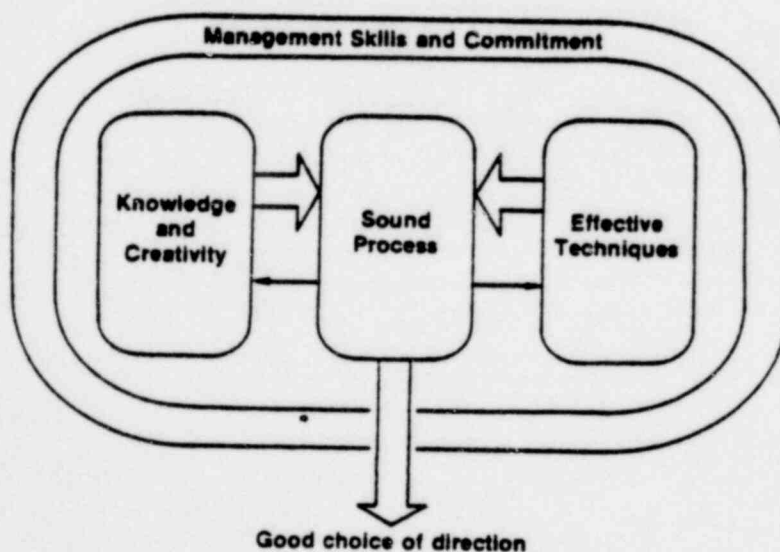
- *Insufficient consideration of strategic alternatives*
- *Strategic management based on extrapolation rather than innovation*
- *Inadequate identification of key strategic issues including internal strengths and weaknesses and external threats and opportunities*
- *Inability to realize the full potential of the organization and to avoid unmanageable growth*
- *Inadequate treatment of the uncertainties in today's business environment*
- *Inability to implement a strategic direction and make it happen*
- *Too many forms and procedures and too little insight and creativity*

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## THE SRI APPROACH COMBINES STRATEGIC MANAGEMENT PROCESS, TECHNIQUES, AND INDUSTRY KNOWLEDGE

SRI has a strategic management process, the techniques, and industry knowledge to meet client needs and provide a balanced approach to setting strategic direction. The SRI process overcomes the primary planning problems that most firms encounter, permits periodic renewal of corporate strategy, requires the development of significantly different alternatives, and ensures operational implementation. To facilitate its strategic management process, SRI brings to bear the full range of advanced techniques. SRI also supplements client resources with the knowledge and creativity of its industry experts to provide a solid foundation for strategy development.

### EFFECTIVE STRATEGIC MANAGEMENT REQUIRES SOUND INGREDIENTS



Process is a key ingredient but knowledge is primary

## THE SRI STRATEGIC MANAGEMENT PROCESS

The SRI strategic management process permits the mobilization and management of the organization to set a profitable strategic direction, and it allows the chief executive officer to identify and choose among significantly different strategies. The SRI process:

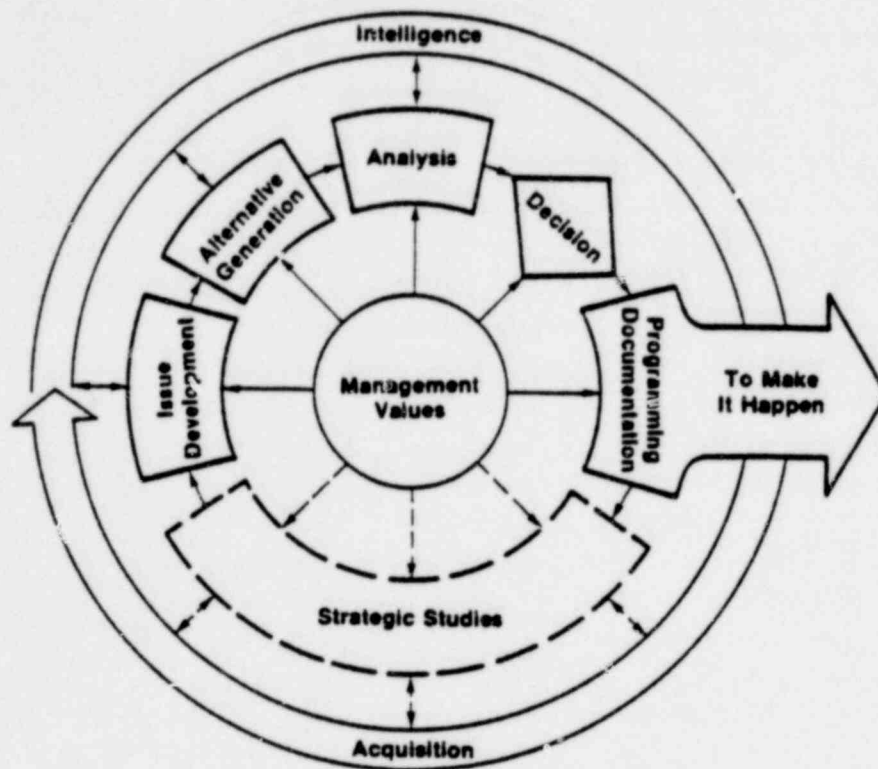
- *Can be tailored to the unique needs and characteristics of individual companies*
- *Provides for identification of important issues for the future including strengths, weaknesses, threats, and opportunities*
- *Forces the development and evaluation of alternatives*
- *Is decision-focused to get at the heart of strategic management*
- *Is participative to harness the full capabilities of the company and permit implementation of the strategic direction*
- *Permits management of the complexities of setting strategic direction to achieve full potential and the use of appropriate techniques to deal with complexity*

The process consists of issue development, alternative generation, analysis, decision, programming and documentation, and strategic studies. Each element of the process is explicitly guided by management values and uses the full range of information available internally and externally to the enterprise. The focal point of the process is the decision that selects the strategic direction. A rational decision requires analyzed alternatives that respond to the strategic issues faced by the company. Programming and documentation provide the planning required to implement the decision and to couple the process to operations. Strategic studies investigate areas of strategic concern and provide a basis for the development of new issues for the next cycle of the process. When time permits and information is insufficient, management may postpone the decision pending the outcome of strategic studies to clarify issues or alternatives.

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**THE STRATEGIC MANAGEMENT PROCESS IS A  
FORMAL PROCEDURE TO SET STRATEGIC  
DIRECTION**



Each step in the strategic management cycle uses a top-down and bottom-up approach. Management provides top-down guidance expressing their values. Issues, alternatives, analyses programs, and studies are developed bottom up in the organization in response to the top-down guidance. In this way possibilities are developed and presented upward in relation to wants coming down. The top-down/bottom-up approach harnesses the capabilities of the organization to achieve its full potential in setting and implementing a profitable strategic direction.

## SRI'S RECORD OF STRATEGIC MANAGEMENT PROJECTS IS EXTENSIVE

SRI has used its strategic management process, techniques, and industry knowledge to assist numerous clients in the development of profitable corporate strategy. SRI has installed strategic management processes, developed corporate strategies, assisted in the use of advanced techniques, and provided industry and market research information for clients' strategy efforts.

Some representative assignments reflect the range and capability of SRI's project work:

- *Strategic management review for a New York bank*
- *Development of a strategic management system for a major energy company*
- *Development of strategic alternatives for profit improvement for a paper manufacturer*
- *Diversification plans for various financial institutions*
- *Financial services strategy for a large retail chain*
- *Development of strategic issues for a leading air freight forwarder*
- *Design of an improved decision process for new product development for a major office products manufacturer*
- *Survey of international strategies for a U.S. bank*
- *Development and installation of a strategic management process for a widely diversified holding company*
- *Development of future strategies for a major securities exchange*
- *Development of major acquisitions for a domestic chemical fertilizer manufacturer and a mechanical products company*

*For further information about SRI strategic management assistance, please contact Vice President, International Management and Economic Group, SRI International, Menlo Park, California 94025.*

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# SRI International

## HEADQUARTERS, OFFICES AND LABORATORIES

### SRI International

Main Offices and Laboratories  
333 Ravenswood Ave.  
Menlo Park, CA 94025  
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Cable: SRI INTL MPK  
TWX: 910-373-1246  
Telecopier: (415) 326-5512  
Telex: 334463

SRI International is a problem-solving organization that provides consulting and research under contract for clients in business and government throughout the world.

Since SRI was founded in 1946, the problems confronting our clients have so increased in complexity that few of them can be solved within the confines of a single discipline. Our organization is uniquely qualified to deal with such intricate problems. Professionals representing more than 100 disciplines comprise nearly two-thirds of our 3000 staff members.

We perform consulting and research for the public sector in such areas as urban management, health, education, and welfare; environmental management; and national security. In addition to our broad-ranging activities for the U.S. and other national governments, we serve city, state, and county governments in the U.S., and also their international equivalents. One of the most attractive aspects of life at SRI for our staff is the opportunity to share in important work in the public interest.

For private commercial and industrial clients, SRI engages in management consulting and corporate strategy determination; technoecon-

omic, market, and operational studies; new product, process, and equipment development; and the provision of information services. A significant percentage of SRI's professional staff have had a number of years of major responsibility in business prior to joining SRI.

SRI is an independent, nonprofit corporation, using revenues in excess of operating costs to purchase advanced scientific equipment and to enhance our ability to continue to provide the highest quality consulting and research for our clients. SRI International has no shareholders and no endowment.

Our annual revenues for consulting and research contracts exceed \$125 million.

SRI's headquarters are on a 70-acre site in Menlo Park, California, a suburban community about 20 miles south of the San Francisco International Airport and a few miles from the campus of Stanford University. Other offices and laboratories are located in major centers in North America, Europe, East Asia, and the Middle East.

We welcome inquiries as to how we may work with you on your major concerns.

### SRI-Washington

1611 N. Kent St.  
Arlington, VA 22209  
Telephone: (703) 524-2053  
Cable: SRI INTL WDC  
Telecopier: (703) 524-3470

### SRI-New York

360 Lexington Ave., 21st Floor  
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## STRATEGIC MANAGEMENT TECHNIQUES

Strategic management must deal with the inherent complexity of large enterprises because:

- *The range of options is potentially infinite, and many of the options are not yet recognized*
- *Numerous factors, both internal and external, must be explicitly considered even though they interact in complex ways*
- *Analysis is complicated by uncertainty and distant time horizons*
- *Many participants in the enterprise with different relationships, viewpoints, motivations, and locations must be part of the process*

SRI offers many proven techniques that can be applied selectively to meet these challenges.

Strategic management techniques in which SRI has in-depth expertise encompass the following areas:

- |  |  |
|--|--|
| • <i>Business and environmental modeling</i>   | • <i>Decision analysis methods</i>           |
| • <i>Issue development</i>                     | • <i>Financial analysis</i>                  |
| • <i>Decision identification and structure</i> | • <i>Planning and programming</i>            |
| • <i>Strategic organization</i>                | • <i>Industry and market research</i>        |
| • <i>Alternative generation</i>                | • <i>Technology assessment</i>               |
| • <i>Innovation search</i>                     | • <i>Research and development management</i> |
| • <i>Litigation analysis</i>                   |  |

## INDUSTRY KNOWLEDGE

SRI maintains active programs for the development of future market, competitive, and technological trend information worldwide in all major industrial and commercial areas including:

- |  |   |
|--|---|
| • <i>Business Automation</i>                 | • <i>Forest Products</i>                    |
| • <i>Chemical</i>                            | • <i>Health and Pharmaceutical</i>          |
| • <i>Consumer and Industrial Electronics</i> | • <i>Insurance, Banking, and Investment</i> |
| • <i>Consumer Products</i>                   | • <i>Mechanical and Electrical</i>          |
| • <i>Distribution</i>                        | • <i>Minerals and Metals</i>                |
| • <i>Energy and Utility</i>                  | • <i>Real Estate and Leisure</i>            |
| • <i>Food and Agricultural</i>               | • <i>Transportation</i>                     |

SRI has an extensive information base in many of these industry areas.

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SRI International is a problem-solving organization. It provides consulting and research under contract for clients in business and government throughout the world.

Since SRI was founded in 1946, the problems confronting our clients have increased in complexity that few of them can be solved within the confines of a single discipline. Our organization is uniquely qualified to deal with such intricate problems. Professionals representing more than 100 disciplines comprise nearly two-thirds of our 3000 staff members.

We perform consulting and research for the public sector in such areas as urban management, health, education, and welfare, environmental management, and national security. In addition to our broad-ranging activities for the U.S. and other national governments, we serve city, state, and county governments in the U.S. and also their international equivalents. One of the most attractive aspects of life at SRI for our staff is the opportunity to share in important work in the public interest.

For private commercial and industrial clients, SRI engages in management consulting and corporate strategy determination, technoeconomic, market, and operational studies, new

product, process, and equipment development, and the provision of information services. A significant percentage of SRI's professional staff have had a number of years of major responsibility in business prior to joining SRI.

SRI is an independent, nonprofit corporation, using revenues in excess of operating costs to purchase advanced scientific equipment and to enhance our ability to continue to provide the highest quality consulting and research for our clients. SRI International has no shareholders and no endowment.

Our annual revenues for consulting and research contracts exceed \$125 million.

SRI's headquarters are on a 70-acre site in Menlo Park, California, a suburban community about 20 miles south of the San Francisco International Airport and a few miles from the campus of Stanford University. Other offices and laboratories are located in major centers in North America, Europe, East Asia, and the Middle East.

We welcome inquiries as to how we may work with you on your major concerns.

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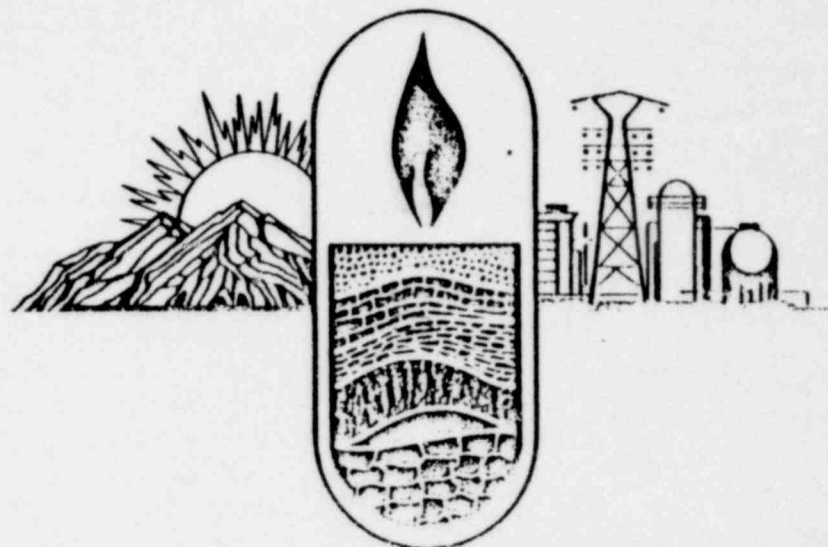
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# ENERGY CENTER

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World Energy Study — 1950 to 2000

### Energy Technology Economics Program (ETEP)

ETEP is a continuing program sponsored by over 70 international energy-related organizations. ETEP reports present engineering economic analyses of energy technologies using consistent economic bases. These reports enable sponsors to make meaningful comparisons of technical feasibility, investment, and cost of advanced energy systems.

Reports were issued during the first year of ETEP on methanol fuel, flue gas desulfurization, solar energy thermal applications, coal mining, geothermal energy, oil/gas and slurry pipelines, in addition to a general energy technology overview report. Second year report titles are nuclear fission power, coal gasification, fluidized-bed combustion, residual oil processing, oil shale recovery, and special topics. The third year of the program, now in progress, will address a series of topics beginning with coal liquefaction.

SRI recently completed a comprehensive multiclient study of the demand/supply/price outlook for energy on a world regional, and selected country basis. The program developed in detail historical data for energy supply and demand from 1950 to the present and projected these balances to the year 2000. Factors such as energy conservation, environmental concerns, and political changes affecting these projections were quantified to the extent possible.

A computerized world energy model was developed embodying the demand/supply/price relationships developed during the study. This model provides an efficient tool for testing the sensitivity of the projected prices and quantities to changes in assumptions concerning the key factors.

SRI plans to continue the work as a world energy program in close consultation with the World Energy Study clients.

### Offshore Petroleum to 2000: A Business Opportunities Program

This program covers business opportunities available in the capital-intensive and rapidly changing area of offshore petroleum exploration and production. Phase I of the program addresses levels of activity by geographic area, expenditures by major items, impact of governmental policies, technology improvements, and timing of opportunities. Phase II in the second year of the program will include five or more in-depth analyses of areas of technology improvement and business opportunity.

The Program is designed to answer such questions as:

- How good is the offshore business?
- Where are the opportunities?
- How will changing technology, economics, environmental and political forces impact activity and investments?
- When and where will the opportunities develop?

### SYNTHETIC FUELS PROGRAM: A Critical Analysis of the Potential for Commercialization in North America

This continuing multiclient program is concerned with the commercial production of liquid and gaseous fuels derived from coal, oil shale, and tar sands. The program, which is now sponsored by nearly 50 energy-oriented organizations, covers many complex factors involved in the commercialization of synthetic fuels, such as:

- Markets and logistics
- Economics — prices, costs, investments, and their inter-relationships
- Status of solid fossil fuel conversion and mining technology
- Resource and water availability
- Environmental considerations
- Political factors

The SRI Synthetic Fuels Program, which is just starting its second year, is a continuing objective assessment of the development of a synthetic fuels industry.

### A FEW OF THE CENTER'S CURRENT OR RECENTLY COMPLETED ANALYSES



Geothermal Energy Studies

The Energy Center has performed a number of studies evaluating geothermal energy resources for private clients and for government agencies. These studies range in scope from evaluating the prospects for geothermal resources in a specific region, to the worldwide prospects for geothermal resources. The studies include technoeconomic analysis and consider in detail topics such as electricity growth rates, the cost of resource production, the costs of competitive energy sources, and marketability of geothermal energy. A multiclient study was recently initiated to evaluate the prospects for geothermal energy in Nevada, Idaho, Utah, and New Mexico.

### Opportunities for Low- and Intermediate-Btu Gas from Coal in Selected Industrial Markets

This study, sponsored by the U.S. Department of Energy (DOE) determined the penetration of coal gasification into the fuel gas market to the year 2000. The study identified groups of potentially large users in each of five regions of the United States. The work included detailed analyses of energy economics and fuel selection decision-making in three key industries: petroleum refining, basic steel, and chemicals. This work was continued to determine the market potential for fuel gas derived from the underground gasification of western coal. The prospects for substantial export of electricity from the eleven Western state market region were evaluated.

### The Effect of Competitive Energy Prices on Gas Utilities

Rising interstate natural gas prices and greater dependence on higher-cost supplementary sources are of increasing concern to gas utilities. Potential losses of gas markets of competitive fuels were determined using a refinement of a methodology developed initially for SRI's study of increases in Canadian border prices to several gas distributing utilities in the Pacific Northwest.

### Regional Natural Gas Demand and Supply

This study for the LNG subsidiaries of two major California gas utilities projected natural gas demand in South-Central Alaska. Natural gas supplies to meet that demand were identified and forecast. The primary objective of the study was to determine the impact on the local demand/supply balance by a planned LNG project that would ship Cook Inlet gas to California.

### Biomass Energy Analysis

SRI has performed several studies of the potential supply and economics of biomass fuels. SRI is now under contract to the U.S. DOE to determine which fuels from biomass are most likely to make significant penetration into the competitive fuels market. The analysis includes forecasting biomass availability and price; describing and analyzing potential biomass conversion technologies; and comparing biomass fuels with other energy options.

### Solar Energy Studies

SRI has performed numerous solar energy studies for a variety of commercial and government clients. For example, SRI worked with the Solar Working Group of DOE to perform a comprehensive evaluation of DOE's solar energy program. This evaluation was based upon several key factors including potential solar energy contribution, economic attractiveness, environmental considerations, and international market opportunities. Heating and cooling of buildings, industrial and agricultural process heat, wind, ocean thermal energy conversion, photovoltaics, thermal power, and biomass were all addressed. The study was widely acclaimed for playing a major role in shaping the national R&D program for the principal solar technologies.

### Energy Planning Assistance

SRI has provided cost-benefit evaluations and forecasting studies of technical developments to research and planning organizations (EPRI and GRI, for example). Major analyses have been performed for the U.S. government in solar, biomass, and fossil fuel areas to assist planners in their allocation of research and development resources.

Major companies have used SRI energy consulting services in reaching decisions regarding acquisitions, expansions, and technical developments. SRI assistance has ranged from preliminary advice to detailed analyses of major corporate activities.

### Coal Evaluation Studies

During the past few years, the Energy Center has carried out several studies for private clients examining the many factors that determine the value of a particular coal deposit. The most important factors that have been addressed in recent work include:

- Competitive coal reserves
- The economics of coal production
- Detailed projections of coal demand by type of use
- Regional production forecasts through 1985
- The capability of the transportation system to move the coal to markets
- The economics and reliability of flue gas desulfurization technology.

### Petroleum Refining Studies

The Energy Center frequently performs studies that involve the technology and economics of petroleum refining. Recent studies range from a market study of petroleum refining catalysts to a feasibility study of an export refinery in Scotland. The studies frequently combine analyses of refinery economics with analyses of demand, supply, and price of petroleum products. Refinery economics are analyzed with the help of the SRI Petroleum Refining LP Model.

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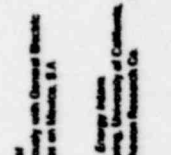
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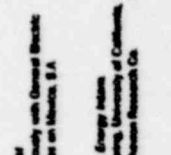
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PROVINCIAL DEPARTMENT



## SRI INTERNATIONAL

### QUALIFICATIONS IN THE UTILITY INDUSTRIES

- Nuclear Power Business Strategy

This industry has experienced a broad range of external impacts due to federal and state regulation and licensing, utility financing difficulties, strong competition, and extreme price escalation in labor and materials. These conditions have necessitated a reexamination of the nuclear supplier's research, development, and marketing strategies. Decision analysis methodology was used to provide an evaluation of the critical relationships in the business in a language clear to all the stakeholders, and to assess the impact of the many uncertainties on the risks of pursuing specific business strategies in both the short and long term.

- Nuclear Power Generation Program Policy for Mexico

The immediate decision facing the Federal Electricity Commission of the Mexican government was a choice between a call for bids on a nuclear plant or a commitment that the next major increment of capacity added to the Mexican electric system would use petroleum fuel. This decision was seen as representative of a larger policy decision context: how the capacity expansion planning of the Mexican electric power system should be carried out to best achieve a mixture of economic, social, political, and environmental goals. This project demonstrated how a decision analysis framework could be used to assess economic and social consequences in analyzing policy alternatives.

A working group from SRI combined the methodology of decision analysis with the expertise and value judgments of those most knowledgeable about the decision--in this case, representatives of the Mexican Federal Electricity Commission and other involved agencies of the Mexican government. Factors such as the effect on Mexico's international balance of payments, dependence on foreign fuel supply, pollution costs, and employment benefits were explicitly assessed and included in the planning model. The project led to Mexico's procurement of its first nuclear electrical installation, and the commission is still using the planning model.

- Electrical Power System Expansion

A project conducted for the Kingdom of Saudi Arabia developed a comprehensive, quantitative basis for electricity system expansion. The project developed alternative strategies in terms of the social and economic benefits to the Kingdom of Saudi Arabia. Included in these issues were: population and industry served, national economic structure, system technical variables, and national manpower issues. The study



served as the five-year plan for electrical systems of the Kingdom.

- Continuation Versus Divestiture of Company Operations

This project assisted a medium-sized company in deciding whether to continue or liquidate its operations. The Swedish study revealed that the basic problem lay with future markets and with the overall system of facilities and production philosophy, not with simple questions of operating efficiency, as originally expected. The result was the creation of new and more attractive alternatives involving divestiture of some facilities and certain product lines, as well as the reorganization of other product lines, and the improvement of operating efficiency.

- Divestiture Study

Alternative methods of divesting of an unprofitable franchise operation were generated for a Fortune 500 company. This included sale to a third party, sale to a group of franchisees, bankrupting the subsidiary, and closing it down. Because a number of these options were likely to result in legal action against the parent company, the analysis integrated the potential legal consequences with the expected financial consequences of each alternative to determine the best overall course of action.

- Strategic Planning Validation System

SRI developed a system for a large energy company to improve the company's ability to compare results of its diverse subsidiaries. Prospects for the future were explored for each subsidiary in its own field or industry by examining the impacts of competition, the forces within its own industry, and the world political or economic environment. The system is an ongoing one, using internal operational viewpoints as a basis for validating the elements of the strategic plan for a business unit; it permits the valuation of the output of the plan relative to the concerns of the total corporation. The resulting system not only was useful for reviewing an existing subsidiary but is also adaptable to the analysis of a proposed acquisition or as a means for judging the future of an industry.

- Evaluation and Communication Methodology for Dual-Purpose Power Plant Siting Decisions

The Stockholm Energy Board (SEB) intends to add to its existing system further dual-purpose electric and heating plants for which the source of energy could be either fossil fuel or nuclear fuel. This project developed a decision analysis approach for selection of the best energy production alternatives that balance economic, social, and environmental impacts, including quantitative comparison of such disparate outcomes as hydrocarbon



pollution, accidental and operating radioactive emissions, capital and operating expense, system reliability, balance of payments, oil spills, and fossil fuel availability.

In addition to the requirement of an overall comparative methodology, this problem is complicated by the number of parties involved in the decision-making process. Although energy supply is the responsibility of the SEB, both the Swedish Parliament (through national policy) and the local community at the plant site (through veto power) play major roles in the approval process. Thus, the methodology addresses the energy production decision from several points of view and is providing a basis for clear communication among long term fuel supply strategy for certain existing and future power plants. These studies focused on examining the whole fuel cycle for these plants, from resource base and mine operations through the power plants and the impact of their reliability on the total cost of power.

- A Natural Gas Utility's Introduction of a New Technology

Working with American Natural Gas, SRI developed an investment strategy for introduction of a new natural gas supply technology--coal gasification. The project required the analysis of several supply alternatives in conjunction with coal gasification, since no single source could satisfy all the company's expected requirements. The results of the analysis proved to be very sensitive to government actions and to technological uncertainties concerning efficiencies, operations costs, and construction time.

- Assistance to California Energy Resources Conservation and Development Commission in Planning Capacity Expansion of the California Electrical System

The Decision Analysis Group has worked with the California Energy Resources Conservation and Development Commission in developing concepts and methodology for planning capacity expansion of the electric power system within the State of California. An overview of the capacity expansion decision has been developed, and a series of analytical models of electric energy supply, demand, and outage have been constructed to demonstrate the decision analytic planning methodology. In the course of this project, the SRI staff held extensive discussions with the CERCDC commissioners and staff, and contributed extensively to the electric energy section of CERCDC's Biennial Report to the Governor.

- A Long Range Fuel Supply Strategy for a Utility

From late 1976 through mid-1977, several decision analyses were conducted to assist Pennsylvania Power and Light develop a corporate long term fuel

supply strategy for certain existing and future power plants. These studies focused on examining the whole fuel cycle for these plants, from resource base and mine operations through the power plants and the impact of their reliability on the total cost of power.

- **Markets for Electric Power**

Special circumstances enable Alaska Electric Light and Power Company now to purchase power at an attractive rate. To maintain this rate and its advantages to its customers, the utility must quickly increase its current sales without limiting potential for future growth in its Juneau, Alaska, service territory. SRI analyzed the potential markets for electric power in this unique community and recommended a strategy for increasing electric power use.

- **Conceptual Designs of Fuel Cells**

SRI is assisting a major U.S. corporation and DOE in developing conceptual designs of fuel cells that will convert coal directly into electricity. The estimated construction and operating costs of a power plant using these cells will be compared with alternative means of using coal for electricity generation. Research support that should be given to coal-air fuel cells will depend upon these economic comparisons and our identifications of technological problems associated with this type of fuel cell.

- **Fuel and Energy Price Forecasts**

This recent study for the Electric Power Research Institute projected long-term prices of fuels used for electric power generation in the United States by region for three energy demand assumptions. Prices of fuels competing with electric power were also forecast by end use. The SRI National Energy Model was used, and sensitivities of the price forecasts were measured.

- **Electric Power from High-Sulfur Fuels by Low-Btu Gas/Combined-Cycle Systems**

This program, supported by 30 international companies, examined the technical and economic feasibility of advanced power generation systems based on the use of low-Btu gas from coal and high-sulfur oils. The study included a detailed comparison of the various gasification processes as well as an evaluation of the potential of using this new fuel gas as a supplemental source for industrial fuel.

- Florida Sulfur Oxides Study

In this single-client study, economics and cost/benefit analyses were developed for use in setting ambient air sulfur oxides regulations for the state of Florida. The economics and commercial availability of flue gas desulfurization as applied to both coal and oil-burning power plants are emphasized. The study also includes an assessment of the potential for intermittent controls and projections of fuel supplies, demands, and costs in Florida.

- Costs of Fuels, Labor, and Interest for Alternative Methods of Electricity Generation

This study was done on behalf of federal and provincial governments of Canada to assess the social and economic feasibility of the production of electricity using Bay of Fundy tidal energy. The economics of tidal power were compared with alternative methods of electric power generation.

- U.S. Markets for Electrical Equipment and the Role of Imports

The nature and size of the market for selected items of electrical equipment in the United States were determined in this study for a Swedish corporation. The marketing and distribution channels to major industries were described. Opportunities in selected areas were identified and assessed.

- Electric Power Plant Engineer/Constructors and Acquisition Candidates

In this study for a large diversified manufacturing company, SRI worked with the client to identify key criteria for evaluating electric power plant engineer/constructors as acquisition candidates. SRI's evaluation included general industry characteristics as well as each company's organization, ownership, capabilities, experience, and domestic and international prospects. An important factor in developing the final recommendations was a series of interviews with the utility clients of these firms.

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**BCG**

SPECIALIZES IN CORPORATE STRATEGY

**The  
Boston Consulting Group**

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consulting  
from the  
client's  
perspective

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Boston  
Consulting  
Group**

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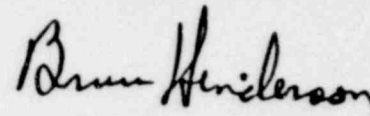
introduction to BCG concepts for their management groups. These cost about the same amount in total, but permit the client to expose a broader group in his company than we can afford to at our normal multicompany conference series.

POOR ORIGINAL

## PREFACE

*Consulting from the Client's Perspective* is intended to answer as many questions as we can about the use of management consultants. We hope this booklet contributes to your ability to choose the best consultant for the purpose and to obtain the optimum results from the assignment.

*The Boston Consulting Group from the Client's Perspective* has been prepared to tell a potential client the essential background facts about BCG.



Bruce D. Henderson  
President  
The Boston Consulting Group, Inc.



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#### ABOUT OUR CONFERENCES

Since 1964, The Boston Consulting Group has conducted several hundred conferences on corporate strategy for officers and directors of major companies in the United States, the United Kingdom, France, Italy, Switzerland, Japan and Germany.

These conferences are primarily for the purpose of acquainting potential clients with our philosophy and approach. We try to invite only those who are in a position to make the kind of policy decisions which we discuss or to hire a consultant to help them.

- The conference invitations are all personal and to individuals.
- Invitations for each conference are sent to corporate officers with similar responsibilities as far as possible. For example, for ten years we have conducted an annual conference for chief executives to which only presidents and chairmen of major companies are invited.
- Conferences are kept small to facilitate discussion. About twenty-five participants is the preferred size.

It is with real regret that we find ourselves unable to invite all who would like to attend our conferences. We would enjoy having all who wish to attend if it were practical for us. However, we are just not equipped to make these conferences open to the public. We do welcome suggestions with respect to senior executives of major companies who would like to be invited.

We have arranged similar conferences for clients and active potential clients as part of an

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## TO USE BCG

Call or write, preferably directly to the President of The Boston Consulting Group (Bruce D. Henderson). Describe the general area of interest so that appropriate staff can be identified.

- Arrange an interview with the BCG staff member who is designated to work with you. About two hours to half a day should be set aside for exploring and discussing the problem in some depth. This visit will cost you nothing unless you commission the projected study.
- If possible, allow sufficient time for the BCG staff member to outline a proposal for your review before he leaves. This permits you to have the proposal modified as you wish if there is any doubt about the understanding of objectives or approach.
- Even if the proposal is exactly as you want it, ask for a confirmation in writing. Perceptions of problems always change as they move toward solution. The proposal is primarily a record of mutual expectations.
- After the work starts, plan on regular informal discussions. Most policy questions involve a shift in perception and values. This is a learning process, not a sudden insight. Think your way through the problem with your consultant.
- Do not hesitate to change the objectives of the study whenever the developing perspective makes this worthwhile. This should be recorded by an amendment to the proposal, of course, if it substantially changes the scope of the work.

Use a consultant like high level corporate staff, as you would your outside law counsel.

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*Monthly Cost and Duration Approximations* are common for major new activities with established clients. Such arrangements are particularly suitable where the major portion of the task is conceptual in nature and requires extensive problem formulation and analysis.

As *Incurred* charges are essentially open account arrangements with established clients who call upon us as and when needed in the same manner that they would their attorney or accountant. These are quite common for the portion of our practice which is with clients for whom we have worked extensively.

**CONSULTING**  
**from the Client's Perspective**

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range from 10 to 20 percent of professional charges. Even when substantial overseas travel is required, these charges rarely exceed 25 percent by any significant margin.

#### **Sales Cost**

The Boston Consulting Group employs no sales representatives and pays no fees or sales charges to anyone, even internally. It is our conviction that only the lead professional can assume responsibility for problem definition and discuss it in depth with the potential client. For that reason, we consider sales representation to be misleading and unprofessional as well as unnecessary and costly. However, if a client project is authorized, the time spent in defining the project and writing the proposal will be included in the professional charges since it becomes an integral part of the problem resolution.

#### **Financial Arrangements**

Projects will be undertaken under any of several kinds of arrangements.

*Fixed fees* may be charged where the project is small and the required work can be accurately determined by us in advance.

*Not to Exceed* charges are based upon professional time actually spent up to the "not-to-exceed" limit. Such arrangements are most suitable where the assignment itself can be clearly described but the amount of work required cannot be fully determined.

*Phase Contracts* are used when the task is long and complex and each phase can be defined only when the preceding phase is completed. Implementation assistance is almost always treated as a separate phase.

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### Timing

Duration of projects may be several times as long as the time required to perform the work. This is necessary to efficiently mesh BCG staff schedules with each other as well as with management personnel of clients. The starting time and approximate duration of projects are usually identified in the original proposal.

### Professional Charges

Professional charges are based upon the agreement when the project is begun or on costs as incurred.

The amount is a function of the staff members used and their compensation levels. Under no circumstances are charges based upon contingencies or brokerage fees.

Professional charges are stated as a single sum for professional services rendered. As a matter of policy, staff per diems and times are not revealed to clients. Since choice of staff assigned and time spent are BCG responsibilities, no exceptions are made to this policy. In the event of questions, we invite the client to have his accountant certify that we have used our customary rates and practices in establishing client charges.

As a practical matter, we feel it is our professional obligation to provide services which are worth as much as or more than the client expected when he authorized the project.

### Expenses

Expenses incurred on behalf of the client are billed to the client in addition to professional charges. These expenses include out-of-pocket expenditures for travel, long distance phone and report production.

Under ordinary conditions these expenses

## WHY USE A MANAGEMENT CONSULTANT

Use a consultant if you want assistance in producing a change. Or use a consultant if you want to reduce uncertainty about the effects of change. All consulting assignments perform some combination of these two functions. If there is no need for any change, then there is no need for a consultant.

Anything done by an outside consultant could be done by internal staff provided these conditions are met:

- The internal staff is in a position to be objective and unbiased in their analyses and recommendations.
- The appropriate staff skills of the required order are available as and when needed.
- The internal staff is as effective and acceptable in communicating and influencing the evaluation of new or unconventional concepts.
- The internal staff has the variety of exposure to similar problems required.

For the very important, complex problems of a nonrecurring nature, these conditions can rarely be met in most companies. If they are, then it is highly probable that the company is incurring excessively high overhead cost for maintaining expensive staff on a standby basis, or using it on unworthy assignments. On the other hand, anything except the very best assistance on these major nonrecurring problems is clearly false economy.

Do not use consultants on the repetitive problems or those of a noncontroversial, noncritical or

nondifficult nature. For these kinds of problems, internal staff is quite likely to be fully effective and to be more economical.

The advantages of the outside consultant are:

- He has the opportunity to see the same class of problem in a wide variety of circumstances and conditions. Therefore, his breadth of experience can never be matched inside a firm except on repetitive problems.
- He is not subject to the assumptions and convictions every company develops about itself and its business based on past history and personalities. The outside consultant has a major advantage in objectivity because he is not an internal career employee.
- He can maintain a load factor in his use of time that the internal staff cannot maintain except on repetitive activities. Therefore, *he is more economical* as well as better equipped to handle the nonrecurring major problem.
- He can maintain objectivity as no internal career employee can when dealing with his superiors.

Use management consultants for these kinds of assignments:

*Major policy questions* where the organization must rethink its assumptions and convictions about both objectives and means. Strategy development, diversification and long range planning are typical areas.

*Politically sensitive problems* where the internal organization has personal vested interests and substantial differences in perspective or philosophy. Organization rearrangements and overhead reduction policies are characteristic of this type.

## BUSINESS POLICIES AND PRACTICES

Each consulting firm has somewhat different business practices. The Boston Consulting Group's customary forms of doing business are specifically tailored to be suitable for consulting and research on policy questions at the top management level. They are sufficiently different from those of firms doing other kinds of consulting that we set them forth in detail below.

### Staffing

The professional who defines the task and writes the proposal is expected to personally assume the major role in performing the study, presenting the conclusions and writing the report, as well as supervising any associates.

Ordinarily at least two professionals constitute a minimum project team. Three or more should be involved where practical. Experience indicates that individuals alone are not as effective in providing in-depth and objective analysis of policy questions.

### Staff Time

Staff may have several alternating and overlapping commitments of time to client projects. This is for the benefit of the client so that diverse talents of many individuals can be used when needed but only as much as needed.

### Staff Location

BCG staff are on the client premises only when necessary. Staff consultation, writing, analysis and field work will be done elsewhere if practical.

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*Fact finding analytical evaluations* where considerable research and analysis are required into complex situations ~~using~~ specialized techniques and concepts. Market evaluations, acquisition evaluations, capital budgeting analyses and international trade arrangements tend to fall into this category.

There is another kind of consulting which is often called management consulting, but it is quite different in character. It can be equally professional, but it is based on a substantially different role. This kind of consulting is a function of expertise and technique rather than analytical and conceptual ability. Typical fields of this kind are:

- Work Methods
- Factory Scheduling
- Quantitative Market Research
- Accounting Systems
- Executive Compensation Programs
- Computer Programming

This kind of service is provided very competently by specialized firms, such as accounting firms, for certain areas and by some European professional groups. They perform a different kind of service for their clients, and characteristically are able to use a different kind of personnel than management consulting organizations do. It is important not to confuse the two types of consulting, since they have quite different functions. These services provide technical expertise.

There is a way to separate these two kinds of consultants. If you are quite sure you know how to define the problem accurately, then you need an expert in the appropriate technique. If definition of the problem and the objectives are part of the problem, then you need a management consultant.

The consultant, like any source of professional assistance, is a specialized form of staff. There

can be an infinite variety of forms of staff support. There are correspondingly a very wide range of kinds and types of consulting services.

that the presentation should be made to the corporate executive committee.

At the formal presentation, the basic line of reasoning, possible financial strategies and the pros and cons of potential acquisitions were discussed. The presentation stressed the crucial nature of the marketing relationship and pointed out certain organizational changes that would be required.

In follow up sessions with the client, BCG agreed to undertake a marketing strategy study to determine the reason for Acme's slow erosion of market position.

Meanwhile, the senior staff member worked out an implementation planning schedule with the chief executive, and arranged a series of meetings between BCG staff and the corporate planning committee for the implementation phases of the diversification planning.

At the conclusion of the diversification study, a formal written report was prepared by the BCG team and submitted to the client.

#### Condensed Form of a BCG Proposal

##### Purpose of the Study

##### Problem

Background — A summary history of the company and its competitive position and performance. Also a description of present strategy and company attitudes.

Planned Approach — Interviews and planned analysis.

##### Expected Result

Staffing and Responsibility for Policy Guidance

Cost and Duration

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in the industry in which Acme competed and had demonstrated professional abilities as a project manager.

The initial visit consisted of a two-hour interview with Acme's chief executive and shorter interviews with several other Acme officers.

It became clear through these interviews that Acme executives were concerned that their industry had matured to the point where further significant growth was unlikely without diversification. In their opinion, a consultant was needed to advise them on the proper approach and techniques, and it was agreed that a proposal would be submitted by BCG.

The senior staff member prepared the proposal outlining BCG's understanding of the problem, background information, planned approach, staffing, cost and duration as well as the general terms of the agreement. The BCG officer was identified as responsible for general policy direction of the project, with the senior staff member identified as the project manager who would devote a major part of his time to the study.

After review with the BCG officer, the senior staff member sent the proposal to Acme. Two weeks later, the proposal was accepted.

The consulting team, composed of the BCG officer, the senior staff member and a junior staff member, conducted preliminary interviews of about two hours' duration with each of a dozen Acme top executives.

Through these interviews, the team members developed an insight into the company's character, resources and attitudes. During a team conference, it was concluded that although certain financial opportunities existed, the real possibilities were in certain kinds of mergers and in exploiting Acme's unusual marketing strengths.

After another staff conference, the general conclusions were outlined in a slide presentation. The BCG officer met with Acme's chief executive to review the general conclusions, and it was agreed

## HOW CONSULTANTS WORK

The basic tool of the consultant is the interview. This is true no matter how much data research and analysis may also be involved.

The interviewing process must always start with the client. There is no such thing as impersonal management consulting. The first interview is always with the member of the client organization who enters into the contract. This initial interview is a very important part of the assignment itself: this is when the first information about expectations, problem perceptions and background is obtained.

Characteristically, other members of the client management are interviewed in considerable depth. This is desirable in almost all kinds of assignments. These interviews not only provide background in depth, they also bring into focus those attitudes which are widely held throughout the client organization, and those which are individual opinions.

These interviews form the frame of reference to which all research, analysis and conclusions must be geared. If the assignment is successful, it must eventually change those perceptions. The initial client interviews provide both the starting point and the initial data on which to start construction of the desired change in concept.

These interviews with client management continue to some degree all through the assignment. Failure to do this indicates either a quite narrow assignment or inadequate communication. The only end product of a successful consulting assignment is a change in the client's perception of his problem. It is rare that the conclusions are so uncomplex, obvious and straightforward that they can be presented, understood and accepted at a single final report session. The evolution and



development of the solution is a joint learning process between client and consultant. This requires a series of discussions.

Although interviews inside and outside the client organization provide the basic material for the study, this is only a small part of the process. The private discussion of the problem concept by members of the project team is a major portion of the process. This is a reiterative process of conceptualizing, testing, reformulating and retesting if the work is true management consulting rather than technique application.

There is a characteristic pattern that most consulting assignments seem to follow. Initially the consultant has a tentative hypothesis about the solution to the assignment. As the assignment proceeds, and more and more data become available, this initial hypothesis usually becomes increasingly unsatisfactory. However, formulation and reformulation of alternative concepts gradually produce a tentative solution which does stand up under analysis and detailed checking and testing. The end result is a defensible and well supported set of conclusions based on an integrated concept.

It should be apparent that clients who try to use consultants as experts and solicit their opinions without supporting research are apt to be seriously disappointed. True management consulting requires a research and analytical effort on the part of the consultant and a parallel rethinking process by the client. This takes time and effort on both sides.

## THE BCG APPROACH

We often first meet a client when he attends a BCG conference on corporate strategy. Our introduction to his problem comes from his request to discuss "long range plans" or "diversification" or "corporate objectives."

Most of our formal client relationships start with a series of depth interviews with the corporate top management staff. These interviews and discussions bring the problems into focus. This in turn leads into a series of work assignments to investigate in more depth.

This discussion may lead to a request from the potential client for a proposal. If the proposal by BCG is accepted by the client, it becomes the agreement on a formal relationship.

### History of a Representative Assignment

The Acme Corporation's chief executive, a casual acquaintance of a BCG officer, wrote to him suggesting an appointment be set up whenever it would be convenient for the officer to visit the company headquarters in New York. The Acme chief executive had found some of the BCG publications interesting. One of his vice presidents had attended a BCG conference, and a member of the Harvard Business School faculty had mentioned BCG favorably.

An appointment was established, and it was determined that Acme's general area of interest was "diversification."

The BCG officer was accompanied to New York by a senior staff member who had been selected because he had often worked on diversification projects, had considerable interest

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charges at a reasonable level by carefully balancing our staff composition in terms of experience and cost.

It is BCG policy to have all BCG resources available to any client anywhere. Staff capability, approximate costs, and performance standards are the same regardless of location.

## HOW BEST TO USE A CONSULTANT

### Selecting a Consultant

The way to select a consultant is to talk to the person who will be the active project leader. His insight, his task force management and his judgment will be the most important elements in determining the success of the assignment. Be sure that the person you talk to will in fact occupy that role. Ask him to be specific about it.

Before this, of course, you must decide to which consultant you wish to talk. This is not easy because some of the smallest and least known consulting firms can sometimes do excellent work on the right assignment. Conversely, some of the biggest and best known can do mediocre work if misapplied.

The choice is inevitably narrowed down to a few alternatives by the general reputation of the firm. If this reputation is high in the *specific area* involved, then the tentative choice is usually quite safe. If the firm's reputation is high but general in nature, then it may still be a good choice, but you should make the consultant prove his grasp of the subject by the proposal he writes.

It is rarely wise to invite more than one consultant at a time to discuss a project, and certainly not more than two. Most reputable consultants cannot afford the investment required to make a thorough and proper proposal if the odds on acceptance are much less than fifty-fifty. Their fees are based on using their staff nearly full time which means their client development activities *must* remain a small percentage of the total time.

Most consultants are willing to send a senior member of their staff anywhere in the world at

their own expense to discuss a potential assignment. They are willing to do this because characteristically fifty percent of such visits result in client assignments. The time and expense involved in making the visit is included in the charges for the assignment. If no assignment materializes, the cost is absorbed as overhead. Marketing costs for successful consulting firms are a far smaller percentage of their revenues than the sales cost of most manufacturing firms.

The initial contact between a potential client and a potential consultant is very critical for the client. It is most important that this contact be directed to the consulting firm itself and not to some individual in the firm. It is even more important that the client's perception of the problem be outlined in as much detail as practical by phone or letter at the time of the initial request. This contact will determine who is chosen by the consulting firm as the most appropriate person to visit the client and probably to head the assignment. Nothing is more critical.

It is possible for a consultant to send a senior officer to see the potential client and then send the appropriate project manager to follow up based on the initial discussion. In practice this is awkward, expensive and rarely happens. The client himself resents going through the same story in detail all over again. It is much better to provide enough information to obtain the right person the first time.

As the consultant seems fully qualified and a serious candidate, then he should be asked to prepare a proposal.

#### Identifying the Problem

Perhaps the most telling test of a true professional management consultant is his ability to define a client's problem and construct an appropriate work program for dealing with it. It is rare

#### BCG

The Boston Consulting Group is a corporation. All of the shares of the company are currently held in the BCG Employee Stock Ownership Plan. Ownership in the company for all employees is in proportion to length of service and compensation. BCG operates from six locations:

Boston	Munich
Menlo Park	Paris
London	Tokyo

They operate as a single organization for all professional purposes. Projects are staffed and managed as if the entire Boston Consulting Group were a single entity.

As a consulting firm, BCG has specialized in strategy. As far as we know, we are the only international firm which has done this. Strategy problems tend to focus on the future plans of the organization and its competitive environment, rather than on current operating techniques.

The Boston Consulting Group was formed in 1963. The firm as a whole now has approximately 200 professionals.

The typical BCG staff member graduated from one of the leading American graduate schools of business administration with a superior record of academic performance. Most of them had several years of experience before going to business school.

A substantial proportion of the staff received technical degrees from their undergraduate schools. Another significant proportion has doctoral degrees. BCG has made a major effort to identify and hire individuals with unusual talent who justify unusually high compensation. However, we are able to keep and maintain our client

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that a truly successful consulting assignment does not result in a substantial change in the client's perception of the problem itself.

It is not often that the potential client will be able to describe the problem with precision. The client's expectations are usually stated in terms of general objectives and abstracts. The first task of the consultant is to translate these into an appropriate approach and work program. It must also seem appropriate to the client.

This problem identification is very difficult. The client's ability to define his own problem is usually limited. The client's perception of the problem is typically based on assumptions, experience and concepts which are ordinarily widely shared in the organization. The difficulty in finding a satisfactory solution within the organization is often caused by this common perception. The task of the consultant is to examine the assumptions, bring to bear different experiences and develop new concepts which will be both more useful and fully acceptable to the client organization.

The tentative problem identification by the consultant may not seem fully appropriate to the potential client. However, the work program which is proposed must be satisfying to the client. If the proper work program is put into effect, then the end result of the assignment will be an eventual agreement between the client and the consultant with respect to the problem itself and the alternative means of dealing with the problem. It should be obvious that the entire client-consultant interaction is part of a process of redefinition, rethinking and revision of perspectives.

#### The Proposal

The most satisfactory proposal is one that has been outlined in rough form and agreed to at the time of the initial discussion. If this is discussed with the client at that time, modification to meet the client's expectations is easy. The formal

proposal later becomes in effect a confirmation of this understanding.

Regardless of anything else, the client should always ask for the proposal to be modified and rewritten until it is fully satisfactory. There is no reason why a proposal must be accepted as originally written.

The proposal serves some very important functions which are not necessarily apparent.

- It is a contract to the extent that it states the intentions of both parties.
- It is a record of the perspective and attitude at the beginning of the assignment. This will certainly change during the assignment.
- It is a reminder of both the expectations of and the limitations on the scope of the assignment.
- It is a plan of action.
- It is a budget.
- It is an index of professional ability.

A good proposal characteristically has the following elements:

- A statement of the present understanding of the problem.
- Background.
- The planned approach to the problem.
- Staffing and responsibility for policy guidance.
- Cost and duration.

The content of the proposal is perhaps the best indication available of the professional ability of the consultant.

**THE BOSTON CONSULTING GROUP**  
**from the Client's Perspective**

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The cost of a professional assignment is inevitably a function of the time devoted to the project and the basic salary of the particular staff employed. On the complex assignment involving policy questions there is a wide range of choice in both caliber of personnel and the time devoted to problem solution. Therefore, the budget itself represents a judgment of the appropriate amount of effort to devote. The determination of the appropriate budget is itself a matter of professional judgment.

Characteristically, the cost of the policy management consulting assignment should not be established rigidly even though the cost must be estimated. The client should feel confident that the consultant will provide services which are of a value consistent with the cost. If he does not, he should not authorize the assignment regardless of estimated cost.

### The End Result

If all expectations are met, the consulting assignment results in the removal of uncertainty. Usually it also results in a conviction that some change is needed. This conviction is based partially on new facts but primarily on a modified concept of the problem and the opportunity.

The change itself produces a new problem. This is the problem of implementation.

### Implementation

The consultant is in a uniquely favorable situation to aid implementation. He is already familiar with objectives, attitudes, personnel and obstacles. The consultant should be used to assist with implementation as far as practical.

There are limits on the consultant's role in implementation which should be observed. As implementation proceeds, it becomes more and more detailed and concerned with elements that properly must be assumed by those in the organization concerned with day to day operations.

Consultants are probably best used in planning implementation, then subsequently auditing implementation effectiveness, rather than in the implementation itself.

The consultant's role in implementation is fundamentally that of teacher, not administrator.

### The Continuing Client-Consultant Relationship

After completing a substantial assignment, a consultant is in a unique position. He knows the organization, its people and its problems. Yet, he is still an outsider with the objectivity that this permits. This is a valuable resource for the client and should be preserved.

Future major assignments should be outlined by a proposal and a clear understanding of objec-

tives. Between such assignments the relationship should be maintained on a "time-as-required" basis.

### Economics of Consulting

Costs and compensation for consultants seem to be a mystery to most people, including many clients. The fundamentals are not complex.

Below the partner or officer level, compensation is roughly comparable with that of people in industry of equivalent ability, experience and training. Average compensation is higher than it is in industry because there is little place in consulting except for the very able. Industry can use many kinds of people.

At the partner/officer level, the compensation may or may not be substantially higher than industrial commercial salaries because the compensation also includes the risk and rewards of the owner-entrepreneur as well as the pay as an employee.

The overhead costs of a consulting operation are quite comparable to the overhead costs of comparable people in an industrial environment or even lower.

Overall, the costs to clients are not greatly different from what the costs would be for the same person on the client's own payroll. The great advantage to the client is in obtaining just the amount and kind of talent needed for just the time it is required.

A well developed consulting firm can provide the client with far greater value per unit of cost than the individual members could provide separately. This is a function of staff proportions and their mix on a specific assignment. The most economical combination uses experience and analytical capability in carefully weighed proportions.

Consulting organizations must provide clients with superior staff capabilities at more reasonable

cost than they can provide them for themselves. First of all, this means superior talent. However, this requires that high cost talent be used in just the correct proportions. A well balanced consulting firm can provide uncommonly high talent which is quite expensive. Yet, at the same time, the cost to the client can be moderate for the work done. In fact, for many consulting assignments, it would be impractical or impossible for the client to provide internal staff of equivalent capability at equal cost.

### Executive Time Costs vs. Consulting Charges

Consultants are expensive on a per diem basis. They must be able to provide the very highest level of business talent as and when needed. However, these costs can only be evaluated by comparison with the time equivalent of the executive whose scope is enlarged.

The actual days available to a chief executive for policy and strategy development are quite limited. Yet, this is the critical portion of his responsibility. It is almost impossible to put a price on the value of these basic policy decisions.

### Costs and the Consulting Relationship

A sharp distinction should be made between consultation on policy questions and consultation on facts or techniques.

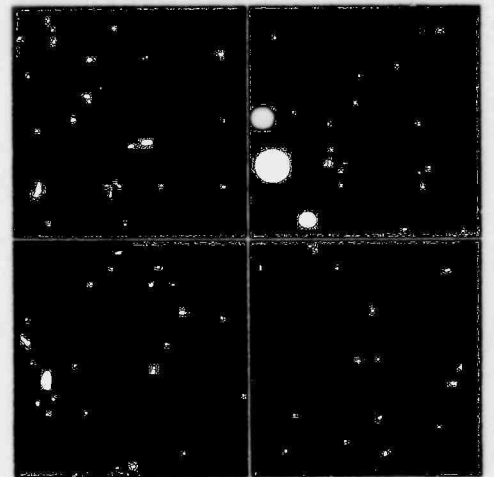
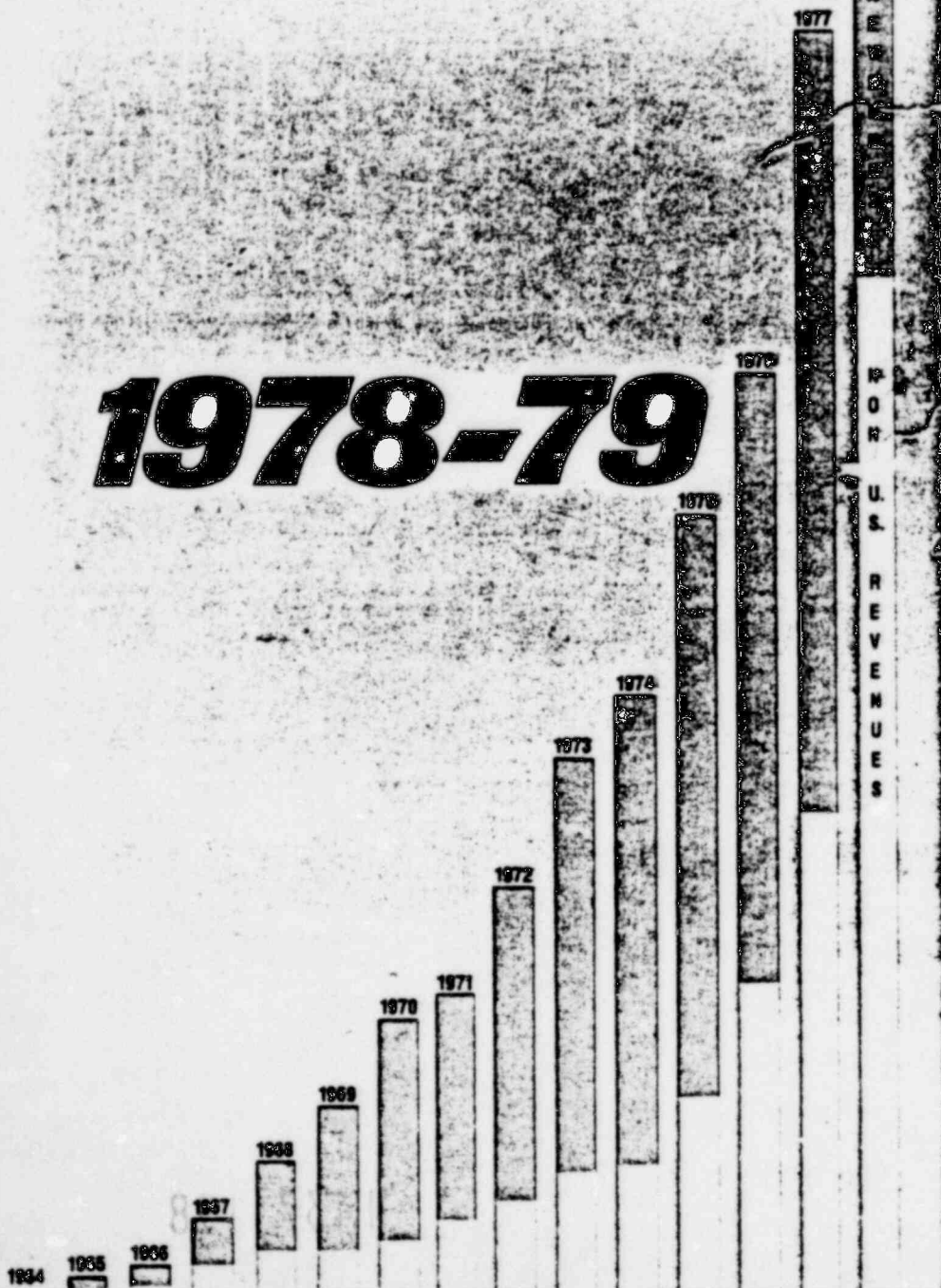
Policy consulting is by definition an assignment which is of uncertain dimensions. The results themselves are necessarily uncertain. The basic expectation from the consultant is fundamentally that he will provide his best effort and professional judgment.

Under these circumstances the critical element is the professional ability of the lead consultant. He should be expected to define the assignment and demonstrate his grasp of the problem and the approach to its solution.

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**1978-79**



**The  
Boston  
Consulting  
Group**

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# The President's Letter

June 30, 1979

## To Our Clients and Shareholders:

The year 1978 was unique.

Our rate of revenue growth increased for the fourth consecutive year. Revenues in 1978 were 50 percent above those of 1977 which were in turn 37 percent above those of the previous year.

Return on shareholder investment increased for the sixth consecutive year to 25 percent.

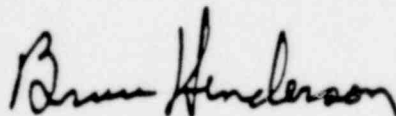
Approximately 80 percent of our employment offers were accepted. Virtually every professional who left our firm for any reason was able to accelerate his career development and upgrade his compensation substantially.

All of our six offices shared in this prosperity. The European business grew nearly 90 percent, the Japanese business 70 percent and the USA business over 40 percent. The non-USA business was approximately half of our revenue for the year.

This kind of growth will not continue. Every management consulting firm seemed to have had a year of extraordinary prosperity in 1978. Either we are near the top of a boom, or we have entered into a new era of demand for consulting services. Perhaps it is some of both.

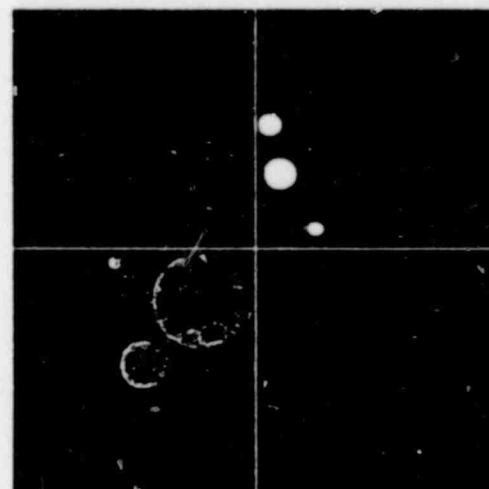
In May 1979 we opened a new office in Chicago. Otherwise in 1979 we intend to reduce our recruiting offers, tighten up our professional staff and consolidate our growth.

The year 1978 marked our fifteenth anniversary. We have come a long way from one man and a desk, with no clients, no staff and no secretary. We are grateful for the support and continued confidence of our clients. We will try to continue to justify this by continuing to upgrade the value to cost ratio of the services we provide.



Bruce D. Henderson  
President

**POOR ORIGINAL**



**The  
Boston  
Consulting  
Group**

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# The POOR ORIGINAL Year...

BCG benefited in 1978 from a relatively prosperous year in each country in which we have offices. This favorable economic climate cannot be expected to continue indefinitely. The world's major economies are so interlocked that they tend to move together. More than three years of unbroken economic growth is not common.

	REAL GNP GROWTH				
	USA	JAPAN	GERMANY	FRANCE	UK
1973	5.0	9.6	4.9	5.3	7.5
1974	-1.4	-1.3	.4	2.8	-1.5
1975	-1.13	2.4*	-2.5	-0.3	-2.6
1976	5.7	6.4	5.7	5.7	3.4
1977	4.9	5.2	2.4	2.3	-0.7
1978 (est.)	4.0	5.5	3.4	1.5	3.0

In the USA there is some evidence of a repetitive inflation cycle of stimulation/growth/accelerating inflation/recession/pause in inflation. This is a sobering prospect if the inflation continues to escalate and the resulting recession becomes progressively more severe.

GROWTH RATE OF DEFLATED					
GNP (1967=100)					
1967	2.7	1971	2.98	1975	1.27
1968	4.4	1972	5.74	1976	5.71
1969	4.9	1973	5.46	1977	4.85
1970	.33	1974	1.39	1978	4.0
				1979	?

INFLATION					
1967	2.8	1971	5.2	1975	9.6
1968	4.5	1972	4.1	1976	5.2
1969	5.1	1973	5.9	1977	5.9
1970	5.3	1974	9.6	1978	8.5 (est.)

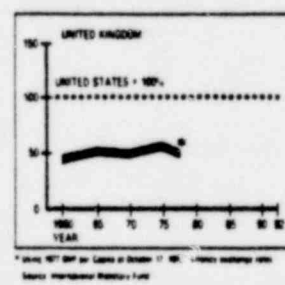
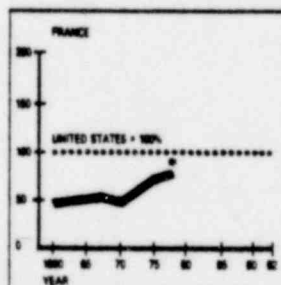
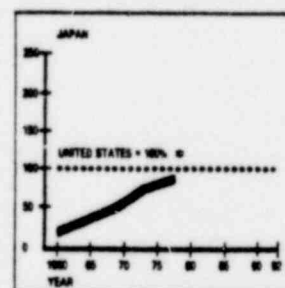
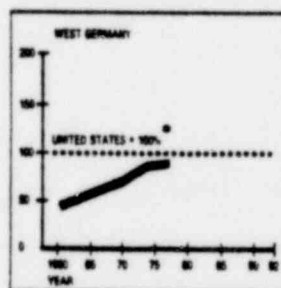
BCG also benefited in 1978 from the shift in the value of the dollar.

	Yen	DM	FF	£
Jan. 78	.005211	.551	.2405	2.0435
Jan. 77	.004174	.4170	.2128	1.9200
change vs. dollar	+24.8%	+32.1%	+13%	+6.4%

Inflation, exchange rate shifts and three consecutive years of prosperity all contributed to extremely favorable reported financial performance. But even when all of these are discounted, we believe 1978 was a year of significant progress for BCG.

## ... and The Economy

The following charts show the rise of gross national product per capita in other industrial nations with respect to the United States (the horizontal line in each chart). The curves are based on average currency exchange rates for each year. The asterisk (\*) shows the effect of the recent slump of the dollar, applied to the data for 1977. Germany and Japan have surpassed us, at the present rates of exchange.



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Our standard of living depends on our productivity or, on output per worker. The increase in productivity of the United States has been but a fraction of that of other developed countries in the last 15 years, as shown in the chart below.

## POOR ORIGINAL

	Business Investment as a % of GNP*	Average Annual % Increase in Productivity*
Japan	32.0%	8.4%
Germany	24.8	5.5
Netherlands	23.7	6.9
France	22.8	5.7
United States	17.5	2.7

\* 15 year average 1962-77.

\* Source: Organization for Economic Cooperation and Development, U.S. Dept. of Labor, Bureau of Labor Statistics.

Japan's rate is triple the USA and France and Germany double. Productivity generally means better tools, more modern plant and automation. It means transferring people from routine tasks to higher level jobs relating to the design and production of sophisticated machinery that will do routine jobs automatically.

This takes capital, which comes from saving.

In the United States as a whole, capital investment over the last 15 years has also been the lowest of the five leading industrial countries. Furthermore, it has steadily declined since 1963, as shown below.

Table 2. United States Business Investment, 1963-1977

1	2	3	4	5	6
Average of Five years Ending In:	Real Business Investment (annual % change)	Real GNP (annual % change)	Unemployment (annual %)	Inflation (annual %)	Federal Deficit (billions)
1968	8.0%	4.8%	4.2%	2.6%	\$(4.7)
1973	3.9	3.3	5.0	5.0	(9.9)
1977	1.7	2.7	6.7	7.7	(38.2)

Source: U.S. Dept. of Labor, Bureau of Labor Statistics, U.S. Dept. of Commerce, Bureau of Economic Analysis, W.R. Grace & Co.

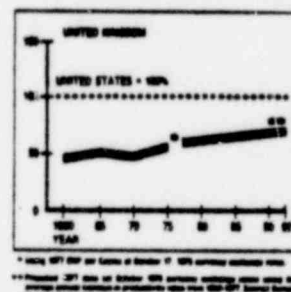
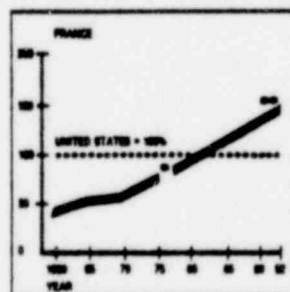
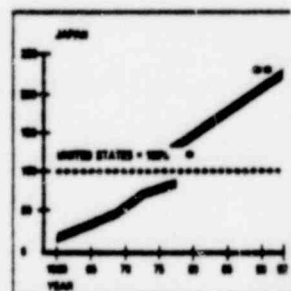
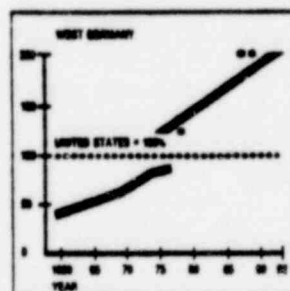
The USA was growing its investment in plant and equipment by 8 percent per year in the five years ending in 1968. However, in the five years ended in 1977 that rate had fallen to only 1.7 percent per year.

The bad effect of this declining trend in investment on growth of the GNP and on unemployment is shown in the third and fourth columns. Investment comes from savings, either of individuals or of companies.

Savings themselves should be directly exempt from income tax. It is consumption that should be taxed, not savings. When anyone saves, be he rich or poor, it benefits everyone. It seems clear that government policies of financing deficit spending with printed money cause inflation. As investment falls, growth, productivity and employment suffer, deficits rise and inflation worsens.

Inflation makes it unprofitable to save in the first place since the interest on savings is hardly enough to compensate for the loss in buying power. It is better to buy now rather than to save now and buy later. Without savings, a major source of investment dries up and productivity suffers.

If these trends were to continue, the following illustrates how America's relative standard of living would look 15 years from now.



\* Using 1977 GNP as basis of 100% in 1977. \*\* Projected 1977 GNP as basis of 100% in 1977. \*\*\* Projected 1977 GNP as basis of 100% in 1977. \*\*\*\* Projected 1977 GNP as basis of 100% in 1977. \*\*\*\*\* Projected 1977 GNP as basis of 100% in 1977.

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Germans and Japanese will be roughly twice as well off as Americans. This conclusion dramatizes the effect of long term differences in productivity gains among leading industrial countries if they were allowed to continue for another 15 years. No further changes in the value of the dollar or in population growth are assumed in these projections.

POOR ORIGINAL



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# POOR ORIGINAL

Habgood



Lienhard



von Oetinger



Phipps



Goold



## OPERATIONS REVIEW

### Growth Pattern

In the future we expect the growth of the USA and non-USA business to be approximately equal. All offices are now well above minimum critical size and of approximately equal experience and resources. Even Chicago will start up in this situation. Approximately half of our staff, half of our officers and half of our revenues are outside the USA.

To accomplish the development of our European offices, nearly 20 percent of BCG officers were involved in transatlantic transfers in 1978. We do not believe this will be needed in the future.



# POOR ORIGINAL

The Chicago office has been in the planning stage for sometime. It was overdue. A very substantial part of BCG clientele is in the mid-continent area. We have moved into temporary facilities at 200 West Monroe Street until our permanent quarters on the 33rd floor of 200 South Wacker Drive can be occupied upon building completion in 1980. Four or more BCG vice presidents will take up residence in Chicago during 1979.



de Carbonnel



Lauridsen



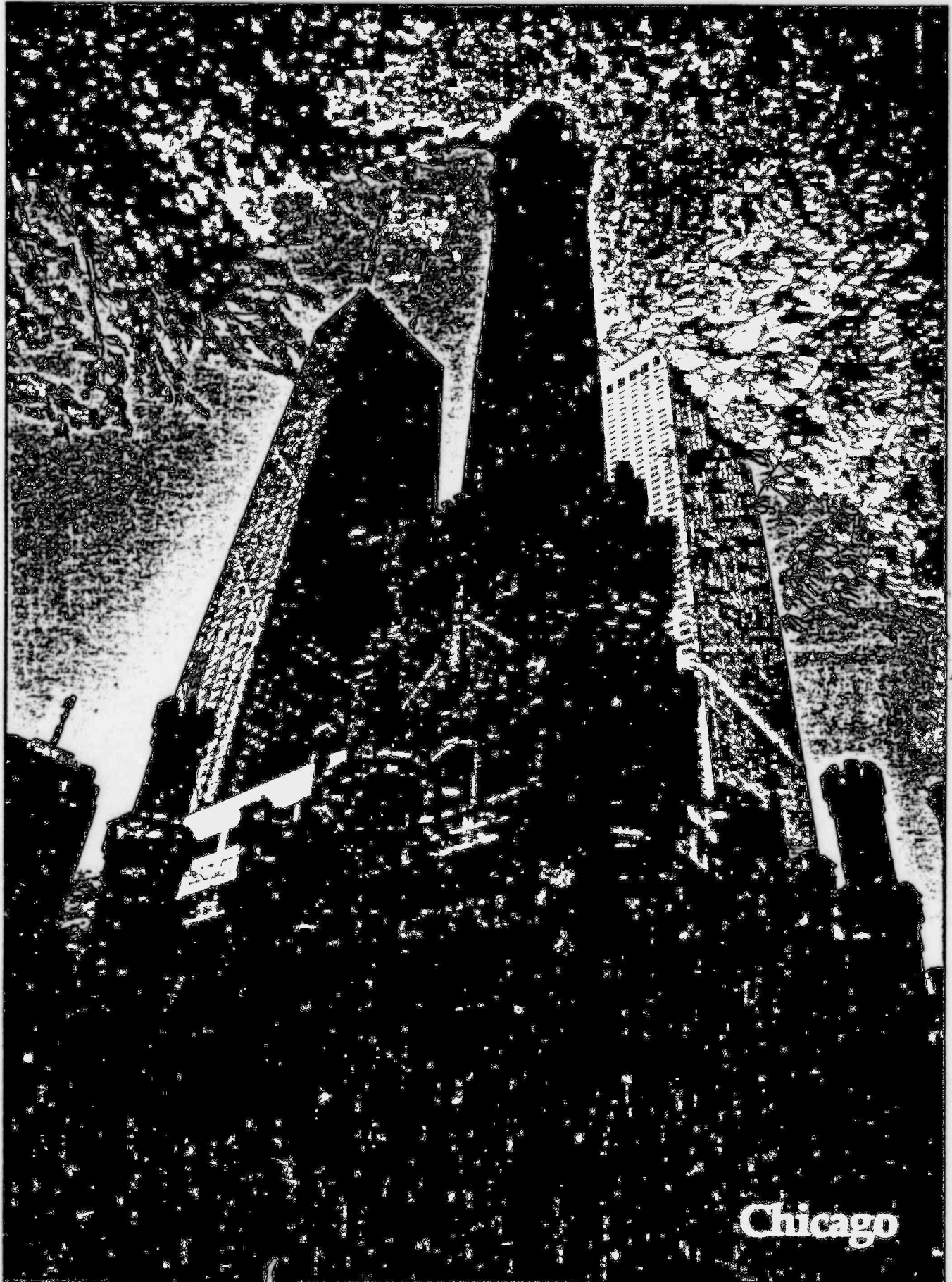
Friedel



Barnes

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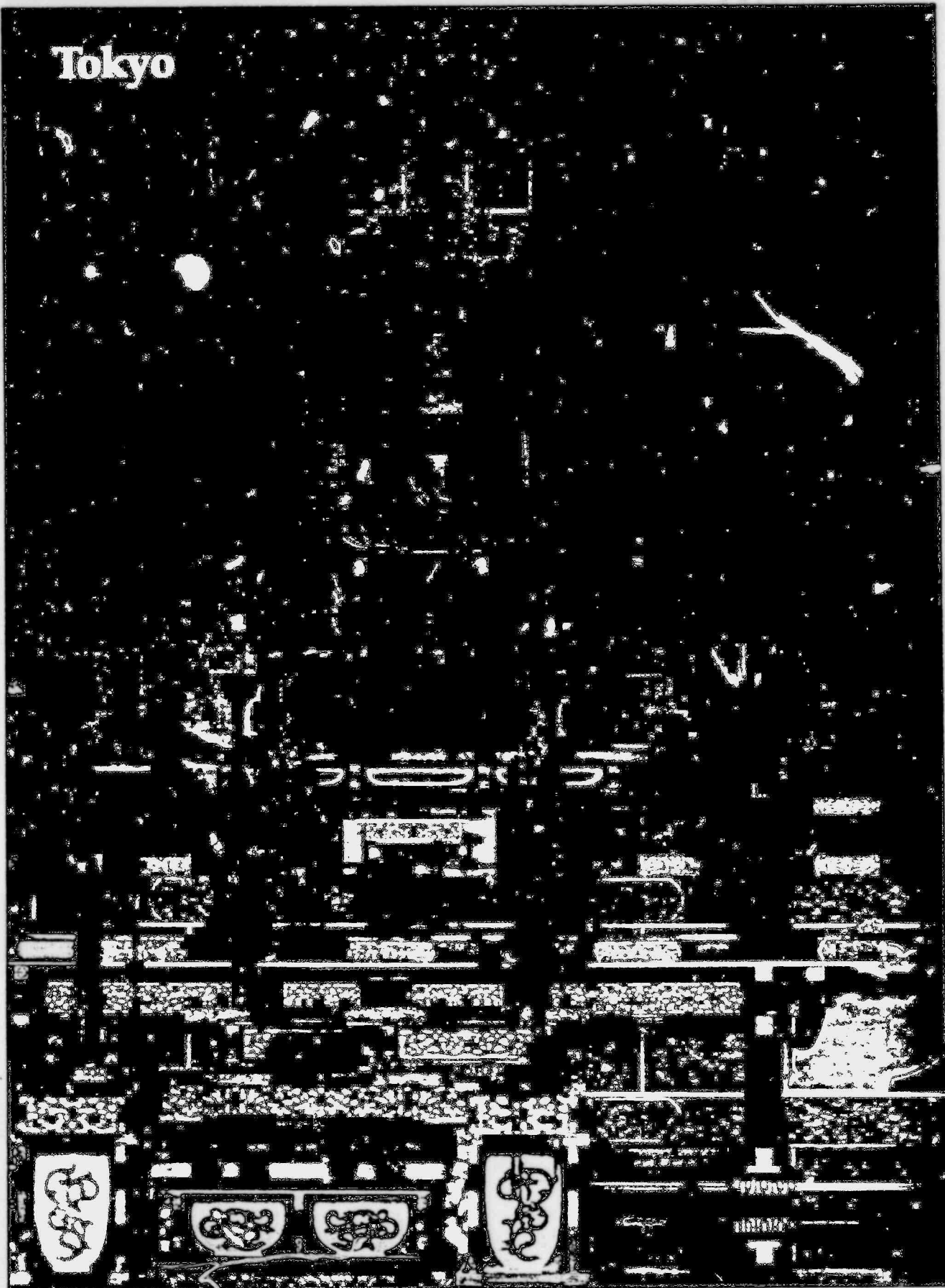
POOR ORIGINAL





POOR ORIGINAL

Tokyo



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# POOR ORIGINAL

Ching



Shimizu



Abegglen



A number of years ago the company adopted a policy of rotating the responsibility for administration of each office. The term of an administrator is typically about two years before rotation.

The following BCG officers have served or are now serving in that role:

James C. Abegglen  
D. John Barnes  
Roy M. Barbee  
Bob L. S. Ching  
John S. Clarkeson  
Jeremy G. Davis (2)  
Francois E. de Carbonnel  
James van B. Dresser (2)

Charles W. Faris  
Richard J. Hermon-Taylor (2)  
Robert E. Lienhard  
Anthony W. Miles  
Allen M. Phipps  
Norihiko Shimizu  
Seymour Tilles  
Alan J. Zakon

# POOR ORIGINAL

Our growth has required about 50 percent addition in the floor space occupied by BCG staff during the past two years. Every office location without exception has added space in the last year. In addition, the Boston office has been remodeled.



Zakon



Contas



Clarkeson



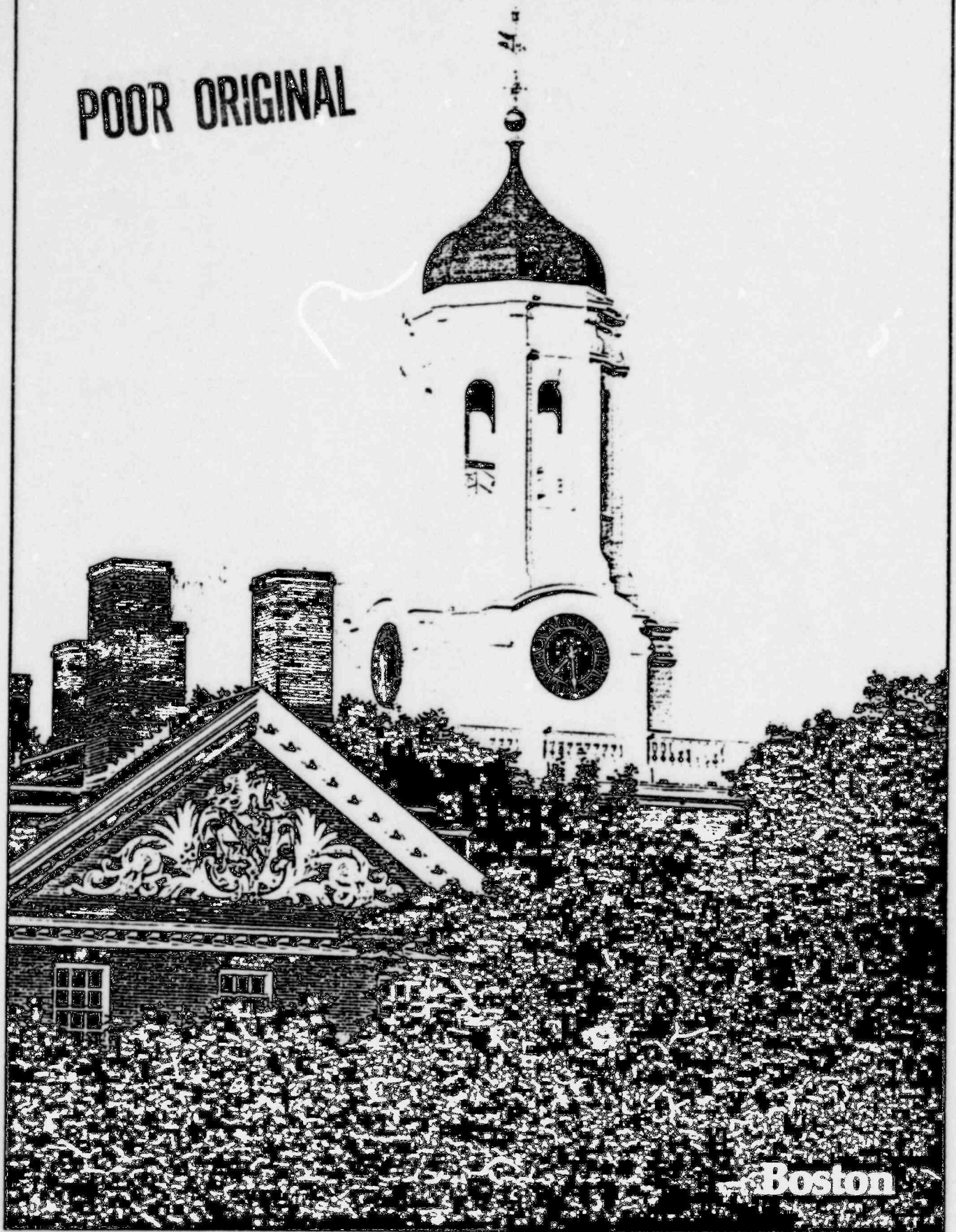
Faris



Conley

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# POOR ORIGINAL

Hermon-Taylor



Hout



Wilson



Carpenter



Lochridge





POOR ORIGINAL

Isaacs



Lofberg



Moose



Perkins



The identification of new staff remains one of our most expensive and time consuming problems. We have been quite successful in acceptance of our employment offers. The problem is in identifying those we should spend time and effort to know really well in order for us both to make a wise decision.

Our recruiting practices as well as our trendline starting salaries have remained unchanged for more than ten years. We have been a consistent year in and year out employer of MBAs since the beginning of the firm. Even the number of recruits has changed remarkably little year to year since 1970. While we believe we have been the most successful of recruiters of MBAs, we believe our emphasis and preference will change.

Efforts by the schools to compress the time period in which students are distracted from their studies by future employment decisions has tended to make it even more difficult to separate those students with only social skills from those with the required mix of ability and motivation required for our unique kind of business. This remains a major concern. It seems clear that the attractiveness of graduate schools of business as sources of talent is declining over time.

Our officers are predominantly MBAs. Two thirds of those who have no MBA do have doctorate degrees. Of the MBAs, ten are from Stanford, ten are from Harvard, seven are from Carnegie-Mellon and one each from M.I.T., Wharton, Virginia and Insead. In the future we expect this distribution to become much broader in every sense.

POOR ORIGINAL



Paris

# POOR ORIGINAL

Davis



Biancardi



Zumino



BCG has moved as far as practical to take advantage of tax shelters provided under law as benefit plans.

We are devoting the equivalent of approximately 25 percent of US payroll to such benefits as permitted under ERISA. Group life insurance is provided with benefits equal to five times an employee's annual salary. A significant additional life insurance coverage is provided for travel. Group medical plans are fully paid for by the company.

Every year since the company was incorporated, 15 percent of pay has been invested in tax exempt investment plans such as BCG's Profit Sharing Retirement Plan and Employee Stock Ownership Plan. The equivalent has been paid out as a cash bonus in most countries which provide no tax deferral.

The pension plan is essentially fully funded to provide approximately half the career average pay up to \$75,000 as an annual annuity beginning at the normal eligible age for retirement. If employment is continued thereafter, the benefit is increased actuarially to the limit permitted by law.

In 1978 the normal age of eligibility for retirement was reduced to 58. Retirement is not mandatory.

We expect retirement eligibility age to decrease to 55 within three years. Thereafter we expect maximum retirement annuity to go up annually generally in parallel with inflation.

The Employee Stock Ownership Plan owns all the company's shares. When we close the books on the 1979 tax year, we will have fully covered all the obligations incurred to permit the purchase of the company's outstanding shares in 1975. When that has been accomplished, there will be no more shares to buy.

Consequently we requested and have received approval from the IRS to merge the Profit Sharing Retirement Plan and the Employee Stock Ownership Plan. This merger will enable all dollar payroll employees in the future to participate in the company's ownership in proportion to their accumulated pay. It will also facilitate payment for those who terminate employment.



# POOR ORIGINAL

## Executive and Economic

In 1978 the BCG Board of Directors and Worldwide Officers Meetings were held in London, Boston and San Francisco.

A resolution by the Board was passed which essentially prohibits future membership on other boards of directors for BCG professionals excepting for charitable organizations and small family businesses.

During 1978 and early 1979 six were elected as Vice Presidents and Directors of The Boston Consulting Group, Inc. as well as Trustees of the ESOP which holds the shares of BCG.



Miles



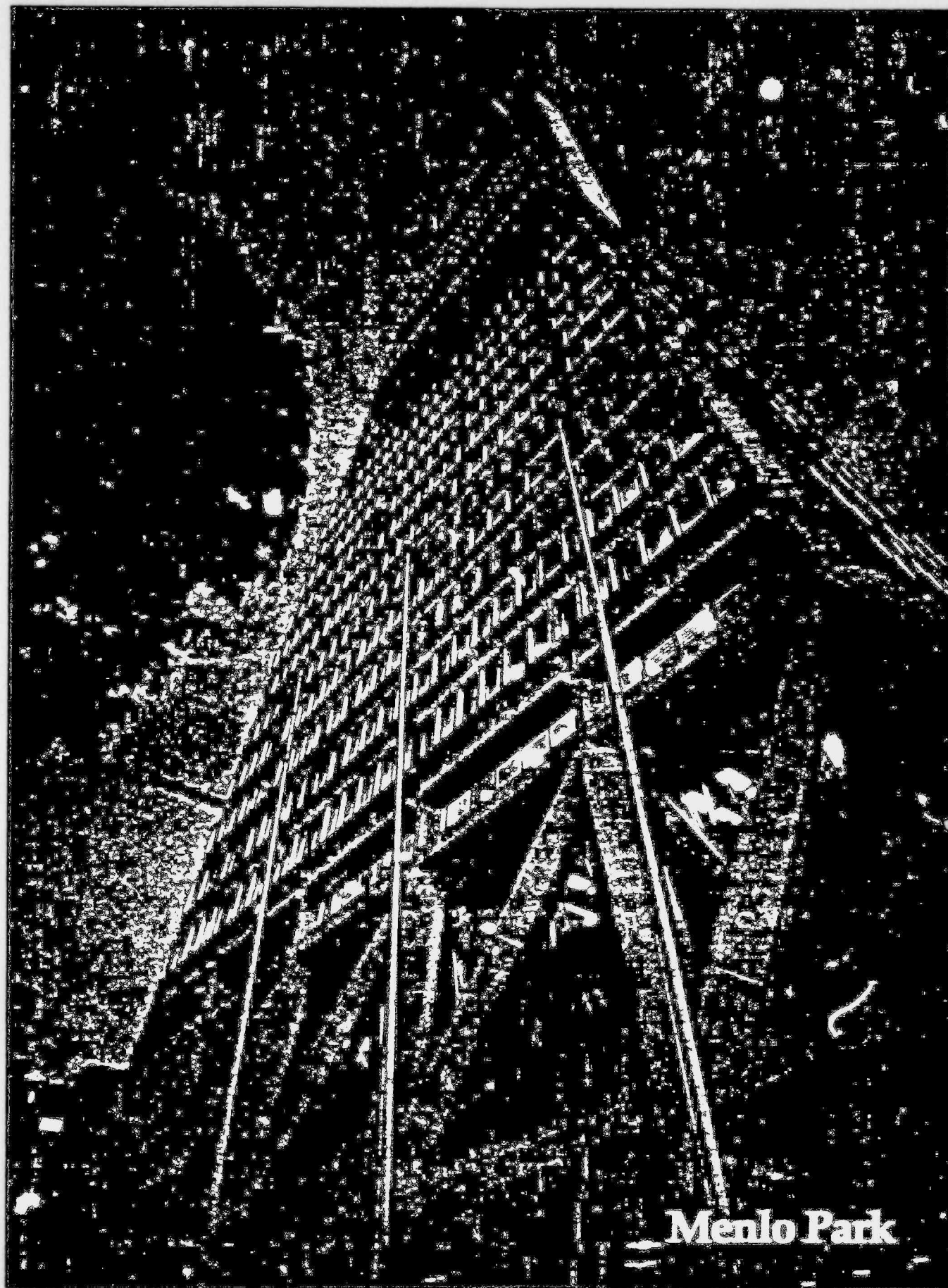
Brock



Dresser

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POOR ORIGINAL



Menlo Park

1438 214



POOR ORIGINAL



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# POOR ORIGINAL

Tilles



Barbee



Bjurgert



**Roy M. Barbee**  
London

received his B.S. from Rensselaer Polytechnic Institute and his MBA with high distinction from Harvard Business School. His previous business experience was with Mobil Oil Corporation.

**Michael A. Carpenter**  
Boston

received his B.S. from the University of Nottingham and his MBA with high distinction from Harvard Business School. His previous business experience was with Imperial Chemical Industries Limited.

**Leonard G. Friedel**  
Chicago

received his B.S. from Northwestern University and his MBA with distinction from Harvard Business School. He has served as a Lieutenant with the U.S. Navy Intelligence Command.

**Michael C. Goold**  
Munich

received his B.A. with first class honors and a B.Phil. from Merton College, Oxford University and an MBA with honors from Stanford University.

**Per G. H. Lofberg**  
Boston

received his degree from the Stockholm School of Economics and his M.S.I.A. with honors from Carnegie-Mellon University. His previous business experience was with Forshaga AB.

**Bolko A. von Oettinger**  
Munich

received his diploma and doctorate *magna cum laude* from the Free University of Berlin and his MBA from Stanford University.

# POOR ORIGINAL

## Boston

J. Anthony Aldrich  
Richard A. Bird  
David J. Hall  
Todd L. Hixon  
Glenn A. KnickKrehm  
Peter G.R. Lloyd

Barbara McLagan  
Michael Norkus  
Pearson M. Spaght  
Eric E. Vogt  
Alan J. Weyl



## Chicago

Abram I. Bluestein  
Kenneth V. Hachikian

Michael D. Lockhart

## Menlo Park

Robert B. Kaplan  
Larry L. Lowry  
Allen G. Rosenberg

Michael D. Tebay  
Robert B. Zider



## Tokyo

Motokazu Orihata  
Masataka Tamura

Isao Wada  
Tohru Yoshida



## Munich

J. Bruce Harreld  
Rudyard L. Istvan

Thomas G. Lewis  
Pal Trondvold



## Paris

Rene Abate  
Jean Estin

Xavier Fontanet  
Vincent Y. Rouxel

## London

P. William Bane, Jr.  
Jeffrey L. Hewitt  
Philip W. Hulme

John T. Lindquist  
Carl W. Stern

# POOR ORIGINAL

## Alumni

A number of BCG professionals who left the firm eventually founded consulting firms. A partial list is shown below. To the extent of our knowledge, all have prospered.

American Management Systems, Inc.  
Arlington, Virginia

Charles O. Rossotti

Advantage Group  
Georgetown, Massachusetts

Jarrod W. Wilcox

Bain and Company, Inc.  
Boston, Massachusetts

William W. Bain, Jr.  
Patrick F. Graham

Braxton Associates, Inc.  
Boston, Massachusetts

George B. Bennett

Pappas, Carter & Company Pty. Ltd.  
Melbourne

George Pappas

IBI Inc.  
Tokyo

C. Tait Ratcliffe

Institutional Strategy Associates, Inc.  
Cambridge, Massachusetts

Martin S. Klein  
Lawrence M. Butler

John Kitching Associates  
Paris

John Kitching

Lucrum Group, Inc.  
New York, New York

Alexander R. Oliver

Mitchell and Company  
Cambridge, Massachusetts

Donald W. Mitchell

Nicholas Walt Associates  
London

Nicholas J. Walt

Strategic Planning Associates  
Washington, D.C.

Walker Lewis

Twain Associates, Inc.  
Wellesley Hills, Massachusetts

William L. Givens

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# Financial

In spite of BCG's growth, it experienced no financial problems.

At year end, cash on hand exceeded \$4,136,000.

Short term borrowing during the year was not material.

Essentially all capital expenditures were financed from internally generated cash flow or made part of lease contract.

## FINANCIAL DATA

(in dollars with 000 omitted)

	1971	1972	1973	1974	1975	1976	1977	1978
Pretax Income	227	225	610	84	796	1,092	749	1,760
Current Assets	1,244	1,707	3,157	3,355	4,809	6,253	9,160	15,094
<b>Total Assets</b>	<b>1,659</b>	<b>2,105</b>	<b>3,640</b>	<b>4,831</b>	<b>8,195</b>	<b>9,270</b>	<b>13,123</b>	<b>19,733</b>
Current Liabilities (excluding tax and incentive compensation)	139	260	91	78	2,160	1,905	2,802	4,820
Incentive Compensation	79	301	923	1,906	2,942	3,599	5,813	8,368
<b>Shareholder Investment and All Liabilities</b>	<b>1,659</b>	<b>2,105</b>	<b>3,640</b>	<b>4,831</b>	<b>8,195</b>	<b>9,270</b>	<b>13,123</b>	<b>19,733</b>

Note: Assets include note payable to BCG by ESOP of \$1,294,229 in 1977 and \$1,195,229 in 1976. Liabilities do not include guarantee of ESOP notes to TBC.

## FINANCIAL STATISTICS

	1971	1972	1973	1974	1975	1976	1977	1978
Revenue 1971=100	100	137	181	206	259	309	424	658
Net After Tax 1971=100	100	115	136	155	195	232	321	501
Return on Shareholder Investment	15%	15%	15.4%	15.2%	16.5%	16.9%	20.0%	26.2%

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055 8841

## Officers and Directors of BCG, Inc.

<i>President</i>	*Bruce D. Henderson	Boston
<i>VicePresident</i>	*James C. Abegglen	Tokyo
	*Roy M. Barbee	London
	*D. John Barnes	Chicago
	*Paolo Biancardi	Paris
	*Torbjorn A. Bjurgert	London
	*John C.F. Brock	Menlo Park
	*Michael A. Carpenter	Boston
	*Bob L. S. Ching	Tokyo
	*John S. Clarkeson	Boston
	*Patrick Conley	Boston
	*Arthur P. Contas	Boston
	*Jeremy G. Davis	Paris
	*Francois E. de Carbonnel	Chicago
	*James van B. Dresser	Menlo Park
	*Charles W. Faris	Boston
	*Leonard G. Friedel	Chicago
	*Michael C. Goold	Munich
	*Anthony J. Habgood	Munich
	*Richard J. Hermon-Taylor	Boston
	*Thomas M. Hout	Boston
	*Jonathan L. Isaacs	Boston
	*Robert A. Lauridsen	Chicago
	*Robert E. Lienhard	Munich
	*Richard K. Lochridge	Boston
	*Per G.H. Lofberg	Boston
	*Anthony W. Miles	Menlo Park
	*Sandra O. Moose	Boston
	*Allen M. Phipps	Munich
	*Norihiko Shimizu	Tokyo
	*Seymour Tilles	London
	*Bolko A. von Oetinger	Munich
	*Alan J. Zakon	Boston
	*Daniel S. Zumino	Paris
<i>Treasurer and Chief Financial Officer</i>	*James H. Perkins, Jr.	Boston
<i>Secretary and Assistant Treasurer</i>	Bess L. Wilson	Boston
<i>Clerk</i>	Hugh R. Jones, Jr.	Hale and Dorr, Boston

\*Director of The Boston Consulting Group, Inc.



**POOR ORIGINAL**

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