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PUBLIC UTILITY COMMISSION

SECRETARY'S OFFICE

Public Utility Commission

Pennsylvania Public Utility Commission, et al.
versus Philadelphia Electric Company.
Investigation into a requested \$660 million
annual rate increase.

Docket No.
R-850152

Further Hearing

Pages 1193 through 1303

Hearing Room No. 1
North Office Building
Harrisburg, Pennsylvania

Thursday, December 19, 1985

Met, pursuant to adjournment, at 10:05 a.m.

BEFORE:

JOSEPH MATUSCHAK, Administrative Law Judge

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C O N T E N T S

	<u>WITNESSES</u>	<u>DIRECT</u>	<u>CROSS</u>	<u>REDIRECT</u>	<u>RECROSS</u>
1					
2	Thomas J. Madden				
3	By Mr. Hall	1196	--	1291	--
		1200			
4	By Ms. Chestnut	--	1204	--	1297
			1210		
5			1284		
6	By Mr. Wersan	--	1257	--	--
7	Ted K. Osborn				
8	By Mr. Hall	1197	--	1295	--
		1201			
9	By Ms. Chestnut	--	1206	--	--
	By Mr. Wersan	--	1257	--	--
			1288		
10	By Mr. Kleppinger	--	1281	--	--
11	Basil P. Kononetz				
	By Mr. Hall	1197	--	--	--
	By Ms. Chestnut	--	1208	--	--
	By Mr. Wersan	--	1257	--	--
			1288		

E X H I B I T S

	<u>NUMBER</u>	<u>FOR IDENTIFICATION</u>	<u>IN EVIDENCE</u>
17	<u>PECO Statement</u>		
18	No. 8 (Madden, Osborn, Kononetz)	1203	1204
19	No. 8A (Madden)	1204	1204
20	No. 8B (Osborn)	1204	1204
21	<u>OCA Exhibits</u>		
22	No. 62 (OCA-4-29)	1262	1302
23	No. 63 (Excerpt from Forecast 5)	1266	1302
24	No. 64 (Section IV, Unanticipated Escalation)	1270	1302
25			

P R O C E E D I N G S

1
2 ADMINISTRATIVE LAW JUDGE JOSEPH MATUSCHAK: This is
3 the time and place for a further hearing in the matter of
4 the Pennsylvania Public Utility Commission against
5 Philadelphia Electric Company at R-850152.

6 Are you ready, Mr. Hall?

7 MR. HALL: Yes, we are, Your Honor.

8 Your Honor, we have to present the witnesses from
9 Theodore Barry and Associates, that being Mr. Thomas Madden,
10 Mr. Ted K. Osborn, and Mr. Basil P. Kononetz.

11 These witnesses have not yet been sworn.

12 Whereupon,

13 THOMAS J. MADDEN
14 TED K. OSBORN
15 BASIL P. KONONETZ

16 having been duly sworn, testified as follows:

17 MR. HALL: Your Honor -- well, let me begin.

18 Mr. Madden, would you give your full name and
19 position with Theodore Barry and Associates for the record?

20 WITNESS MADDEN: Yes, I am Thomas J. Madden,
21 Executive Vice-President --

22 JUDGE MATUSCHAK: Keep your voice up.

23 WITNESS MADDEN: Thomas J. Madden, Executive Vice-
24 President, Theodore Barry and Associates.

25 MR. HALL: Mr. Kononetz, would you do the same?

WITNESS KONONETZ: My name is Basil P. Kononetz. I

1 am the Managing Associate with Theodore Barry and Associates.

2 MR. HALL: And Mr. Osborn, would you do so also?

3 WITNESS OSBORN: My name is Ted K. Osborn, and I am
4 a Senior Vice-President with Theodore Barry and Associates.

5 MR. HALL: Your Honor, as indicated in a letter which
6 we sent to the parties some time ago, this testimony was
7 originally prepared by Mr. James O. Love of Theodore Barry
8 and Associates.

9 Mr. Love, however, came down with a serious illness
10 and has been unavailable to us and has been unable to prepare
11 for appearance at this proceeding.

12 And therefore, these gentlemen, who have had
13 involvement in the project and will explain that involvement,
14 have stepped forward and will be presenting the testimony.

15 DIRECT EXAMINATION
16 OF THOMAS J. MADDEN

17 BY MR. HALL:

18 Q Mr. Madden, would you state for me the areas of
19 the testimony identified as PECO Statement No. 8 on its
20 cover which you will be sponsoring in the hearing today?

21 A Yes, Mr. Hall. I will be sponsoring and respon-
22 ding to the areas on Theodore Barry and Associates' standards
23 for judgment of reasonable management action; our review of
24 the engineering management, including that of the Mark II
25 issue; and the finance areas.

1 Q Would that be the area that is described in
2 the testimony as project deferral announcements and continued
3 justification analyses?

4 A That is correct.

5 DIRECT EXAMINATION
6 OF TED K. OSBORN

7 BY MR. HALL:

8 Q Mr. Osborn, would you state for me what areas
9 of the testimony you will be sponsoring?

10 A Yes, Mr. Hall. I will be sponsoring the
11 portions called pre-project planning and project structure;
12 construction and startup management; and a chapter called
13 analysis of project cost growth.

14 DIRECT EXAMINATION
15 OF BASIL P. KONONETZ

16 BY MR. HALL:

17 Q Mr. Kononetz, would you state for me briefly
18 what your role has been in the preparation of PECO Statement
19 No. 8 and what your role will be on the witness stand today?

20 A I have served in the position of TB&A's project
21 manager for this particular engagement, and have assisted in
22 the preparation of the testimony that has been filed.

23 I will be providing detail as required in response to
24 questions addressed here today.

25 Q Mr. Kononetz, do you have before you a document
entitled, "PECO Statement No. 8, testimony of James O. Love

1 and Basil P. Kononetz, Theodore Barry & Associates"?

2 A. Yes, I do.

3 Q. Is this document, being a document of several
4 hundred pages, in fact the direct prepared testimony which
5 has been prepared by Theodore Barry & Associates for use in
6 this proceeding?

7 A. Yes, it is.

8 Q. Mr. Kononetz, at this time, do you have any
9 corrections that should be made to this document?

10 A. Yes, there are some corrections that I would like
11 to outline at this time. The first two corrections are on
12 page 4.

13 Initially, on line 41, where it reads, "Yes, I am a
14 member," it should read, "I am a past member."

15 In addition, on line 41, after the word "Yes," a
16 sentence should be inserted stating, "I am a member of the
17 Presidents' Association."

18 On page 5, line 1, the word "past" should be inserted
19 before "member," such that the beginning of the sentence
20 reads, "I am also a past member."

21 On page 6, line 37, the third word, "thirteen,"
22 should be changed to "twelve."

23 MS. CHESTNUT: Excuse me, Your Honor. Could I have
24 that reference again?

25 THE WITNESS: On page 6, line 37, which is the second

1 sentence of that response, the word "thirteen" should be
2 changed to "twelve."

3 On page 35, line 19, 550 which precedes the word
4 "megawatts" should be changed to 500.

5 On page 43, line 36, the word "service" should be
6 changed to "source."

7 On page 59, line 18, the word prior to "PECo" should
8 be corrected to read "facilitated."

9 MR. WERSAN: Could you repeat that one?

10 WITNESS KONONETZ: On page 59, line 18, the word
11 prior to "PECo" which is presently incorrectly spelled should
12 be corrected to read "facilitated."

13 On page 82, line 31, the word "approximately" should
14 be changed to "appropriately."

15 On page 151, line 41, the date appearing in that
16 sentence, which is presently shown as January 1, 1978,
17 should be changed to January 31, 1978.

18 On page 187, line 27, the number "219" should be
19 changed to "210."

20 And lastly, on page 189, line 7, the number "3200"
21 should be changed to "2200."

22 BY MR. HALL:

23 Q Mr. Kononetz, with the corrections that you have
24 just made to this document, is the information and data
25 contained therein true and correct to the best of your

1 knowledge and belief?

2 A. Yes, it is.

3 DIRECT EXAMINATION (Continued)
4 OF THOMAS J. MADDEN

5 BY MR. HALL:

6 Q. Mr. Madden, do you have before you the document
7 which I have identified as PECO Statement No. 8, testimony
8 of James O. Love and Basil P. Konenetz?

9 A. I do.

10 Q. And with respect to the sections of that document
11 which you have indicated that you will be sponsoring in
12 evidence here today, is the data contained therein true and
13 correct to the best of your knowledge and belief?

14 A. It is.

15 Q. Mr. Madden, would you state briefly for the
16 record the basis upon which you believe that you can sponsor
17 these sections of evidence today in light of the fact that
18 the testimony was originally prepared by Mr. Love?

19 A. Yes, Mr. Hall. During the course of the
20 preparation of the testimony, I did participate along with
21 the Theodore Barry team in the review of an area of
22 regulatory relations.

23 Subsequent to that, I have reviewed independently
24 this testimony. I have reviewed the evidence, documentation
25 supporting it. I have discussed it with other members of the

1 Theodore Barry team. I have performed independent
2 interviews of company personnel and have satisfied myself
3 that it is correct, and I support it.

4 Q Mr. Madden, do you have in front of you a docu-
5 ment which sets forth your qualifications and background
6 experience with Theodore Barry and other concerns?

7 A It has been provided. I do not have it right
8 before me, but yes.

9 Q Recalling the information provided in that
10 statement, to the best of your knowledge, is that information
11 true and correct?

12 A Yes, it is.

13 DIRECT EXAMINATION (Continued)
14 OF TED K. OSBORN

15 BY MR. HALL:

16 Q Mr. Osborn, do you have before you PECO Statement
17 No. 8, the testimony of James O. Love and Basil P. Kononetz,
18 Theodore Barry and Associates?

19 A Yes, I do.

20 Q Mr. Osborn, referring to the sections of that
21 document that you have stated that you will sponsor here into
22 evidence today, is the material contained in those sections
23 true and correct to the best of your knowledge and belief?

24 A Yes, it is.

25 Q Mr. Osborn, would you state for the record the

1 reason that you believe that you can sponsor this testimony
2 today in light of the fact that it was originally prepared
3 by Mr. Love?

4 A. Yes. I would be pleased to do so. In my
5 position within TB&A as chief operating officer of the
6 engineering construction business, I play a major role
7 with Mr. Love in the formulation of policy, procedure and
8 methodology as to how we as a firm have approached these
9 retrospective reviews.

10 So, my interface with the retrospectives at large
11 and with this PECO Limerick engagement began some year or
12 so ago.

13 Since that time, I have been party to a number of
14 discussions, have been through separate discussions with
15 each of the team members on their material and their
16 assessments, and have had another sort of overall role as
17 part of a quality review panel which assesses the consistency
18 and depth and breadth of the various retrospective reviews
19 one to another within the TB&A workload.

20 I have also then been through several iterations of
21 testimony, including that which is the final product, and
22 have interviewed many of the cognizant PECO and Bechtel
23 personnel and reviewed the supporting documents behind this
24 testimony.

25 Q. Mr. Osborn, do you have before you a document

1 which sets forth your background, experience and qualifica-
2 tions in areas related to this testimony?

3 A. I too have it but not with me at the stand.

4 Q. Is the data contained in that document, recog-
5 nizing that you are recalling it, true and correct to the
6 best of your knowledge and belief?

7 A. Yes, it is.

8 MR. HALL: Your Honor, I would ask that this testi-
9 mony be identified for use in the record as PECO Statement
10 No. 8, that being the testimony which is identified on its
11 cover as being of Mr. Love and Mr. Kononetz, but which will
12 in fact be presented here today by Mr. Madden, Mr. Osborn
13 and Mr. Kononetz.

14 JUDGE MATUSCHAK: Do Mr. Madden and Mr. Osborn adopt
15 the testimony of Mr. Love in that portion which they are
16 sponsoring in this proceeding?

17 WITNESS MADDEN: Yes, I do.

18 WITNESS OSBORN: Yes, I do.

19 JUDGE MATUSCHAK: Very well. The exhibit is marked
20 as PECO Statement No. 8.

(Whereupon, the document was
marked PECO Statement No. 8
for identification.)

23 MR. HALL: Your Honor, I would ask that the
24 qualification statement of Mr. Madden be identified as PECO
25 Statement No. 8A, and the qualification statement of Mr.

1 Osborn be identified as PECO Statement No. 8B.

2 JUDGE MATUSCHAK: So granted.

3 (Whereupon, the documents were
4 marked PECO Statements Nos. 8A
and 8B for identification.)

5 MR. HALL: I would also ask that this testimony be
6 admitted into the record, each of the three statements.

7 JUDGE MATUSCHAK: PECO Statement 8, 8A and 8B are
8 admitted subject to timely motions to strike or any objec-
9 tions that may be presented.

10 (Whereupon, the documents marked
11 PECO Statements Nos. 8, 8A and
8B were received in evidence.)

12 MR. HALL: Thank you, Your Honor.

13 Mr. Madden, Mr. Osborn and Mr. Kononetz are available
14 for cross-examination.

15 JUDGE MATUSCHAK: Staff?

16 MS. CHESTNUT: Thank you, Your Honor.

17 Good morning, gentlemen. My name is Marcie Chestnut,
18 and I am an attorney with the Commission Trial Staff in this
19 proceeding.

20 CROSS-EXAMINATION
21 OF THOMAS J. MADDEN

22 BY MS. CHESTNUT:

23 Q. Mr. Madden, I would like to start with you and
24 discuss your role in this study. I got the impression from
25 the answers you just gave that in terms of your involvement

1 in the study itself, you stated that you reviewed the
2 area of regulatory relations. Was that done after the
3 study was completed?

4 A. No, that was done during the completion of the
5 study.

6 Q. Could you tell us what specifically that means?

7 A. As we discussed in the testimony, in engineering
8 and other areas, the project's response and requirements of
9 regulatory requirements such as those from the Nuclear
10 Regulatory Commission is a key, important management area
11 issue.

12 As we reviewed that, I supported and reviewed and was
13 part of the TB&A team during the preparation of that.
14 Subsequent to the completion and in my role in assuming
15 responsibility for these areas, I again reviewed that along
16 with the other areas that I am sponsoring, to review that
17 and satisfy myself again to the accuracy and validity of it.

18 Q. When you were reviewing the company's interaction
19 with the NRC, was that done primarily from an engineering
20 standpoint, or were you also looking at it from a managerial
21 efficiency standpoint?

22 A. Our whole view is through the management process,
23 so the principal eyes are the management issues. But I
24 think it requires a grasp of the engineering implications
25 of that.

1 Q I see in your qualifications, Mr. Madden, that
2 you have a degree in nuclear engineering?

3 A I do.

4 Q And a master's in computer science?

5 A That's correct.

6 Q And then an MBA with an emphasis on management
7 and finance, is that correct?

8 A That is correct.

9 Q Do you consider yourself to be an economist?

10 A I do not represent myself as an economist, just
11 as in my resume.

12 MR. HALL: Mr. Madden, would you keep your voice up,
13 please?

14 WITNESS MADDEN: Yes, surely.

15 BY MS. CHESTNUT:

16 Q Have you ever presented testimony or been involved
17 in the area of rate or return for utilities?

18 A Not specifically in rate of return.

19 CROSS EXAMINATION
20 OF TED K. OSBORN

21 BY MS. CHESTNUT:

22 Q Mr. Osborn, I got the impression from your
23 answers that your primary role is to develop policy and
24 approaches as a general matter for TB&A to be used in this
25 type of retrospective study, is that correct?

1 A. I didn't mean to mislead you. That is one of
2 my roles as a senior officer within TB&A. Within the
3 engineering construction business, I have been the engage-
4 ment director, as we call the top administrative leader of
5 a project, as Mr. Love was in this case, on other
6 retrospectives.

7 There have been several in which I have been a
8 participant also at the assessment level, as I have been
9 throughout the last year or so with Mr. Kononetz and Mr.
10 Love on this one.

11 Q. When did you first become involved with this
12 Limerick study?

13 A. I was first involved about a year ago when
14 assessments started to be made, and I was concerned from
15 two ways.

16 One was through the quality review panel, to tie in
17 for consistency with our other works, and at the same time
18 of course that brought to me opportunities to meet with and
19 work with the various team members that were working with
20 Mr. Kononetz on the various functional areas.

21 MS. CHESTNUT: I am not sure who the appropriate
22 person is to answer this, Mr. Osborn or Mr. Kononetz, but
23 when was the study first begun? When was the actual study
24 begun?

25 WITNESS KONONETZ: This work actually started in

1 early 1984.

2 CROSS-EXAMINATION
3 OF BASIL P. KONONETZ

4 BY MS. CHESTNUT:

5 Q And when was the data gathering phase completed?

6 A I would estimate that the data gathering,
7 significant initial data gathering phase was probably
8 completed at about the end of 1984.

9 Q And I assume that the time thereafter was spent
10 in reviewing the data, reaching conclusions and testing the
11 validity of those conclusions, is that a correct summary of
12 the process?

13 A The reaching of conclusions, the testing of
14 conclusions is a process that we continuously go through as
15 we go through the whole project.

16 But yes, at the end of 1984, that can generally be
17 viewed as a time in which much of the initial analysis and
18 data gathering effort was culminated.

19 Q And you didn't do any kind of updating of the
20 information which you already gathered, is that correct?

21 A There is updating of the information that
22 continuously continues as we deem it appropriate and as
23 necessary to complete the product.

24 Q What kind of information would you have looked at?
25 I got the impression -- well, it's more than an impression;

1 this is a retrospective audit, is it not?

2 A. Yes, it is.

3 Q. What kinds of information would you have looked
4 at to update your study?

5 A. The kind of thing that I am getting at here is
6 that as the -- the basis of our study really carried on
7 through the time in which fuel load was achieved.

8 However, as events progressed subsequent to fuel
9 load, there was some additional information added to our
10 overall study and review that included some of the events
11 subsequent to fuel load.

12 Q. Who had the final determination as to the
13 conclusions contained in this report?

14 A. It is basically a combination of the team members,
15 but I would say the final determination of that was Mr. Love
16 and the rest of the TB&A team.

17 Q. When you say the rest of the TB&A team, does that
18 mean --

19 A. That includes myself as a project manager and the
20 staff we had assigned to this project.

21 Q. But Mr. Love was the one that made the final
22 decision after consulting with you, I assume?

23 A. He is the one who was intended to overall sponsor
24 this testimony, that's correct.

25 MS. CHESTNUT: I am not sure who the appropriate

1 person to answer this question is concerning Mr. Love's
2 qualifications, but I would like somebody to confirm the
3 fact that his utility experience has never been in the
4 operation phase, he has never had any operational utility
5 experience.

6 WITNESS MADDEN: I believe, as his resume states,
7 it was in the strategic planning phase in the utility, as
8 stated in his background. I think that is the scope of his
9 particular experience there, expanded by his many years
10 with Theodore Barry and Associates in all phases.

11 CROSS-EXAMINATION (Continued)
12 OF THOMAS J. MADDEN

13 BY MS. CHESTNUT:

14 Q And his direct employment in the utility
15 industry has never included employment with any utility
16 that operates nuclear units?

17 A I believe that is correct. I think the resume
18 stands on that.

19 Q Was the record that was produced in the Limerick
20 1 investigation reviewed in the course of the study?

21 A By the Limerick 1 investigation, you mean the
22 1980 to 1981 and 1982?

23 Q Right, Docket No. I-8100341.

24 A We and I reviewed the Judge's statement and the
25 Commission's decision as part of our review.

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Q. How about the record itself, testimony and exhibits?

A. Those statements, some testimony and transcript and some documents. I can't represent that every one was reviewed, but some of that certainly was.

Q. I'd like to delve into the standard of review that was employed in the study. I guess Mr. Madden would be the appropriate person.

A. Yes.

Q. Would it be correct to summarize the standard used by TB&A if we said that you evaluated PECO's actions in terms of reasonableness, given the information and options available at that time?

A. The contemporaneous time, yes. We apply a standard of a reasonable experienced manager with contemporary knowledge and understanding.

Q. And it's your position that it is not appropriate to include hindsight, is that correct?

A. Not strict hindsight, contemporaneous environment and knowledge and application.

Q. Is it inappropriate to use hindsight in evaluating actions even if those actions turn out to be favorable?

A. I am not sure I understand the question.

Q. Do you not use hindsight in every instance? Does it matter if it had a favorable or adverse effect?

1 A. We look at the contemporaneous process. It is
2 not dependent upon results.

3 Q. Now, this standard is not the same as a
4 rational basis standard, is that correct?

5 A. I can't speak to that, other than it is the same
6 standard we use in all of our work, the reasonable person
7 standard. I am not sure I understand particular differences,
8 but this is the same standard we have used in all
9 retrospectives going back through several years of these.

10 Q. Do you know what is meant by the phrase "rational
11 basis" as a standard of review?

12 A. My understanding would be, well established
13 foundation upon which to make decisions.

14 Q. And are you familiar with this Commission's
15 treatment of that standard as opposed to the reasonable
16 utility standard?

17 A. Only through my review of those decision,
18 recommendations and order that you have referred to
19 previously.

20 Q. And that was the Limerick 1 decision and order?

21 A. That is correct.

22 Q. Have you reviewed other Commission precedent on
23 the standard of prudence?

24 A. Personally throughout my work and testimony and
25 involvement in other cases such as the Trans-Alaska Pipeline

1 case before the federal regulatory commission, the Shoreham
 2 investigation before the New York Commission, certainly I
 3 have dealt with the issue of reasonableness in management
 4 actions.

5 Q Let's limit it to this jurisdiction.

6 A Okay. I did not understand your question.

7 Q Have you reviewed this Commission's prior
 8 determinations with respect to the standard of review for
 9 prudency determinations?

10 A Not specifically as I have done here, no.

11 Q So, Limerick 1 was the only order that you looked
 12 at in your review?

13 A For the standard of reasonableness in the state
 14 of Pennsylvania, yes.

15 Q And when did you review that?

16 A As I mentioned, in part through the participation
 17 of the team in the regulatory relations area. And then of
 18 course assuming the responsibility and the independent review
 19 of this testimony over the last several weeks, I have
 20 reviewed that as part of the overall review.

21 Q Now, at page 12, the phrase "management and the
 22 shareholder interests that it represents" is used.

23 A I'm sorry, I did not hear you.

24 Q Page 12. That would be line 35.

25 A Yes, I have that reference.

1 Q. Can you tell us what a utility management's
2 responsibility to its shareholders are?

3 A. Yes. I believe management is responsible to its
4 shareholders of course as it is to other constituencies to
5 be a fair and efficient manager, to provide a reasonable
6 return and fair corporate governance of the investment that
7 those peoples have made.

8 Q. What do you mean by "other constituencies"?

9 A. The public's, the customers', the ratepayers',
10 the stockholders', the investment community, and social
11 corporate governance, all the constituencies that management
12 must be responsible to.

13 Q. Do you think these constituencies are equal, or
14 I should say, that equal consideration should be given to
15 each of these constituencies by management?

16 A. I am not sure if I can use the word "equal." I
17 think they are all important and they all have different
18 roles in the responsibility of management. I don't know
19 how you would say one is equal to the other.

20 Certainly a utility management has a mandate to serve
21 its customers and ratepayers, and do so effectively. It
22 must respond to its regulatory body fairly and efficiently,
23 and be responsible to the investment community.

24 I think all of those are very significant, and I
25 would not distinguish between them as far as a definition

1 of equalness.

2 Q. So, it is appropriate for a utility to consider
3 both the interests of shareholders and ratepayers in coming
4 to its decisions, if I can simplify this discussion?

5 A. Yes, those as their public's and stakeholders'.

6 Q. Who has more direct control over a utility's
7 management, the shareholders or the ratepayers?

8 A. Again, I don't distinguish those as formal
9 control. I think the management and the Board of Directors
10 are the control, responding to the requirements as laid
11 before them by regulatory bodies.

12 For a utility that owns a nuclear plant, that would
13 include the Public Service Commission, the Nuclear Regulatory
14 Commission, the federal bodies.

15 So, I don't use the word "control" to distinguish
16 between the two. Management responsibility I think is the
17 way Theodore Barry and the way I view it.

18 Q. Well, I am using the term "control," and I want
19 to know who exercises more direct control over a utility's
20 action. Is it the shareholders through the Board of
21 Directors and the management, or is it the ratepayers?

22 A. I can't distinguish between those two. I think
23 it is part of the management process to respond to both. I
24 cannot distinguish who has more control. I think there is
25 the responsibility there to serve both. I don't weigh the

1 two to say that one has more control than the other.

2 Q I am not talking in terms of responsibilities.
3 I am looking at it from the other point of view, not of the
4 company to its ratepayers and to its shareholders.

5 I am looking at the flow the other way.

6 MR. HALL: Ms. Chestnut, if I could, I take it you
7 are speaking of the direct voting control and the corporate
8 processes and the ability to change management and that kind
9 of thing?

10 MS. CHESTNUT: Yes, Mr. Hall.

11 MR. HALL: Can you respond in that context, Mr.
12 Madden?

13 WITNESS MADDEN: Yes. The control in that light is
14 exercised by the stockholders who would affect the Board of
15 Directors, and they have the control over the management,
16 and management team.

17 That management team has to meet the mandates of the
18 Service Commission. But to your particular point, the
19 stockholders through the Board of Directors determine and
20 allow the management team to be in place.

21 BY MS. CHESTNUT:

22 Q Can you show us where in the discussion in this
23 report any mention is made of ratepayer interests and
24 management's obligations to look out for those interests?
25 Is that specifically identified as an issue?

1 A. I think certainly in our discussion, for
2 example, of the ongoing justification, the delays if you
3 will, we found the processes to be reasonable, and that
4 would include fair consideration of all the constituencies
5 including the ratepayers.

6 So, my answer to you is yes. I would have to thumb
7 through the pages if you have a particular phrase that you
8 would refer me to.

9 Q. Let's limit this to the discussion on standard
10 of review. Where in that discussion of standard of review
11 do you discuss the ratepayer interests?

12 A. To me, the ratepayer interests for a utility
13 management is incorporated in the definition of reasonable-
14 ness, as I have presented it to you.

15 Q. Does your standard of review explicitly take into
16 account ratemaking effects such as impact on ratepayers?

17 A. Yes, that is a consideration of the management
18 process and a reasonable management process.

19 Q. Did you do any kind of analysis to see what the
20 impact of managerial actions are in light of -- did you
21 evaluate management's actions in light of ratepayer impact?

22 A. To the extent of sound management processes to
23 control this project, Limerick, I certainly believe that
24 affects the ratepayers, so the answer is yes, in that sense.
25 A particular rate of return type study such as you alluded

1 to earlier, we did not.

2 Q So, your answer is that the ratepayer impact is
3 implied in your review, it is not broken out as a specific
4 item? For example, when you were looking at each delay,
5 you did not do an analysis to see what the effect of the
6 delay would be on rates?

7 A Not specifically, but we did to the extent of
8 looking, for example in the financial analysis, say in 1978,
9 were ratepayers considered such as minimum revenue
10 requirements.

11 We reviewed documentation that the company performed
12 in that. So to that extent and in that vein, certainly.

13 Q But you did no analysis to see how -- for example,
14 the percentage increase in rates that would result from the
15 delay, each delay?

16 A No. We looked at the process for reasonable
17 management control and that had the consideration of the
18 ratepayers as I have described to you.

19 Q If we can shift gears a second here, Mr. Madden,
20 one of the major points that has been raised by the company
21 in the testimony presented by a number of witnesses is the
22 impact of regulatory changes and requirements, especially
23 from the NRC. You are familiar with that area?

24 A Yes, I am.

25 Q And I don't know if you are aware of this, but

1 several of the company witnesses yesterday testified that
2 the company made no special efforts to develop a liason
3 with the NRC on an ongoing basis to keep abreast of these
4 changes as they were issued, that the procedures used by the
5 company were felt to be adequate to disseminate the
6 information to the appropriate people.

7 MR. HALL: Your Honor, I would object to that
8 characterization of the testimony in the strongest possible
9 terms. I think the company witnesses yesterday testified
10 that they had a fully and thorough process that provided for
11 direct tracking and knowledge of NRC regulations.

12 However, with that statement, I certainly respect
13 Ms. Chestnut's right to ask her question.

14 MS. CHESTNUT: Your Honor, I think I said that in my
15 lead-in here. I said that it was the witnesses' belief that
16 the procedures they used were adequate to disseminate the
17 information to the appropriate people.

18 MR. HALL: I will accept that.

19 JUDGE MATUSCHAK: Do you withdraw your objection?

20 MR. HALL: I do not object to the question, Your
21 Honor.

22 WITNESS MADDEN: Would you restate it? I am sorry
23 to ask you to, but would you restate it, please?

24 BY MS. CHESTNUT:

25 Q There was discussion yesterday about the procedure

1 used by the company to receive NRC changes and bulletins,
2 et cetera, and how this information was disseminated
3 throughout the company.

4 Are you familiar with that process used by the
5 company?

6 A. I am familiar with the processes used by the
7 company as we saw them, yes. I can't say that I am
8 familiar with exactly what was stated yesterday along those
9 lines.

10 Q. Now, the testimony yesterday -- and I would like
11 to see if this is consistent with your understanding -- is
12 that NRC bulletins and changes, et cetera were received by,
13 the phrase that was used was several focal points in the
14 company, the legal department, the engineering department,
15 as appropriate. Is that a correct statement of how this is
16 done, or would you like to give your testimony as to how
17 such NRC stuff was received?

18 A. I would like to give my view of it, because I am
19 not that familiar with exactly what was stated yesterday.
20 Certainly, I think there were and are several points of
21 contact for the dissemination of NRC requirements. It would
22 come through the direct letters, for example, to the company.

23 It would come into the legal or the engineering
24 departments. There are several issuances of general
25 guidelines, regulatory guides, specific directives,

1 circulars, I&E bulletins, standard review plans, branch
2 technical position papers; all of these, the company is
3 responsible to and have in place processes both directly
4 with the NRC through other groups and parties to gather
5 this information.

6 In addition, the architect/engineer, Bechtel, has
7 those sorts of devices. The company personnel and Bechtel
8 serve on committees in the industry to gather the informa-
9 tion. I view it as a continuous process, not the least of
10 which would be many discussions with the NRC project
11 manager responsible for this project.

12 Also included in that would be the response to
13 questions on the FSAR. I view it as a continuum of
14 processes, and yes, many points to do it, but I certainly
15 think that there is a plethora of ways that it comes in,
16 and the company is certainly responsible for all of those.

17 Q. So, I think it's clear to say that there was no
18 one individual or section who had the direct and ongoing
19 responsibility of receiving information from the NRC?

20 A. Not receiving it. But of course the project
21 itself, ultimately reporting to the vice-president, Mr.
22 Kemper, and the senior vice-president, Mr. Boyer, would
23 have the ultimate responsibility of seeing that these were
24 carried out as the licensee.

25 Q. Well, I am less concerned with compliance at this

1 point than with, who was doing liason with the NRC at this
2 point? Was there anybody with that particular responsi-
3 bility? Was there anybody stationed in Washington, do you
4 know?

5 A. I don't recall if they were stationed in
6 Washington. They did have licensing engineers and licensing
7 representatives that had ongoing contact and discussion. I
8 don't recall if they were in Washington or not.

9 Q. And you don't know who these people would be,
10 what section they were in?

11 A. Within the engineering department, but I would
12 have to check my notes to see if they were with a particular
13 title.

14 MS. CHESTNUT: I guess this next question is
15 appropriate for Mr. Osborn or perhaps Mr. Kononetz.

16 BY MS. CHESTNUT:

17 Q. With respect to the nature of that time line that
18 is shown on pages 18a and b, under 1974, the Consolidated
19 Edison Dividend Omission was listed as a major event, is
20 that correct? Mr. Madden, are you the person --

21 A. General standards and overall, I think I could
22 respond perhaps better. On page 18a, you are referring to --

23 Q. The Con-Ed Dividend Omission.

24 A. Okay.

25 Q. That is listed as a major event.

1 A. Yes, it is.

2 Q. Am I correct that this Major Event Time-Line
3 does not show the infusions of capital received by PECO as
4 a result of rate increases during that time?

5 A. I don't believe it shows particular rate orders,
6 decisions, no.

7 Q. And in fact that doesn't show any Commission
8 order relating to PECO in general or Limerick in particular,
9 does it?

10 A. Not rate order, no.

11 Q. And that Major Event Time-Line also does not
12 indicate PECO's involvement in other major nuclear unit
13 construction during that period, is that correct?

14 A. It is focused on Limerick.

15 Q. Now, Mr. Madden, the discussion of activities
16 during the period of 1974 to 1978 makes little or no mention
17 of construction expenditures associated with Limerick 2, is
18 that correct?

19 A. In the discussion?

20 Q. Yes.

21 A. It discusses the budgets and the plans of the
22 Limerick station. It does not single out Limerick 2, to
23 my recollection.

24 Q. During that period, PECO was expending funds on
25 Limerick 2, is that correct?

1 A. Yes, that's correct.

2 Q. Do you know the extent of that expenditure?

3 A. I have some recollection. Bear with me a second.

4 Q. Well, would you accept subject to check that it
5 was approximately \$400 million?

6 MR. HALL: From 1974 to 1978?

7 MS. CHESTNUT: 1974 to 1980.

8 MR. HALL: 1980?

9 MS. CHESTNUT: Yes.

10 WITNESS MADDEN: I would have to check that. I am
11 aware that in some years, I have some recollection of some
12 expenditures at the level of \$30 million or \$40 million or
13 \$50 million, but I have not summed that up. I would have to
14 go back and refresh myself on that.

15 BY MS. CHESTNUT:

16 Q. And during that time period, 1974 through 1980,
17 PECO was also expending money on Salem 1 and Salem 2, isn't
18 that correct?

19 A. I am not familiar with the Salem project.

20 Q. You did not examine PECO's involvement in that
21 at all, in the course of the study?

22 A. Their management involvement in Salem? No, we
23 didn't.

24 Q. Are you aware, Mr. Madden, that TB&A in fact did
25 a prudency review of the costs associated with Salem 1 and

1 determined that between \$5 million and \$10 million had been
2 unreasonably incurred?

3 A. Surely, TB&A did that for the Public Advocate
4 of New Jersey, and cast and put forward our view of the
5 management oversight of PECO on the Salem project several
6 years ago. I think that was 1978 or 1979, that time period.

7 Q. In your review of PECO's financial condition
8 during this period, did you specifically evaluate the
9 prudence of continuing to spend money on Limerick Unit 2
10 and on the Salem units in light of what you say was PECO's
11 poor financial condition at the time?

12 A. We did not specifically look at the Salem units.
13 We did look at the expenditures for the Limerick station,
14 and were aware that the proportion of the total capital
15 budget to Limerick, for example, I think hovered around
16 50 to 60, 45 to 60 percent of the total capital budget.

17 And it is our belief that Limerick did receive the
18 lion's share of those capital monies. We do bear in mind
19 that an operating nuclear plant like Salem has certain
20 requirements for maintenance and capital improvements that
21 have to be made.

22 And in light of the 50 or 60 percent of the capital
23 budget, we viewed it that way. But as far as particular
24 expenditures on Salem and for what items, we didn't do it.

25 Q. Do you know when Salem 1 was included in PECO's

1 rate base?

2 A. I don't recall.

3 Q. How about Salem 2?

4 A. No, I don't recall.

5 Q. Now, page 263 of Statement 8 -- I guess it is
6 Mr. Madden -- you discuss the lower appeal of utilities as
7 a potential investment compared to the S&P 500, and you
8 point to the divergent returns on equity to support that
9 statement, is that correct?

10 A. The Schedule 37 and that discussion, yes.

11 Q. Would you agree that a primary reason for
12 decreasing utility returns net of AFUDC during this period
13 was the increasingly large construction programs?

14 A. I think construction requirements through
15 construction expenditures, the size of the projects, the
16 nuclear projects certainly is considered by the investment
17 community in their evaluations and ratings of the utilities.

18 Q. Did you compare the capital budgets of the S&P
19 500 with that of the utility industry for that period?

20 A. We didn't do beyond what we have described here
21 in the testimony.

22 Q. Mr. Madden, do non-utilities accrue AFUDC? I
23 should say, do they accrue AFUDC the same way that utilities
24 do?

25 A. In an accounting sense, I don't believe

1 it is exactly the same. They certainly have interest
2 carrying charges for capital projects.

3 But as far as particular accounting treatment, I
4 can't represent that it is exactly the same. I have not
5 investigated that.

6 Q. Do you know if non-utilities were permitted to
7 accrue AFUDC on equity returns?

8 A. I don't know that.

9 Q. Would you accept, subject to check, that they
10 are not?

11 A. As I said, I don't believe the accounting
12 treatment is the same, and I would accept it subject to
13 check, but I don't know.

14 Q. Well, if you will accept that non-utility
15 companies are not permitted to accrue AFUDC to the extent
16 that utilities are, do you think that would affect their
17 incentive to finish major construction projects more
18 quickly and economically? Do you think that would have an
19 impact on their scheduling decisions?

20 A. Is your question the accounting treatment of
21 interest carrying charges for non-utilities when capital
22 projects provide an additional incentive to them to finish
23 projects?

24 Q. Yes.

25 A. I don't think I can answer that. I certainly

1 think there is motivation to do it. I think that utilities,
2 by having AFUDC, that certainly affects the quality of
3 earnings. That's always an issue I believe in the
4 investment community. Beyond that, I can't answer that.

5 Q. I think I am a little unclear. First you said
6 you couldn't answer it, and then you gave an answer.

7 A. Beyond what I said. I can't answer it beyond
8 what I said. I don't know the accounting treatment. I am
9 aware that the percent of AFUDC as a proportion of earnings
10 affects the quality of those earnings, and that is a
11 consideration by the investment community.

12 Q. Mr. Madden, what do you think the market would
13 think of a non-utility or I should say a non-regulated
14 company which continued to expend huge sums of money for
15 new plant despite clear evidence that the growth of its
16 market was declining?

17 A. Again, I can't answer that. I think the invest-
18 ment community would look at the plans, the future markets,
19 what needs would be existent, is it the capital base to
20 prepare for the future. I don't I could answer that without
21 being more specific in an example.

22 Certainly I think some non-utilities or non-regulatory
23 agencies invest for the long term in capital projects.
24 Market conditions may not require them immediately, but
25 long term investment capital strategy is an important part

1 of management.

2 Q. What if long term demand for a product is
3 declining? In that instance, do you think the market would
4 think favorably of a company that was expanding its
5 facilities?

6 A. I think in general, if the true long term
7 expectation for a product weren't there, then the company
8 shouldn't plan for it. But it is over a long term view of
9 what facilities should be put in place.

10 Q. Mr. Madden, would you agree that in many
11 regulatory jurisdictions, CWIP on major projects is not
12 allowed in rate base?

13 A. I think in several it is not. I don't know if
14 in many, but I believe it is not in several, and some
15 portion is allowed in others. There seems to be varying
16 treatments of CWIP in different jurisdictions that I am
17 generally familiar with.

18 Q. How about in Pennsylvania?

19 A. I don't believe it's allowed.

20 Q. Now, would you agree, Mr. Madden, that it becomes
21 very difficult for a utility to earn its allowed rate of
22 return when a large portion of its plant is CWIP?

23 A. If a large portion, which is not allowed in the
24 rate base, that makes it more difficult to earn that, yes.

25 Q. And you would think that a prudent utility

1 management would be aware of the policies concerning
2 regulatory treatment of major project CWIP and would take
3 that policy into account in its planning and capital
4 budgeting process?

5 A. I believe managements are. I believe the
6 evidence is, the Philadelphia Electric Company has petitioned
7 I believe before this Commission several times addressing
8 the issue of CWIP.

9 Q. So, your answer to my question is yes, that they
10 would take that --

11 A. I think knowledge of it, yes, is part of their
12 consideration.

13 Q. Now, on page 263b, there is a Schedule No. 38,
14 which shows the base rate increase requests and authoriza-
15 tions. Do you see that schedule, Mr. Madden?

16 A. Yes, I have Schedule 38 at 263b.

17 Q. Now, is this chart for the entire electric utility
18 industry, or is this PECO-specific?

19 A. It is for utilities generally. It is not PECO-
20 specific, as I recall.

21 Q. And what it shows is the difference between what
22 utilities were requesting in the form of rate relief and
23 what commissions were awarding, is that correct?

24 A. Yes, that's correct.

25 Q. Now, with respect to the Schedule 38, isn't it

1 an implied assumption that the amount of rate increases
2 requested by these utilities consisted solely of properly
3 claimed costs with no exaggeration in them?

4 A. I believe that is the standard for rate
5 applications, so yes.

6 Q. Did you examine every rate filing that was
7 included in this schedule?

8 A. No, we didn't. We note the source at the bottom
9 of the exhibit.

10 Q. Is it your position, Mr. Madden, that the amounts
11 allowed by these regulatory agencies were inadequate under
12 the appropriate regulatory principles applied? Let me
13 rephrase it. That was awkward.

14 Do you think that the amounts allowed by these
15 agencies were just and reasonable, in view of the applica-
16 tion of ratemaking principles?

17 MR. HALL: Objection, Your Honor. I don't think we
18 have presented Mr. Madden to testify as to what are just
19 and reasonable rate levels.

20 He is testifying to management prudence and management
21 conduct, and whether management conduct is reasonable. I
22 must say, I don't know of anything in his qualifications
23 that would suggest that he should sit to determine just and
24 reasonable rates.

25 MS. CHESTNUT: Your Honor, he sponsored the schedule,

1 and the schedule goes to the amount of rate relief requested,
2 and he is making a claim that there is a differential
3 between the amount requested and the amount claimed.

4 And I am simply trying to establish that just
5 because the utilities did not receive all the revenue
6 increase requested does not mean that they received
7 inadequate level of revenue.

8 MR. HALL: I don't think, Your Honor, that the
9 schedule is provided to suggest that utilities received
10 an inadequate level of revenue based upon ratemaking
11 standards.

12 It is simply provided to show that there was a gap
13 between what the companies said they needed and what
14 commissions allowed, as background information and a
15 rather small part of the background information relied upon
16 by Theodore Barry in their study.

17 JUDGE MATUSCHAK: Would you repeat your rephrased
18 question?

19 MS. CHESTNUT: Let me rephrase it again, Your Honor.

20 BY MS. CHESTNUT:

21 Q Mr. Madden, do you have any reason to believe
22 that the amounts granted by the agencies in these years was
23 not consistent with the proper application of relevant
24 ratemaking principles?

25 A. We did not make a determination on that. It is a

1 fact that management had to deal with, and that is the
2 environment that we were trying to understand and portray.

3 Q. Did you conduct any kind of similar study in the
4 decades prior to 1970?

5 A. Not a specific analysis, no.

6 Q. Do you have any reason to believe that the
7 proportions of the rate request allowed are atypical of that
8 allowed through prior decades?

9 A. As I said, we didn't do a specific analysis. We
10 focused on this period because of two reasons: obviously,
11 the Limerick construction period; and the tumultuous nature
12 due to the oil embargo in that period.

13 But I did not do a specific analysis and can't
14 compare the two for you.

15 Q. Well, utilities were presumably aware of the
16 ratemaking treatment received in the past by their specific
17 regulatory agency, is that correct?

18 A. Yes.

19 Q. And that is a factor to be taken into account
20 when they are making their decisions in terms of financial
21 planning, is that correct?

22 A. That is correct.

23 Q. Did you examine PECO's particular rate increase
24 request and rate increase allowances during this period?

25 A. We looked at them to the extent of the type of

1 request, for example; in some instances, the discussion of
2 CWIP, as I mentioned before; the interim rate request in
3 the last seventies, the request in 1978 and 1979. So, yes,
4 to that extent we looked at it, the granting, for example,
5 I think of \$24 million of the \$47 million of interim rate
6 request. To that level, in the late seventies, we did.

7 MS. CHESTNUT: Your Honor, I have a schedule here
8 that I do not intend to make an exhibit, but I will give it
9 to you to follow.

10 (Document handed to Witness Madden.)

11 BY MS. CHESTNUT:

12 Q Perhaps you would like to take a minute and
13 peruse this document.

14 (Witness complying.)

15 Q Have you had a chance to look at this, Mr. Madden?

16 A I just glanced over it. If you could direct me
17 to some part of it -- I am just glancing over it.

18 Q Well, we will.

19 Mr. Madden, first, would you agree that this repre-
20 sents an accurate depiction of the rate increase applications
21 during this period made by Philadelphia Electric Company?
22 Would you accept that subject to check?

23 A It looks generally correct, subject to check.

24 Q And would you agree, Mr. Madden, that in 1970,
25 PECO requested \$98 million and received a total increase of

1 \$73.4 million of that amount, in a two-stage process?

2 MR. HALL: Mr. Madden, do you have specific
3 knowledge of that?

4 WITNESS MADDEN: No, I don't have knowledge of the
5 specific details of these conditions on this chart that you
6 have handed me.

7 MR. HALL: We will accept them as hypotheticals,
8 Ms. Chestnut, for your question, but he doesn't know the
9 specific numbers, and I don't think it is appropriate for
10 you to try and put these numbers into the record through
11 this witness if he has no specific knowledge of them.

12 Mr. Paquette will be here tomorrow, who does in fact
13 have I think a very similar schedule in the backup to his
14 testimony.

15 JUDGE MATUSCHAK: We will assume that these are
16 correct figures, subject to check, and advise if they are
17 not correct:

18 MR. HALL: Yes, Your Honor.

19 MS. CHESTNUT: Thank you, Your Honor.

20 BY MS. CHESTNUT:

21 Q Given that assumption, Mr. Madden, that these
22 numbers are correct, would you agree that in the 1970 rate
23 case, Philadelphia Electric Company was granted an increase
24 of approximately \$73.5 million out of the \$98.1 million it
25 requested?

1 A. Yes, in the sums on the chart, that's what it
2 shows.

3 Q. And they received that in a two-step process,
4 they received the first increment in February of 1971 and
5 the remainder in November of 1971?

6 A. Yes. The date filed was November, 1970, and then
7 as according to this chart, the two effective dates in
8 early and late 1971.

9 Q. And that percentage increase is approximately
10 73 percent of the amount requested?

11 A. Yes.

12 Q. And in 1972, the next rate increase requested by
13 Philadelphia Electric Company, the company requested
14 \$47.9 million, would you agree?

15 A. Yes. According to this information you provided,
16 that is what was requested in July of 1972.

17 Q. And that ultimately the company was allowed to
18 increase its rates by the entire amount requested?

19 A. Yes. It shows a little bit over a year later,
20 in the second step, that amount was that much.

21 Q. And continuing for 1974 -- I don't want to go
22 through this in too much detail, but the note indicates that
23 the entire amount requested, \$135 million, became effective
24 January 1, 1975, is that correct?

25 A. I am looking at a difference of the amount

1 allowed and amount requested, so I am not sure of your
2 question.

3 Q. If you look under "Notes," in connection with
4 that particular proceeding --

5 A. Yes.

6 Q. -- would you agree that the entire amount was
7 allowed to become effective on January 1, 1975, and the
8 refunds of the difference between the amount requested and
9 the \$105 million was ordered?

10 A. That's what it says, yes.

11 MR. HALL: If Your Honor please, I was involved in
12 that case. It is in fact so, Ms. Chestnut, that the entire
13 increase became effective on January 1.

14 However, on April 1, when the Commission issued its
15 final order, refunds of the \$31 million difference which,
16 however, had not been collected, were required.

17 MS. CHESTNUT: That's fine. I'll accept Mr. Hall's
18 testimony.

19 BY MS. CHESTNUT:

20 Q. The next case, Mr. Madden, the ultimate revenue
21 increase was \$72 million out of the \$94.8 million requested,
22 is that correct?

23 A. According to this, in several steps stretching
24 over about a year, yes.

25 Q. And that was filed in November of 1975?

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A. According to this filing date, yes.

Q. And the next filing, which is R.I.D. 438, was filed in 1977, is that correct?

A. According to this, yes.

Q. And the company was allowed to increase its rates by \$78.9 million out of the \$116 million requested?

A. Ultimately, according to this, it was, yes.

Q. And R.I.D. 865 was filed in July of 1979, is that correct, according to this chart?

A. Yes, according to this chart.

Q. And the company in 1980 was permitted to increase its rates \$88 million out of the \$123 million requested?

A. Yes. About 10 or 11 months later, according to this chart, that was the amount allowed.

MR. HALL: Would Your Honor like to take a break at this time?

JUDGE MATUSCHAK: We will take a five-minute break.

(Recess.)

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JUDGE MATUSCHAK: When you are ready.

MS. CHESTNUT: Thank you, Your Honor.

BY MS. CHESTNUT:

Q. Mr. Madden, I think before the break we had just gotten to the last rate increase shown on the sheet, --

A. Yes.

Q. -- which is R.I.D. 225.

A. That's correct.

Q. That was filed in July of 1980. The amount requested was, let's say, \$304 million; is that correct?

A. Yes, according to this statement.

Q. And the statement shows that in April of 1981, the company was granted a revenue increase of approximately \$187.5 million; is that correct?

A. That's correct.

MR. HALL: Your Honor, I would simply like to note for the record that Mr. Paquette, the company's Financial Vice-President, will be here tomorrow. He does have firm knowledge of all of these numbers and can state, if the Staff wishes, the company's views with regard to the effects and meaning of these numbers with regard to the company's financial situation.

We would ask that if these matters are being considered and accepted into the record through this process of simply asking them of a witness who is not directly

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1 familiar with them, that the company be provided the oppor-
2 tunity at some later point, as part of its rebuttal case,
3 to provide an appropriate response to the meaning and
4 effect of these numbers.

5 JUDGE MATUSCHAK: We assume that these are the
6 correct amounts. If the company disputes these amounts,
7 we will permit them to make the correction.

8 However, I don't think the interrogation by Staff
9 as much as the effect of the financial condition of the
10 company is involved in this interrogation. I think the
11 interrogation refers more to whether these witnesses have
12 considered the requests and the increases permitted by the
13 Commission, and what effect that had on their management
14 audit in this proceeding.

15 I don't think it is the same thing as Mr. Paquette
16 would testify to. It is not the question of what effect
17 it had on the company, but what effect it had on their
18 determination in this respect of whether the management
19 was proper or improper.

20 MR. HALL: With that understanding, Your Honor, and
21 with the use of the information limited to that, I have no
22 difficulty with the matter.

23 JUDGE MATUSCHAK: These witnesses would not have
24 the intimate knowledge that Mr. Paquette would have on the
25 effect on the financial condition of the company.

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1 The only thing that I can see that they can testify
2 is as to their recognition of both the rate requests made
3 and the rate increases that were granted, and what effect
4 it had on the prudence of management in doing what they
5 did.

6 MR. HALL: I agree, Your Honor.

7 MS. CHESTNUT: Yes, Your Honor; you are exactly
8 right. That was the point I was trying to establish.

9 BY MS. CHESTNUT:

10 Q. Mr. Madden, if we could move on and go further
11 into your testimony, at page 264 --

12 JUDGE MATUSCHAK: I imagine that the matter of
13 whether the prudence of some of these delays are before us
14 will depend upon our ruling on the motion of Staff in
15 limine and the question of whether that matter will be
16 before us in this proceeding.

17 MS. CHESTNUT: I was going to wait to do this, Your
18 Honor, until after the cross, but this might be an appro-
19 priate moment to mention -- well, I'll wait until later to
20 discuss this.

21 JUDGE MATUSCHAK: Mr. Delaney indicated that he
22 would refer to the portions of testimony to be stricken if
23 his position prevailed.

24 MS. CHESTNUT: I simply wanted to make it clear on
25 the record that our cross-examination is subject to

Your Honor's ruling on that motion.

JUDGE MATUSCHAK: Very well.

BY MS. CHESTNUT:

Q Mr. Madden, at page 264, on line 1, you make the statement that the market to book ratio of utilities dropped below 1.0; is that correct?

A Yes; line 1 of that page.

Q Was this drop in the market to book ratio unique to utilities during the 1970s and early-1980s?

A We didn't do a specific comparison to other non-utilities; we looked just at, for this investigation, the utility universe that we have described here.

Q So you didn't look at the change in the market to book ratios of the S&P 400 or the S&P 500, for example?

A Not specifically beyond what we have presented here.

Q Further, Mr. Madden, on pages 265 to 267 of your prepared direct testimony, you make a comparison of PECO and the utility industry using certain financial criteria.

Would you agree that the 50 to 89 utilities which are included in the group include companies which were not involved in nuclear construction?

A Yes, that's possible; it is the 89 in Standard & Poor's current analysis.

Q Would you also agree that this group included

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1 companies that were rated AA or even AAA in terms of bond
2 ratings?

3 A. It would be that group, yes. I don't have all
4 of them listed right here before me, but it would be that
5 group.

6 We did both that analysis and then the other more
7 narrow analysis of the eight as we have described here to
8 compare PECO.

9 Q. Sticking to this larger comparison group, it
10 does include utilities of varying financial condition?

11 A. It is a cross-section of utilities.

12 Q. Would you agree, Mr. Madden, that this group
13 also includes utilities which deferred construction of
14 nuclear plants?

15 A. At page 267 we talk about, from public informa-
16 tion, other utilities that have deferred, for financial
17 reasons, nuclear plants. Is that your question? The top
18 of page 268 I list --

19 Q. No. I am referring to your first comparison.

20 A. It possibly could. We didn't break that out,
21 if that was the case.

22 Q. And it could also include companies that can-
23 celed plants or second units?

24 A. Possibly.

25 Q. Do you know that it did or didn't?

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1 A. I don't recall specifically right now.

2 Q. Mr. Madden, could you tell us if, with everything
3 else being equal, do you think that a company's financial
4 condition would be improved -- let me rephrase that.

5 Do you think if a company made the decision to re-
6 duce capital expenditures, it would improve its financial
7 condition, with everything else being equal?

8 A. By "everything else being equal" you mean --
9 I'm not sure what you mean by that.

10 Q. I'm comparing the company with its capital
11 expenditure cutback to the company that had not decided,
12 so that if the market itself stayed the same as it would
13 have been had the decision not been made -- capital costs.

14 A. I can only answer that by, as we have discussed
15 here, with the cutbacks that would affect interest coverage
16 ratios, all those financial performance indicators that
17 would affect their bond rating and other, it could preserve
18 or improve their financial profile.

19 Q. Mr. Madden, isn't it ultimately a management
20 decision as to whether to cancel a plant or to continue
21 construction?

22 A. It is. It would certainly be in response to a
23 consideration of a Commission order or directive or recom-
24 mendation; but, yes, it is management's decision on con-
25 struction of a plant.

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1 Q Until recently this Commission had no authority
2 -- are you aware of whether this Commission could have
3 ordered cancellation of Limerick Unit 1?

4 A Not particularly. I am generally aware of some
5 of the proceedings on Unit 2 and of the Commission direc-
6 tive about funding, and then of the recent Unit 2; but
7 beyond that I am not particularly aware of that.

8 Q Are you aware of shareholder votes to continue
9 construction on the Limerick Units?

10 A Not specific ones.

11 Q You have no reason to disbelieve that the share-
12 holders voted to discontinue construction, do you?

13 A I don't recall specific votes, so I would have
14 to refer to something to see that.

15 Q Earlier we discussed the fact that during this
16 period that you have looked at, 1974 through 1980, PECO
17 was continuing to spend funds on Limerick Unit 2; do you
18 recall that?

19 A Yes; in some earlier questions.

20 Q And during this period they also were spending
21 sums of money in connection with Salem Unit 1 and Salem
22 Unit 2?

23 A Yes. We did not look at that specifically, but
24 you discussed that.

25 Q Are you aware that shortly prior to that period,

1 the Peach Bottom Units in which PECO has an ownership
2 interest came on line?

3 A. Yes.

4 Q. Is it your testimony, Mr. Madden, that despite
5 its poor financial condition and the decreasing load
6 growth that is discussed in this report, that PECO is
7 prudent to continue to spend funds on Limerick Unit 2?

8 A. It is our testimony, just as we say, that they
9 made, we believe, a reasonable decision in the expenditure
10 of monies and decisions and corporate in the construction
11 and schedule of the Limerick station, and that the contin-
12 ued justification of Limerick 2 and capacity was part of
13 that.

14 Q. Did you specifically evaluate the potential
15 financial benefits, or, I should say, the potential finan-
16 cial impact of canceling Unit No. 2 in any year for this
17 period?

18 A. Not specifically the cancellation. We did look
19 at the company analysis that examined spreading out the
20 Unit 2 schedule and keeping Unit 1 constant. We looked at
21 attempts to sell or share part of the Limerick station,
22 some 20 attempts to 14 different utilities.

23 We looked at it that way, but not a specific attempt
24 at canceling Unit 2.

25 Q. Would you agree, Mr. Madden, that during this

1 period there was no legal reason why PECO's management could
2 not choose to cancel Unit 2?

3 A. I'm not sure I understand the question. Was
4 there a legal restraint to canceling Unit 2?

5 Q. Against canceling Unit 2.

6 A. Against canceling Unit 2. I'm not aware of
7 that one way or the other. I'm not aware that any existed.

8 Q. Starting on page 268, Mr. Madden, you list cer-
9 tain selected utilities you compared to PECO; is that
10 correct?

11 A. That is correct.

12 Q. And they are listed at the top of page 268?

13 A. Yes.

14 Q. Would it be correct to say that your sole cri-
15 terion for selecting these companies was that they delayed
16 construction of nuclear power plants subsequent to 1974?

17 A. We state on page 267 that we selected those
18 based on public information from the NRC's so-called
19 "Yellow Books" as indicative of other plants at this time
20 facing similar conditions; yes.

21 Q. And you note that this group is not exhaustive.

22 A. I think we say that on page 267, that many
23 utilities not included in this sample deferred construction.

24 Q. Do you know how many other companies would fit
25 your criterion if both announced and unannounced delays

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1 were included?

2 A. Not specifically; no.

3 Q. So you really don't know how PECO would compare
4 to the total population of utilities which took such
5 actions?

6 A. "Such actions" being deferment?

7 Q. Delayed construction of nuclear plants.

8 A. Not without that particular analysis, but I
9 think this is representative of a variety of plants.

10 Q. I am a little unclear from reading your testi-
11 mony on page 267, Mr. Madden; you state that you excluded
12 from your sample companies that deferred construction for
13 financial reasons during 1974 -- now wait; let me do that
14 again.

15 Am I correct that you excluded from your group com-
16 panies which deferred construction for financial reasons
17 in 1974? Is that correct? And that you included utilities
18 that experienced financially-related deferrals in later
19 periods?

20 A. The period that we looked at in, again, the
21 "Yellow Book" information as it is referred to, is the '74
22 to '79 period. We do note that others deferred construc-
23 tion in '74, but we are not trying to distinguish the one
24 year of '74, what is in or outside of this sample.

25 MS. CHESTNUT: Your Honor, could I have that last

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1 answer read back, please?

2 JUDGE MATUSCHAK: Yes.

3 (Whereupon, the reporter read from the record, as
4 requested.)

5 BY MS. CHESTNUT:

6 Q Let me just clarify. There were utilities that
7 deferred construction for financial reasons in 1974 which
8 were not included in your sample because they did not ex-
9 perience financially-related deferrals in later periods; is
10 that correct?

11 A I think we're saying -- not think; we are saying
12 that there were other utilities that made deferrals in
13 1974 that are not in this sample.

14 I don't make a statement whether they had other
15 deferrals after that or not, but this is a selection in
16 this five-year period from '74 to '79 that we chose.

17 Q So all of the utilities which you have looked at
18 deferred construction for financial reasons during the
19 period 1974 through 1979; is that correct?

20 A As we state on 267 and list them on 268, page
21 268.

22 Q Did you make any type of analysis with respect
23 to these companies, Mr. Madden, to indicate by what means
24 they were able to continue their nuclear construction
25 program in terms of financing options?

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1 A. No; we didn't do a specific study of these par-
2 ticular plants just to provide that perspective as we have
3 done so.

4 Q. On page 269, Mr. Madden, it is your testimony
5 that you are not implying that PECO could not have raised
6 any additional capital during the deferral decision
7 periods; is that correct?

8 A. If I understand your question correctly, we are
9 not saying that PECO could not have raised any more money.
10 We think it would have jeopardized their position further.
11 We're not saying they could not have raised any more money.

12 I think we have both used a lot of "nots," but I
13 believe it is pretty clear on the question and answer be-
14 ginning at line 5.

15 Q. If PECO had decided to maintain a construction
16 schedule and not do the 1976 delay, did you do any kind of
17 study as to the financing options available to the company?

18 A. (No response.)

19 Q. Do you want me to rephrase that?

20 A. Yes.

21 Q. Had the company not decided to delay in 1976,
22 did you do any kind of study as to the additional sources
23 of funds PECO could have used?

24 A. We didn't do a specific study other than that,
25 but we noted their financial profile; we looked at some of

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1 the documentation and memoranda surrounding their deci-
2 sions, but we didn't do a specific study of other financing
3 options.

4 We looked at the amount of monies they did spend on
5 Limerick at that time. Those sorts of analysis, those
6 sorts of investigations we did.

7 Q So you didn't look at how much money PECO could
8 have raised through first mortgage bonds or preferred or
9 common equity during that period; is that correct?

10 A Not a specific amount. We looked at interest
11 coverage ratios as we have described. We looked at their
12 bond ratings and the downgradings. We looked at the per-
13 cent of the capital budget that was devoted to Limerick,
14 which was about 50 percent at that time. We looked at
15 their budget changes; all of those sorts of pieces of in-
16 formation, but not another specific study.

17 Q So you made no specific analysis of what the
18 market might have been for preference stock or debentures
19 for PECO?

20 A We didn't look at that, but we certainly note
21 what PECO did. In 1976, \$50 million was issued in pre-
22 ferred stock; the 10 million shares in '75 of common stock,
23 the long-term debt. We looked at the amounts of money they
24 did raise. We looked at their financial profile. That we
25 explained. No other studies beyond what we have described

j14

1 here. Some \$370 million in '75 they raised; \$320 million
2 in '76; those sorts of things, if that's what you mean.

3 Q I am less concerned with what they did than
4 what they could have done. You made no attempt to ascer-
5 tain an additional source of funding during that period?

6 A Not a specific study beyond that.

7 Q Did you specifically examine PECO's dividend
8 policy during this period?

9 A To the extent that I believe it was in '78 that
10 their expected earnings would be below their dividend pay-
11 out, we looked at their dividend payout ratios, but not an
12 investigation beyond that which we think is typical.

13 Q Did PECO ever pass on a dividend in this period?

14 A Not to my knowledge.

15 Q Did it ever fail to make an interest payment on
16 debt?

17 A I don't believe so. They came close on inter-
18 est coverage ratios, but did not.

19 Q It is your testimony that during the 1970s,
20 PECO was in poor financial condition; is that correct?

21 A Yes. That's what the evidence shows to us.

22 Q Are you aware of any steps taken by the company
23 during that period to reduce expenses?

24 A Yes. I believe there were, obviously, the
25 general capital budget reductions. If I recall correctly,

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1 there were conditions to control other expenses. At one
2 time, to my recollection, a hiring freeze on people; I
3 think any additions had to be approved by the Chairman of
4 the Board. I believe a general belt-tightening all
5 around, to my knowledge.

6 Q. Were there any lay-offs?

7 A. I don't recall any lay-offs.

8 Q. How about a salary freeze?

9 A. That I'm not sure of. I would have to refresh
10 myself on that. I do recall the no hirings except on
11 approval of the Chairman.

12 Q. Do you know if PECO sold off any land or build-
13 ings to raise cash?

14 A. I don't know.

15 Q. Would you agree, Mr. Madden, that in an infla-
16 tionary economy, one effect of delaying plant construction
17 is to increase the ultimate cost of the project because of
18 increases in materials, wages and capital?

19 A. If the cost of materials and of wages yet to
20 be spent increases, certainly, the cost increases. I
21 think it depends on the effect on those particular mater-
22 ials, those wages, and how the economy treats those par-
23 ticular items.

24 Q. And you would agree that the ultimate cost of
25 the plant would also increase due to the compounding effect

1 of AFUDC?

2 A. Yes; as the carrying costs go up, the total
3 price, cost, goes up.

4 Q. And the carrying costs also increase over time;
5 is that correct?

6 A. Yes.

7 Q. Would you agree that PECO's delays resulted in
8 a larger Limerick investment than would have occurred had
9 PECO been able to maintain its schedule?

10 A. If I understand your question, I think the
11 higher interest carrying costs certainly created a higher
12 cost. I think it is unclear whether the plant could have
13 been completed earlier or not; so to that extent I can't
14 answer your question.

15 Q. Assuming that it could have and that it would
16 be the same plant as was completed today. I'm just com-
17 paring the costs now to the costs later.

18 A. If the carrying costs were less, then the total
19 cost would be less, assuming everything else was the same,
20 the same plant, the same requirements, the same conditions.

21 Q. And because it would cost more, the effect of
22 that would be that PECO would have to raise more capital
23 to pay for the costs; is that correct?

24 A. If the costs are higher, then greater funding
25 requirements exist.

1 Q Are you familiar with PECO's Limerick revolving
2 credit agreement? Are you familiar with that?

3 A Not in detail; just that they established and
4 had that, but not in particular detail.

5 Q Would you agree that it was initiated during
6 the 1983 to 1984 period, if you know?

7 A I don't know specifically, but I believe that
8 is generally correct.

9 Q Do you know why PECO entered into this type of
10 financing?

11 A I don't recall specifically.

12 Q I would like to clarify, on page 269; is it
13 your testimony that the 1976 and 1978 delays permitted
14 PECO to issue stock at or above book value in the years
15 after the delays?

16 MR. HALL: Could we have that question re-read,
17 please?

18 (Whereupon, the reporter read from the record, as
19 requested.)

20 MR. HALL: You can go ahead and answer that.

21 WITNESS MADDEN: I believe the market to book ratio
22 of the stock in '76 and '78 was below 1, and that stock was
23 issued at that time. So if I refresh myself on some notes,
24 in '76 some \$70 million of common stock was issued, if I
25 recall correctly, and that was when it was below 1.

1 So it was not issued above book; it was below book.

2 BY MS. CHESTNUT:

3 Q So the fact that the company delayed in 1976
4 and 1978, did that improve its ability to issue stock at
5 or above book value?

6 A I believe it improved their overall financial
7 profile and picture. As I have just said, the market to
8 book ratios were below 1 except for one year, in 1977.

9 MS. CHESTNUT: Thank you, Mr. Madden.

10 I have one further question, and I'm not sure who
11 can answer this; but perhaps one of you gentleman can tell
12 us: how much will the study cost PECO that was done by
13 TB&A?

14 WITNESS MADDEN: TB&A charged standard rates, as we
15 do with every other -- we do not vary from that; this
16 study has been ongoing for some time. As Mr. Kononetz
17 said, it is typical of our cost. The particular standards
18 and rates are somewhat confidential, but they are standard.

19 JUDGE MATUSCHAK: I can't hear you.

20 WITNESS MADDEN: I'm sorry, Your Honor. Our costs
21 and billing rates are standard for this project, as they
22 are all of our other projects. Those are somewhat confi-
23 dential, but there is no difference here in our charges to
24 the law firm for this study than any other project to do
25 that.

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1 JUDGE MATUSCHAK: What is the amount? Did you give
2 any amount?

3 WITNESS MADDEN: As I recall, it is in excess of
4 a million dollars.

5 JUDGE MATUSCHAK: How much?

6 WITNESS MADDEN: In excess of a million dollars. I
7 don't know the exact amount.

8 MR. HALL: We can supply that. There is no
9 difficulty.

10 MS. CHESTNUT: Thank you, Your Honor. I appreciate
11 that.

12 Your Honor, that concludes the questions I have for
13 these witnesses.

14 JUDGE MATUSCHAK: Consumer Advocate.

15 MR. WERSAN: Thank you, Your Honor.

16 CROSS-EXAMINATION

17 MR. WERSAN: Good morning, gentlemen. My name is
18 David Wersan. I am with the Office of Consumer Advocate.
19 The questions I have go to the information on the cost
20 reconciliation that is presented in PECO Exhibit No. 2.

21 I would like to refer you specifically to page 17
22 of Exhibit 2. I'm not sure which one of you was responsible
23 for this area. Maybe you could indicate who is best able
24 to answer these questions.

25 WITNESS OSBORN: I will be addressing those answers.

1 MR. WERSAN: On page 17, item number 15, you have
2 quantified "Cost Impact of Schedule Extensions Due To
3 Licensing Delays And Other Factors," and quantified that
4 as \$385.1 million; is that correct?

5 WITNESS OSBORN: That is the total that has re-
6 sulted allocated to that descriptor.

7 MR. WERSAN: You state in the first sentence of
8 that section that "Delays in the construction and operating
9 schedules resulted in time-related direct cost increases
10 due to the prolonged period of equipment maintenance and
11 project staffing."

12 My first question is: is the \$385.1 million we see
13 here just direct costs, excluding AFUDC?

14 WITNESS OSBORN: If you go back to Schedule 42, you
15 will find out that all of these costs are building toward
16 the direct cost growth from the initial CA through the most
17 recent cost forecast, and that all AFUDC is accounted for
18 in another category below the line of this cost growth
19 analysis.

20 MR. WERSAN: That's what I thought. So the answer
21 is: yes, this does not contain AFUDC?

22 WITNESS OSBORN: Yes; that's right.

23 MR. WERSAN: Are these costs in nominal as spent
24 dollars?

25 WITNESS OSBORN: Yes.

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1 MR. WERSAN: Now, you ascribe these costs to two
2 things in the first sentence of paragraph 15; the first is
3 the prolonged period of equipment maintenance. What are
4 you referring to here? What is involved in prolonging
5 the period of equipment maintenance?

6 WITNESS OSBORN: What this is basically saying is
7 that you have equipment on site, and during the time of a
8 delay, whether this equipment is being productively used
9 or not, you are still having it there and maintaining it,
10 and there is a carrying cost of having it and a carrying
11 cost, basically, of maintaining it so it is available to
12 do productive work when that is recommenced.

13 MR. WERSAN: The second one you have there is pro-
14 ject staffing. What kind of staffing are you referring
15 to here?

16 WITNESS OSBORN: Again, it is the continuity of
17 supervision; it is the continuity of a support staff and
18 those others that are maintaining records and maintaining
19 the continuity of the project so that when productive con-
20 struction restarts, it is available to be supported.

21 MR. WERSAN: When you say "supervision," at what
22 level of supervision are you starting? I guess I mean
23 from the bottom level; are you talking about the supervisor
24 who is supervising eight craft workers, or at what level
25 are you starting and going up in this calculation?

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(Witnesses Osborn and Kononetz conferring.)

WITNESS OSBORN: It is the supervision of non-productive work and, therefore, it is a supervisor and up of clerks and other non-directly construction productive personnel.

MR. WERSAN: Would this be both PECO and Bechtel supervisory personnel?

(Witnesses Osborn and Kononetz conferring.)

MR. WERSAN: If Mr. Kononetz can answer, -- please, I would prefer that one of you or both of you answer, but not that one of you suggests to the other the answer.

WITNESS OSBORN: Well, this is a level of detail to which perhaps I will defer to Mr. Kononetz.

WITNESS KONONETZ: Is there an outstanding question?

MR. WERSAN: My question was: are we referring to supervisory staff for both Bechtel and PECO in this analysis?

WITNESS KONONETZ: It is my understanding that the costs contained herein are related to the costs of project personnel associated with maintaining items such as documents and tools and so on through these periods of time, and are primarily Bechtel personnel as opposed to PECO.

MR. WERSAN: You list these two factors. Am I to assume that these are the only two cost items that you ascribe to delay in construction in developing this analysis

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of \$385.1 million?

WITNESS OSBORN: No. I think if you go down through the rest of the examples, you will see that there are others.

MR. WERSAN: You are giving me what caused schedule extensions under number 15, but you are not suggesting additional areas of cost that are impacted by those items.

WITNESS OSBORN: I'm sorry; I agree with you there. Basically, this is the support cost of maintaining over time where productive work was not being done.

MR. WERSAN: My question was: you have identified two; were there others that are incorporated in the \$385.1 million, or are these the only two that you ascribe to the cost of delay?

WITNESS OSBORN: Another would be, in the same sort of category of equipment maintenance, would be facilities maintained at the site, for instance, warehousing, the building itself and maintenance of the support facilities in which these equipment and staff types of resources reside.

MR. WERSAN: Are there others that you can think of also?

WITNESS OSBORN: No, not at the moment.

MR. WERSAN: Do you know if others were reviewed in developing this cost figure?

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1 answer to this interrogatory?

2 WITNESS OSBORN: Yes, I am.

3 MR. WERSAN: This interrogatory asks for all the
4 work papers, studies, analyses or other support for each
5 of the cost reconciliation figures on Exhibit 2, Schedule 1.

6 Schedule 1 is on page 2a of Exhibit 2, and that is
7 in fact the listing of all the items we are referring to
8 here; is that correct? -- let me change that.

9 That is a listing of all of the costs you recon-
10 ciled, and we are referring to one of those cost items at
11 this time, the delay.

12 WITNESS OSBORN: That's correct.

13 MR. WERSAN: The information that was provided, I
14 have taken -- I have shown the cover page of the "Cost
15 Reconciliation Backup" and the "Table of Contents," and
16 then I have put in page I-38, I-39 and I-40, which are the
17 reconciliation for the cost impact of schedule extensions
18 due to licensing delays and other factors which we are
19 discussing now.

20 Do you see that, and do you agree that that is the
21 backup documentation that was provided?

22 WITNESS OSBORN: Yes, I do.

23 MR. WERSAN: Am I to infer then that this is the
24 complete analysis that was done to develop the \$385.1
25 million figure?

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1 WITNESS OSBORN: No. This is a complete listing of
2 the entry, as we have compiled it in the accountability, to
3 total the numbers that come together on Schedule 1.

4 Behind this and the source of information are the
5 forecasts I mentioned, the capital authorizations, the
6 cost trends, the NCDs, from which these entries are re-
7 ferred to.

8 MR. WERSAN: So you then would agree with me that
9 by providing this document, we could add up the numbers
10 and come to \$385 million, but we would still need more
11 information to know where these numbers come from on this
12 exhibit?

13 WITNESS KONONETZ: This exhibit references where
14 the numbers came from, that being the right-hand column.

15 MR. WERSAN: Okay; good. Let's go then to page
16 I-38 and discuss what's on these pages. On the left-hand
17 column you have the "Reconciliation Item," and in terms of
18 the major delays I think that are being referenced in this
19 case, we can look at the last three lines, the last three
20 line items on page I-38: "Cost associated with fuel load
21 delay to 3/82; 5/84." Then the next one is: "Delay in
22 fuel load date to 10/82 and 10/84;" and finally: "Schedule
23 delay from 10/82 to 10/84 for Unit 1 and 10/84 to 10/86 for
24 Unit 2."

25 Do you see those three line items?

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1 WITNESS OSBORN: Yes, we do.

2 MR. WERSAN: Then the next column is the "Total
3 Cost" you have ascribed to those particular line item de-
4 lays, and then you unitized it to Limerick 1 and common,
5 which then is shown in the third column; is that correct?

6 WITNESS OSBORN: That is correct.

7 MR. WERSAN: So the third column is the cost you
8 are ascribing to the delays for Unit 1 and common, and the
9 final column would show me the forecast where I could find
10 the costs you developed; is that correct?

11 WITNESS OSBORN: Yes. These entries have come from
12 Forecasts 4 and 5.

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1 MR. WERSAN: Your Honor, at this time I would
2 like to mark for identification OCA Exhibit 63, which
3 is an excerpt from Forecast 5 for the Limerick generating
4 station.

5 JUDGE MATUSCHAK: It may be so marked.

6 (Whereupon, the document was marked
7 as OCA Exhibit No. 63 for
8 identification.)

9 MR. WERSAN: This is excerpts from the Forecast
10 5. You gentlemen, I assume are familiar with the forecast?

11 WITNESS OSBORN: Yes.

12 MR. WERSAN: I have included page 1 which in the
13 first paragraph gives us the date in the last sentence
14 in that paragraph, "The engineering scope reflected in
15 this forecast is based on information available as of
16 August 1, 1980," is that correct?

17 WITNESS OSBORN: I'm sorry; I was looking at this
18 and I did not hear you.

19 MR. WERSAN: On page 1 we get the date of this
20 forecast in the last sentence of the first paragraph, "The
21 engineering scope reflected in this forecast is based on
22 information available as of August 1, 1980;" do you see
23 that?

24 WITNESS OSBORN: Yes.

25 MR. WERSAN: On page 2 it states the Forecast 5
basis, then in Section 1.3.2, "Exclusions." Are you

1 familiar with that, how costs are included or excluded
2 in Bechtel forecasts?

3 WITNESS OSBORN: Yes.

4 MR. WERSAN: And Item (a) is PECO's costs. Does
5 that mean that Bechtel in doing its forecast does not in-
6 clude PECO cost items and does not forecast those cost
7 items?

8 WITNESS OSBORN: That is true.

9 MR. WERSAN: If I could refer you then to page 17,
10 which is the last page of this document, which would be
11 the reference given in the previous exhibit I handed you,
12 to the last line item, schedule delay from 10-82 to
13 10-84 for Unit 1, and 10-84 to 10-86 for Unit 2, the
14 far right-hand column says 5-P-17; so that's where you
15 are referring me to, is that correct?

16 WITNESS OSBORN: Yes.

17 MR. WERSAN: In OCA Exhibit 2, which is the recon-
18 ciliation backup, you give a total cost of \$141.6 million,
19 and then you unitize that to Unit 1 and common for a
20 total of \$92 million; is that correct?

21 WITNESS OSBORN: That's right.

22 MR. WERSAN: So if we go to page 17 of Forecast
23 5, we have a list of scope changes that are included in
24 this forecast, and the first one is number 1, which is
25 "Delay of Fuel Load Dates from 10/82 to 10/84; 10/84 to

1 10/86 for Units 1 and 2, respectively." Do you see that?

2 WITNESS KONONETZ: Yes.

3 MR. WERSAN: We have three columns, Trended, Not
4 Trended and Total. Would I be correct that this is a
5 comparison of the difference -- or a resolution of addi-
6 tional scope changes from Forecast 4 to Forecast 5? Is
7 that correct?

8 WITNESS KONONETZ: That which is a resolution of
9 differences?

10 MR. WERSAN: For Item 1, "Delay Fuel Load Dates,"
11 those cost items are including or calculating the additional
12 scope changes and the costs related to them for the fuel
13 load dates shift?

14 WITNESS KONONETZ: The 224.3, which represents the
15 total of the 200 plus the 24.3 are reflective of costs
16 increases realized subsequent to the prior forecast.

17 MR. WERSAN: Right. And just so the record is
18 clear, Trended refers to those cost increases that are
19 included in what are called trends -- and I assume there
20 are trends between Forecast 4 and Forecast 5, and they
21 went from 4-1 to 4-9, and then there is a final analysis
22 for Forecast 5, and any costs that weren't in those interim
23 trends are in the Not Trended column, and then you get
24 the Total cost item; is that correct?

25 WITNESS KONONETZ: That is generally correct. I'm

1 not exactly certain that 4-9 is the last trend prior to
2 Forecast 5, but your concept appears to be correct.

3 MR. WERSAN: So on page 17 of Forecast 5, which
4 has the total costs ascribed to the delay of 224.3, could
5 you please tell me how that 224.3 is related to the 141.6
6 in the reconciliation backup?

7 WITNESS KONONETZ: The 141.6 represents a portion
8 of the 224.3 that is presented here in the forecast.

9 MR. WERSAN: So then if I took your forecast basis
10 reference for the reconciliation and went to Forecast 5
11 I still wouldn't know how to get to the 145.6; is that
12 correct?

13 WITNESS KONONETZ: I didn't follow that. Could
14 you repeat that please?

15 MR. WERSAN: Sure. You gave me the backup papers
16 for the reconciliation. It shows me the line items for the
17 cost of delays and gives me a forecast basis, but when
18 I go to the forecast the numbers are not the same, so
19 I assume I will need additional information in order to
20 understand what is in your reconciliation; is that correct?

21 WITNESS KONONETZ: The additional information is
22 all contained within the interrogatory response that was
23 provided.

24 MR. WERSAN: Well, let me ask you this: what did
25 you do to the 224.3 to get to the 141.6?

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WITNESS KONONETZ: It looks familiar, yes.

MR. WERSAN: And this is the reconciliation for unanticipated escalation; is that correct?

WITNESS KONONETZ: That is correct.

MR. WERSAN: If you could go to page IV-3?

WITNESS KONONETZ: Yes.

MR. WERSAN: Which is the last page.

WITNESS KONONETZ: Yes.

MR. WERSAN: Under Unanticipated Escalation there is a line item "Escalation associated with schedule delays;" do you see that?

WITNESS KONONETZ: Yes, I do.

MR. WERSAN: And the final item there is referenced to page 17 of Forecast 5; is that correct?

WITNESS KONONETZ: That's correct.

MR. WERSAN: And there you have \$80.9 million?

WITNESS KONONETZ: That is correct.

MR. WERSAN: On a total cost basis?

WITNESS KONONETZ: Yes.

MR. WERSAN: So if we put those two together then you are giving me the total line item from page 17, for a total for Unit 1 and common; is that correct?

WITNESS KONONETZ: I believe that would be correct, yes.

MR. WERSAN: You said that the information in the

1 forecasts are just Bechtel costs; is that correct?

2 WITNESS KONONETZ: Certain of the forecasts contain
3 certain of PECO costs. They don't include all of the PECO
4 costs for each forecast, and it does vary from forecast
5 to forecast.

6 MR. WERSAN: When we look at Forecast 5 it had
7 exclusions for certain PECO costs, didn't it?

8 WITNESS KONONETZ: Yes, it did.

9 MR. WERSAN: Are there PECO cost items associated
10 with the delay -- I'm speaking particularly of the delay
11 item we have been following here from the '82 to '84 for
12 Limerick 1 -- are there PECO costs associated with that
13 delay that are not in the 224.3 total cost of that delay?

14 WITNESS KONONETZ: If you would allow me to do
15 just a check here. I need to do the check to verify
16 my answer to your question.

17 MR. WERSAN: Okay.

18 (Pause.)

19 WITNESS KONONETZ: I believe in this particular
20 case that there is a portion of the 224.3, namely a portion
21 of about \$1.8 million that does represent, to the best
22 of my recollection, costs associated with the NSSS contract
23 that we excluded from these two particular line items that
24 you referenced.

25 MR. WERSAN: You are going to have to keep going

1 to explain to me whether or not all of PECO costs are in
2 or out of this item.

3 WITNESS KONONETZ: This item consists of three costs.

4 MR. WERSAN: Which item are you referring to, the
5 224?

6 WITNESS KONONETZ: The \$224.3 million.

7 MR. WERSAN: Okay.

8 WITNESS KONONETZ: It consists of the \$141.6 million
9 that appears on page I-38, and, as I've said before,
10 basically consists of the time-related direct costs
11 associated with this; it also consists of as a second item
12 the \$80.9 million that appears on page IV-3, and there
13 is a further \$1.8 million that I believe is associated
14 with the NSSS contract that would also be appearing
15 elsewhere.

16 MR. WERSAN: So the NSSS contract is the only piece
17 of this item you are calling PECO costs of delay, and the
18 rest are Bechtel's costs of delay?

19 WITNESS KONONETZ: It is really a matter as to how
20 you define a Bechtel cost and a PECO cost associated with
21 these items. But generally the \$141.6 million and the
22 \$80.9 million are numbers associated with Bechtel accounts,
23 and the \$1.8 million is a dollar value associated with,
24 in essence, a PECO account.

25 MR. WERSAN: Is the NSSS item the only cost of

1 delay that PECO incurred as a result of the fuel load slip
2 from 10-82 to 10-84?

3 WITNESS KONONETZ: Could you repeat that please?

4 MR. WERSAN: Is the NSSS contract the only cost
5 of delay that PECO separately incurred from whatever
6 Bechtel was doing as a result of the delay in fuel load
7 for Limerick 1 from 10-82 to 10-84?

8 WITNESS KONONETZ: The project documentation that
9 we reviewed to compile this cost reconciliation identified
10 these costs in the project records as being associated
11 with the decision to change the fuel load dates. Further
12 scrutiny would really be required even of these costs to
13 determine the exact nature of the expenditure and as to
14 whether they would then be -- to determine as to how they
15 would be related to the change in fuel load dates.

16 MR. WERSAN: The answer is you are not sure; you
17 don't know?

18 WITNESS KONONETZ: No, that is not my answer.

19 MR. WERSAN: Your answer then is what?

20 WITNESS KONONETZ: What I tried to do is to tell
21 you what I feel would be the best understanding of these
22 numbers.

23 MR. WERSAN: Let me ask you this: Mr. Osborn earlier
24 indicated kinds of costs associated with delay, and those
25 included equipment, maintenance, supervising clerks,

1 maintenance of facilities and so forth, and you haven't
2 identified PECO costs associated with those kinds of
3 activities here.

4 WITNESS KONONETZ: If there were any PECO costs
5 of that nature -- and the project documentation that was
6 reviewed did not identify any costs of that nature that
7 would be associated specifically to this event based on
8 the documents reviewed.

9 MR. WERSAN: Based upon your knowledge of what
10 happens when you stretch out a project, would you think
11 that only Bechtel would incur supervisory costs, maintenance
12 costs, facility costs, etcetera; or that both Bechtel and
13 PECO would incur costs related to stretching out the period
14 of construction?

15 WITNESS KONONETZ: The nature of the organizations,
16 namely the Bechtel and the PECO organizations, were differ-
17 ent, and one would not necessarily expect that you would
18 have a direct ratio or a direct consequence from one
19 organization to the other. There, indeed, could be some
20 impacts, but there would not necessarily have to be, such
21 as in the Engineering Department; the engineers involved
22 with the project could very well be utilizing time to
23 review drawing specifications and documents for another
24 project, as opposed to continuing to spend time associated
25 with Limerick.

1 MR. WERSAN: Are you talking about PECO engineers
2 or Bechtel engineers?

3 WITNESS KONONETZ: I was referring to PECO engineers.

4 MR. WERSAN: So based on the information that you
5 compiled, the Unit 1 and common costs of \$92 million
6 associated with the schedule delay from 10-82 to 10-84
7 for Unit 1 is predominantly a Bechtel cost?

8 WITNESS KONONETZ: Which dollar value did you refer
9 to in your question?

10 MR. WERSAN: I'm using the \$92 million item for
11 Unit 1 and common costs from I-38 of your reconciliation
12 figures, and the question is: is this \$92 million then,
13 based upon the discussion we just had, predominantly or
14 almost totally a Bechtel cost as identified in Forecast
15 5?

16 WITNESS KONONETZ: It is predominantly and may
17 totally be a Bechtel cost.

18 MR. WERSAN: And so your testimony is that the
19 costs of the stretch-out of construction may, indeed, be
20 higher for Bechtel than for Philadelphia Electric Company?

21 MR. HALL: Higher for Bechtel than for Philadelphia
22 Electric Company?

23 MR. WERSAN: Excuse me. I phrased that improperly.
24 The costs incurred as a result of stretching out the
25 construction schedule may seem to be higher or be incurred

1 more on the Bechtel side of the job than on PECO's side
2 of the job?

3 WITNESS OSBORN: I think it is reasonable to under-
4 stand that most of the money is being spent by Bechtel
5 as an agent for PECO. It all eventually comes back to
6 money that is spent by PECO, however.

7 MR. WERSAN: I understood that. It all eventually
8 comes back to money that might be charged to ratepayers
9 too. I was just trying to understand the relationship
10 between Bechtel and PECO cost areas associated with
11 construction.

12 Then I have one final area of questions. If the
13 \$385.1 million which are direct cost increases to the
14 schedule delays are in nominal as-spent dollars, how --
15 and I assume that is as-spent in each year of the project
16 -- how then is there additional escalation on top of that;
17 aren't those dollars in each year at the escalation cost
18 of dollars in that year?

19 WITNESS OSBORN: Those dollars --

20 MR. WERSAN: Mr. Kononetz, you can answer if you
21 would like, please.

22 WITNESS KONONETZ: I want to make sure one point
23 is clear because there may be a clarification required
24 here. The nominal dollars as they appear in this cost
25 reconciliation are not necessarily the as-spent, but the

1 as-recognized at the time of the trends forecasts or NCDs,
2 to which additional escalation is applied dependent upon
3 the economic conditions at that point in time.

4 MR. WERSAN: Then if I want to know the full cost
5 of impact of the delay associated with Unit 1 for 1982
6 to 1984 I need to add the \$92 million from the cost impact
7 on page I-38 to at least the \$39.6 million of unanticipated
8 escalation on IV-3 -- and I'm referring in both places
9 to the cost reconciliations which I've called OCA 62 and 64?

10 WITNESS KONONETZ: Well, it is really a matter of
11 how you define impact of a change in the fuel load target
12 date.

13 MR. WERSAN: Let me then rephrase it. When you
14 calculated the costs -- or reconciled the costs of Limerick
15 1 you ascribed \$92 million to Unit 1 and common from the
16 cost impact of schedule extension, plus you said escalations
17 associated with that delay for Unit 1 and common was
18 another \$39.6 million, and that then would give you the
19 total costs that you have ascribed to that line item of
20 the delay from 10-82 to 10-84 for Limerick 1; is that
21 correct?

22 WITNESS KONONETZ: The dollars that we have shown
23 here are the dollars that we have utilized from the
24 project documentation that exists, and if one wants to
25 go into a further level of detail to determine exactly

1 how the dollars should be ascribed to various factors,
2 further scrutiny would be required.

3 MR. WERSAN: Let me ask you this: in the reconcilia-
4 tion documents provided there are comparable line items
5 associated with page 17 of Forecast 5, which you have
6 called the responsible basis for analyzing the costs of
7 the schedule delay from 10-82 to 10-84, and that line item
8 can be found both in your cost impact calculation and your
9 unanticipated escalation calculation; and what I've
10 presumed is that those line items are comparable and could
11 be added together to find out the total cost of construc-
12 tion delay and escalation associated with that delay.

13 MR. HALL: Your Honor, if Mr. Wersan please, I'm
14 afraid you have lost me in the question.

15 MR. WERSAN: Okay, I'll restate it.

16 MR. HALL: You went around a few times.

17 MR. WERSAN: Sure. We have OCA Exhibit 64, page
18 IV-3 and OCA Exhibit 62, page I-38. Both of them have
19 line items dealing with the schedule delay, and one line
20 item on both pages cites Forecast 5, page 17, "Schedule
21 Delay from 10/82 to 10/84;" on I-38 it is the last item
22 and on IV-3 it is in the middle and it is the last line,
23 "Escalation associated with schedule delays."

24 Do you see those, Mr. Kononetz or Mr. Osborn?

25 WITNESS OSBORN: Yes, we do.

1 WITNESS KONONETZ: Yes, we do.

2 MR. WERSAN: Are those line items referring to the
3 same thing, one the unanticipated escalation costs, and
4 the other the direct cost impact from that particular
5 schedule delay?

6 WITNESS OSBORN: Yes.

7 MR. WERSAN: So those two could be added together
8 and have a total cost associated with that particular item
9 that you are reconciling in Exhibit 2?

10 WITNESS KONONETZ: Those are the entries that one
11 would use to sum together to come to the forecast entry
12 that is included on page 17 of Forecast 5.

13 MR. WERSAN: And if I summed them together
14 on Unit 1 I would sum \$39.6 million and \$92 million, and
15 that would be the total for Unit 1 and common that you
16 have ascribed to this particular delay?

17 WITNESS OSBORN: As on accounting of the Forecast
18 5 -- that would be Forecast 4.

19 MR. WERSAN: And then you have added up the total
20 column to get to the final reconciliation figures when
21 you added Unit 1 and common costs after unitization to
22 get to your particular cost item in Exhibit 2; isn't that
23 correct?

24 WITNESS KONONETZ: Yes.

25 WITNESS OSBORN: Yes.

1 MR. WERSAN: I think I understand. Can you quickly
2 tell me what that total figure then would be if we added
3 the \$92 million and the \$39.6 million?

4 WITNESS KONONETZ: You need to add the -- I'm sorry;
5 I haven't done it.

6 MR. WERSAN: Would that be \$131.6 million?

7 WITNESS KONONETZ: I believe so.

8 MR. WERSAN: Thank you. That's all I have, Your
9 Honor.

10 Thank you, gentlemen.

11 JUDGE MATUSCHAK: We will let Mr. Kleppinger
12 finish his cross-examination.

13 CROSS-EXAMINATION

14 MR. KLEPPINGER: Good afternoon, gentlemen. My
15 name is David Kleppinger and I represent the Philadelphia
16 Area Industrial Energy Users Group.

17 In reviewing your study it occurred to me that one
18 of the issues we've been discussing in this case so far
19 is the cooling water availability. Are you familiar
20 generally at least with that as a potential problem for
21 the operation of Limerick 1?

22 WITNESS OSBORN: Yes, we know of the issue of the
23 process by which to get cooling water available to the
24 Limerick plants.

25 MR. KLEPPINGER: Was that potentiality addressed

1 in your assessment of the reasonableness of the delays
2 that were incurred in '76 and '78?

3 WITNESS OSBORN: What has been assessed as our study
4 is the process by which PECO management has gone through
5 those options available to them in pursuit of an adequate
6 water supply.

7 MR. KLEPPINGER: So are you telling me that you
8 did examine management's response to the water availability
9 problem?

10 WITNESS OSBORN: What we have done is follow their
11 process from the various initial studies that were done
12 to the various meetings and permits that had to be made
13 and the relationships through the Neshaminy and Delaware
14 River Basin to weave their way through the permitting
15 process to establish potential or identifiable alternative
16 solutions, and then go through the various approval
17 processes to determine what would be an acceptable and
18 cost-effective manner in which to secure water for the
19 Limerick plant.

20 MR. KLEPPINGER: In the time frame which you
21 analyzed and audited on PECO's management of this issue,
22 was it your conclusion that management during those years
23 did not perceive, given what they knew at that time, that
24 water availability was going to become a problem?

25 WITNESS OSBORN: Given what was known at the time,

1 of course being less than is now known, it was perceived
2 as an issue that was much less under management's control
3 than they would ever prefer of course in that they had
4 to work with a great number of other approving agencies.
5 It was thought to be an activity that would require an early
6 start, persistence in going from one channel to another
7 to walk through the requirements, but one that could be
8 done was consistently pursued, and that would end up with
9 an approval as it did to construct certain facilities for
10 which there was a rather constricted and limited time
11 frame required for the completion.

12 MR. KLEPPINGER: The entire thrust of your audit,
13 I take it -- and you have used the word regularly -- was
14 on a retrospective basis; is that a fair categorization?

15 WITNESS OSBORN: Very much so.

16 MR. KLEPPINGER: So that none of the testimony that
17 you have presented here today goes to the issue that the
18 Commission has to decide in this case, being what rate
19 relief is required for this company at this point in time;
20 is that a fair statement?

21 WITNESS OSBORN: It's a fair statement, but now
22 I'm left with not knowing what the answer is, whether yes
23 or no is appropriate.

24 MR. KLEPPINGER: What I want to know is whether
25 that is a fair characterization of your purpose as you

1 perceive it in presenting this testimony today; it was
 2 to provide a retrospective look at what has happened
 3 up to today and not to tell this Commission what PECO re-
 4 quires at this point in time in terms of the ultimate rate
 5 relief decided by the Commission?

6 WITNESS OSBORN: Yes, I agree. Thank you for the
 7 clarification.

8 MR. KLEPPINGER: That's all I have, Your Honor.

9 MS. CHESTNUT: Your Honor, there is one question
 10 that I forget to ask. Might I ask it now?

11 JUDGE MATUSCHAK: Yes.

12 CROSS-EXAMINATION

13 MS. CHESTNUT: Gentlemen, is there any individual
 14 besides Mr. Love who had a substantial input into the
 15 conclusions contained in this report?

16 WITNESS MADDEN: Ms. Chestnut, the entire team had
 17 substantial input into it. That's the way TB&A works.
 18 The testimony is signed by Jim Love, Mr. Kononetz and
 19 Mr. Osborn and myself. This substantiates who presents
 20 it, but the entire team had substantial input to the
 21 data-gathering and the analysis.

22 MS. CHESTNUT: Is there anybody who had any kind
 23 of authority over the conclusions reached, who had the
 24 decision-making authority with respect to these conclusions
 25 who has not already been identified?

1 WITNESS MADDEN: It is our final decision, yes,
2 ma'am.

3 MR. CHESTNUT: So there is no other person that
4 had any kind of input into this conclusion -- when I say
5 "input" I mean the decision to arrive at a particular
6 conclusion?

7 WITNESS MADDEN: The final decisions and conclusions
8 using all of the input were Jim Love's and Bill Kononetz',
9 and now after independent review Ted Osborn and I attest
10 to those.

11 MS. CHESTNUT: Thank you.

12 Thank you, Your Honor.

13 JUDGE MATUSCHAK: Do I understand that Theodore
14 Barry and Associates had no part in any of the decisions
15 which are included in your testimony today?

16 Do I understand that Theodore Barry had no part
17 in the decisions that were made by PECO concerning what
18 you have testified to today, that Theodore Barry had no
19 input at the time that those decisions were made?

20 WITNESS MADDEN: Your Honor, only to the extent
21 that the company provided information to us and data in
22 discussions, interviews --

23 WITNESS OSBORN: No, he means contemporaneously.

24 JUDGE MATUSCHAK: You missed the point. What I
25 am saying is, as I understand it, Theodore Barry had no

1 part in the decisions that PECO made at the time they were
2 made?

3 WITNESS MADDEN: That's absolutely correct.

4 JUDGE MATUSCHAK: Your evaluation is made after
5 going back over the events as they transpired before you
6 started your analysis?

7 WITNESS MADDEN: That is correct. The only other
8 involvement that TB&A, Theodore Barry, has ever had with
9 PECO was on the Salem study for the Public Advocate of
10 New Jersey.

11 JUDGE MATUSCHAK: Yes, I understand that.

12 Before we recess for lunch, there was a petition
13 for intervention by Occidental Chemical Corporation. The
14 company filed an answer and then there was a response by
15 Occidental Chemical Corporation. As we understand it,
16 PECO has no objection to the intervention of Occidental
17 as such, but it objects to the interjections of the cost
18 issue in the proceeding; is that correct?

19 MR. HALL: That is correct, Your Honor.

20 JUDGE MATUSCHAK: We are going to grant the motion
21 to intervene and we will make no determination at this
22 time and no ruling at this time as to what may or may not
23 be submitted by Occidental. PECO can raise those issues
24 as they arise. We will rule on them at that time.
25

1 Let's recess now at this time until 1:45.

2 (Witness temporarily excused.)

3 Whereupon, at 12:35 p.m. the hearing was adjourned
4 to be reconvened at 1:45 p.m. this same day.)
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AFTERNOON SESSION

(1:47 p.m.)

1 JUDGE MATUSCHAK: Whenever you are ready.

2
3 MR. HALL: If Your Honor please, I understand
4 Mr. Wersan has a question he wishes to ask.

5 JUDGE MATUSCHAK: Very well.

6
7 Whereupon,

8 TED K. OSBORN
9 THOMAS J. MADDEN
10 BASIL P. KONONETZ

11 having previously been duly sworn, testified further as
12 follows:

CROSS-EXAMINATION (Continued)

13 MR. WERSAN: Mr. Kononetz, I was thinking about one
14 of your answers earlier and it was unclear to me whether or
15 not I completely understood it. It was about the relation-
16 ship between the cost impact of the schedule extension and
17 the unanticipated escalation.

18 Let me tell you what I thought you said, and correct
19 me if I'm wrong. I thought initially you were saying that
20 the \$224 million in Forecast 5 could be found in effect in
21 two pieces, one in the cost impact of delay and one in the
22 unanticipated escalation; and if I added those two together
23 plus the additional \$1 million-plus amount for the nuclear
24 steam supply system cost to PECO, that totalled \$224 million
25 from Forecast 5. Was that correct?

1 WITNESS KONONETZ: The \$224.3 million is composed of
2 those three components.

3 MR. WERSAN: What I didn't understand then was the
4 Forecast 5 number of 224.3 was just that, a forecast, and
5 it anticipated some level of escalation.

6 Your quantification in your cost reconciliation for
7 unanticipated escalation I would think would then be a
8 different number and shouldn't necessarily add up, when
9 added together with the cost impact of the extension, come
10 back to the identical number in Forecast 5. Otherwise,
11 the anticipated and unanticipated escalation was the same
12 amount.

13 I am asking you to correct my misunderstanding of
14 the process.

15 WITNESS OSBORN: Our use of unanticipated escalation
16 in that case is unanticipated at the time of the initial
17 CA in '70. So when it was escalation that was included
18 in a forecast later on, it was then anticipated; but it
19 was unanticipated prior to the previous 1970 CA.

20 MR. WERSAN: That answers that question.

21 As I understand, the cost components relating to
22 this delay from '82 to '84 with those three items, escala-
23 tion, cost of delay and nuclear steam supply system, come
24 out of the information in Forecast 5, and your reconcilia-
25 tion or itemization was based on going through those

1 forecasts and coming up with the numbers as they were
2 estimated at the time that was included in the scope of
3 the project; is that correct?

4 WITNESS OSBORN: As the project proceeded and you
5 went from forecast to forecast, a forecast would represent
6 an estimate, and then between estimates, there were cost
7 trends kept that represented what was happening to costs
8 during that time to the next forecast and then reconciled
9 with the next forecast.

10 MR. WERSAN: So my question is: the information
11 in the forecast you feel provides a representative basis
12 for estimating what the true cost impact of that delay
13 was?

14 WITNESS OSBORN: The forecast is estimating what
15 is thought to be the cost expected to go on the project at
16 the time it is done.

17 MR. WERSAN: Right; but you're doing this now in
18 1984-1985 looking backwards and you're using the forecast
19 information as the best gauge of what that cost turned out
20 to be?

21 WITNESS OSBORN: We have it packaged through seven
22 forecasts, each of which have subsumed the differential
23 from the last forecast, plus we have 13 trends since
24 Forecast 7, which brings us up to the total which is
25 accounted for in here of the approximately \$2.5 billion.

1 MR. WERSAN: My question, though, is: there may be
2 a difference between a forecasted cost and an as actually
3 spent or incurred cost?

4 WITNESS OSBORN: Right.

5 MR. WERSAN: But for purposes of this, you believe
6 the forecasts are the best evidence you have of what that
7 cost was?

8 WITNESS OSBORN: Well, there is a difference, and
9 you will find that the difference between estimated cost
10 and actual found cost to implement is what we have included
11 in here in the category called "Costs to be Allocated," or
12 in the nomenclature perhaps unclearly stated in our exhibit,
13 we have called those distributables.

14 MR. WERSAN: Thank you, Your Honor.

15 JUDGE MATUSCHAK: Redirect?

16 MR. HALL: Yes. Thank you, Your Honor. If Your
17 Honor please, I believe I have about five questions; four
18 for Mr. Madden and one for Mr. Osborn.

19 REDIRECT EXAMINATION
20 OF THOMAS J. MADDEN

21 BY MR. HALL:

22 Q Mr. Madden, you were asked a question by
23 Trial Staff Counsel Chestnut with respect to TB&A's review
24 of the specific Salem project expenditures during the early
25 and mid-1970s. I believe you answered that TB&A had not

1 reviewed those expenditures with any degree of depth.

2 Is that a correct characterization of your testimony
3 on that subject?

4 A. Mr. Hall, we didn't review the specific and
5 explicit Salem project expenditures. We did review the
6 overall capital planning process, the capital budgeting
7 process. We looked at Philadelphia Electric's capacity
8 planning and generation process. In fact, we present a
9 five-page exhibit that talks about and demonstrates the
10 deferrals and the cancellations of the capacity. We
11 examined the proportion of the capital budget that was
12 allocated to Limerick. I mentioned in response to
13 questions the 45 percent to 60 percent that was the line
14 share of the capital budget.

15 Because of those sorts of analyses, we concluded
16 the reasonableness of the process. We did not think it
17 necessary to look at particular Salem project expenditures,
18 but we did all those other facets.

19 Q. Mr. Madden, Ms. Chestnut also asked you the
20 reasons why TB&A presents in its testimony a chart which
21 is limited to examining the amount of rate relief granted
22 versus that disallowed for the 1970 and subsequent period
23 but did not look at the previous period.

24 Can you provide an explanation of that reason at
25 this time?

1 A. Yes. To clarify and expand upon a point I made
2 in response to Ms. Chestnut about the applicability of the
3 '70s period to Limerick, of course that is the period
4 Limerick was constructed, designed and constructed, into
5 the early '80s.

6 The 1960s set the stage for the financial position
7 of Philadelphia Electric and other utilities going into
8 1970. The applications for the construction permit for
9 Limerick occurred about that time, but it was not until
10 1974 that the construction permit was received.

11 Therefore, the mid-'70s was the important period.
12 It was the period in the financial profile that affected
13 the management decisions. The '60s history served to
14 launch the company into that period. Because that was the
15 important period, that's what we looked at.

16 Q. When you say "that was the important period,"
17 you mean the 1970s?

18 A. Yes, sir, indeed.

19 Q. Mr. Madden, in another series of questions,
20 Ms. Chestnut asked you the reasons for the development of
21 the group of eight utilities to which you compared
22 Philadelphia Electric in your testimony as respects
23 financial condition, that group being a group in which each
24 of the utilities had a financially attributable deferral
25 of nuclear plant construction post-1974.

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1 Do you have any expansion you wish to offer with
2 regard to the material that you provided in response to
3 Ms. Chestnut's question?

4 A. Yes, Mr. Hall. I simply want to make clear
5 my response to Ms. Chestnut's questions, in that this
6 group that we selected and discuss in our testimony we
7 believe is a fair and representative group. It covers
8 plants from most parts of the country; the south, the
9 midwest, the northeast.

10 They were selected from public documents such as
11 the Yellow Book and the NRC, from TB&A knowledge of other
12 public pronouncements.

13 We don't represent it as completely exhaustive, but
14 it represents all we were aware of through this sort of
15 search of public information and public knowledge.

16 Because it involves several plants around the
17 country and with the addition of PP&L, we feel it is a
18 very fair comparative group.

19 Q. Finally, Mr. Madden, Ms. Chestnut asked you
20 whether you made a specific study of financial alternatives
21 available to the company in 1976 at about the time of the
22 1976 deferral decisions, and I believe you answered that
23 you had not made such a specific study as was suggested
24 in her question.

25 Could you explain for the record what

1 Theodore Barry did do with respect to reviewing the
2 company's financial process and its alternatives to raise
3 capital during the 1976 and surrounding period?

4 A. Yes. Again, to clarify I believe the points
5 I made in response, we looked at carefully the financial
6 planning and administration and management process of
7 PECO. We looked at the delays extensively.

8 JUDGE MATUSCHAK: Keep your voice up.

9 WITNESS MADDEN: Excuse me, Your Honor. We looked
10 at the delay decisions extensively. We looked at the
11 financial profile of the company. We looked at their
12 planning processes, generation planning and capacity and,
13 as I mentioned just a minute ago, their curtailments, their
14 deferments, their cancellations.

15 We drew the conclusion of reasonableness because
16 of their process, because of their financial profile,
17 because of the efforts they made; and looking at that
18 in the total context of how they manage that process, we
19 felt it was very reasonable.

20 REDIRECT EXAMINATION
21 OF TED K. OSBORN

22 BY MR. HALL:

23 Q. Mr. Osborn, my only question to you deals with
24 the OCA exhibit which Mr. Wersan distributed. I guess it's
25 not so much the exhibit as it is the category of the items

1 contained in PECO Exhibit 2 to which Mr. Wersan directed his
2 questions.

3 Those items added to a total cost figure of
4 \$385.1 million, I believe.

5 Do you recall that cross-examination?

6 A. Yes, I do.

7 Q. Do you have the page of PECO Exhibit 2 where
8 that \$385 million figure is stated before you?

9 A. Yes, I do.

10 Q. In that I do not have it before me, perhaps
11 you will be kind enough to give us the page number for
12 the record.

13 A. Page 17, Exhibit 2.

14 Q. Mr. Osborn, would I be correct in stating that
15 there are cost items included in that cost figure other
16 than costs associated by project documents with the 1976
17 and 1978 deferral decisions?

18 MR. WERSAN: Objection. That is a leading question.

19 JUDGE MATUSCHAK: Yes, it is in that form. We
20 sustain the objection.

21 BY MR. HALL:

22 Q. Mr. Osborn, could you describe for the record
23 what is included in the \$385.1 million figure? By that.
24 I mean, could you describe for us to what those costs are
25 attributable?

1 A. The costs are attributable to delays in
2 receipt of the construction permit, limited availability
3 of craft manpower, delays in receipt of the low power
4 license from the NRC, delays in receipt of the full power
5 operating license from the NRC. That's it.

6 MR. HALL: Those are all the questions I have,
7 Your Honor.

8 JUDGE MATUSCHAK: Anything further?

9 MS. CHESTNUT: Yes, Your Honor.

10 RE-CROSS-EXAMINATION
11 OF THOMAS J. MADDEN

12 BY MS. CHESTNUT:

13 Q. Mr. Madden, in response to a question put to you
14 by your counsel in connection with the barometer group of
15 eight utilities you discussed, you gave your opinion why
16 you thought it was a fair and representative group.

17 The reasons that you advanced were: one, that they
18 were geographically dispersed and represented different
19 parts of the country; and two, it was based on readily
20 available information as well as information that TB&A had.
21 Then you went on to add that "With the addition of PP&L, I
22 feel it is a fair and representative group." Is that
23 correct?

24 A. I believe that is what I said, yes.

25 Q. Why did you specifically single out PP&L?

A. Because we did in the testimony. We said at

1 page 268, "Also included was Pennsylvania Power and Light's
2 Susquehanna Units ..." At the first paragraph at line 10,
3 page 268, we discuss that we included them and do so
4 throughout the Schedule 19, the four pages.

5 Q So what this says is you felt Susquehanna
6 was comparable, although it did not meet your criteria of
7 deferral for financial constraint reasons?

8 A No, not comparable in the sense of the financial
9 deferrals, as we say in the testimony. Because it is in
10 Pennsylvania, we put it in this group to be more comprehen-
11 sive and to show as broad a group as we could with a fair
12 representation.

13 Q Your testimony says that for many reasons PP&L
14 was included in the sample. You've given one reason. Can
15 you tell us what the other reasons are, if there are any
16 besides what is listed in your testimony?

17 A Would you refer me to the --

18 Q Sure. That is page 268, line 13. You list
19 proximity, similar reactor types and architect./engineer.

20 A Yes.

21 Q Are there any other reasons?

22 A Those are the basic reasons. Although the
23 plants are dissimilar in factors such as seismic analysis,
24 it is a boiling water reactor and has the Bechtel
25 constructor.

1 Q Also an additional reason would be the time
2 constraints in which they were built. Would you agree that
3 they are fairly contemporaneous plants?

4 A They were undergoing the regulatory environment
5 of the mid-'70s. I think the Susquehanna plant's CP was
6 granted several months earlier than PECO's. There are
7 differences like that. But they were similar enough that
8 we decided to include it to make this a comprehensive list.

9 Q Does the fact that there was a difference of
10 a few months between the issuance of construction permits
11 for these plants make much of a difference in your opinion?
12 Does that fact alone have much impact do you think?

13 MR. HALL: Ms. Chestnut, do you mean to his financial
14 analysis?

15 MS. CHESTNUT: To his general discussion as to
16 comparability.

17 MR. HALL: He doesn't have a general discussion of
18 comparability. He simply has his financial analysis and
19 the financial comparison he presented.

20 MS. CHESTNUT: Let's limit it to that then. You're
21 right; they do discuss financial parameters.

22 BY MS. CHESTNUT:

23 Q On that basis, Mr. Madden.

24 A The difference in CP would make a difference in
25 the construction schedules and the time of construction, in

that area, but it did not make enough difference for us to not include this in our group at the top of page 268.

Q. Mr. Madden, Mr. Hall asked you a question with reference to the specific study of financial alternatives in connection with the various delay decisions, and you used the term "financial profile" several times in your answer and said that that is what TB&A thoroughly examined as the basis for your conclusions.

What do you mean by financial profile?

A. By financial profile in this response and my others today, I refer to the general financial condition and health of the company as exhibited and discussed in our testimony by the returns, the interest coverages, the market to book ratios, the general financial indicators, the bond ratings, the down ratings, those sorts of financial performance indicators that we discuss here.

Q. But you did not make any study as to alternative financing modes which could have been pursued by the company, such as could the company have pursued -- could the company have obtained additional bank credit, for example, or could the company have changed the maturity date on bonds that it issued? Did you do that kind of analysis?

A. We did not do those particular points, but we looked at interest coverage ratios, as we talk about it, and

1 those other indicators that gave us the picture of PECO's
2 financial position, if you will. That coupled with the
3 type of capacity planning and forecasting and coupled with
4 the capital budgeting process led us to our conclusion.

5 Q Unless I'm misunderstanding, I'm trying to
6 make a distinction. You looked at the financial indicators
7 of the company at those points in time?

8 A The period.

9 Q Yes, during this period, which encompassed
10 several delays. My question is: there are various
11 alternative scenarios that PECO could have done in response
12 to its financial condition, and you've enumerated several
13 of them, although I'm sure there are more. And you did
14 not specifically analyze what the impact on the company
15 would have been had it pursued any of those alternatives?

16 A Not of the ones you've identified.

17 MS. CHESTNUT: Thank you. That's all the questions,
18 Your Honor.

19 MR. WERSAN: Nothing, Your Honor.

20 MR. HALL: Nothing further, Your Honor.

21 JUDGE MATUSCHAK: Very well. The witnesses are
22 excused.

23 (Witnesses excused.)

24 MR. WERSAN: Your Honor, I need to move into
25 evidence OCA Exhibits 62, 63 and 64.

MR. HALL: No objection.

1 JUDGE MATUSCHAK: Anything further?

2 MR. HALL: No, Your Honor.

3 JUDGE MATUSCHAK: Very well. Then Consumer
4 Advocate's Exhibits 62 through 64 are admitted into
5 evidence.

6 (Whereupon, the documents
7 marked as OCA Exhibits No.
8 62, 63 and 64 were received
in evidence.)

9 JUDGE MATUSCHAK: Does that conclude your presenta-
10 tion for today, Mr. Hall?

11 MR. HALL: Yes, it does, Your Honor.

12 JUDGE MATUSCHAK: Who do you have scheduled for
13 tomorrow?

14 MR. HALL: Your Honor, tomorrow we will have
15 Mr. Paquette and Mr. Abrams. They deal with financially
16 related issues, deferral decision related issues.

17 JUDGE MATUSCHAK: Very well. We will again state
18 that tomorrow morning at 9:30 we have scheduled oral
19 argument on the Staff's Motion in Limine as to '76 and '78
20 delays. We will proceed with that first before we proceed
21 with your witnesses tomorrow.

22 If there is nothing further at this time, we will
23 adjourn until tomorrow morning at 9:30.

24 (Whereupon, at 2:10 p.m., the hearing was adjourned,
25 to be reconvened at 9:30 a.m., on Friday, December 20, 1985,
in Harrisburg, Pennsylvania.)

C E R T I F I C A T E

1
2 I hereby certify, as the stenographic reporter,
3 that the foregoing proceedings were taken stenographically
4 by me and thereafter reduced to typewriting by me or under
5 my direction; and that this transcript is a true and
6 accurate record to the best of my ability.

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