

**NEW JERSEY BOARD OF PUBLIC UTILITIES**

---

---

A Proposal to Conduct  
An Analysis of Strategic Options for  
Jersey Central Power & Light Company

---

---

**ARTHUR YOUNG**  
**February 1980**

8004090

483

# ARTHUR YOUNG & COMPANY

27<sup>7</sup> PARK AVENUE  
NEW YORK, N. Y. 10017

February 8, 1980

Mr. George H. Barbour  
President, Board of Public  
Utilities  
Department of Energy  
State of New Jersey  
Newark, New Jersey 07102

Dear Sir:

Arthur Young & Company is pleased to present this proposal to perform an analysis of strategic options for Jersey Central Power & Light Company. This proposal has been prepared in response to the Board's Request for Proposal (RFP) dated January 11, 1980, and is in all respects responsive to the requirements of that RFP. Our proposal is comprised of:

- . An Executive Summary, which summarizes our technical proposal.
- . A technical proposal, which presents our detailed response to the RFP.

We believe that Arthur Young & Company is particularly well qualified to conduct this analysis of strategic policy options because:

- . We have a reputation for objectivity, independence and competence. These attributes will be an essential requirement for the successful completion of this study.

- . We performed a similar study for the Governor's Advisory Commission on Electric Power Alternatives in the State of Michigan. Several key members of our proposed study team participated in the Michigan Study.
- . We have extensive experience in providing management consulting services in the utility industry. Our services have included: conducting management audits, serving regulatory commissions, and recommending improvements to utility operations.
- . We are supplementing our own skills in specific areas by retaining the services of qualified firms in the areas of investment banking, law, utility economics, and utility engineering.

We believe that the study will be complex and time consuming, and will require the commitment of substantial Board, Jersey Central and consultant resources. Based upon our understanding of the Board's requirements, we believe the study we propose can be accomplished in a six-month period from its initiation.

\* \* \* \* \*

We appreciate the opportunity to respond to your request for proposal and look forward to discussing our proposal with you. We will be available, at your convenience, to hold informal discussions or to make a formal presentation. Please contact Mr. Donald E. Law at (212) 922-2997, or Mr. Robert E. Nelson at (212) 922-2990, if you have any questions regarding this proposal.

Very truly yours,

*Arthur Young & Company*

## EXECUTIVE SUMMARY

Arthur Young & Company has been invited by the New Jersey Board of Public Utilities (the Board) to submit a proposal to perform an analysis of strategic policy options for Jersey Central Power & Light Company (Jersey Central). This Executive Summary presents highlights from our technical proposal and is organized as follows:

- . Understanding of the Problem
- . Objectives and Scope
- . Strategic Policy Options
- . Study Methodology
- . Organization and Qualifications

### Understanding of the Problem

The New Jersey Board of Public Utilities is in the difficult position of addressing the regulatory concerns of cost and safety in its investigation of the accident at the Three Mile Island Nuclear Generating Station. In meeting its responsibilities, the Board must evaluate the ability of Jersey Central Power & Light Company/General Public Utilities to meet existing and future requirements of its franchise to provide safe, reliable and cost-effective electric service.

The Board faces a number of significant policy issues in the evaluation of strategic policy options. These issues include:

- . Whether there are sufficient cost differences in operating either investor-owned or publicly-owned systems to favor one form of organization over the other. To date, there is little evidence that public authority power would be produced at a materially different cost of service than private utility power. However, in today's financial environment, publicly-owned systems may have lower capital costs and taxes.

The extent of potential legal and political obstacles to initiating constitutional, statutory and regulatory changes at both the Federal and State level, if alternate organization structures are warranted. The Company's response to any actions which it may consider contrary to its well being, must also be considered. The Board must also face the issue of public acceptance to further State involvement in the utility industry.

The Board has requested the services of a consultant to evaluate the strategic options available in the aftermath of the Three Mile Island accident. We believe that, on behalf of the Board, the consultant will need to address two fundamental questions, as follows:

- . First, will the Company be able to provide safe and reliable electric power to existing and future customers at a reasonable cost?
- . Second, is there a more cost-effective means of delivering electric service to existing and future customers?

Once the above questions have been answered adequately, the Board should be able to pursue a policy strategy consistent with its regulatory responsibilities. This strategy should be based on a careful balancing of the vested interests of the Company, its debtors and shareholders, customers and other interested parties, including the general populace of the State of New Jersey.

#### Objectives and Scope

In its RFP, the Board is explicit in defining the primary objective of the consulting study as follows:

"To determine, evaluate and prioritize a range of alternative steps available to the Board to ensure the safe and reliable delivery of electricity to customers in Jersey Central's service territory at the lowest possible cost."

The study is to be conducted in two phases, each of which has specific objectives. It is apparent that the scope of the study envisioned by the Board is comprehensive and that the consultant selected will need to identify and address the full range of strategic policy options available in studying the financial and economic problems currently and prospectively facing the Company.

Phase I is to involve the identification and screening of viable strategic policy options in terms of their financial and economic feasibility, as well as their legal complexity and political acceptability.

Phase II of the project is to consist of an in-depth study of the most viable strategic policy options as selected by the Board and will entail further evaluation of legal, political and economic issues as well as reassessment of the financial analyses prepared in Phase I. At the conclusion of this study, we will identify a preferred strategy for consideration by the Board, and will prepare an implementation plan for that strategy including legal and organization steps to be undertaken. In addition, an interim regulatory treatment will be recommended for adoption by the Board, for the period prior to the implementation of any strategy emerging from the study which involves major structural changes.

#### Strategic Policy Options

The scope of this study is comprehensive, and available policy options which are to be addressed have not been limited. Based on the information contained in the RFP and our prior experience in performing a similar study for the State of Michigan, we have identified, on a preliminary basis, the following major strategic policy options:

### Business As Usual

This option may be feasible if the Company's rate structure is adjusted to the level necessary to meet interest coverage, preferred and common stock dividend requirements, and contribution to retained earnings. While this option appears to offer an advantage in terms of minimal structural change, it may also be difficult to justify to the Company's customers in view of recent increases in rates.

### Bankruptcy

A key consideration in this option is the impact of bankruptcy on the ability of the Company and other utilities to meet future capital funding requirements. Moreover, bankruptcy would potentially cause a severe, immediate hardship for the Company's shareholders, some of whom are dependent upon existing dividends for a significant portion of their income.

### Utilities Consolidation

This option will consider the full merger of Jersey Central into a sister utility in New Jersey or a transfer of a portion of the Jersey Central franchise area. The underlying issue of this option is the impact on the cost of service to the rate payers in the Jersey Central franchise area, as well as the rate payers of the utility which absorbs all or a part of Jersey Central.

### State Take-over

The key considerations of this option are the borrowing capacity of the State and the impact of a State take-over on the potential funding of other public programs (e.g., mass transit). It would represent, moreover, a major new management responsibility to the State and a major shift from private ownership to State control.

### New Investor Owned Generating Company

This option will consider the establishment of a separate generating company within the General Public Utilities structure or as a joint venture involving New Jersey utilities. The underlying issue of this option is the cost of power passing through from a wholesaler to the retailer and ultimately to the consumer.

### State Financing/Guarantees

The key issue of this option is the potential impact on rates resulting from possibly lower financing costs attributable either to the tax exempt status of the investment instrument or the credit worthiness of the State. Another important issue under this option is avoidance of the burden of direct management over the generating company by the State. State financing or assistance in terms of financial guarantees will also be considered in connection with a consortium of existing shareholder-owned utilities. This has the advantage of combining the closer, continuing involvement of State government with existing company expertise in providing reliable and economical service to the consumer.

### State Power Authority

This option will consider the establishment of a State authority to construct new generation facilities and operate as a wholesaler (or possibly also a retailer) of electric power. In addition to lower finance costs, the underlying issues are the cost-effectiveness of public versus private power and the impact on the State and local tax bases. This option would result in State involvement in the generation and delivery of power to the maximum degree and represent a major new approach within the State.

There are also a number of variations on these options, and possibly other options, which will be identified early in the study.

### Study Methodology

Our methodology involves two phases, each of which will provide specific work products for consideration by the Board and its representatives.

#### Phase I - Identification and Evaluation of Strategic Policy Options

The major tasks in this phase, and the associated work products, are as follows:

- Identification of the key issues and options which should be addressed. This task will include a series of interviews with appropriate parties to solicit their input.

Result: A formal outline of the issues and options.

- Initial screening of options for major problems which may eliminate some options from further evaluation.

Result: Identification of viable options.

- Confirmation of the estimates of incremental generation requirements for the Jersey Central service area, assessment of other possible sources of supply, and determination of construction costs for capacity expansion plans.

Result: An estimate of the future capital funding requirements.

- Analysis of the legal, tax, investment banking, and financial/economic issues related to each option.

Result: An assessment of each option in terms of these issues.

- Comparative analysis, and ranking of options, using both qualitative and quantitative factors.

Result: Identification of the two or three most promising options for further study in Phase II.

Phase II - Evaluation of the Two or Three Most Promising Options Identified in Phase I

- Performance of a survey of key constituents and interested parties to assess the potential political acceptability of implementing each of the options.

Result: An assessment of the political acceptability of each of the strategic options.

- Reevaluation of the financial and economic analysis of each option.

Result: Estimates of the financial and economic impact of each strategic option, (in terms of key indicators such as service rates, revenue adjustments and capital funding potential).

- Development of legal and organization implementation plans for each strategic option.

Result: Implementation plans for each option, along with the associated cost and timing.

- Priority ranking of the strategic options, on the basis of quantitative and qualitative factors such as political acceptability and difficulty of implementation.

Result: A prioritization of the strategic options.

In addition, an alternative approach for regulatory treatment of the Company will be developed for the period between the completion of the study and implementation of any structural remedy.

#### Organization and Qualifications

The nature of this study is such that it demands the assignment of professionals who are highly qualified in a number of functional areas. In order to ensure the successful completion of this study, we have assembled a highly qualified and experienced team. The members of the team are as follows:

<u>Firm</u>	<u>Analysis Area</u>
Arthur Young & Company To be selected later	Financial, Operational and Tax Investment Banking
Nolan, Bell & Moore	Legal
Dr. Franklin E. Robeson	Generation Requirements
Nielsen, Wurster & Associates, Inc.	Construction Costs

Arthur Young & Company will be the primary contractor, and will provide overall project management and direction to ensure the planned tasks are completed on schedule, and that the work products are of the highest quality.

To achieve these objectives, we have assigned partners and directors of our firm to this study who have extensive experience in managing major consulting studies in the utility and other industries. Mr. Donald E. Law, a Director of Arthur Young & Company, will be Director-in-Charge of this study, and Mr. Robert E. Nelson, a Partner in Arthur Young & Company, will be Project Director.

As evidenced in the qualifications section of our technical proposal, we believe that Arthur Young & Company and the consulting team assembled, is uniquely qualified to perform the study requested by the Board. Of particular importance in evaluating our qualifications is our prior experience in performing a similar study for the Governor's Advisory Commission on Electric Power Alternatives for the State of Michigan. Our study team for the Jersey Central study includes the senior level professionals who were actively involved in the Michigan study.

## CONTENTS

- I. Introduction
- II. Our Understanding of the Problem
- III. Objectives, Scope and Options
- IV. Study Methodology
- V. Project Management
- VI. Organization and Staffing
- VII. Qualifications
- VIII. Time and Fee Estimates

## I. INTRODUCTION

Arthur Young & Company has been invited to submit a proposal to analyze strategic policy options available to the New Jersey Board of Public Utilities (the Board) to ensure the safe and reliable delivery of electric power at the least possible cost to existing and future customers of Jersey Central Power & Light Company, a subsidiary of General Public Utilities. As a professional services firm experienced in performing management, operations and financial studies for various Federal agencies, regulatory commissions and utility companies, we appreciate this opportunity to demonstrate our capabilities to assist the Board in its investigation.

In its Request for Proposal (RFP), the Board stipulates that a myriad of demand, supply, cost, financial, operational and legal considerations will have to be addressed in identifying, evaluating and prioritizing viable strategic policy options. We believe that the investigation contemplated by the Board will require extensive knowledge of utility operations as well as expertise from a variety of disciplines, including financial analysis, cost accounting, legal, investment banking, engineering, regulation and utility economics.

To ensure the quality of the Board's investigation, we have assembled a study team consisting of professionals from our firm as well as a number of other firms with expertise in specific areas.

Arthur Young & Company will be the prime contractor responsible for the successful and timely completion of the overall investigation. Each firm will assume responsibility for the portion of the study within its areas of expertise, thereby providing creditability and objectivity to the investigation.

We believe that our proposal addresses succinctly those requirements stipulated in the RFP issued by the Board. Our proposal takes into account the previous studies undertaken by the Board in evaluating the creation of a State power authority or assisting State utilities in financing new power generation facilities. Our proposal also builds on our previous experience in conducting a similar study for the State of Michigan, and our study team will include senior-level consultants who actively participated in the Michigan study.

## II. OUR UNDERSTANDING OF THE PROBLEM

This section of the proposal presents our understanding of the issues and questions facing the New Jersey Board of Public Utilities in its investigation of the impact of the Three Mile Island accident on the ability of Jersey Central Power & Light Company to meet the obligations of its franchise.

### BACKGROUND

For many years, the effectiveness of electric utilities and their management in providing reliable, economic service was rarely questioned by regulatory commissions. This resulted primarily from a long history of lowering unit costs and a minimum of major service interruptions. Recently, the utility regulatory climate has changed as commissions have responded to adverse consumer reaction over frequent rate increases and apparent public concern over the safety and reliability of nuclear generating power stations.

The New Jersey Board of Public Utilities is in the difficult position of having to address both regulatory concerns of cost and safety in its investigation of the accident at the Three Mile Island Nuclear Generating Station. The Board must evaluate the ability of Jersey Center Power & Light Company/General Public Utilities (the Company) to meet existing and future requirements of its franchise to provide safe, reliable and cost-effective electric service.

IMPACT OF THREE MILE ISLAND ACCIDENT

The total impact of the Three Mile Island accident is an extremely complex question that is unlikely to be answered in the near future. In the long term, this one incident related to nuclear power could result in a restructuring of the manner in which our nation meets its future electric energy needs as well as the technology to be employed. Of immediate concern, however, is the impact of the accident on the Board in meeting its regulatory responsibilities, and the Company in fulfilling its franchise obligation.

That there has been an impact is indisputable as illustrated by the following excerpts from recent newspaper articles. These excerpts highlight the pressures confronting both the Board and the Company in the aftermath of Three Mile Island.

- New York Times, January 22, 1980

The Jersey Central Power & Light Company will ask the State tomorrow to approve a rate increase that would raise residential customers' electricity bills 19 percent. The request to the State Board of Public Utilities for a \$142 million rate increase is being asked to offset oil price increases and the cost of replacing electricity formerly generated by the Three Mile Island nuclear power plant, the company said Saturday. The average customer would face an increase of \$5.50 a month, according to George Metzger, a spokesman for the company. The utility last won a rate increase in September 1979 when residential users' bills rose about 8.1 percent.

- New York Times, September 15, 1979

Jersey Central Power & Light Company, which has suffered economic hardships since its Three Mile Island nuclear power plant shut down, is facing the possibility of losing its franchise. The Three Mile Island closing has eliminated 13 percent of Jersey Central's power supply, and forced it to buy expensive energy from Pennsylvania-New Jersey-Maryland power pool. Parent company General Public Utilities' stock has declined to \$8.25 and credit has become difficult to obtain, creating cash flow problems. Jersey Central has been granted two rate increases and plans to apply for more to help ease the situation. State Board of Public Utilities Commissioner Edward Hynes notes that main alternatives to continued rate increases are assigning Jersey Central territory to other utilities, creating state power authority to take over the franchise or bankruptcy.

- New York Times, June 20, 1979

General Public Utilities, holding company for utilities that own the Three Mile Island nuclear power plant, wins \$209 million revolving credit line from consortium of 43 banks after Jersey Central Power & Light, one of its subsidiaries, is awarded \$45 million rate increase. GPU says agreement will probably be sufficient to meet system's external cash requirement through '80. Steward B. Clifford of Citibank, agent for the banking group, says rate increases granted to Jersey Central and to GPU's Pennsylvania subsidiaries were the most important factors in banks' decision to arrange credit.

- New York Times, June 7, 1979

Accident at Three Mile Island nuclear power plant has placed General Public Utilities in financial squeeze between utility regulators in Pennsylvania and New Jersey and banks. The Corporation's next major borrowing, if approved, will require as collateral all its shares in two Pennsylvania subsidiaries, Metropolitan Edison and Pennsylvania Electric, and its New Jersey subsidiary, Jersey Central Power & Light, a requirement previously unheard of in utility financing. The Pennsylvania Public Utilities Commission has taken two actions that could have substantially adverse effects on General Public's ability to meet its obligations, rescinding rate increases to Pennsylvania subsidiaries on grounds they were intended to pay for and operate the Three Mile Island plant and deciding to re-examine a provision that permits the utility to pass on to consumers cost of power purchased from neighboring utilities, pending an investigation of causes of the accident. Banks are unwilling to lend money to purchase power unless utilities are allowed to pass on to their customers the full cost of purchased power immediately. General Public says it faces bankruptcy if banks withdraw credit.

In responding to the impact of the Three Mile Island accident, the Board and the Company face a number of significant issues which are listed below. The first two issues are common to both the Board and the Company whereas the remaining issues are of greatest concern to the Board.

- Financial Stability

There is a serious issue as to the financial stability of Jersey Central (and General Public Utilities) as it meets the existing energy needs of its customers at a reasonable cost. The regulatory response to the Three Mile Island accident, e.g., taking Three Mile Island Unit #2 out of the rate base, has had the impact of not only reducing the profits which could be earned but also diluting the credit worthiness of the Company.

As indicated in the newspaper excerpts, the investment community is responding negatively to the regulatory decisions affecting the Company. These decisions, plus regulatory lag, are contributing to the financial crisis facing the Company in meeting its working capital requirements regardless of the cost of funds. This severe financial condition has also led to deferral of capital expenditures for planned capacity expansion.

- Future Energy Needs

At present, the Company is meeting the energy needs of its franchise areas through purchase of power to supplement output from its existing generation facilities. Sources of supply, though costly, are available to meet demand in the near term.

A significant concern of both the Board and the Company is the Company's capability to meet future energy needs given the uncertainties related to bringing Three Mile Island Unit #1 on-line, rehabilitating Three Mile Unit #2 and deferral of existing construction programs, e.g., the Forked River Nuclear Generating Station. Future generation requirements may also be impacted by new load management programs, conservation by customers, and innovative rate structures.

- Public Utility Operations

The Board faces the issue of determining whether there are differences in operating efficiencies between investor-owned and publicly owned systems. To date, there is little evidence that public authority power would be produced at a greater or lesser economic cost of service than private utility power.

Typically, published public utility power rates are lower than those of private utilities, but this may often be attributable to a more advantageous fuel mix which makes heavy use of hydroelectric generation. Publicly owned systems may also have cheaper capital costs and tax savings.

- Legal Feasibility and Public Acceptance

The Board must concern itself with the potential legal obstacles to initiating constitutional, statutory and regulatory changes at both the Federal and State level if alternate organization structures are warranted. The Company's response to any actions which it may consider contrary to its well being, must also be considered.

The Board must also face the issue of public acceptance of further State involvement in the utility industry. There are a number of existing (and potential) public programs which require funding and any funding requirements related to meeting the electric energy needs of the Jersey Central franchise area would compete with requirements for other public programs. This may be a particularly sensitive area since the populace in other sections of the state could be subsidizing the existing and future customers of Jersey Central.

The issue of management performance in undertaking, designing, constructing and operating the Three Mile Island Generating Station has been intentionally excluded from the issues discussed. This latter issue is to be the subject of a separate study by the Board.

#### BOARD REQUIREMENTS

To evaluate the financial and economic impact of the Three Mile Island accident on the Company, the Board will need to answer two fundamental questions, as follows:

- First, will the Company be able to provide safe and reliable electric power to existing and future customers at a reasonable cost?
- Second, is there a more cost-effective means of delivering electric service to existing and future customers?

Expressed differently, the Board must consider alternatives for meeting the electric energy needs of Jersey Central's franchise area in terms of their financial and economic feasibility.

Once the above questions have been answered adequately, the Board should be able to pursue a policy strategy consistent with its regulatory responsibilities. This strategy will be based on a careful balancing of the vested interests of the Company, its debtors and shareholders, customers and other interested parties, including the general populace of the State of New Jersey.

### III. OBJECTIVES, SCOPE, AND OPTIONS

In this section, we identify the objectives and scope of the Board's investigation, and on a preliminary basis, the strategic policy options to be studied.

#### OBJECTIVES AND SCOPE

In its RFP, the Board is explicit in defining the primary objective of the consulting study as follows:

"To determine, evaluate and prioritize a range of alternative steps available to the Board to ensure the safe and reliable delivery of electricity to customers in Jersey Central's service territory at the lowest possible cost."

The study is to be conducted in two phases, each of which has its specific objectives. It is apparent that the scope of the study envisioned by the Board is comprehensive and that the consultant selected will need to address a wide range of strategic policy options in studying the financial and economic problems currently and prospectively facing the Company.

#### Phase I Objectives

Phase I is to involve the identification and screening of viable strategic policy options in terms of their financial and economic feasibility, as well as their legal complexity and political acceptability. The specific objectives include:

- To identify policy issues and options for potential evaluation.

This will involve researching previous studies and regulatory proceedings, and interviewing members of the Board, management of the Company, and other interested parties.

- To screen major policy options in terms of their viability.

This will require identifying any legal/regulatory barriers, preparing special cost analyses, and assessing the probable impact on the Company, its rate payers and other interested parties.

- To confirm the Company's electric load forecasts in terms of reasonableness, and plans for meeting projected demands.

This will involve reviewing load forecasts and capacity expansion plans, identifying potential factors impacting demand and supply, (e.g. improved operating efficiency), and if necessary, preparing an adjusted schedule of generation requirements, or identifying alternative supply approaches.

- To evaluate policy options selected by the Board for further study.

This will require finalizing our evaluation approach discussed in the methodology section of our proposal and preparing the legal, investment, tax and financial analyses required.

- To prioritize the policy options for the consideration by the Board.

This will involve finalizing the ranking criteria discussed in the methodology section of this proposal and preparing a comparative analysis and ranking of the policy options.

In meeting these objectives, we will analyze the strategic policy options in sufficient depth to allow the Board to select the two or three most promising options which should be subject to further in-depth study. As a minimum, the analysis of each policy option in Phase I should include:

- Financial estimates in terms of the rates charged to Company customers, the tax revenue of the state and local governments, and the incremental cost, if any, to the state.
- An assessment of the ability of either the state or the Company to implement the option under consideration within an acceptable time period.
- Identification of any regulatory or legal barriers, and any related social or political issues.
- An overall summary evaluation of the benefits, costs and risks of following each option.

The system for screening and prioritizing the available policy options will be clearly identified and will be presented in conjunction with the prioritized ranking of policy options.

#### Phase II Objectives

Phase II of the study is to consist of an in-depth review of the most viable strategic policy options as

selected by the Board, and will entail further evaluation of legal, political and economic issues as well as reassessment of the financial analyses prepared in Phase I. For each option, an implementation plan is to be prepared outlining the legal and organizational steps to be taken.

At the conclusion of this review, we will identify a preferred strategy for consideration by the Board. In addition, an interim regulatory treatment will be recommended for adoption by the Board, for the period prior to the implementation of any strategy emerging from the study which involves major structural changes.

#### STRATEGIC POLICY OPTIONS

As indicated above, the scope of this study is comprehensive, and the available policy options which are to be addressed have not been limited. The options will include those which entail the current Company organizational structure, as well as those options which envision a major restructuring to meet the energy needs of the Jersey Central franchise area.

Based on the information contained in the RFP and our prior experience in performing a similar study for the State of Michigan, we have identified, on a preliminary basis, the following major strategic policy options. Each option is described in terms of its generic characteristics.

Business as Usual

This option will consider business as usual with no change in organizational approach, funding of generation requirements or regulatory policies. It is likely that this option is feasible if the Company's rate structure is adjusted to the level necessary to meet interest coverage, preferred and common stock dividend requirements, and contribution to retained earnings. While this option offers an apparent advantage in terms of minimal structural change, it may also be most difficult to justify to the Company's customers. The required increase in rates would follow several recent increases and potentially result in a strong consumer reaction.

Bankruptcy

This option will address the reorganization of Jersey Central and/or General Public Utilities under the Federal Bankruptcy Act. Once reorganized, the Company would conduct its business as usual. A key consideration in this option is the impact of bankruptcy on the ability of the Company to meet future capital funding requirements. Moreover, bankruptcy would potentially cause immediate hardship for the Company's shareholders, some of whom are dependent upon existing dividends for a significant portion of their income. This may lead to a re-evaluation of the safety and reliability of utility stock among investors.

Utilities Consolidation

This option will consider the full merger of Jersey Central into a sister utility in New Jersey or a transfer of a portion of the Jersey Central franchise area. The underlying issue of this option is the cost of service as it impacts the rate payers in the Jersey Central franchise area, as well as any impact on the rate payers of the other major

utilities in New Jersey. This option would probably result in little change to either the physical facilities of the Company or its internal organization structure and employment. Detailed analyses would be required to determine an appropriate rate structure for the consolidated utility and the terms of consolidation to be offered to existing shareholders of the individual companies.

#### State Take-over

This option will address a state take-over of Jersey Central in toto or generation facilities only. The key considerations of this option are the borrowing capacity of the state and the impact of a state take-over on the potential funding of other public programs (e.g., mass transit). Again, this alternative would affect the existing Company's physical plant and organization to a minimal degree. It would represent, however, a major new management responsibility to the state and a major shift from private ownership to state control.

#### Investor Owned Generating Company

This option will consider the establishment of a separate generating company within the General Public Utilities structure or as a joint venture involving New Jersey utilities. The underlying issue of this option is the cost of power passed through from a wholesaler to the retailer and ultimately to the consumer. This option offers a wide variation of scope in terms of the size of the company formed. As size increases, the potential risk associated with the loss of any single unit is spread over a larger economic base, thus improving the capability of the new company to absorb the loss. Currently, several utilities may enter into joint ownership agreements because no one utility can absorb the power available for a new generating facility. This option would provide an alternative form of

ownership, financing and management to the current arrangements. This option would result in the newly formed company acting as a power wholesaler to existing companies whose operations would be restricted to distribution.

#### State Financing and Guarantees

This option will address a number of financing approaches or alternatives, including the construction of generating facilities and their subsequent sale or lease back to the Company, and financial assistance to the Company through debt guarantee or equity purchase. The key issue of this option is the potential impact on rates resulting from possibly lower financing costs attributable either to the tax exempt status of the investment instrument or the credit worthiness of the state. Another important issue under this option is the removal of the burden of direct management over the generating company from the state. State financing or assistance in terms of financial guarantees should also be considered in connection with a consortium of existing shareholder-owned utilities. This has the advantage of combining the closer, continuing involvement of state government with existing company expertise in providing reliable and economical service to the consumer.

#### State Power Authority

This option will consider the establishment of a state authority to construct new generation facilities and operate either as a wholesaler (or possibly a retailer) of electric power. In addition to potentially lower finance costs, the underlying issues are the cost-effectiveness of public versus private power and the impact on the state and local tax bases. This option would result in state involvement in the generation and delivery of power to the maximum degree and represent a major new approach within the state.

There are a number of variations of these major options that can be identified and studied if deemed appropriate by the Board. These variations will depend on factors such as the type of investment instrument (e.g., general revenue bond) or the mechanism for rate relief (e.g., automatic rate adjustment). In our methodology, we have included specific tasks to allow the Board and other interested parties to contribute to the definition of the strategic policy options to be studied.

#### IV. STUDY METHODOLOGY

This section of the proposal describes the methodology that we will use in our study of the future financial and corporate viability of Jersey Central. Our methodology involves two phases, each of which will provide specific work products for consideration by the Board and its representatives.

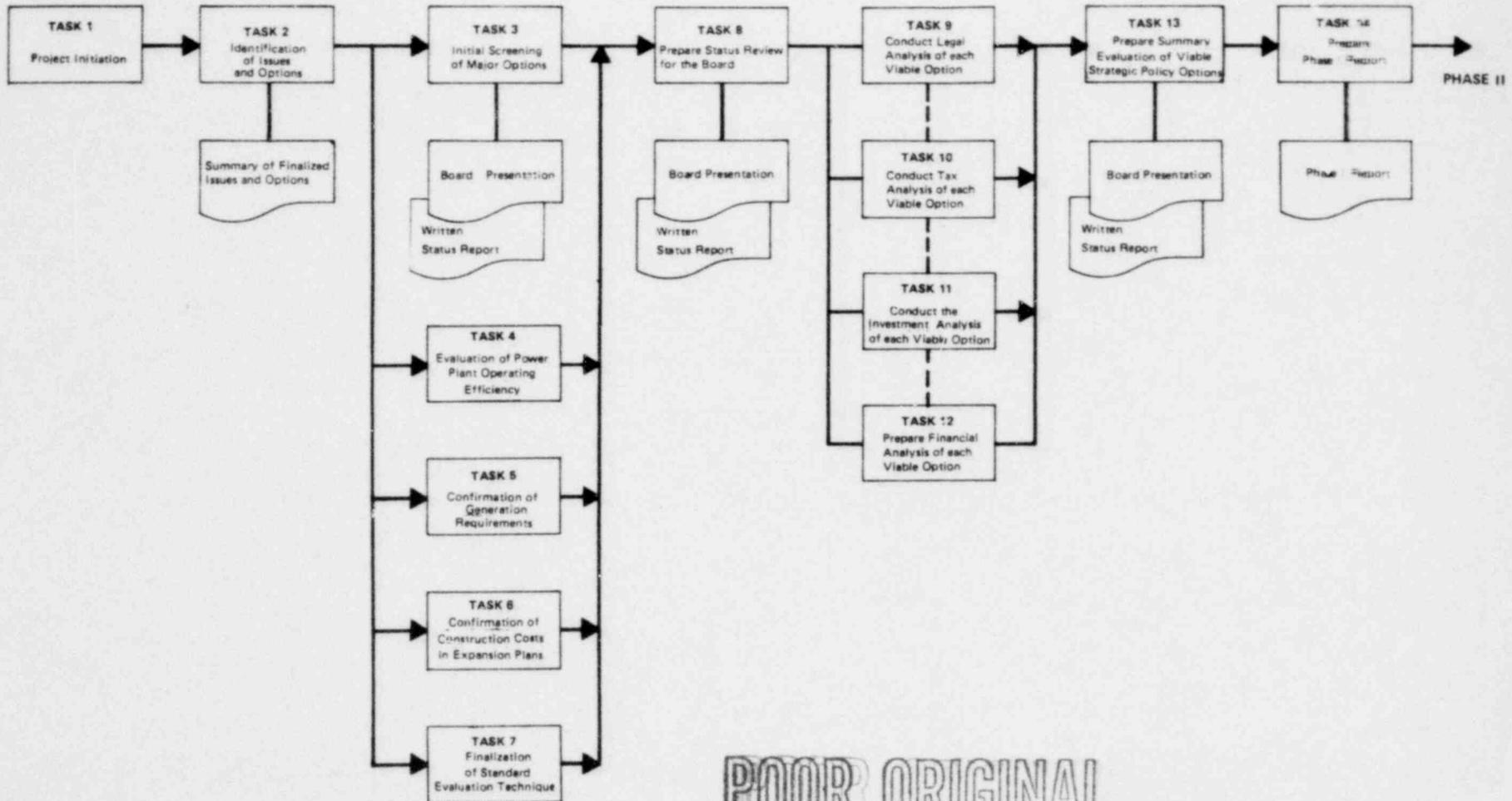
We have included as Exhibit I a schematic of our methodology which highlights the work tasks to be accomplished and their interrelationships. The schematic also identifies the work products to be delivered and the timing of progress meetings.

##### PHASE I: IDENTIFICATION AND EVALUATION OF STRATEGIC POLICY OPTIONS

This phase of the study will involve determining, evaluating and prioritizing strategic policy options facing the Board in meeting its responsibility to ensure the safe and reliable delivery of electric power to existing and future customers in the Jersey Central service territory at the lowest possible cost. There are two discrete sub-phases in our approach to this phase, including an initial screening of the major policy options identified previously, followed by an evaluation of viable options using a standard evaluation and documentation technique. This will result in the identification of the two or three most promising options to be studied further in Phase II.

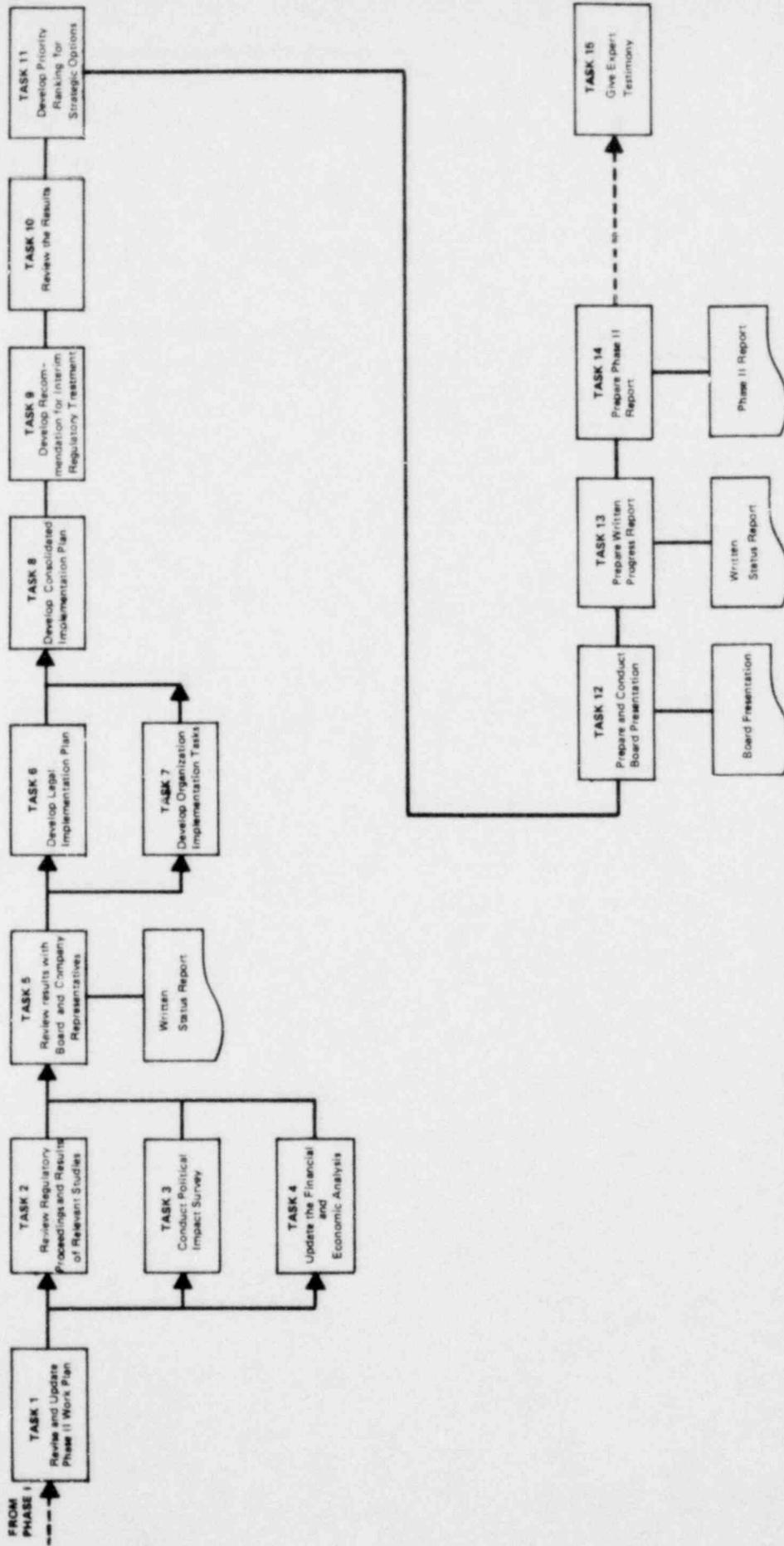
PHASE I IDENTIFICATION AND EVALUATION OF STRATEGIC POLICY OPTIONS

NEW JERSEY BOARD OF PUBLIC UTILITIES  
OVERVIEW OF TASKPLAN



POOR ORIGINAL

PHASE II EVALUATION OF TWO OR THREE MOST PROMISING STRATEGIC OPTIONS



POOR ORIGINAL

Task 1 - Project Initiation

Our experience has demonstrated that comprehensive orientation and planning at the initiation of a study of this complexity provide a sound foundation and perspective for subsequent tasks. In this initial task, we will broaden our understanding of study objectives and scope as viewed by the Board and its representatives. We will accomplish the following:

1.1 Organize Study Team

The study team members assigned will be assembled to discuss and review task assignments, the work schedule, and the study control procedures with our Project Director.

1.2 Conduct Orientation Meetings

A series of orientation meetings will be conducted with:

- Board representatives, to arrange coordination during the study and provide initial input into refining our methodology and defining strategic policy options.
- Company representatives, to present our methodology for the study and establish the mechanism for obtaining information relevant to the study.
- Other interested parties, to present our methodology for the study and solicit their input into defining strategic policy options.

1.3 Review Regulatory Proceedings

All recent regulatory proceedings before the Board involving Jersey Central will be reviewed to determine their impact on the study.

1.4 Review Prior State Power Authority Studies

The prior studies undertaken by the Board concerning the creation of a state power authority or a mechanism for financial assistance will be reviewed in more detail. These reviews will provide further background as to the options to be considered and any special analyses to be prepared.

1.5 Review Management Audit Reports

Any recent management audit reports involving Jersey Central or General Public Utilities (GPU) will be reviewed to determine their impact on the study.

1.6 Review and Update the Work Plan

Any changes to the initial work plan which result from the project initiation tasks will be included at this stage. These changes will be reviewed with the Board's representatives and the study team assigned.

## Task 2 - Identification of Issues and Options

The purpose of this task is to identify the key issues and related strategic options which should be addressed in this study. The RFP suggests a number of options which should be considered, and these, along with any others identified, will be evaluated. The tasks involved in identifying the issues and options are:

### 2.1 Conduct Interviews to Identify Key Issues and Options

A number of interviews will be conducted to ensure the identification of significant issues and options. Those persons interviewed would include:

- Board members and representatives
- Executives of Jersey Central and GPU
- Executives of sister utilities in New Jersey
- Executives of the Pennsylvania-New Jersey-Maryland (PJM) power pool
- Representatives of the Pennsylvania Public Utilities Commission
- Other appropriate parties

## 2.2 Outline the Key Issues Identified

Following the interviews, an outline of the key issues relating to Jersey Central will be developed. These are expected to include:

- Generation requirements
- Legal/regulatory implications
- Economic impact
- Financing limitations
- Operations and costs

It is essential for this outline to be comprehensive, in order to ensure that all significant strategic policy options are identified.

## 2.3 Outline the Key Options Available

A preliminary list of the options available, which are responsive to the issues identified, will be developed. A draft descriptive statement explaining each option will be prepared, including:

- Legal entity required
- Potential financing instruments
- Operating characteristics

2.4 Review the Issues and Options

To ensure the outlines of issues and options are comprehensive, and that there is agreement on them early in the study, we will review them with the Board representatives and Company representatives. If appropriate, we will also review the outlines of issues and options with the Board for their final input into the definition of strategic policy options to be studied.

2.5 Submit Written Status Report

We will prepare a written status report to ensure that there is a clear understanding among all concerned of the issues and strategic options to be addressed.

2.6 Review and Update Work Plan

The work plan will be adjusted to reflect any changes resulting from the issues and options identified.

Task 3 - Conduct Initial Screening of Major Options

The purpose of this initial screening is to identify those strategic policy options which represent potentially viable options which should be studied further. This will help prevent the performance of additional analysis on options (alternatives to business-as-usual) which are not feasible.

The following analyses will be prepared for the options indicated below. Any special studies prepared by Jersey Central/GPU (or sister utilities) related to these options will be reviewed, and once verified, the results of these studies will be incorporated into our evaluations.

### 3.1 Analyze Bankruptcy Option

- Identify any major legal/regulatory barriers to implementing this option.
- Perform liquidation cost analysis to identify what the impact of bankruptcy will be on Jersey Central/GPU stockholders and lenders.
- Evaluate the impact of bankruptcy on the capital markets and the ability of utilities to raise funds.
- Prepare summary evaluation, indicating probable feasibility of option.

### 3.2 Analyze Utilities Consolidation Option

- Identify any major legal/regulatory barriers to implementing this option.
- Estimate the cost of service of a consolidated utility relative to Jersey Central's cost of service.
- Estimate impact of this option on rate payers.
- Prepare summary evaluation, indicating probable feasibility of option.

3.3 Analyze State Take-Over Option

- Identify any major legal/regulatory barriers to implementing this option.
- Perform a buyout cost analysis and analyze the State's ability to finance a buyout given its borrowing capacity and funding requirements.
- Make a preliminary assessment of the political feasibility using as a guide the experience with other attempts to finance major expenditures, or takeover of private enterprise (as with certain New Jersey bus lines).
- Prepare summary evaluation, indicating probable feasibility of option.

3.4 Analyze Investor-Owned Generating Company Option

- Identify any major legal/regulatory barriers.
- Estimate the impact on electric rates relative to Jersey Central.
- Estimate wholesale cost of power, taking into account any potential difference due to rate of return allowed.
- Prepare summary evaluation, indicating probable feasibility of option.

3.5 Analyze State Financing Option

- Identify any major legal/regulatory barriers.
- Identify the cost of State financing relative to Jersey Central, and in particular, determine the tax status of State debt.
- Estimate the rate impact of this option, based on the relative cost of State financing.
- Identify other options for State financial support involving utility consortium ownership and management, or some form of State guarantee.
- Prepare summary evaluation, indicating probable feasibility of option.

3.6 Analyze State Power Authority Option

- Identify any major legal/regulatory barriers to implementing this option.
- Assess the State's ability to finance this option given its borrowing capacity and funding for other public programs.
- Estimate the rate impact of this option, based on the relative cost of state financing.
- Prepare summary evaluation, indicating probable feasibility of option.

3.7 Identify the Viable Options for Further Evaluation

At this time, those options which are clearly not feasible, will be identified. This will be based on an objective evaluation of legal/regulatory barriers, financing requirements and restrictions, and political acceptability. Any option for which feasibility is questionable, will be identified as requiring further study.

3.8 Review Analysis of Options

We will review the analysis of major strategic policy options with the Board representatives. This will allow the Board's representatives to challenge the identification of options as not feasible, and will ensure that there is agreement on the options requiring further study.

3.9 Conduct Board Presentation

After agreement has been reached with the Board representatives, our analysis of major strategic policy and options will be developed into a presentation for the Board. Those options not feasible will be thoroughly documented.

The analysis of options will be presented to the Board for their consideration. The Board will approve those options requiring further study.

3.10 Submit Written Status Report

We will prepare a written status report, indicating which options will be evaluated further, and which will be eliminated from further consideration.

Once the initial screening of major strategic policy options is complete and those meriting further evaluation are identified, there are a series of tasks which must be completed, including developing and evaluating the underlying assumptions, performing additional analysis and finalizing the standard evaluation technique. These tasks include:

Task 4 - Evaluation of Power Plant Operating Efficiency

In this task, we will review the efficiency of power plant operations in which Jersey Central has an ownership interest. Factors which will be reviewed include unit availability, design capacity versus actual performance of generating units, production dispatch, etc. Improvements in efficiency will increase the Company's capability of meeting its existing and future energy needs.

4.1 Review Utilization of Individual Generating Units

Included in this review will be all factors affecting the economic and reliable performance of all generating facilities including:

- Availability
- Forced and planned outages
- Heat rates
- The scheduling and conduct of major overhauls

4.2 Identification of Potential Impact on Economy and Power Needs

Changes will be identified which would either result in improved unit economy or improved availability. The impact of these findings on overall operating costs and on future power requirements will be estimated and evaluated.

4.3 Production Dispatching

The design and conduct of the production dispatching function will be reviewed for:

- Economic dispatching using current performance indices
- Costing methods used to transact economy transfers
- Accurate transaction records
- Variance of actual operation from design

4.4 Identification of Potential Impact on Economy and Power Needs

Potential improvements in the production dispatching function will be identified which would have a favorable impact on either system economy or total power costs.

Task 5 - Confirmation of Generation Requirements

The purpose of this task is to develop an estimate of the incremental generation capacity required to satisfy the long-term requirements of the Jersey Central franchise area. Factors affecting both the future load demand and power supply will be reviewed.

5.1 Review Existing Forecasts of Load Demand

Review forecasts of load demand for the next 15-20 years for:

- Jersey Central/GPU
- The PJM power pool
- Sister utilities in New Jersey

5.2 Evaluate the Reasonableness of Jersey Central/GPU Forecasts

Evaluate whether the load forecasts adequately reflect opportunities for load management and energy conservation. Consider the following factors:

- How conservation trends will impact load demand.
- How load management will affect demand.
- How rate design will affect demand.
- The extent to which reserve requirements can be adjusted.

### 5.3 Review Existing Sources of Power Supply

Review the existing capacity to determine the extent of power supply from these sources:

- Jersey Central
- Other GPU Subsidiaries
- The PJM Power Pool
- Sister Utilities in New Jersey
- Other Sources, e.g. Ontario Hydro

This evaluation will take into account the analysis performed in Task 4, Evaluation of Power Plant Operating Efficiency.

### 5.4 Review Capacity Expansion Plans

Review capacity expansion plans and planned retirements for the next 15-20 years for:

- Jersey Central/GPU
- PJM Power Pool
- Sister Utilities in New Jersey

5.5 Identify Future Sources of Power Supply

Identify the possible availability of future power supply from:

- Excess capacity of sister utilities
- Possible joint ventures to assure long-term supply of power
- Any other sources

5.6 Evaluate Generation Requirements for Jersey Central's Franchise Area

This evaluation will be based on the following factors:

- The estimate of future demand, based on the forecasts made by the utilities.
- The estimate of future supply, based on future planned capacity of the utilities.
- Any adjustments required, based on an evaluation of opportunities for load management, improved efficiency or conservation, etc.

A summary will be prepared which documents our evaluation of Jersey Central's generation requirements.

5.7 Review and Finalize the Generation Requirements

The results of our evaluation of generation requirements for Jersey Central will be reviewed with Board representatives and Company representatives. This will result in a consensus on the future generation requirements of Jersey Central.

Task 6 - Confirmation of Construction Costs in Capacity  
Expansion Plans

In this task, we will review the cost estimating approaches used in projecting capital expenditure requirements for the Company. Our review will cover both generation and transmission construction costs.

6.1 Review Historical Cost and Schedule Performance

A review will be made of the Company's cost and schedule performance against original and revised plans to identify any recurring patterns or trends in cost or schedule variance which should be evaluated in detail.

6.2 Review Project Cost and Schedule Planning Estimates

The systems and data employed to prepare, review and approve project cost estimates and schedules will be reviewed for reasonableness. The review will consist of a sampling of generation and transmission projects. Any points of disagreement or exceptions to cost and schedule estimates prepared by the Company will be identified.

### 6.3 Review and Finalize Construction Cost Figures

The results of our evaluation of construction costs used in capacity expansion plans will be reviewed with Board representatives and Company representatives. This will result in a consensus on construction cost figures to be used in the analysis of viable strategic policy options.

### Task 7 - Finalization of Standard Evaluation Technique

The objective of this task is to provide an organized method for evaluating and ranking the various options being studied. We will finalize a standard evaluation technique for studying each of the options, as well as develop a computer-based financial model to expedite the financial analysis and provide the capability for sensitivity analysis.

#### 7.1 Finalize the Standard Evaluation Technique

On a preliminary basis, we have identified four evaluation areas for each viable strategic policy option. These areas are:

- Legal Analysis

The legal parameters of an option, including:

- Federal Constitution, statutes and regulations
- State Constitution, statutes and regulations

- Investment Analysis

The financing alternatives of an option, in terms of:

- the types of instruments available
- investment ratings
- capital availability
- interest rates

- Tax Analysis

The tax implications of an option, considering:

- the tax status of types of funding instruments
- the tax impact on entity income
- the impact on tax revenues at each level of government

- Financial Analysis

The financial feasibility of an option, in terms of:

- financing requirements and costs
- operating costs
- administration costs
- revenue requirements

## 7.2 Finalize Indicators for Each Evaluation Area

Within each evaluation area, indicators for measuring the impact of implementing a given option will be identified, e.g., indicators for the financial analysis area could include:

- Revenue Adjustment - The difference between revenues earned based on the current rate structure and revenues required to cover operating and financing costs.
- Rates per kilowatt hour.
- Cost of service per kilowatt hour.
- Capital Funding - The amount funds generated available to meet future capital expenditure requirements.

## 7.3 Develop Computer-Based Financial Model

In order to facilitate the timely evaluation of the financial impact of each option, and also to provide a capability for sensitivity analysis of the key assumptions, a financial model will be developed. The tasks required to develop the model will be:

- Define the outputs. This will include at least the financial indicators referred to above.
- Specify the logic to integrate the relevant revenue and cost factors, and provide the sensitivity analysis capability.
- Program the model on a timeshare system.
- Test and debug the model.

7.4 Prepare Standard Documentation Package

An evaluation package will be developed as a standard format for collecting all pertinent information relating to a specific option. The basic format will include for each evaluation area:

- Key Indicators
- Assumptions
- Support for Area of Analysis
- Professional Assessment

7.5 Review and Finalize Standard Evaluation Technique, Indicators, Financial Model and Documentation Package

This review will be with Board representatives and Company representatives to obtain a consensus on our approach to analyzing and documenting the viable strategic policy options.

Task 8 - Prepare Status Review for the Board

The status review will cover progress to date on the study including those areas reviewed with the representatives of the Board and the Company. The following topics will be included in the presentation:

- Confirmation of generation requirements for Jersey Central service area.

- Confirmation of construction costs for planned capacity expansions.
- Identification of assumptions underlying the further evaluation of viable strategic policy options.
- The standard evaluation technique and indicators.

#### 8.1 Prepare and Conduct Board Presentation

We will prepare a Board presentation to cover the progress achieved since the identification of strategic policy options requiring further study. This presentation will highlight the results of Tasks 4-7.

A presentation will be made to the Board. The Board will approve the standard evaluation technique developed and any assumptions underlying the further evaluation of options.

#### 8.2 Submit Written Status Report

We will prepare a written status report outlining the results of the Board presentation. This is the third work product to be delivered to the Board.

Once the Board has reviewed and approved our standard evaluation technique and the basic assumptions and estimates made in Tasks 4-6, we will evaluate each viable strategic policy option previously selected by the Board. Our standard evaluation of these options will involve:

Task 9 - Conduct Legal Analysis of Each Viable Option

The objective of this task is to consider the pertinent constitutional, statutory and regulatory issues impacting each of the options. A significant portion of the legal research will have been performed during the initial screening tasks. Most of the legal criteria pertain to the State of New Jersey and the power of the State or an entity created directly by the State (usually through a State department) to carry out a project at the State level. In addition to acting in its own right, a State may create a public corporation.

9.1 Research the Pertinent Federal Constitution Sections, Statutes, and Regulations

- Identify prohibitions and restrictions
- Identify any changes required for each option

9.2 Research the Pertinent State Constitution, Sections, Statutes and Regulations

- Identify prohibitions and restrictions
- Identify any changes required for each option

9.3 Assess Legal Feasibility of Option, in Terms of:

- Legal/legislative changes
- Complexity of changes
- Potential for litigation

9.4 Prepare the Legal Portion of the Standard Documentation Package

Task 10 - Conduct Tax Analysis of Each Viable Option

An important item in the study of alternative financing arrangements is the determination of the tax status of the entity and/or issues used to raise capital. In this subtask, we will research pertinent income tax statutes, regulations, rulings and case law, and review pending legislation as they relate to the various financing alternatives. Current House Ways and Means Committee studies and hearings on tax reforms, investment tax credit legislation, and other congressional actions to foster capital formation will be included in the research.

10.1 Determine the Tax Status of:

- Funding Instruments
- Capital Properties
- Sales Revenues
- Entity Income

10.2 Assess Impact of Tax Status on:

- Federal Revenue-Sharing
- Local Tax Base
- State Tax Base

10.3 Prepare Tax Portion of Standard Documentation Package

Task 11 - Conduct the Investment Analysis of Each Viable Option

The advantages and the disadvantages of financing alternatives will be analyzed for each of the options. Since financing alternatives selection is dependent on market conditions and interest rates which are unpredictable, this step will identify reasonable alternatives that are feasible over a wide range of market conditions and monetary policies. Careful considerations will be given to the capital market's ability to provide the capital funding required to move projects from the planning to

operational stage. Within the national investment scene, the market ability of New Jersey's electric utility issues, whether equity or debt, taxable or tax-exempt, will be evaluated.

11.1 Determine Estimated Capital Funding Requirements

The determination will be based on incremental planned capacity and the estimated cost per installed kilowatt, which will have been developed in an earlier task.

11.2 Assess the Credit Worthiness of the Relevant Financing Authority

This would be expressed in terms of probable ratings by:

- Moody's
- Standard & Poors

11.3 Identify Financing Alternatives for Each Option

All reasonable financing alternatives will be identified for each option. For example, this list of alternatives could include:

- Equity issues
- General obligation bonds
- Revenue bonds
- Special assessment bonds
- Bank term loans

11.4 Identify the Key Features of the Financing Alternative:

- The terms and repayment schedule.
- Funding period and the average capital costs.
- Coverage requirement or similar restrictions on funding instruments.

11.5 Assess Difficulty in Marketing the Funding Instruments

This will take into account the magnitude of capital funds required and the credit worthiness of the financing authority involved.

11.6 Prepare Investment Portion of Standard Documentation Package

Task 12 - Prepare Financial Analysis of Each Viable Option

Each option will have a number of financial consequences that will impact upon the delivered cost of electricity. Specific areas to be studied for each option are:

- The cost of capital differentials.

- Operating efficiency.
- State and local tax base effect, including an analysis of payments in lieu of taxes.
- Revenue requirements.

A computer model will be used, both to expedite the analysis, and to provide the capability for sensitivity analysis.

12.1 Calculate Invested Capital in New Facilities

This will be based on an assessment of incremental generation capacity required and the cost of capital under the option.

12.2 Calculate Kilowatt Hours Generated and Marketed

This will be based on an estimate of generating unit availability and loss rate in transmission and distribution of power.

12.3 Calculate Cost of Service Based on the Following Factors

- Production costs
- General and administration costs
- Property/other taxes
- Depreciation (if needed)
- Income taxes
- Financing costs

12.4 Calculate Revenues

- Revenue requirement for the option to be financially feasible.
- Revenue available under existing rate structure.

12.5 Calculate Cash Flow Available for Future Capital Projects

This will take into account non-cash items such as depreciation, where applicable.

12.6 Prepare Financial Portion of Standard Documentation Package

Task 13 - Prepare Summary Evaluation of Viable Strategic Policy Options

The analyses for Phase I will be integrated and evaluated, and the results presented in this task. The strategic policy option will be ranked both quantitatively and qualitatively for consideration by the Board.

13.1 Finalize the Standard Documentation Package for Each Option

The various portions of the standard documentation package will be edited, and a summary for the option will be prepared.

13.2 Prepare a Comparative Summary of Options

The key results will be summarized to facilitate comparison of the options. The comparative summary will focus on:

- Legal indicators
- Tax indicators
- Investment indicators
- Financial indicators
- Economic and political implications

13.3 Prepare a Qualitative Ranking of the Strategy Options

This ranking will be based on the assessment of the legal/regulatory complexity and preliminary assessment of the political acceptability of each option.

13.4 Prepare a Quantitative Ranking of Options

This ranking will be based on:

- The estimated cost per kilowatt hour.
- The revenue increase required to achieve the necessary return on investment.
- The feasibility of raising adequate financing.
- As appropriate, other financial indicators.

13.5 Prepare a Summary Ranking of Options

The summary ranking will be based on:

- An assessment of the options which are feasible from the qualitative point of view.
- The quantitative ranking of options.

Based on this ranking, we will recommend options for further study.

13.6 Review Results of the Comparative Analysis and Ranking of Options

The results will be reviewed with:

- Representatives of the Board
- Representatives of the Company

13.7 Conduct the Board Presentation

The comparative evaluation of the options and the recommended ranking will be presented to the Board for their review and approval. The two or three options to be studied further in Phase II will be identified.

13.8 Submit Written Status Report

This report will document the results of the Board presentation and will identify the strategic policy options to be studied in detail in Phase II.

Task 14 - Prepare Phase I Report

A report for Phase I of this study will be prepared and presented in draft for review and comment by the Board and its representatives. We will review the comments received and if appropriate modify our report and issue it in final form.

Our report will contain a summary section which will be written in terms that can be understood by a non-technical reader. It will also include the standard documentation packages for the options studied.

PHASE II: IN-DEPTH REVIEW OF MOST VIABLE STRATEGIC POLICY  
OPTIONS

The objective of Phase II is to analyze further the two or three most promising strategic options identified in Phase I.

Task 1 - Revise and Update Phase II Work Plan

We will prepare an update Phase II work plan to:

- Reflect input from Board in Phase I
- Finalize responsibilities of consultants and subcontractors

Task 2 - Review Regulatory Proceedings and Results of Relevant Studies

As part of our responsibility to keep informed of the Board regulatory proceedings, we will review any proceedings or results which have implications for this phase of the study.

Task 3 - Conduct Political Impact Survey

Experience with major public or utility undertakings has shown that political acceptance is key to their being successfully implemented. For this reason, we will survey key political constituencies to obtain their input to the evaluation of the strategic options under consideration.

3.1 Design Survey of Key Constituents

- Describe the strategy options and their likely impact.
- Develop questions to solicit input on the options' socio-political desirability.
- Review the survey with representatives of the Board and the Company.

3.2 Perform Survey of Key Constituents to Solicit Input

- The members of the State Legislature
- Consumer groups
- Utility representatives
- Business groups
- Other interested parties

3.3 Summarize the Results of the Survey

Task 4 - Update the Financial and Economic Analysis

Phase I included a financial analysis of each option. At this stage the financial analysis will be reviewed, and the validity of the assumptions in particular will be re-evaluated. It may also be appropriate to perform more in-depth analysis in some areas.

4.1 Review Financial Analysis and Economic Impact

The areas for review for each option will include:

- Financing requirements and costs
- Revenues and revenue requirements
- Operating costs
- Administration costs

Each of the strategic options could result in different costs of power for the users in the Company's service area. The cost of power can significantly impact the economic attractiveness of the service area to industry, as well as the standard of living of the residents. Accordingly, the impact of each option will be evaluated in terms of:

- The increase/decrease in rates charged to residents, relative to what they have historically been charged, and the rates charged in neighboring service areas.
- The rates charged to industry, particularly large energy users, and how this compares to rates in other service areas where industry would consider locating.

Task 5 - Review the Results with Board and Company Representatives

The results of the work to date in Phase II will be reviewed with the representatives of the Board and the Company. The review will cover:

- The results of the political acceptance survey.

- The updated financial and economic analysis.

Following the review, a written status report will be developed and presented to the Board for approval.

#### Task 6 - Develop Legal Implementation Plan

In addition to the legal analysis conducted in Phase I, legal issues relating to the two or three most promising options may have to be explored further. The additional legal analysis would relate primarily to evaluating the legal/regulatory complexity of implementing the strategic options under consideration, and identifying the legal steps required to implement each option.

#### Task 7 - Develop Organization Implementation Tasks

A detailed implementation plan will be developed for each option. This will include an estimated implementation timetable.

#### Task 8 - Develop Consolidated Implementation Plan

The implementation plans will include tasks relating to:

- Regulatory, legal and legislative
- Organizational and administrative
- Financing and cash flow

The estimated costs of implementing these tasks will also be developed.

Task 9 - Develop Recommendation for Interim Regulatory Treatment

We will develop alternative approaches to regulatory treatment of the Company for the period between the completion of the study and implementation of any structural remedy. The approaches will focus on developing an appropriate rate strategy for the Board. Following consideration of the alternatives, a recommended treatment will be developed.

Task 10 - Review the Results

The results of the following tasks will be reviewed with the representatives of the Board and Company:

- The legal implementation plan
- The organization implementation plan
- The consolidated implementation plan

Task 11 - Develop Priority Ranking for Strategic Options

At this stage, the analysis in Phase II will be integrated and evaluated on a comparative basis, to determine the priority ranking of the options.

We will prepare a qualitative ranking of options. The following factors will be considered for each option:

- The results of the political acceptance survey.

- The assessment of the legal or legislative complexity of implementing the option.
- The assessment of the organizational or operational complexities involved in implementing.

A degree of difficulty ranking will be developed for each of these factors.

We will also prepare a quantitative ranking of options. Each of the options will be evaluated in terms of:

- Financing requirements and cost
- Operating and administrative costs
- Construction costs
- Cost of electricity

The relevant indicators for each area will be developed for purposes of presenting the results.

A summary evaluation and ranking of options will be developed. This summary evaluation will be based on:

- An assessment of the option which is feasible from the quantitative point of view.
- The quantitative ranking

This evaluation will be reviewed with the representatives of the Board and the Company.

Task 12 - Prepare and Conduct Board Presentation

The results of this study will be summarized and recommendations will be developed for presentation to the Board.

Task 13 - Prepare Written Progress Report

The results of the analysis, and the recommendations emerging from Phase II will be summarized in a written progress report. The report will be presented to the Board for review and approval.

Task 14 - Prepare Phase II Report

We will prepare a Phase II draft report and review it with the representatives of the Board and the Company. We will incorporate any review comments in our final report.

Task 15 - Give Expert Testimony

We will prepare expert testimony for use in Board proceedings, and will give testimony as and when required.

A NOTE ON THE DEVELOPMENT OF FORECASTS

A key element of this study is the development of projections of ranges of rates, revenues and other data, as a basis for evaluating alternative strategic options. It should be recognized that because financial projections are dependent upon future events, there is no assurance that the projected results are achievable. Because the underlying assumptions are critical to the projections, we will present these at regular intervals to the Board and their representatives for review and approval.

In certain areas, we will look to our subcontractors who will have primary responsibility for performing the analysis, such as for evaluation of financing alternatives. We will look to these specialists to provide us with the necessary input to assure ourselves of the reasonableness of the underlying assumptions. Our subcontractors will join with us in presenting their projections or estimates, along with the underlying assumptions, for review and approval by the Board.

## V. PROJECT MANAGEMENT

The scope of the Board's study requires a significant level of effort and attention to project management. Our project management policies and practices adhere to the basic steps of effective engagement management and should satisfy the needs of the Board. The control techniques which we will use on this audit include:

### Planning Control

Effective project planning requires explicit attention to task schedules, work flow, and manpower utilization. A substantial portion of the initial planning requirements have already been performed in the process of preparing this proposal. Initial planning, regardless of how well done, is inevitably subject to review and adjustment based upon the results of orientation and review meetings conducted at the outset of the project and upon progress as measured at significant milestones. For this reason, both contingency planning and backup support have been built into our detailed work plan.

We will maintain, for the duration of this audit, an updated master schedule of activities, the basis of which is provided in the work plan in Exhibit III. The schedule will be updated from the internal progress reports on task activities. In the update and review process, potential revisions to the schedule will be developed to reflect anticipated slippages or changes in scope of the work to be completed.

### Budget Control

We place considerable emphasis on this aspect of project management. Actual utilization and costs for the consultants assigned will be compared semi-monthly with budgeted levels of effort to assure adherence to these levels as well as scheduled milestone dates. We will review any significant deviations to identify the nature of the difficulty and the action necessary to resolve the deviations in expenditures, particularly in view of the schedule requirements.

Quality Control

Quality control is an important aspect of our approach to project management. The control techniques which we will initiate on this study to assure quality control over all efforts reflect the concern within our Firm with professional performance and delivery of a quality product.

As one aspect of quality control, we will hold concurrently with representatives of the Company and the Board, revision sessions to confirm the validity of the data used in the development of our assumptions and recommendations. As needed, we will also prepare brief reports detailing particular review methods or findings, as may be required.

Our experience with large, complex studies has reinforced our view of the importance of managing resources, reviewing performance, updating plans and reporting progress. We have concluded that a major element of our success as professional consultants is attributable to the considerable attention that we devote to these efforts.

## VI. ORGANIZATION AND STAFFING

In this section we present our proposed project organization plan, a description of the duties and responsibilities to be performed by the consulting team, and the resumes of the Arthur Young personnel we intend to assign to this engagement. The resumes for the personnel from the other professional firms are included in the Qualifications section of the proposal.

### Study Team Requirements

There are certain basic requirements which we view as essential to the success of this study. We believe that the consulting team selected should possess:

#### Sound Leadership and Effective Organizational Approach

An essential element to the successful completion of this study is the use of an organizational approach which effectively brings together individuals skilled in many functional and utility industry specialities. This, in turn, requires the assignment of a senior leadership team which possesses demonstrated experience in the management of large-scale consulting projects involving the participation of many highly skilled and experienced professional consultants.

#### Competency in Function and Industry Skills

The nature of this project is such that it demands the assignment of professionals who are highly experienced and qualified in functional areas such as law, investment banking, taxation, economics, and financial analysis. In addition, the success of this project requires specific knowledge of electric utility matters, including operations and maintenance, system planning and construction planning and control.

#### Knowledge of Regulatory Environment

Since one of the basic objectives of the engagement is to assist the Board in fulfilling its regulatory responsibilities, it is essential that the selected consulting team have a thorough understanding of the regulatory environment. This is also important because regulatory requirements and restrictions have a direct impact on utility's ability to obtain capital financing.

## Project Organization

Exhibit II illustrates our project organization for this study. The key features of this organization are as follows:

### Project Director

The Project Director, Mr. Robert E. Nelson, will be responsible for the overall planning and management of the project, and for the quality of the work done by the personnel assigned. He will provide technical guidance to the project team and maintain close liaison with the Board, its representatives and the Company. He is a partner of Arthur Young & Company and has extensive experience in financial planning and control systems and special financial analysis in both the public and private sectors.

### Director-In-Charge

While the Project Director has direct responsibility for the performance of the project, Arthur Young & Company believes that a client has the right to expect senior partner level involvement in the areas of:

- o Quality assurance and control, and
- o Technical and administrative support.

Mr. Donald E. Law, the Director in charge of our overall utility consulting practice, will assume these responsibilities. Mr. Law has had extensive utility experience for almost ten years and has personally managed many of our important engagements in this industry.

### Technical Advisors

The Technical Advisors will provide technical support and quality control for the consulting team. The advisors will include Messrs. T.J. Kelly, R.G. McLendon, J.F. Laezza, D.A. Tierno and B.P. Walsh. Each Technical Advisor brings extensive experience to this project in terms of either utility experience or government program administration.

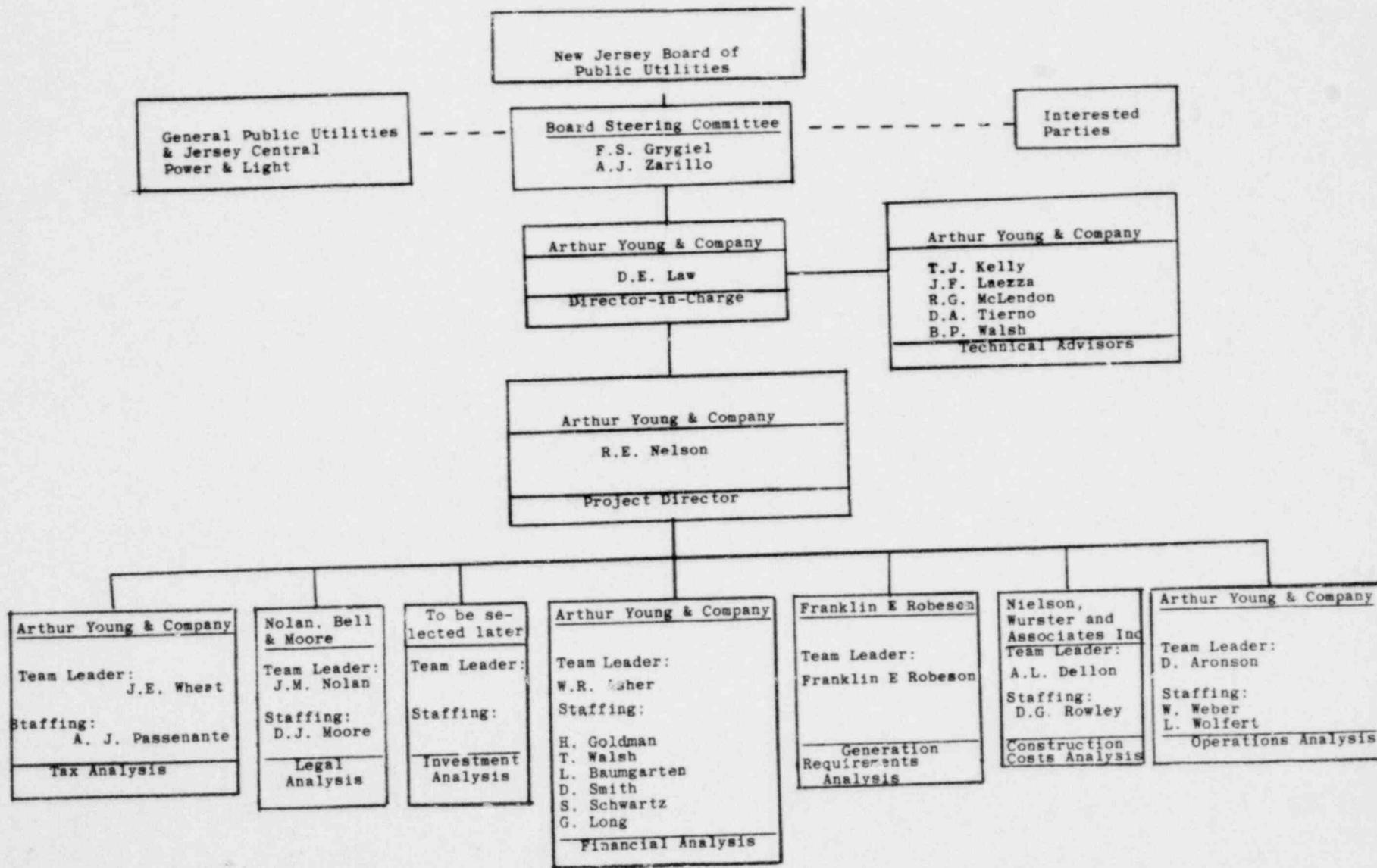
### Team Leaders

For each area of analysis, the firm responsible has designated a team leader who will direct the conduct of the work tasks assigned and the quality of the work performed.

Team Members

The detailed analysis required will be the responsibility of specific professional staff members. They will work under the close supervision of assigned team leaders. The resumes of members of the study team are provided in this section of our proposal. If it becomes necessary to assign additional experienced professionals to the study, their resumes would be submitted for review prior to their assignment.

ORGANIZATION AND STAFFING



Donald E. Law

Mr. Law is a Director (Partner equivalent) with our firm and is a graduate of Hobart College, with a B.S. degree in Mathematics and Physics. He received his masters degree from Columbia University in Industrial Engineering.

Since joining Arthur Young & Company, Mr. Law has been responsible for the management of engagements involving construction management, and numerous projects in the utility industry. Mr. Law's most recent experience includes:

- Director-in-charge for a comprehensive management/operations study and profit improvement program in a large electrical utility company on the East coast. This engagement included a study to determine the extent of loss due to current diversion and development of a cost-effective system to minimize that loss. In the program, approximately 100 company analysts were involved in the review and establishment of management control systems for all departments of the company, manpower planning, power plant maintenance and operating efficiency and work load scheduling. In addition, he is directing a power plant construction control project, computer control systems, a telecommunications study, and a budgeting program for this company.
- Director of a full-scale management audit for a major producer of electric power and gas distribution company located in New York State. The basic objective of the study is to identify problem areas in the Company's management and operations and to propose solutions to these problems.
- Director-in-charge of two utility management/operations studies in the Midwest. The first involved construction of a nuclear generating facility and the second, a comparative review of all operations at a municipal utility.

- Director-in-charge of an evaluation of management control programs for an electric utility client.
- Technical advisor on a number of other utility engagements conducted by other Arthur Young & Company offices in this and other countries.
- Project manager responsible for the analysis of financial reporting and general operations for a New York company, including planning for the transfer of company operations to a new facility.
- Task leader responsible for the design and implementation of process system controls, labor controls and forecasting systems, production control for computer operations and methods for a New York stock exchange.

Mr. Law is a member of the American Institute of Industrial Engineers and has authored a number of articles relating to the utility and other industries. A recent article entitled "Are You Being Mugged at Your Meters?" appeared in the May 11, 1978 edition of Public Utilities Fortnightly. He is a frequent speaker at utility seminars on subjects related to utility management and productivity. Recent speeches include Solving the Productivity Dilemma, presented at the annual meeting of the Southeastern Electric Exchange in Atlanta, Georgia; Plan for Improving Productivity, presented at a productivity and managerial assessment symposium co-sponsored by the New York State Department of Public Service and the School of Business Administration, State University of New York at Albany; and How the Management Audit Should Be Performed, presented at the management and operational auditing of utility corporations symposium co-sponsored by the New York State Public Service Commission and Rensselaer Polytechnic Institute.

Mr. Law has given expert witness testimony before the New York State Public Service Commission regarding the cost reduction potential of management audit recommendations for a utility. The recommendations were expected to result in future cost avoidance, cost reduction and potential revenue enhancement. In addition, Mr. Law has provided expert witness testimony regarding utility operations before the regulatory commissions in Florida, Colorado, Missouri and Kentucky.

Robert E. Nelson

Mr. Nelson is a Partner in our New York Office. He graduated from the Georgia Institute of Technology, with a B.S. degree in industrial management, and received an M.B.A. degree from the University of Alabama.

Mr. Nelson's management consulting experience encompasses financial planning and control, management information systems, project management systems, capital budgeting and control systems, organization, operations and acquisition review, including extensive experience in the utility industry. A representative list of Mr. Nelson's consulting experience includes:

- Project Manager, for a study requested by the State of Michigan's Governor's Advisory Commission, in charge of the evaluation of financing alternatives for investor-owned and municipal electric utilities within the state. The evaluation encompassed the economic and operational impact of municipal power authority, municipal utility finance corporation and joint venture approaches.
- Team Leader, responsible for the analysis of several financial and project management functions as part of a comprehensive management and operations study of a large New York State electric and gas utility. Included heavy involvement in the capital budgeting, contracting and construction management activities of the company.
- Project Director, for a large east coast utility, responsible for development of a project management organization for engineering, procurement, construction and licensing of nuclear and fossil power plants costing approximately \$600 million annually. Developed management information and control systems for corporate and project management, including a commitment planning and control system for the managerial and contractual commitment process for capital expenditures programs.
- Team Leader, for a state public service commission, responsible for the evaluation of an investor-owned utility's plans to construct two nuclear power plants, including project management organization and project planning, reporting and control systems.

- Senior Technical Advisor, for one of the largest public utility holding companies, for providing special financial services. The report is required to be submitted to the U.S. District Court for the District of Columbia and the Securities and Exchange Commission.
- Project Director responsible for advising a major aluminum company in case preparation for public utility rate and financial management hearing with the Securities and Exchange Commission, the Federal Power Commission and the involved state public service commission.
- Project Director in charge of the development of a capital budgeting system for a manufacturer of steel specialty products. The system included evaluation of investment alternatives, management review and approval, control reporting, and integration with long-range planning.
- Project Director responsible for the development of executive office management information and business planning systems for a major international packaging company.

Mr. Nelson is a Certified Public Accountant in New York and is a senior member of the American Institute of Industrial Engineers. He is a frequent speaker on Cost Accounting, and Planning and Budgeting, including numerous speeches and seminars on Zero-Base Budgeting. He has also authored a number of articles which include Liquidity Improvement: A Management Approach which appeared in the October 1977 edition of Business Horizons; and Making Cost Control Work which has been incorporated into the McGraw-Hill publication, "The Handbook of Business Problem Solving."

W. Russell Asher

Mr. Asher is a Principal in our Stamford Office. He graduated from the University of Maryland with a B.A. degree in Commerce and received an M.B.A. degree in Accounting from the University of Pennsylvania.

Mr. Asher's consulting experience encompasses financial planning and control systems, operations improvement, organization development, and managerial accounting and reporting systems. Specific examples of his related experience are as follows:

- Participated in a study requested by the State of Michigan's Governor's Advisory Commission which evaluated financing alternatives for investor-owned and municipal electric utilities within the state. This engagement included the evaluation of the economic and operational impact of municipal power authority, municipal utility finance corporation and joint venture approaches.
- Team leader for the evaluation of the strategic planning system for a large southeastern electric utility. This study centered on a review of all major corporate planning systems and their inter-relationships with strategic planning.
- Evaluated corporate financial management, planning, budgeting, accounting and reporting activities of a water utility company in New England.
- Evaluated financial systems requirements in preparing a strategic information processing plan for a utility holding company in Connecticut.
- Team leader for the development of implementation controls of recommendations resulting from a comprehensive management and operations study of a large electric and gas utility in New York State. Also evaluated the following functions as part of this study: capital budgeting, management of large construction projects, and power plant operations.
- Evaluated systems planning, capital budgeting, and construction management activities in a management audit of a water utility company in Pennsylvania.

- Team leader for the development of a capital budgeting system for a large electric utility in Florida. This system focused on power generation projects and related expected schedule progress to budgeted costs in order to insure project performance reporting. Also team leader for the development of a commitment control system which separated the commitment process into managerial and contractual commitment planning and control.
- For an electric utility in the Southeast, developed a management reporting system which encompassed both responsibility and exception reporting.
- Other examples of Mr. Asher's experience include:
  - For a wholesale company, directed the development of a product contribution reporting system.
  - Prepared an income tax impact study for a wholesale company, identifying foreign subsidiary losses subject to U.S. income tax provisions.
  - For a manufacturing company, directed the development of a standard cost system.
  - Developed a branch procedures manual for a manufacturing company, encompassing organization, purchasing, inventory control, sales and accounting activities.

Mr. Asher is a Certified Public Accountant in the State of Florida and holds membership in several professional associations including the Planning Executives Institute. He is a frequent guest speaker for professional associations on financial planning and control requirements.

Harvey J. Goldman

Mr. Goldman is a Principal and Director of the Financial, Planning and Control Group of the Newark Office. Mr. Goldman holds a B.A. degree in Accounting from Duke University. He also received an M.B.A. from the Harvard Graduate School of Business Administration, concentrating in Business Planning and Financial Management.

He has more than ten year's experience in financial management of which approximately five years are in consulting. He has directed a variety of engagements with commercial, government and non-profit clients involving design and implementation of management control systems, financial management systems, budgeting and forecasting systems and the development of indirect cost allocation plans.

Mr. Goldman's recent professional experience includes the following representative activities:

- Engagement Director in charge of project for New Jersey State Department of Energy to assist that organization in defining the requirements for a financial management system.
- Principal in charge of our work for Passaic Valley Sewage Commissioners to develop User Charge and Industrial Cost Recovery Systems (UC/ICR).
- Principal in charge on a project to design an Industrial Cost Recovery System for the Puerto Rico Aqueduct and Sewage Authority.
- Principal in charge of our work to develop a transition plan which identified the administrative, financial, organizational and operational factors which must be addressed in the formation of the Atlantic City Municipal Utilities Authority. This Authority is designed to include water, sewage and solid waste disposal operations.

- Principal in charge of our work to design User Charge/Industrial Cost Recovery systems for the N.W. Bergen Sewage Authority.
- Principal in charge of our work to assist the Pemberton Municipal Utilities Authority develop an improved methodology to receive indirect cost reimbursement from the EPA on construction grant projects.
- Engagement Director in charge of project for a major consulting engineering firm to assist that organization in establishing improved financial management systems deemed necessary due to its significant work for grantees, the EPA and other funding authorities.
- Engagement Director in charge of a project to design and implement zero-based budgeting procedures and improved internal reporting for one of the country's largest newsprint manufacturers.
- Engagement Director of a project for a local N.J. community concerned with the development of an indirect cost allocation plan for reimbursement of indirect costs incurred in the administration and operation of federal grant programs.
- Engagement Director in charge of several projects to define needs and implement improved automated financial systems for major health and community service organizations. These projects included the development of multi-year data processing plans and the design and installation of specific systems based upon the needs and priorities of the organizations.
- Engagement Director in charge of a consulting project for an international pharmaceutical manufacturer. The engagement involved defining, designing and implementing an automated accounting and financial management system.
- Engagement Director in charge of a project for the City of Worcester, Mass. involving the design and installation of a Federal Grant management control system. Components of the project included grant processing, monitoring, auditing and contract performance evaluation procedures; local, regional and Federal reporting; and administrative system evaluations of grant recipients.

- Engagement Director in charge of a consulting project for a major New England teaching hospital. The project involved developing automated financial, operational and staffing forecasting models, with the results being utilized by State funding authorities and regulatory rate setting commissions.

Mr. Goldman is a frequent speaker on topics directly related to this proposal. Examples of his recent presentations include the following:

- Conducted workshop seminars for both the Consulting Engineers Council of New Jersey and the New York Association of Consulting Engineers designed to train their members on (1) User Charge/Industrial Cost Recovery System and legislative requirements, (2) government contract accounting, and (3) the development of indirect cost allocation plans.
- Delivered a keynote address and conducted workshops on grant accounting systems and UC/ICR systems at the EPA's Program Management Workshop for Government Officials.
- Selected by the Association of Metropolitan Sewage Authorities (AMSA) to deliver a keynote address on Administrative Cost Control and Indirect Cost Reimbursement at their Financial Management Seminar.
- Conducted workshop seminars under the sponsorship of the New Jersey Department of Environmental Protection and New York Department of Environmental Conservation to advise grantees of the UC/ICR requirements and the steps involved to satisfy those requirements.
- Selected by the Authorities' Association of New Jersey to conduct a seminar for its members on the EPA's pretreatment requirements and related management information system needs.

Mr. Goldman is a Certified Public Accountant and a member of the American Institute of Certified Public Accountants. He is a member of the New Jersey School Association and Director and Treasurer of the Authorities' Association of New Jersey.

Dennis Aronson

Mr. Aronson, a Manager in the Management Services Department of the New York office, is responsible for the development of our utility industry practice and project management of engagements within the industry. He is a graduate of Tulane University in New Orleans where he received a B.S. degree in Electrical Engineering in 1968. He has also earned a Masters degree in Business Administration from the University of Miami.

Mr. Aronson has devoted his entire professional career to the utility industry. He joined Florida Power and Light Company in 1968 and held responsible positions in Engineering, Treasury, Management Services and Power Resources before leaving to join the Missouri Public Service Commission in 1975. In Missouri, he organized the first-of-its-kind team of management analysts to perform studies of states' utilities. Later, he was promoted to Director, Utility Services.

Prior to joining Arthur Young, Mr. Aronson was an instrumental part of A.T. Kearney's North American utilities practice. In his most recent position, he was Vice President, Management Consulting for Zinder Management Services, Washington, D.C.

His experience on assignments for utility companies, associations and commissions includes the following:

- Directed the activities of a study team of five analysts during the review of a combination electric, gas and water utility. This general management audit included a review of financial management, resource management, commercial operations, electric, gas and water operations, and staff support functions such as data processing, engineering, internal auditing, accounting, personnel, purchasing, rates and safety.

- Team leader, for a combination electric gas transit, steam heat and industrial steam utility, responsible for the evaluation of financial planning and control, resource management, customer services, power plant operations, and general office staff activities. The latter activities included accounting, data processing, engineering, internal auditing, corporate communications, personnel, purchasing rates and safety.
- Directed the activities of a study team of five analysts in the review of a major electric utility's construction management program. Efforts were concentrated upon power plant projects in Kansas and Missouri. The study team reviewed the planning, scheduling and control systems utilized by the architect/engineering firm, the construction contractor, and the utility's management group. Since the proposed expenditures for the projects under study exceeded \$1 billion, the study team conducted an extensive, in-depth review of existing and planned cost controls. Several key recommendations have been implemented by the company.
- Project Team Leader of thirteen consultants during the general management audit of a Bell System operating telephone company. This study, at the request of a state public utilities control authority, included a review of organization, operations, finance, marketing customer service and engineering.
- Developed and implemented a performance reporting system for a consumer services department at Consumers Power Company. Studies of over 200 employees across the State of Michigan resulted in the development of job standards, performance reports and manpower forecasting systems.
- Developed the resource requirements of a major pacific northwestern city for asserting jurisdiction over the utilities within the city boundaries. This study, at the request of a major gas distribution company, was commissioned to determine the costs of dual jurisdiction to the city, rate-payers, and the investor-owned utilities.
- Directed the activities of a project team in the evaluation of several materials management software packages for a midwestern electric and gas utility.

- Designed and developed a vehicle and equipment management system for a midwestern electric and gas distribution company. Study recommendations included formalized operating procedures, a centralized staff, lease/buy analyses, purchasing policies and a maintenance program.
- Designed and installed an information system to monitor, index, store, and distribute material to EEI member companies on matters related to state and federal regulatory proceedings.

Mr. Aronson is widely known in utility and regulatory circles throughout the United States. He has given numerous presentations on management auditing, some of which are highlighted below:

- "Several Issues of Major Concern to Regulatory Agencies When Ordering a Management Audit", Midwest Association of Railroad and Utility Commissioners (MARUC), 1976 Annual Meeting, Tulsa, Oklahoma.
- "The Management Audit", 54th National Conference of Regulatory Utility Commission Engineers, June 1976, Hershey, Pennsylvania.
- "The Management Review and Its Emerging Role in Regulation", Missouri Telephone Association 1976 Annual Meeting.
- "The Management Audit", Missouri Valley Electric Association (MVEA), 1976 Annual Meeting, Kansas City, Missouri.
- "Management Audits Performed by Commission Staff", Management Audit Symposium, R.P.I., March, 1977, Troy, New York.
- "The Use of Commission Staff as Management Auditors", Advanced Management Research (AMR) Management Audit Seminar, June, 1977, Chicago, Illinois.
- "The Partial Management Audit", Advanced Management Research (AMR) Management Audit Seminar, 1977.
- "The Focused Management Audit", Advanced Management Research (AMR), Management Audit Seminar, March 1978, Washington, D.C.

- "The Focused Management Audit", AMR Seminar, July, 1978, Denver, Colorado.
- "Management Audits of the Materials Function", American Gas Association, Transmission and Distribution Conference, May, 1979, Hollywood, Florida.
- "Materials Management Audits -- The Regulatory Perspective", Missouri Valley Electric Association Annual Meeting, September, 1979, Kansas City, Missouri.

James E. Wheat

Mr. Wheat is the Director of Taxes with our Newark Office. Mr. Wheat holds both B.S. and L.L.B. degrees from University of Kansas.

Mr. Wheat is responsible for a wide range of corporate clients, including General Instrument Corporation, Thiokol Corporation and Midland Glass Company. In addition, he has served as a special tax consultant to Southern Natural Resources and the Offshore Company. His experience includes extensive involvement in corporate acquisitions and reorganizations. In the past, Mr. Wheat served with the National Tax Group in our Washington, D.C. office.

Mr. Wheat has served as a director of the National Association of Estate Planning Councils and as president of the Estate Planning Council of North Jersey. A former chairman of the Journal and Publication Committee of the New Jersey Society of CPAs, Mr. Wheat is the author of several articles that have been published by the Society as well as in other professional journals. He is a member of the American Institute of Certified Public Accountants and the New Jersey Society of Certified Public Accountants.

David A. Tierno

Mr. Tierno is a Partner and Director of the Management Services Department of the New York Office. He is a graduate of St. Joseph's College in Philadelphia where he received a B.S. degree in Accounting in 1963. Mr. Tierno has the overall responsibility for the provision of a wide range of management consulting services to clients in many industries. He has had a wide range of management consulting experience, and has been active in professional organizations at the state and local levels.

His major engagements have covered such services as review and analysis of operational and financial reporting systems, conceptual systems design, feasibility studies, design and implementation of management planning and control systems, and Equal Employment Opportunity Compliance. Projects in which Mr. Tierno has been actively involved include the following:

- Operations Project Director, for a study requested by the State of Michigan's Governor's Advisory Commission which evaluated financing alternatives for investor-owned and municipal electric utilities within the state. This engagement included the evaluation of the economic and operational impact of municipal power authority, municipal utility finance corporation and joint venture approaches.
- Partner-In-Charge for the review of the operations in a management audit of a water utility company. The review covered capital expenditure planning and budgeting, distribution systems maintenance, water treatment and pumping station management, materials management, and meter setting and testing.
- Partner-In-Charge for a special study for the Office of the Lieutenant Governor of the Commonwealth of Pennsylvania to develop a new energy conservation program for the Commonwealth. Project involved program feasibility assessment, evaluation of alternative programs, development of organizational recommendations, and the preparation of a comprehensive plan to implement the program at the state, regional and local levels.

- Partner-In-Charge for a project to conduct a study of the organization structure and personnel management practices and policies of the Pennsylvania Public Utility Commission. This engagement resulted in a determination of the adequacy of the existing Commission organization structure and resulted in recommendations for its improvement. Mission statements were prepared for organizational units as well as position descriptions for key personnel.
- Partner-In-Charge for a project to evaluate the feasibility of utilizing electronic data processing techniques to assist the Pennsylvania PUC in fulfilling its responsibility to regulate over 5,000 transportation and fixed utilities operating within the Commonwealth. Virtually all operations of the Commission were reviewed and documented as necessary to analyze the procedures of the Commission and determine the feasibility of using data processing techniques.
- Regional Coordinator of an engagement with the Philadelphia Regional Office of the Public Health Service. The project involved development and implementation of a structurally sound management by objectives (MBO) program to replace the agencies' operational planning system (OPS). The effort required the development of a curriculum and training guide, conduct of initial training courses, provision of MBO training, structural reorganization and MBO implementation.
- Directed an operational review of the financial reporting system of a medium-size city and developed and implemented financial reporting systems based on review recommendations.
- Other consulting experience includes:
  - Regional Project Director on a national contract with the Law Enforcement Assistance Administration (LEAA) to provide financial and management technical assistance to various state planning agencies responsible for administering LEAA grants-in-aid.

- Project Director for an engagement with the Pennsylvania Developmental Disabilities Planning and Advisory Council to conduct an inventory and analysis of providers directly serving developmentally disabled persons and support units administering programs which benefit them.
- Project Director for the preparation and presentation of a series of training modules to the Lehigh Valley Manpower Program, a CETA prime sponsor.
- Partner-In-Charge of an engagement with the City of Philadelphia to implement a pilot productivity program.

Mr. Tierno is a Certified Public Accountant. He is a frequent speaker before professional groups on subject related to financial management systems and control. Mr. Tierno is a member of the American and Pennsylvania Institutes of CPAs, the Municipal Finance Officers Association and the Planning Executives Institute.

Barry Walsh

Mr. Walsh is Office Director of Management Services for the Toledo Office. He received his B.S. degree in Mathematics from Bowling Green State University in 1962 and has completed post graduate work in accounting. In addition, he has completed special studies in materials management, management by objectives, financial planning and control and computer programming.

His project experience includes:

- Project Director, for a study requested by the State of Michigan's Governor's Advisory Commission which evaluated financing alternatives for investor-owned and municipal electric utilities within the state. This engagement included the evaluation of the economic and operational impact of municipal power authority, municipal utility finance corporation and joint venture approaches.
- Project Director for the design and implementation of an energy supply and demand information system for the State of Michigan. The system provides the State with energy management information and allows the State to develop scenarios of future supplies and demands to assist in establishing long-term policies for energy management within the State. It also provides necessary information for managing the allocation program used during the 1974 winter petroleum shortages. The system consists of a large data base and several models for forecasting supply and demand including a large linear programming model.
- Managed a technical assistance program for 250 distributors of a Michigan manufacturer. The program consisted of design and implementation of an automated accounting system, a management information system and a distribution improvement system.
- Managed development of a computer based financial planning model for a Michigan manufacturer. The model operated on a time-share system and was specifically designed to analyze sales, price and cost data for evaluating alternative marketing and operational strategies.

- Managed an engagement to develop a management planning and control system for a manufacturing company. This engagement consisted of the design and implementation of an inventory control system, a cost accounting system and a budget system.
- Served as team leader on a project to identify services and develop HEW-SRS billing procedures for social and rehabilitation services provided to public assistance recipients under Titles IV - and SVI of the Social Security Act by the Illinois Department of Public Aid.
- Overall management of total consulting activities performed for one of the largest cooperatives in Michigan. Program consisted of analyzing current operations, developing operating budget, defining methods improvement opportunities and providing management control procedures.
- Participated in a feasibility study for redevelopment of a downtown area.
- Managed other engagements in the area of financial planning, control and information systems for several major clients in Michigan.

Mr. Walsh's experience prior to joining Arthur Young & Company includes investment analysis, cost/effectiveness studies and budgets and profit planning for the Ford Motor Company. In addition, he is experienced in financial evaluations for proposed operating methods and improvements, analyses of potential facility investments and paybacks, preparing and conducting cost control programs and developing and installing budgets and profit plans.

He has been a guest speaker for the American Institute of Certified Public Accountants, the National Association of Accountants, and Planning Executives Institute and Operations Research Society of America.

John F. Laezza, Jr.

Mr. Laezza has more than 27 years experience in handling accounting, auditing and financial consulting matters principally for county and municipal governments, school districts and water and sewer authorities.

Mr. Laezza is a Partner in charge of the N.J. Government practice of Arthur Young & Company. He obtained his B.S. degree in Commerce and his M.A. degree in Public Administration from Rider College, Trenton, New Jersey. Mr. Laezza, a Certified Public Accountant and a Registered Municipal Accountant, is a member of the N.J. Society of C.P.A.'s and the Registered Municipal Accountants Association. He also served as a member of the N.J. State Board of Certified Public Accountants and was a co-adjutant instructor of Public Finance at the graduate level in Rider College.

Prior to joining Arthur Young & Company in October 1979, Mr. Laezza was the Director of the Division of Local Government Services in the Department of Community Affairs with selected responsibilities to the State Treasurer in matters relating to the fiscal integrity and financial management of local and county governments.

Thomas J. Kelly

Mr. Kelly is responsible for all consulting projects for clients based in New Jersey. In addition, he has client consulting responsibility for major national companies' computer systems and related management information systems and organizational activities.

Mr. Kelly presently serves as the Practice Director of Data Processing Consulting for the Metropolitan New York, New Jersey and Connecticut region and has performed a similar role for our Midwest Region. As Practice Director, he is responsible for determination of consulting scope and quality control for all engagements involving computer systems and related activities.

Mr. Kelly has more than thirty years experience in data processing and related management information reporting systems, of which the last twenty-two years are in consulting. Some of his recent professional experience includes the following:

- Director in charge of work with Passaic Valley Sewerage Commissioners to develop User Charge and Industrial Cost Recovery Rates and supporting systems.
- Director in charge of assisting in the planning for establishing a municipal authority for Atlantic City for management of water and sewage services and subsequent studies of operating costs and rates based on projected services, requirements and operating costs in the future.

- Director in charge of consulting engagement with a major shipping company recently formed through the purchase of assets and operations from three shipping companies. This engagement consisted of the development and installation of the accounting and operational information system essential to operate the new company. This included detailed design of the system and related reporting, in the selection and installation of the computer equipment in two new computer centers, the monitoring of the software development and installation of the computer system. In addition, the design and installation of the financial organization and related policies and procedures were accomplished.

Mr. Kelly holds a B.S. degree in Business Management from Seton Hall University. He is a member of the Institute of Management Consultants. He has written articles and participated in many professional meetings and educational seminars as a speaker and instructor on topics related to management information systems, computer systems management, planning, auditing and control. He also serves as a member of the Board of Directors of Catholic Community Services, Diocese of Newark.

Robert G. McLendon

Partner, New York office. Mr. McLendon holds a B.A. degree from Yale University and an M.B.A. degree from Rutgers University.

Mr. McLendon is the Director of Accounting for our Firm's Metropolitan Region. In this role, he consults with the offices in this region on a variety of accounting and reporting problems. He is also a member of our Firm's Accounting and Auditing Standards Committee and serves as Coordinating Partner on a number of major engagements, including Teleprompter and Avco.

Mr. McLendon is a certified public accountant and is a member of the American Institute of Certified Public Accountants. He has served on the Accounting Standards Executive Committee of the AICPA and is currently serving on the FASB's Screening Committee on Emerging Problems.

Thomas A. Walsh, Jr.

Senior Project Manager, Newark Office. He received a B.B.A. degree in Accounting and an M.B.A. with concentration in Management and Finance from the University of Notre Dame. He served on the audit staff of the Newark Office prior to joining the Management Services Department. He has directed or participated in numerous engagements involving specialized financial analysis and the design of financial and operating information systems. Examples of Mr. Walsh's recent consulting experience include:

- Project Manager for our work with the Passaic Valley Sewerage Commissioners to develop User Charge and Industrial Cost Recovery Systems (UC/ICR). Responsibilities included:
  - Conceptual Design of Integrated Accounting and Management Information Systems (including UC/ICR).
  - Detail design of UC/ICR Systems.
  - Public information programs for member municipalities and industrial, commercial and tax-exempt users.
  - Development of preliminary UC/ICR rates in conjunction with PVSC's consulting engineer.
  - Development of an indirect cost allocation plan to obtain reimbursement from EPA for certain grant administration costs.
- Served as a technical advisor on a project to design an Industrial Cost Recovery System for the Puerto Rico Aqueduct and Sewerage Authority. Responsibilities included development of rate setting methods for this island-wide authority which has numerous interconnected facilities and over 200 separate EPA construction grants.
- Managed an engagement to assist a local sewerage authority obtain reimbursement for direct and indirect costs incurred in the administration of an EPA construction grant.
- Project Manager for the design of UC/ICR systems for a medium-sized regional sewerage authority in New Jersey.

- Participated as a panel member in UC/ICR seminars for grantees sponsored by the New Jersey Department of Environmental Protection and the New York State Department of Environmental Conservation.
- Managed an engagement to assist a local sewerage authority obtain reimbursement for direct and indirect costs incurred in the administration of an EPA construction grant.
- Participated as a panel member in UC/ICR seminars for grantees sponsored by the New Jersey Department of Environmental Protection and the New York State Department of Environmental Conservation.
- Participated as a speaker and panel member at a national seminar sponsored by EPA.
- Managed an engagement for a large New Jersey city to develop an indirect cost allocation plan used to obtain reimbursement for indirect costs from federal grant programs. This project involved analyzing the organization and financial structure of the city and recommending the most beneficial method of computing indirect cost rates. Indirect cost rates were then computed in accordance with applicable federal guidelines.
- Managed an engagement for a consulting engineering firm to review the preparation of indirect cost rates for EPA-funded cost plus fixed fee contracts.
- Managed an engagement to design and install general accounting procedures for a large law firm. Manual procedures were designed to support newly-installed automated cash receipts, cash disbursement and general ledger systems. A month-end closing schedule and financial statement preparation procedures were designed and installed.
- Conducted a review of the internal control procedures of the New Jersey State Lottery Commission which identified internal control and operational improvements. Advised Lottery regarding control procedures to be established for the Pick-It game. Also advised the Lottery regarding security procedures for the printing of the Instant Lottery tickets and accounting procedures for the distribution of these tickets. Supervised monthly audits of the Lottery organizations.

- Conducted a survey of a large mental health and welfare organization which identified significant accounting and organizational improvements. Directed the implementation of a major change in the revenue and accounts receivable system; the improved system resulted in more than a 100% increase in identifiable and collectible accounts receivable. Advised client personnel during implementation of other recommendations.
- Developed a budgeting system for a major recycling company utilizing the zero-based budgeting philosophy.
- Assisted in the development of financial and accounting policies and procedures for a major government-owned ocean freight carrier. This engagement included:
  - Developing the chart of accounts
  - Designing management and regulatory reporting systems
  - Analysis of the cash management system
  - Assisting the client in establishing accounting policies
  - Developing guidelines for internal audit activities
  - Interacting with a third-party data processing software vendor during the implementation of the client's accounting and information systems
  - Designing a container inventory/locator system.
- Assisted in the design of an inventory control system for a manufacturer of custom-designed environmental control systems.

Mr. Walsh is a Certified Public Accountant in the State of New Jersey. He is a member of the New Jersey Society of Certified Public Accountants and serves on its Committee on Government Accounting. He is also a member of the Association of Government Accountants and the American Institute of Certified Public Accountants.

Albert J. Passante

Mr. Passante is a Tax Principal in the Newark Office of Arthur Young & Company. He received a B.S. degree in accounting from St. Peter's College.

Mr. Passante's responsibilities include the planning and supervision of tax services for various clients including publicly and privately held corporations in industries such as electronics, real estate and equipment manufacturing. In addition, Mr. Passante has had extensive experience in matters of taxation regarding multinational companies, corporate reorganizations and non-profit organizations.

Mr. Passante is a member of the American Institute of Certified Public Accountants and the New Jersey Society of Certified Public Accountants. He is also currently serving as a member of the Cooperation with the Internal Revenue Service Committee of the New Jersey Society of Certified Public Accountants.

Warren M. Weber

Senior Consultant, New York Office. Mr. Weber received a B.S. in Mechanical Engineering from CCNY and an M.B.A. from the Harvard Graduate School of Business Administration. He has also done graduate work at the University of Connecticut School of Law.

Mr. Weber has had extensive experience in the manufacturing and operations area with emphasis on strategic and long-range planning, capital budgeting, materials management, engineering, operations, and risk management. Mr. Weber's recent professional experience includes:

- Developed a manpower planning and control system for planning, scheduling, dispatching, monitoring and controlling transmission and distribution operations for a major northeastern electric and gas utility.
- Developed and implemented a planning and control system for formulation, selection evaluation and control of discretionary projects and programs.
- Developed and implemented an operating performance measurement system.
- Developed long range and strategic planning capabilities including the preparation and formulation of goals, objectives, strategies and tactics to effectively utilize corporate resources.
- Developed improved policies, methods and procedures, for capacity measurement, inventory control, scheduling, forecasting, purchasing and overall material management.
- Implemented a Materials Requirement Planning (MRP) type production control system for use in improving production planning effectiveness.
- Developed a complete program including scheduling, plant layout, cost estimates and engineering for test market production of a modified product line.

- Performed a study of economic and technical feasibility including scope, schedule and cost of several product modifications for use in marketing decisions.
- Other experience includes:
  - Advisory operating management on extensive operating functions within a metal cutting process.
  - Numerous assignments utilizing a risk management approach to solving a wide variety of management problems.

Laurence M. Wolfert

Mr. Wolfert is a graduate of Boston University with a B.S. degree in Business Administration. He received his M.B.A. degree from New York University.

Mr. Wolfert has been involved in assisting companies in the areas of financial planning and controls, capital budgeting and controls, management information systems and product profitability studies. Specific professional experience includes:

- Developed guidelines for a major northeast utility company related to performance budgeting and zero-base budgeting systems.
- Developed and implemented monthly management reports relating performance to management objectives. Variances were explained in more concise, timely and meaningful terms to provide responsive corrective action programs.
- Revised existing Capital Budgeting system to incorporate more comprehensive management review, more substantial control reporting and integration with long-range planning.
- Developed a system to capture branch profitability studies in a centralized reporting environment which provided significantly more controls at the local level and permitted effect on profit analyses of elimination at the divisional level.
- Responsible for development of a financial procedures control manual and associated reporting mechanism to insure compliance with financial controls and procedures.
- Task Leader responsible for implementation of Standard Cost system for a multi-plant manufacturing concern.
- Developed a manpower utilization report which gave management a more accurate monitoring of manpower effectiveness versus budget.

Stephanie P. Schwartz

Senior Project Manager, Newark Office. Miss Schwartz received her B.S. degree in Mathematics from the Massachusetts Institute of Technology and received an M.B.A. from Fairleigh Dickinson University, concentrating in Finance. She has over eight years experience in financial planning, automated financial and accounting systems and data processing.

Her recent experience includes:

- Served as a Senior Consultant in charge of a cost of service study and rate setting analysis for a New Jersey Authority providing water, sewage and solid waste services to a major community.
- Project Manager in charge of the implementation of a General Ledger and Financial Reporting System for an international Fortune 500 Corporation. Participation extended from initial systems testing, through parallel operation and turnover to a production environment. Management responsibilities included definition and coordination of activities requiring the combined support of Financial Reporting and Data Processing personnel. These activities ranged from testing and monitoring system performance to development and communication of policies and procedures.
- Participated in transportation study for a major manufacturing concern. The study focused on the advantages/disadvantages of a private fleet versus a common carrier operation. Linear programming was used to determine the maximum benefit and to develop an operational model for the private fleet operation. This project resulted in annual cost savings of \$150,000.
- Participated on a task force chartered to conduct an operational and profitability review of one segment of a large chemical company. This review resulted in a decision to divest that business area, significantly reducing the company's operating losses.

Prior to joining Arthur Young & Company, Miss Schwartz was employed by a Fortune 100 company. As a member of the Corporate Controller's and Treasurer's Departments, she was responsible for a wide variety of financial analysis and planning functions. During this time she was also responsible for the design and development of automated financial systems including a cash flow system, a generalized monitoring system for multiple investment funds and a financial model to generate the Corporate Sales Price Indices.

She was previously employed in the Data Processing field in the systems development area. In this capacity she was responsible for systems design, programming, implementation and documentation of large modular systems for scientific and business applications.

Miss Schwartz has worked on preparing the agenda and material for a seminar on corporate financial functions presented to candidates for financial management. She has also served as an advisor to the General Business and Accounting Explorer's Post Career Program.

David J. Smith

Manager, New York Office. Mr. Smith received his B.S. degree in Applied Mathematics from Brown University and an M.S. in Computer Science from the University of Southern California. He has completed all requirements except his dissertation for the Ph.D. in Computer Science at the University of California, Los Angeles. Mr. Smith has 13 years of software engineering, data processing and information sciences experience. On this study he will assist in the development of a computer based simulation model to support the financial analysis.

Mr. Smith is a member of the Association for Computing Machinery (including the special interest groups on programming languages, operating systems and software engineering) and the Computer Society of the Institute for Electrical and Electronics Engineers. He has also been elected a member of the national computing sciences honorary society, Upsilon Pi Epsilon.

Larry Baumgarten

Manager, New York office. Mr. Baumgarten obtained an M.B.A. degree from the Wharton School, University of Pennsylvania where he concentrated in finance. He received his undergraduate degree at the University of Cape Town, South Africa, and he is a Chartered Accountant.

Mr. Baumgarten's experience has primarily been in the areas of strategic and financial planning, and the design of financial reporting and control systems. His recent professional experience includes:

- Strategic and Financial Planning

- Performed the financial evaluation of a proposed large scale system for a direct marketing division of a financial institution. The financial analysis involved cash flow projections, estimating costs and savings, and using present value and payback analysis to assess the net benefit of the proposed project.
- Developed a worldwide pricing strategy for a major financial services corporation. The tasks included developing guidelines for: determining the allocation of funds to pricing actions; monitoring the effectiveness of pricing actions on a country-by-country basis; setting up a planning mechanism which would generate the pricing proposals for each country each year.
- Developed approaches for creating supplementary distribution channels for a consumer products corporation. The tasks included reviewing long-run competitive and environmental trends, and projecting the financial impact of expanding the distribution system.

- Financial Reporting Systems

- Reviewed the financial accounting system of a large insurance corporation to determine: whether the level of accounting data being recorded was appropriate; the amount of effort involved in making systems changes to allow additional data gathering; the conceptual design and associated cost and organizational impact of an alternative design.

VI-39

- Reviewed the clients' implementation effort for the financial accounting system referred to above. The tasks included reviewing the system's conceptual design and supporting chart of accounts.
- Developed a comprehensive set of management reports for a European Bank, including the necessary data flows and a chart of accounts to provide the accounting information.

Gary S. Long

Senior Consultant, New York office. Mr. Long is a graduate of Davidson College where he received a B.A. degree in Economics; Harvard Business School where he received an M.B.A. in Finance; and Northwestern University where he completed the Professional Accounting Program.

His most recent experience includes:

- An international strategy development study for major travel-related services. This study involved a comprehensive analysis of the international markets for the financial products of a major company. The study analyzed the competitive environment, market trends, impact of various pricing alternatives, and potential expansion of the distribution network in major countries overseas. Based upon this analysis, strategies were developed for expanding the distribution networks, penetrating new markets and maximizing long-term profitability of the product line.
- Strategic business planning for retail and wholesale travel operations. This project involved developing action plans for redesigning systems to support the retail travel selling function and to redesign the back-office accounting applications to generate the required financial, accounting and marketing information. The study also involved system development to support wholesale travel planning and selling, including integrated tour costing and pricing, access to a common data base of supplier services and expansion of the systems to accommodate travel agents worldwide and to interface with back-office accounting applications. Detailed cost/benefit analyses were performed. These analyses entailed consolidating for all systems the identified benefits and costs of both an operating and development nature and performing ten-year projections of operating results under various assumptions. The project also involved determining the feasibility of mechanizing retail outlets and analyzing alternative methods of financing the system redesigns.
- Financial planning for a company in the financial services area. The job involved developing a methodology for analyzing the financial impact of a potential competitive product. The study

analyzed in detail the existing market structure and projected the characteristics of the new product and its related operating system. Based upon these projections and various assumptions on the potential market penetration, pricing structure and impact on total market, detailed pro forma financial analyses were performed. The results of the study were used as a basis for developing a strategy for the company in the event of the product's introduction.

Mr. Long is a CPA in New York and a member of the American Institute of Certified Public Accountants.

Resumes for Other Firms

These have been included in Section VII.

## VII. QUALIFICATIONS

We believe that the consulting team organized by Arthur Young & Company has outstanding credentials and is therefore capable of fully meeting the objectives of the Board. To ensure the quality of this consulting engagement we have selected a study team consisting of professionals from the following firms:

- A. Arthur Young & Company
- B. Investment banking firm to be selected later
- C. Nolan, Bell & Moore
- D. Nielsen, Wurster & Associates, Inc.
- E. Dr. Franklin E. Robeson

### A. Arthur Young & Company

In this section we present the qualifications of Arthur Young & Company to conduct the analysis of strategic options for Jersey Central Power & Light Company. Major parts include:

- An introduction to Arthur Young & Company
- Government and Regulatory Commission Experience
- Utility Management Audit Experience
- Other experience with the utility industry

#### 1. Introduction to Arthur Young

Arthur Young & Company is a major provider of professional services -- auditing/accounting, tax services, management consulting and educational services -- to a wide and diverse clientele throughout the world. Our firm has a long-standing reputation for quality, objectivity and results in rendering professional services. The scope of our consulting services is comprehensive and is tailored to meet the continuing needs of our broad client base.

Our consulting teams represent a wide range of experience in utility consulting and a commitment to assist clients in the development of implementation oriented solutions to problems.

We blend together six functional skill areas in our project teams and these are described below. It is our belief that these skills and qualities are necessary to advise our clients in the complex problems facing the utility industry today.

- Financial planning and control

- Management information systems;
- General and cost accounting systems;
- Computer-based planning models;
- Project accounting systems;
- Planning and budgeting systems;
- Cost/benefit analysis.

- Operational planning and control

- Inventory management;
- Production planning and control;
- Facilities planning;
- Methods improvement;
- Work measurement and standards development;
- Industrial engineering.

- Marketing

- Sales control and reporting systems;
- Product pricing analyses;
- Distribution analyses and programs;
- Transportation and shipping studies.

- Organizational planning

- Organizational structure;
- Reporting relationships;
- Management succession planning;
- Position classification analysis;
- Compensation planning analysis;
- Executive search.

- Operations research

- Operational analysis and resource allocation;
- Trade-off decision analysis;
- Transportation and distribution studies;
- Economic analysis and forecasting.

- Data processing

- Short- and long-range EDP planning;
- Feasibility studies;
- System design and implementation;
- Hardware and software evaluation;
- Computer auditing.

Our assistance to the utility industry (including public and investor owned utilities and regulatory agencies) has been as varied and complex as the skills we offer. Some of the areas in which our firm has provided services include:

- Large-scale financial analysis related to utility construction programs.
- Management or operational audits of an entire utility as well as specific divisions, departments or functional units.
- Administrative problems including planning, budgeting, organization, financial management, and labor relations.
- Rate problems including rate design and testimony before regulatory agencies.
- Cost containment projects including planning and scheduling, manpower planning and control, inventory management, construction planning and control, and equipment utilization.
- Data processing problems including automated billing systems, financial models, accounting systems and budgeting systems.

The following summaries demonstrate that Arthur Young & Company has the direct experience and consulting resources required to complete this project.

## 2. Government and regulatory commission experience

### Michigan Department of Commerce - Governor's Advisory Commission on Electric Power Alternatives

This state client initiated a study to investigate state financial assistance alternatives for privately-owned electric utilities. The need for continued low-cost electric power and concern for the financial posture of the entire electric utility industry caused the Governor's Advisory Commission to consider programs of state assistance to finance expansion of electric generating capacity. Most of the fundamental issues limiting the availability and increasing the cost of capital are national and international in scope so that they impact the entire electric utility industry.

We were engaged to assist the commission in developing the alternatives for a program of financial assistance. The product of the study performed by Arthur Young & Company, with the assistance of a leading investment bank and legal counsel, is a report reflecting the evaluation of various alternatives in such areas as:

- Investment
- Tax status
- Legal/legislative
- Economic
- Operational

### Power Authority of the State of New York

Arthur Young & Company was hired by the Power Authority of the State of New York to provide an independent opinion as to the costs incurred by Consolidated Edison Company (the company) for construction of Indian Point unit No. 3 (Nuclear) and Astoria No. 6 (fossil). This work consisted of:

- An examination of the records and construction expenditures of the company, its contractors, sub-contractors and others as necessary in order to verify costs incurred in connection with construction of the facilities. This involved extensive audit procedures in

connection with sources of disbursements and the examination of various contract files, contract progress estimates, paid vouchers files and releases issued by the various contractors.

- An opinion on these costs taking into consideration generally accepted accounting principles, applicable regulatory systems (FPC, AEC or PSC) of accounts, and the company's normal and consistent procedures for all of its plant construction.
- Extensive tests of the various bids files to determine that contracts were awarded in accordance with the company's established bidding and contract award practices.
- A determination where field orders were issued for work not contemplated by basic construction contracts, that such work was properly authorized.
- A determination that the major items for which funds were disbursed were physically installed.

Our efforts were coordinated with those of Stone and Webster, the Engineering consultants assigned to this project.

#### Michigan Energy Office

The firm completed an engagement to develop a fuel/energy demand and supply information system for the State of Michigan. This effort involved:

- Development of a conceptual demand/support distribution model
- Determination and specification of energy demand/supply data requirements
- Development of an energy price and shortfall forecasting model
- Development of a conceptual data storage/retrieval system
- Design and implementation of a hardware dependent system

The objective of this study was to provide the State of Michigan with an energy information system and a forecasting mechanism to:

- Forecast energy supplies by fuel type for a period of up to 12 months

- Estimate current energy supplies in the state on a county basis each month
- Assist in distributing energy supplies in times of energy shortfall
- Assess the impact of price changes and policy options on Michigan industries
- Identify probable long-term supply and demand inequalities
- Determine probable long-term price patterns in Michigan for various fuels
- Evaluate the adequacy of proposed increases in energy capacity
- Evaluate the effect of policy decisions on the availability of specific fuels to specific classes of consumers

Passaic Valley Sewage Commissioners (PVSC)

The firm has conducted several engagements for PVSC and has on-going assignments to assist in the design and implementation of financial and operational control systems for what will be the East Coast's largest sewage treatment plant. Our work for PVSC, which has a direct relationship to this proposal, includes the following:

- Analyzing present and proposed operations to develop new rate structures which reflect the costs and operations for a sophisticated waste-water treatment plant. The design of the new rate structure and the related billing and collection systems involved coordinating the efforts of PVSC's internal engineers, consulting engineers and legal counsel.
- Assisting PVSC's management to conduct public hearings with the communities and industries which it serves.

N.W. Bergen Sewage Authority (NWBSA)

The firm has assisted NWBSA in the design of new rate setting, billing and collection systems to reflect the expanded operations and increased sophistication of the Authority. Rate setting work involved user charge and industrial cost recovery systems.

Atlantic City Municipal Utilities Authority (ACMUA)

The firm has assisted the ACMUA in a variety of projects over the last few months which included the following representative assignments:

- Developed a transition plan which addressed the financial, operational and organizational considerations of creating a new entity to operate the water, sewage, and solid waste operations of Atlantic City. This work involved close coordination with the MUA's consulting engineers, legal counsel and board counsel.
- Assisted the MUA in preparing operating budgets and rate setting methodologies.

Arkansas Public Service Commission

We were engaged by the Arkansas Public Service Commission to conduct an operations audit of its Utility Division. The basic objectives of the audit were to:

- Identify problem areas in management and operations
- Propose solutions to those problems attributable to the Commission's management
- Prepare a comprehensive case tracking procedures manual.

Federal Energy Administration - Sensitivity Analysis of Electric Utility Cost/KWH to Varying Fuel Prices

Under a task order contract with the FEA, the firm determined how electric utility costs vary with changes in fuel supply and demand for geographic regions in the United States. Several different scenarios were hypothesized which resulted in changes in fuel supply and demand and the resulting impact on costs/KWH.

Two models were utilized to develop the overall electric utility fuel-cost assessment model. The first model, a financial model, determines the cost per KWH as a function of the demand for electricity and the changes in capital investment, fuel costs, and operation and maintenance costs.

The second model is a linear programming supply/demand model. This model incorporates all applicable fuel constraints,

production facilities, and modes of energy transmission while minimizing the total cost of energy needs to satisfy a pre-specified demand. Using the linear programming approach, various scenarios were hypothesized (as part of the sensitivity analysis). Scenarios included modifications in:

- Export and import limitations
- Emission standards
- Cost of capital
- Strip mining regulations
- Price controls on natural gas and domestic oil
- Fuel availability through new discoveries or delivery capabilities
- Technology advancements
- Switching capabilities among various fuels
- Economic activity as measured by GNP

Develop Financial Model -- U.S. Department of Energy

Arthur Young assisted the Department in assessing the relationships between cost/KWH and demand. This study resulted in the creation of a financial model which determined the cost/KWH as a function of the demand for electricity and changes in capital investment, fuel costs and operation and maintenance costs. Information for the model was obtained from the following sources:

- An analysis of the financial structures of 80 utilities
- Examination of fuel-cost-pass-through data available from state regulatory commissions
- Examination of Federal Energy Regulatory Commission and Department of Energy data.

U.S. Department of Energy - Develop Supply/Demand Model Energy

Arthur Young assisted the Department in assessing the relationship between supply and demand. This study resulted in the development of a model incorporating applicable fuel

constraints, production facilities and modes of energy transmission while minimizing the total cost of energy needs to satisfy a prespecified demand.

Using the linear programming approach, various scenarios were hypothesized which resulted in significant fuel price changes. These scenarios included modifications in:

- Price controls on natural gas and domestic oil
- Emission standards
- Cost of capital
- Strip mining regulations
- Export-import limitations
- Fuel availability through new discoveries or capabilities
- Technology advancements
- Switching capabilities among various fuels
- Economic activity as measured by the GNP.

#### Federal Energy Administration

Arthur Young & Company was engaged in gathering financial information, which is in the public domain, on over 80 Class A investor-owned utilities, the TVA, the Bonneville Power Administration, the major U.S. Army, and the U.S. Bureau of Reclamation Power Systems.

The resulting data base was used by the FEA in evaluating potential federal policies which may have an impact on electric and gas utilities.

#### U.S. Department of Energy - Financial Analysis of Investor-Owned Utilities

Arthur Young performed an in-depth financial analysis of 80 Class A investor-owned utilities for the FEA Office of Planning and Analysis. The engagement required designing a standard analysis form detailing the financial structure of each utility to include: composition of short-term debt, expected cash flow, bond ratings, financial ratios and projected capital expenditures. The analysis further required a study of rate structures, rate request history and rate changes over the past two years.

Federal Energy Administration - Consumer Relations Survey

Arthur Young & Company performed a survey of the consumer relations programs of several of the electric utility industry's largest investor-owned companies for the Office of Industry Analysis of the FEA. This nationwide study focused on the issues of consumer communication and education. The result of this study was the development of model consumer relations program guidelines that were generally applicable to the electric utility industry. Utilities were visited in Florida, California, North Dakota, Michigan, and New York.

Federal Energy Administration - Automated Short-Term Supply/Demand Forecasting Model for Coal

Arthur Young & Company performed an engagement for FEA to produce an automated, seasonalized, short-term supply/demand forecasting model for bituminous coal and lignite. The model included sufficient data bases and methodologies for forecasting regional consumption and production of coal and its distribution, taking into account relevant factors which influence the availability of coal, demand for coal, and inventory policies. The model was fully automated and established on existing FEA computer systems.

The separate elements of the model (e.g., econometric demand equations, supply-side constraints, distribution system simulators) were integrated in an appropriate systems model which provided FEA the capacity to examine the effects of a wide range of economic, technological, and political influences on the supply of a demand for coal. Such influences include, but are not limited to, embargoes and tariffs on imports of fuels that compete with coal, the rate of development of nuclear facilities, and curtailments of domestic natural gas supplies.

Federal Energy Administration - Control Systems for the National Strategic Petroleum Reserve Program

In this ongoing engagement, the firm is one of five contractors assisting the FEA in Planning the National Strategic

Petroleum Reserve Program. This program was to be implemented in two phases, the Early Storage Program (ESP) and the Long-Range Program (LRP). The ESP focuses on developing a strategic petroleum reserve during the next few years for limited protection against near-term disruption of imports. The LRP, incorporating the ESP, was initiated concurrently on a planning, site acquisition, and construction basis during FY 1976 to 1978. It was directed toward identifying potential sites for large quantity storage which have total construction lead times of greater than three years.

Within this total effort, the firm was responsible for developing the control systems for the strategic reserves. The project team postulated (1) control system concepts for the purchase of crude oil or refined product to ensure that a fair price is paid for the purchase and that all transactions result from arm's-length negotiations; (2) control systems to monitor input and output of crude oil and product from purchase to transport facility, from transport facility to storage, from storage to transport facility, and from transport facility to end-user custody; (3) control systems to monitor volume of crude oil or product in storage; and (4) control systems for the crude oil and product distribution.

#### Federal Energy Administration - Natural Gas Curtailment Program

Arthur Young & Company performed a natural gas curtailment impact analysis. The tasks included:

- Review and evaluation of data available on natural gas supply and demand and the effects of natural gas curtailment on petroleum product demand.
- Forecasting the impact of natural gas curtailments upon petroleum product demand for the 1974 - 1975 winter heating season.
- Evaluation of the available data for natural gas demand and petroleum product supply and demand.
- Projection of regional shortfall postures for petroleum products.

- Analysis of natural gas curtailments and substitute fuels on a regional and state-by-state basis.

Kansas State Corporation Commission - Financial analysis of rate application

This engagement consisted of a review and analysis of financial and operating data included in an application for electric service rate increases. During the engagement, we accomplished the following:

- Reviewed the historical performance and comparative operating statistics of the applicant
- Analyzed short- and long-term plans and their ultimate effect on pro forma financial statements
- Compared historical operating statements with appropriate indices and financial ratios of the industry and evaluated those statements
- Analyzed the proposed rate adjustments and cost allocations for propriety and reasonableness
- Reviewed the proposed rate schedule and the pro forma statements included in the application, and
- Prepared excerpts and testimony on behalf of the Kansas State Corporation Commission.

3. Utility management audit experience

Union Electric Company

We were engaged to perform a management audit of a nuclear construction program at Union Electric Company. In connection with this audit, we performed detailed reviews of the following functions:

- Organization Planning: Review of responsibilities and procedures for coordination, including both in-house and contractor organizations.
- Load Forecasting: Review of the Company's load forecasting system including the variables considered, the historical correlation between actual and projected loads and the degree of differentiation between the base and peak load.

- Engineering, Procurement and Construction Planning: Review of procedures for design and contracting with specific emphasis on a level-by-level approach to planning which provides for specified increases in degree of planning detail as design phases are completed.
- Construction Scheduling and Productivity Controls: Review of activities which occur beginning with the start of construction and continue throughout the construction period.

#### Niagara Mohawk Power Corporation

We were selected to perform a management audit of the Company's management and operations to identify problem areas and to propose solutions for these problems. The review was structured into two phases as follows:

- Phase I was primarily diagnostic in nature and covered analysis and evaluation of the general situation at Niagara, definition of problem areas and recommendations to correct problem areas where potential solutions were readily apparent.
- Phase II was structured to provide implementation assistance related to the Phase I recommendations for in-depth study.

The project plan for accomplishing Phase I was further structured into tasks to cover the wide range of Company operations and construction projects. The scope of our work at Niagara Mohawk can best be illustrated by the following list of the functional review tasks completed. Broadly stated, they were as follows:

- Management of Large Capital Projects, Project Management Systems
- Power Plant Operations
- Corporate Engineering
- Fuel Procurement
- Fuel Contingency Planning
- System Integration
- Rate Case Management
- Transportation
- Materials Management
- Relationship with Regulatory Bodies

- Strategic Planning
- Law Department
- Controllership Activities, Cash Forecasting
- Budgeting and Accounting
- Capital Budgeting and Expenditure Control
- Corporate Planning
- Environment Management
- Fuel Utilization
- Systems Planning
- Electric and Gas Loss Investigation
- Corporate Organization
- Divisional Operations, Commercial Office, T&D Operations
- Company EDP and Information Services
- Personnel and Industrial Relations
- Financial Community Relations

#### Lincoln (Nebraska) Electric System

We were engaged to conduct a management audit of the Lincoln Electric system (LES). The purpose of the management audit was to assist the LES Ad Hoc Committee (representing the Mayor and City Council, LES Administrative Board, and City Finance Department) to evaluate overall utility operations and to develop specific recommendations for improvements having near-term and long-term financial impact. The key tasks involved in this project were as follows:

- Provide a diagnostic review of LES operations, management performance, and the budgeting process. The Divisions and functions reviewed were:
  - Operations Division: Operations Management, Electrical Equipment Maintenance, System Control, Overhead Lines, Underground Lines, Street Lighting, general Services and Transportation.
  - Engineering and Power Supply Divisions: Engineering, Management, System Planning, Rates, Generation Engineering and Construction, Administrative Services, System Energy Management, Power Production.

- Finance and Accounting Division: Administration, Purchasing and Stores, Systems and Data Processing, General Accounting, Customer Accounting.
- Administration and Customer Service Divisions: Administration, Personnel, Safety and Training, Conservation and technical Assistance, Media and Communications.
- Review and evaluate the organization structure and relationships among the LES Administrative Board, LES Administration, Mayor, and City Council.
  - Structure, interfaces, policies and planning, assumptions, technical processes, manpower decisions.
  - Managerial consistencies and controls, resource justification and scheduling, accountability, analysis and measurement of performance and effectiveness, management practices, budgeting.
- Identify major areas for improvement potential in terms of increased efficiency and effectiveness.
- Develop a Phase II (in-depth study) program plan for selected improvement opportunities, including potential benefits, resource requirements and timing, and a priority sequence for management action planning.

#### Philadelphia Suburban Water Company

We conducted a management audit of the Philadelphia Suburban Water Company. It contained a broad but comprehensive diagnostic review of company management and operations, covering the following areas:

- General Management Functions: Including personnel management; corporate financial management; financial systems, procedures and controls; electronic data processing services.
- Continuing Company Operations: Including analysis of the adequacy of responsibility definition, basic business systems, resource utilization and organizational effectiveness within line and line support operations.
- Long-Range Planning; Including strategic planning; demand forecasting; system planning; and contingency planning.
- Construction Planning and Control: Including interface between capital system planning and demand forecasting; selection of projects; project initiation; scheduling; and cost control.
- External Factors: Including relationships with regulatory bodies; environmental management, financial community relations; rate case management.

Based on the Phase I studies and coordination with the Public Utility Commission, we were able to determine:

- Those areas of significant opportunity having greatest priority due to benefits to be achieved or sensitivity to the problem.
- Those areas where the Company, rather than Arthur Young, should develop specific recommendations, plans, or policies for improvement.
- The extent to which remaining areas should be carried forward to Phase II for definition of specific recommendations within a context of the reasonable capabilities of the Company to act on recommendations without impairing normal operations.

#### Ontario Hydro

A comprehensive management ("value-for-money") audit of its operations was initiated by Ontario Hydro last year and will continue through approximately 1981. Arthur Young, Clarkson, Gordon & Company (our Canadian affiliate), which is the financial auditor for Ontario Hydro, was selected to conduct the management audit. We are participating with our affiliate in the development and conduct of this work.

#### Colorado - Ute Electric Association, Inc.

We were engaged to perform a detailed diagnostic review of the management and operations of Colorado - Ute Electric Association, Inc. The review focused on the construction, generation and transmission functions, as well as the purchasing, material management and fuel management components of the organization.

We have recently completed the Phase I diagnostic review where we developed our recommendations, identified benefits, and estimated implementation costs.

#### Stamford Water Company

We conducted a management audit of Stamford Water Company, involving a diagnostic review of management and operations. Our audit covered corporate management, management planning and

control systems, financial and administrative services, operations management, management of major capital projects, and insurance costs and property taxes. The Management Audit Summary from our report on the Company is included as an appendix to this proposal.

#### 4. Other experience with utility industry

##### Florida Power and Light Company

We were engaged to review Company management and operations to initiate a comprehensive, Companywide management control and cost containment program. The objective of the program was to improve overall management and operating effectiveness. As such, it covered phases involving problem definition, recommendations, development and implementation. Early phases of the engagement involved the following:

- Power Plant Operations
- Service Centers
- District Office
- Inventory Control
- General Office Operations

A subsequent assignment consisted of assisting FPL with the development of comprehensive programs for improving construction productivity for both nuclear and fossil plants. This was complementary to the power plant construction management system developed in the initial engagement. The construction management system emphasized organizational budgeting and top-level planning. The subsequent project focused at the plant site level with crew scheduling, crew productivity and implementation of other requirements by the contractor. The ongoing savings resulting from this project were substantial.

Additional engagements with FPL included the development and implementation of the following:

- Distribution Engineering manpower planning and scheduling, including a planning and scheduling system between the district offices, distribution engineering and service centers;
- Data communications studies to economically plan communications requirements;
- General engineering manpower planning and budgeting systems, including methods improvements;
- Strategic planning, including organizational relationships, scenario development, strategic issue resolution, and linkage to supplemental plans and budgets;
- Organizational planning and executive recruitment; and,
- Revision of capital and operating budgeting procedures.

Utah Power & Light Company

We have been recently engaged as consultants to Utah Power & Light Company (UP&L) with expectations that several projects will be completed over the next few years. One project which has been identified at this time is:

• Distribution Construction Management System (DCMS)

UP&L embarked on a comprehensive load management program, self-initiated by Customer Services. Several pilot tests and simulations have been conducted to estimate the amount of load reduction. However, the estimated and actual results have not linked into a performance reporting system. Additionally, a method to link the LM results to the effects on earnings per share, delayed plant costs, and rate base has not been done. We have been retained to develop the methodology for a continuous performance and financial reporting system showing the effects of load management on UP&L.

Los Angeles Department of Water & Power

We have been engaged by the Department to provide assistance in several areas, including:

- Management Audit of the Board of Water & Power Commissioners

In this engagement, we conducted a review of the operating policies, and interactions between the Department, the Board Commission office staff and the Board of Commissioners. In addition, we analyzed the information flow between the Department and the Commission for completeness, clarity, and adequacy, including informational reporting by the Department of performance and activity level indicators.

- Underground distribution productivity study

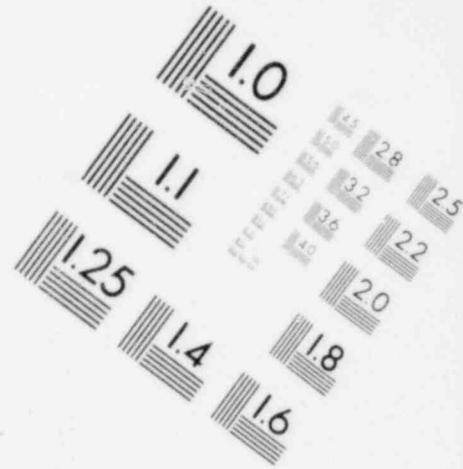
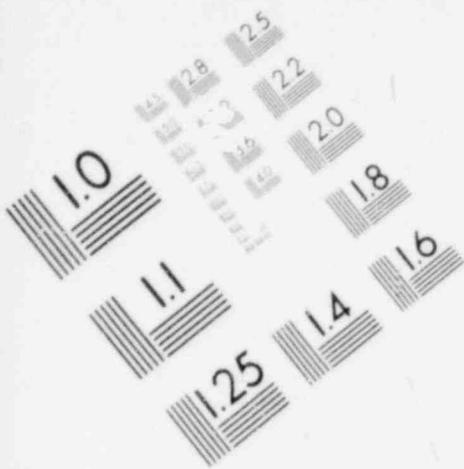
In this engagement, we conducted a productivity study of the underground distribution field activities. The objectives of this engagement were to develop time benchmarks for major underground distribution activities and to develop and field test a scheduling and performance reporting system.

- General Services Division: Stores, vehicle servicing and landscaping studies

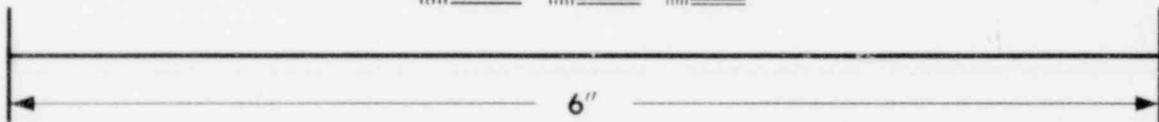
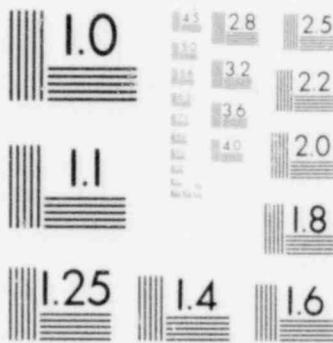
We have recently been asked to assist the Division in three areas of interest. They are stores, vehicle servicing, and landscaping. Specifically, management wants to conduct three studies, covering the productivity, systems, organization, paperflow and supervision of the three areas. Recommendations from this effort will include improved estimating, scheduling, and reporting systems along with improved techniques to manage these functions.

- Inventory management and purchasing

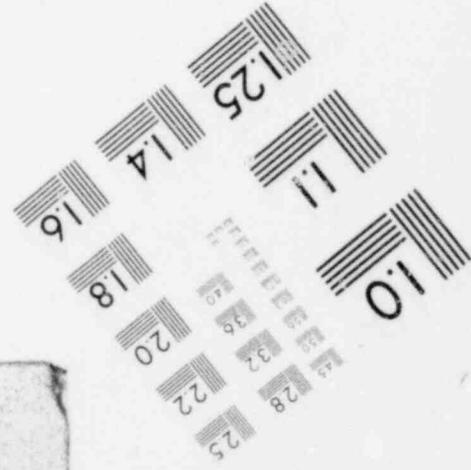
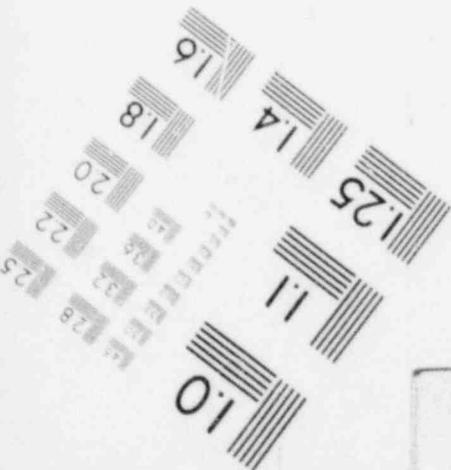
Several studies have been conducted over recent years, each presenting recommendations to improve the inventory management and purchasing functions at LADWP. We have been asked to assist in the implementation of improved systems. One of the first activities will be to form an implementation organization, to analyze the various recommendations and to determine an appropriate course of action. Without question, changes will occur in the automated systems, responsibilities, organizations, and approaches to materials management.



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



**MICROCOPY RESOLUTION TEST CHART**



Anaheim Utilities Department

We conducted a management/operations review of this municipally-owned water and power distribution utility to identify operating improvements and make cost control recommendations. The review involved analyzing organizational effectiveness in such areas as manpower and resource utilization, management information systems, budgeting, planning, scheduling labor standards and crew sizes. The final report recommendations included a change to the FPC chart of accounts from the municipal accounting system, and automated customer information system and inventory management systems.

Consolidated Edison Company of New York, Inc.

We were engaged to review Consolidated Edison's program to reduce the theft of gas and electric service. The study included the review and analysis of the current organization structure, policies, procedures and methods used by the Company to identify and minimize the loss of revenue attributable to customer theft of service. Based on our review and analysis, we developed recommendations for improvements in the current program, designed to minimize the loss of revenue in the most cost-effective manner.

Central and South West Services, Inc.

We were engaged to conduct an information needs study and develop a long-range information systems plan for the holding company and its operating companies, including Central Power and Light Company, Public Service Company of Oklahoma, Southwestern Electric Power Company, West Texas Utilities Company and Transok Pipeline Company. The plan broadly defines management information needs for each utility company and identifies sources and processing requirements to meet these needs.

American Electric Power Company

We were designated the special auditor for American Electric Power Company, to conduct an investigation into the operation of certain coal mining assets and related cost recoveries in the pricing of coal sold to affiliates. Our review consisted of an evaluation of the proper charges of fuel and other costs in the uniform system of accounts of the purchasing utility. The report resulting from this work was submitted to the Securities and Exchange Commission and the Federal Court for the District of Columbia.

Montana-Dakota Utilities Company

This client is involved in the production, transmission, and distribution of electric gas services. It has 14 operating divisions.

We were engaged to perform a management reporting survey which consisted of a classification of organizational relationships and a definition of reporting requirements. A complete new management reporting package was developed incorporating divisional profitability reporting, capital expenditure status reporting, and manpower status reporting by division. Subsequently, we were engaged to implement the new reporting system.

Truckee-Donner Public Utility District, Electric and Water Service - California

We were asked to perform two engagements for this municipal utility district. They are:

- Rate study

We are currently conducting a rate study in order to establish revised electric and water service rates. Our work includes a cost-of-service analysis and development and analysis of alternative rate structures. Structures analyzed included cost-of-service, lifeline, conservation, and declining block.

- Accounting system development

We developed and implemented a revised accounting system and budgeting procedure for this client. Our work included preparation of a revised chart of accounts and development of procedures for budgeting and reporting, accounts receivable processing, accounts payable processing, and work order processing.

Powell Valley Road Water District

This engagement involved a detailed study of revenue and expenditure data, historical water consumption trends, planned construction activities, planned freeway dislocation of existing services, and population estimates for the district. This analysis resulted in a five-year plan for meeting expected demand and the attendant financial requirements for fiscal years 1972 through 1976.

Grand River Dam Authority

We conducted a feasibility study for the Grand River Dam Authority to determine the probable effect on future rates of the construction of added hydroelectric pumped storage. We have previously performed other studies of rates and costs for the Authority.

City of Columbia, Missouri

We have been engaged to conduct an analysis of the feasibility of selling the electric portion of the city's water and power utility. A second phase of our study includes a management audit of both water and power operations. The purpose of the management audit is to identify areas where significant opportunities for improvement exist in the organizational structure, planning, and operations of the municipal utility. The audit will encompass most major functions related to utility operations within the water and light advisory board, city charter, city council, city administrative staff, office of the city manager, finance department, and the department of water and light.

City of Loma Linda, California

The city retained us to assist in the development of a utility growth implementation plan, focusing primarily on water services. The project includes an evaluation of citizen and developer growth expectancies, a definition of future physical asset requirements, a review and evaluation of financial capabilities, and the development of appropriate guidelines and methodology for planned growth in the event that a conflict exists between the city's aspirations and its ability to support the growth.

Sun Oil CompanyExpert testimony before the Federal  
Power Commission

Rates charged by interstate natural gas pipelines to gas distributors are subject to FPC jurisdiction. In this case, Florida Gas filed for a rate increase before the FPC; and Sun Oil Company, a large transporter of natural gas on the Florida Gas system, petitioned the FPC to enter the case as an intervenor. Arthur Young was engaged by Sun Oil to prepare exhibits and expert testimony in the area of accounting for the allocation of income taxes relative to Florida Gas Company. We prepared and presented exhibits and testimony on income tax collection.

California Department of Water Resources

This engagement involved a complex costing and rating problem for a statewide system of aqueducts which supplies water to over 40 counties, districts, and municipalities as well as federal and state agencies throughout California. We designed the cost accounting and cost apportionment system to accumulate costs and establish rates by type of agency, type of use, and geographic segment of areawide waterways. We developed the cost basis for rates by which water contractors (users) are billed. The rates which were developed included provision for periodic adjustment for changes in cost, volume, and other variables.

In addition to the design work, we directed the implementation of data processing systems for cost accounting, encumbrance accounting, water contractor billing, and project control of construction cost.

#### Greater Anchorage Area Borough Areawide Sewer System

Based on an engineering study covering a forty-year master sewer implementation project (1970-2010) and embracing 14 separate drainage areas, taxing districts, and population centers, we developed a master financial plan consisting of the following:

- A comprehensive revenue plan consisting of a mix of grants-in-aid, special assessments, service charges and ad valorem taxes, balanced to projected costs and the economic capacity of the design population within each of 14 separate areas by time period.
- A computerized cost accounting system which accumulated costs by area and by trunk and lateral improvement districts.
- A computerized financial cash flow model which accepts actual construction costs to date and accepts changes in variables, including projected costs and revenue rates, and computes the projected cash flow by area and time period. The model treats costs and revenues in accordance with generally accepted fund accounting principles under each of the three funds involved in the project: construction fund, O&M enterprise fund, and debt service fund. Additional bond sales required are computed and indicated under various alternatives.
- A computerized service charge billing system which bills the users of the sewer facility. Separate rates were developed for various classes of users, such as home owners, apartment houses, trailer courts, industrial concerns, etc., which are handled appropriately by the billing system.
- A computerized billing system for special assessments to property owners. This system provides for appropriate billing under several alternative installment options and computes interest on the unpaid balance.

As the financial consultants to the borough in this master sewer project, we presented our recommendations to the borough administration, the elected assembly, the Alaska Public Utilities Commission, and to the public as required. In addition to the technical financial skills involved, this engagement required that we consider the complex social and political environment in apportioning costs of the facilities to segments of the design.

Central Kansas Power Company

Arthur Young was engaged to prepare timely electric and natural gas rate increase applications in compliance with rules and regulations of the Kansas Corporation Commission.

We assisted CKP in the following areas:

- Directed the collecting and accumulation of information
- With CKP, prepared adjusted expenses relative to known and measurable costs that had been incurred or that CKP was committed to in the 12 months following the test year cutoff
- Prepared cost of service schedules for both electric and natural gas operations in compliance with Kansas rules
- As appropriate, allocated costs in both rate applications between Kansas and other jurisdictional customers
- Prepared revenue deficiency schedules and determined additional revenue required to produce desired rates of return
- Reviewed the client's proposed rate schedules to ensure the proposed tariffs would produce the desired levels of revenue
- Prepared and presented expert testimony
- Assisted the client with filing electric and gas rate increase applications and assisted them with Kansas auditors in the review of the applications.

B. Investment Banking Firm - to be selected later

As indicated in our work plan, an investment banking firm will perform an important role in evaluating the financing issues for each strategic option under consideration.

We discussed an approach to analyzing the financing issues with a number of leading Wall Street investment banks, and our conclusion was that it would not be appropriate to identify a single firm at this point in time for inclusion in the proposal. Rather, once the wide range of strategic options has been narrowed after preliminary analysis, investment banking firms with special expertise in the relevant type of financing would be retained to assist in the performance of the analysis. In our view, this will result in higher quality analysis than if a single firm were selected at this time without knowing the emphasis of the investment banking analysis which will be required.

We are, however, at the present time in the process of identifying the firms which would have suitable qualifications. Prior to final selection, we will review this selection with the Board and seek its approval.

C. Nolan, Bell & Moore - Legal Firm

The firm of Nolan, Bell & Moore is engaged in the general practice of law and maintains offices in the City of Newark and Brick Town, New Jersey. The firm was founded in 1954 by Joseph M. Nolan and presently consists of eight attorneys and support staff. The practice of the firm is concentrated in the area of general corporate law, reorganizations, construction, taxation, labor relations, commercial law and trials before federal and state courts and agencies. It is anticipated that several members of the staff will assist in the performance of legal services related to the study of Strategic Policy Options. Mr. Nolan and Mr. Moore will have responsibility for the firm's work in the study.

MR. JOSEPH M. NOLAN

Mr. Joseph M. Nolan is the senior partner of the firm and is responsible for all management activities and the scope and development of the firm's practice. He has participated actively in the reorganization of publicly owned, quasi-public and closely held corporations. He has acted as counsel for companies holding public franchise in the fields of transportation, water supply and sewerage disposal and has practiced extensively before administrative bodies of the State of New Jersey, most recently before agencies of the Department of Environmental Protection in matters relating to the Ocean County Sewerage Authority. His activities in professional associations bring him into frequent contact with attorneys involved in major decision making in business and government throughout the country.

He is a member of the Judicial Conference of the Third Circuit, a Special Master for the Third Judicial Railroad Reorganizations and was appointed by Governor Brendan Byrne as a Commissioner to the National Commission on Uniform State Laws. He was a member of the Nominating Committee of the National Conference of Bar Presidents and President and Vice President of the New Jersey State Bar Association. He is also State Delegate from New Jersey for the American Bar Association and served as a member of the House of Delegates of the American Bar Association. He is a fellow of the American Bar Foundation.

He was born in Newark, New Jersey in 1919 and admitted to the Bar of the State of New Jersey in 1949. He received the degree of Bachelor of Science in Business from New York University in 1943 and his Law Degree from Rutgers University in 1948. He is licensed by the New Jersey Board of Certified Public Accountants as a PSA.

MR. DANIEL J. MOORE

Mr. Daniel J. Moore assists Mr. Joseph M. Nolan in the daily management and operation of their law firm. He has participated in the reorganization of publicly owned, quasi-public and privately owned corporations. He has acted as counsel for companies whose activities are regulated by government agencies in the oil production and public transportation fields. At present he is Trustee in Bankruptcy operating two water companies and a sewerage disposal company in Morris County. He has practiced extensively before the courts and administrative agencies of the state and federal governments.

Prior to entering the practice of law, he was on the audit and later tax staff of a major accounting firm and is licensed as a Certified Public Accountant in New Jersey. He has been a member of the faculty of Seton Hall Law School since 1958 serving as an adjunct professor. In 1972-1973 he was Chairman of the Millburn Township Charter Study Commission and presently serves as a member of the Township Recreation Commission. He is a member of the Essex County, Ocean County, New Jersey State and American Bar Associations and is a member of their sections on Taxation; Corporation, Banking and Business Laws; and Creditors' Rights.

He was born in East Orange, New Jersey in 1929 and was admitted to the Bar of the State of New Jersey in 1958. He received the degree of Bachelor of Arts in Economics from the College of the Holy Cross in 1951 and his Law Degree from Seton Hall University in 1957.

D. Nielsen, Wurster & Associates - Construction Costs

Nielsen, Wurster & Associates have developed a computer augmented cost data system for the implementation of a cost estimating program. This system represents the most comprehensive data source currently available to owners, architects, contractors and engineers. The important characteristics of this cost data system include the following:

- . The data bank includes unit costs for commercial, industrial, institutional and residential construction.
- . In addition, there are over 5,000 unit costs covering large construction such as fossil fuel plants, nuclear power plants, and sewerage treatment facilities.
- . The cost data system provides cost estimates for any stage of the project's development (from budgetary analysis through conceptual, schematic, working and bid documents).
- . The information is available in a variety of formats including estimates by building system, construction trades, and building function.
- . The system is updated quarterly with the current material costs and wage rates for over 500 U.S. cities.
- . In addition, the information base is maintained by utilizing a cost data acquisition, storage, and retrieval system. For example, upon completion of the quantity take-off, various project cost data is collected and stored in the retrieval system so that it will be available for subsequent use.

Collection of Cost Information

All cost information at Nielsen, Wurster is obtained in the following manner:

- . Material Costs - Bills of material and copies of the applicable specification sections are forwarded to potential suppliers or manufacturers. In addition to receiving the basic material costs, information on discount schedules and material availability is obtained.
- . Labor Wages - Local trade councils are the primary source of wage information. In addition, several periodicals are researched for wage rates for particular trades and cities. These include:
  - . The U.S. Department of Labor - Bureau of Labor Statistics Hourly Wage Report
  - . The Bureau of National Affairs Inc. - Construction Labor Report.
- . Productivity - Since productivity is a nebulous area of construction estimating, the most reliable sources of production rate information are the past project records maintained by Nielsen, Wurster's Construction Management Division and industry-accepted man-hour manuals. Recognizing that every project is unique in terms of size, required tasks and location, productivity rates are adjusted to reflect local circumstances.
- . Material/Labor Escalation - Material and labor escalation has become an increasingly important factor in projecting accurate construction costs. Published statistics are the prime source from which escalation percentages are obtained. These statistics include information published by Engineering News-Record (Construction Cost Index) and the U.S. Department of Labor Bureau of Labor Statistics.
- . Project Markups - All projects undertaken by Nielsen, Wurster are analyzed by the firm's staff economist. The analysis focuses on key elements such as construction volume in the project area and availability of contractors, labor and materials. The results are also analyzed by Nielsen, Wurster cost engineers to assist in the determination of reasonable overhead, profit and contingency costs.

After each of these elements have been collected and analyzed, total project costs are determined. The components of this total project cost are then entered into Nielsen, Wurster's historical cost file where they are available for retrieval and use on subsequent projects.

### Project Experience

Nielsen, Wurster has provided cost estimating, budgetary analyses, cost validation and other services on the following projects:

<u>Project and Related Cost</u>	<u>Description</u>	<u>Service</u>
Raul Leoni Dam (Guri) Final Stage, Caroni River, State of Bolivar, Venezuela \$1,300,000,000	Dam and Hydro- electric Genera- ting Plant	Contract Management
Southeast Water Pollu- tion Control Plant San Francisco, Cali- fornia \$150,000,000	Advanced Wastewater Plant	Cost Engineering
Yampa Project, Craig Generating Station Craig, Colorado \$6,000,000	Coal-Fired Power Plant	Cost Management
Mirror Fusion Test Facility, Livermore, California \$500,000,000	Test Facility for Laser Use in Con- trolled Nuclear Fusion Program	Cost Engineering
Niagara County Treat- ment Facility, Buf- falo, New York \$2,500,000	Water Treatment Plant	Change Order Validation
East Kentucky Power Authority Charleston Bottoms, Kentucky \$450,000,000	Power Generating Station	Cost Engineering Claims Analysis

David G. Rowley

David G. Rowley, Senior Consultant, Nielsen, Wurster and Associates, Inc., received his BSE from Guildford Technical College, Guildford, Surrey, England. He received a Construction Superintendent Certificate from the Mechanics Institute, New York City.

- Mr. Rowley is The Nielsen, Wurster Group's senior general construction trades expert. He has extensive hands-on experience with substructure, superstructure and interior construction work. He is thoroughly familiar with the construction methods and procedures, estimating, and scheduling of steel, precast concrete and reinforced concrete work.
- Mr. Rowley has lately been involved with delay claims and litigation work for the Air Mail Facility in Detroit, Michigan and the Florida State Capitol Complex, among others. This experience involved preparation of schedules, manpower analyses and other documentation for court presentation.
- Before moving to the United States, Mr. Rowley held several increasingly responsible positions, culminating as a Project Manager, for the major British General Contractor, Trollope & Colls, Ltd. While there, he performed extensive duties as a cost and quantity surveyor.
- Most recently, Mr. Rowley served as a Project Manager for an international construction management consulting firm. Prior to that time, he was a Project Manager and EEO Officer for E. W. Howell Company, a large New York area General Contractor.
- Mr. Rowley's experience over the past 15 years has been diversified and includes work of all types of commercial, institutional and industrial construction.

Mr. Rowley is a member of the American Association of Cost Engineers and has served as a Guest Lecturer on "Life Cycle Costs" at The Columbia University Graduate School of Architecture.

Alfred L. Dellon

Alfred L. Dellon, Vice President, Nielsen, Wurster and Associates, Inc. is a Certified Cost Engineer, with special expertise in project management, planning and scheduling areas. He has applied this expertise to all aspects of utility construction, heavy industrial mechanical and electrical process work both within and outside the United States.

Mr. Dellon has over thirty years of diversified experience in engineering and construction management. This management experience encompasses more than twenty years as a project manager, construction resident manager, consultant to utilities, state and federal agencies and private industry.

Mr. Dellon's background includes senior management responsibility for heavy construction projects in:

- Principal prototypes in the power plant field
  - Combined cycle plants
  - Fossil plants
  - Nuclear plants
- Waste water treatment plants
- Chemical facilities
- Petro-Chemical facilities
- Metalurgical facilities

Mr. Dellon is a member of the American Association of Cost Engineers, Past President of New York Section and National Director, American Society of Engineering Education and the Project Management Institute.

**E. Franklin E. Robeson - Generation Requirements**

Mr. Robeson is an Associate Professor of Economics of the School of Business Administration, College of William and Mary. Mr. Robeson is a graduate of the University of Cincinnati and of Indiana University, where he received his Masters and Doctorate degrees in Business Administration. Mr. Robeson's professional and research interests are in the areas of managerial economics, public utilities and public policy. His recent consulting and professional development experience includes the following:

- . Consultant to private firms in the areas of market, economic, and financial analysis, 1973-79.
- . Program Coordinator for seminar and gas rates sponsored by the American Gas Association 1977 and 1978 at the University of Maryland.
- . Seminar speaker at University of Hawaii seminar on public utilities in Honolulu, Hawaii, 1977.
- . Indiana University: Bureau of Business Research, 1967-79. Research Associate in study of Indiana business tax impact. Worked on developing Indiana economic data base. Supervised study on Retail Trade in Indiana and neighboring states.

Mr. Robeson's recent research activities in the area of energy management include:

Published Research

- . Economic and Social Costs of Over-Supply Versus Under-Supply of Electric Generating Capacity. Washington, D.C., Edison Electric Institute, 1978. (With Douglas Norland).
- . Social, Economic and Energy Costs of Increased Off-Peak Industrial Electric Energy Consumption. Washington, D.C., Edison Electric Institute, 1978. (With D. Norland and M. Gannon).

- . Evaluation of the Conserving Effects of Increased Use of Electricity. Washington, D.C., Edison Electric Institute, 1978. (With D. Norland).
- . "An Empirical Analysis of Regression Techniques for Evaluating Economies of Scale" in Proceedings: Western AIDS, 1977. (With M. Parent).
- . "A Comparison of NPS and USFS Regulations and Their Effects on Concession Efficiency" in Proceedings on River Recreation Management and Research, from a Symposium sponsored by U.S. Department of Agriculture and University of Minnesota in Minneapolis, Jan. 24-27, 1977. (With M. Parent).
- . "An Examination of the Financial Characteristics of River-Running Concessions" published in the Proceedings of Symposium on Research in National Parks at Albright Training Center, Grand Canyon National Park, Oct. 3-5, 1976.

#### Papers Presented at Professional Meetings

- . "Home Heating Sources, Residential Property Values, and Wealth Transfers: The Case of Natural Gas," Western AIDS, Reno, Nevada, March, 1978.
- . "The Demand for Natural Gas," Fifth Annual Symposium on the Rate Making Problems of Regulated Industries, Kansas City, Missouri, February, 1979.
- . "Multivariate Models to Forecast PSRO Review Costs", Northeast AIDS, Washington, D.C., 1978 (with L. Bedin and R. Pfaffenberger).
- . "Electricity Demand -- A Pooled Time Series and Cross Sectional Analysis Using Household Data" at Western AIDS, Phoenix, Arizona, March 17-18, 1977.
- . "The Economic Interpretation of the Goal Programming Objective Function in Financial Applications", Financial Management Association, Montreal, Canada, October, 1976.

Research Under Editorial Review

- . "The Demand for Electricity: An Economic Investigation Using Household Data" (with C.E. Olson).
- . "Electricity Pricing and Shift Work Patterns" (with M. Gannon and D. Norland).

Current Research

- . "An Analysis of Electricity Usage, Income Levels, and System Demand Variations for Residential Households", (with C. Olson).
- . "The Corporate Role in Public Policy: An Economic Analysis".
- . "A Microeconomic Analysis of Natural Gas Consumption by Residential and Commercial Users", (with C. Olson).
- . "Industrial Peak Load Pricing and Shift Work" (with M. Gannon).

Mr. Robeson has recently provided expert testimony before the Massachusetts Department of Public Utilities and the Massachusetts Energy Facilities Siting Council, regarding his evaluation of the residential, commercial, and industrial forecasts submitted by The Boston Edison Company. The testimony involved a detailed evaluation of forecasting methodology, projection variables, and computer modeling programs, including the performance of various sensitivity analyses on the forecasts.

## VIII. TIME AND FEE ESTIMATES

The major tasks to be completed in the study have been described in detail in the Methodology Section of this proposal. We believe that the Arthur Young & Company project team can complete these tasks in a twenty-six week period from the starting date.

Our professional fees and those of the other professional firms involved are based on per diem billing rates which have been established for different personnel classifications. Fees for this engagement will be based on the actual time spent by personnel assigned at their per diem rates.

Based on our work plans and anticipated staffing for this project, we estimate that the total fees and expenses will not exceed \$425,000. Should the minimum hours be less than our current estimate, we will bill the lesser amount. Conversely, however, should it become apparent that the time estimates used in formulating our fee schedule require expansion due to scope of work changes requested by the Board, we will discuss with you the impact of these changes on our fee estimates. Fees for our service will be billed on a monthly basis together with out-of-pocket expenses incurred.

Detailed estimates of the costs to be incurred in the completion of Phase I and Phase II are indicated on the following page.

Our estimate of the hours required to complete the study, by phase and task is shown in Exhibit IV, and the timing of our work is shown in Exhibit III.

## VIII.2

	<u>Hours</u>			<u>Cost</u>		
	<u>PHASE I</u>	<u>PHASE II</u>	<u>TOTAL</u>	<u>PHASE I</u>	<u>PHASE II</u>	<u>TOTAL</u>
<u>Arthur Young &amp; Company</u>						
Partner/Director	700	354	1,054	84,000	42,480	126,480
Task Manager	572	484	1,056	51,480	43,560	95,040
Consultant	<u>764</u>	<u>240</u>	<u>1,004</u>	<u>45,840</u>	<u>14,400</u>	<u>60,240</u>
	2,036	1,078	3,114	181,320	100,440	281,760
<u>Other Firms</u>						
Partner	436	200	636	52,320	24,000	76,320
Associate	<u>648</u>	<u>80</u>	<u>728</u>	<u>38,880</u>	<u>4,800</u>	<u>43,680</u>
	1,084	280	1,364	91,200	28,800	120,000
Total	<u>3,120</u>	<u>1,358</u>	<u>4,478</u>	<u>272,520</u>	<u>129,240</u>	401,760

EXPENSES

Travel, telephone	10,000
Computer Timesharing	4,000
Report Production and presentation materials	9,000

Total Fees & Expenses \$424,760

<u>BILLING RATES</u>	<u>PER HOUR</u>
Partner/Director	\$120
Task Manager	90
Consultants/Associate	60

The time required for the analysis of each option will be similar

NEW JERSEY BOARD OF PUBLIC UTILITIES  
TIMING OF STUDY TASKS AND DELIVERABLE PRODUCTS

WEEKS FROM START OF PROJECT

PHASE/TASK DESCRIPTION	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	27	28		
<b>PHASE I</b> Identification and Evaluation of Strategic Policy Options																														
<b>TASK 1</b> Project Initiation																														
<b>TASK 2</b> Identification of Issues and Options																														
<b>TASK 3</b> Initial Screening of Major Options																														
<b>TASK 4</b> Evaluation of Power Plant Operating Efficiency																														
<b>TASK 5</b> Confirmation of Generation Requirements																														
<b>TASK 6</b> Confirmation of Construction Costs in Expansion Plans																														
<b>TASK 7</b> Finalization of Standard Evaluation Technique																														
<b>TASK 8</b> Prepare Status Review for the Board																														
<b>TASK 9</b> Conduct Legal Analysis of each Viable Option																														
<b>TASK 10</b> Conduct Tax Analysis of each Viable Option																														
<b>TASK 11</b> Conduct the Investment Analysis of each Viable Option																														
<b>TASK 12</b> Prepare Financial Analysis of each Viable Option																														
<b>TASK 13</b> Prepare Summary Evaluation of Viable Strategic Policy Options																														
<b>TASK 14</b> Prepare Phase I Report																														
<b>Deliverable Products - Phase I</b>																														
1 Summary of Finalized Issues and Options																														
2 Written Status Report																														
3 Board Presentation																														
4 Phase I Report																														

POOR ORIGINAL

NEW JERSEY BOARD OF PUBLIC UTILITIES  
TIMING OF STUDY TASKS AND DELIVERABLE PRODUCTS

WEEKS FROM START OF PROJECT

PHASE/TASK DESCRIPTION	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	27	28	
PHASE II Evaluation of Two or Three Most Promising Strategic Options																													
TASK 1 Revise and Update Phase II Work Plan																													
TASK 2 Review Regulatory Proceedings and Results of Relevant Studies																													
TASK 3 Conduct Political Impact Survey																													
TASK 4 Update the Financial and Economic Analysis																													
TASK 5 Review Results with Board and Company Representatives																													
TASK 6 Develop Legal Implementation Plan																													
TASK 7 Develop Organization Implementation Tasks																													
TASK 8 Develop Consolidated Implementation Plan																													
TASK 9 Develop Recommendation for Interim Regulatory Treatment																													
TASK 10 Review the Results																													
TASK 11 Develop Priority Ranking for Strategic Options																													
TASK 12 Prepare and Conduct Board Presentation																													
TASK 13 Prepare Written Status Report																													
TASK 14 Prepare Phase II Report																													
TASK 15 Give Expert Testimony																													
Deliverable Products - Phase II																													
5 Written Status Report																													
6 Board Presentation																													
7 Phase II Report																													

POOR ORIGINAL

TIME REQUIRED TO COMPLETE THE STUDY

Phase/Task	Arthur Young & Company			Other Firms	
	Partner/Director	Task Managers	Consultants Hours	Partner	Associate
<u>PHASE I Identification and Evaluation of Strategic Policy Options</u>					
1. Project Initiation	56	40	24	32	-
2. Identification of Issues and Options	156	72	-	16	-
3. Conduct Initial Screening of Major Options	72	88	128	92	192
4. Evaluation of Power Plant Operating Efficiency	40	60	60	-	-
5. Confirmation of Generation Requirements	40	-	-	72	248
6. Confirmation of Construction Costs in Expansion Plans	8	-	-	16	24
7. Finalization of Standard Evaluation Technique	24	40	104	16	-
8. Prepare Status Review for the Board	48	40	40	24	24
9. Conduct Legal Analysis of Each Viable Option	16	-	-	24	48
10. Conduct Tax Analysis of Each Viable Option	8	32	80	-	-
11. Conduct the Investment Analysis of each Viable Option	8	8	-	40	80
12. Prepare Financial Analysis of each Viable Option	24	56	120	-	-
13. Prepare Summary Evaluation of Viable Strategic Policy Options	168	104	128	72	-
	32	32	80	32	32
14. Prepare Phase I Report					
	700	572	764	436	648
<u>PHASE II Evaluation of Two or Three Most Promising Strategic Options</u>					
1. Revise and Update Phase II Work Plan	4	8	-	-	-
2. Review Regulatory Proceedings and Results of Relevant Studies	8	24	-	-	-
3. Conduct Political Impact Survey	40	80	160	-	-
4. Update the Financial and Economic Analysis	30	40	80	-	-
5. Review Results with Board and Company Representatives	16	8	-	-	-
6. Develop Legal Implementation Plan	16	-	-	40	80
7. Develop Organization Implementation Tasks	8	24	-	-	-
8. Develop Consolidated Implementation Plan	32	60	-	-	-
9. Develop Recommendation for Interim Regulatory Treatment	32	8	-	8	-
10. Review the Results	16	8	-	40	-
11. Develop Priority Ranking for Strategic Options	16	40	-	16	-
12. Prepare and Conduct Board Presentation	16	40	-	8	-
13. Prepare Written Progress Report	24	24	-	16	-
14. Prepare Phase II Report	32	40	-	8	-
15. Preparation and Giving of Expert Testimony	64	80	-	64	-
	354	484	240	290	80