

EUA Power Corporation
Docket No. EL85-
Exhibit No. ____ (EUA-100)

PREPARED DIRECT TESTIMONY OF
JOHN F. G. EICHORN, JR.

I. INTRODUCTION

Qualifications

1. Q. Please state your name and business address?
2. A. My name is John F. G. Eichorn, Jr., and my business address is
3. One Liberty Square, Boston Massachusetts 02107.
4. Q. Mr. Eichorn, what are your present positions?
5. A. I am President and Chief Executive of Eastern Utilities Associates
6. ("EUA"). I am also a Trustee of EUA. I hold the following
7. positions in EUA subsidiaries: President and a Director of Montaup
8. Electric Company and EUA Service Corporation and Chairman and a
9. Director of Blackstone Valley Electric Company and Eastern Edison
10. Company.
11. I also am a Director of four nuclear generating companies in
12. which Montaup Electric Company has an ownership interest: Yankee
13. Atomic Electric Company, Connecticut Yankee Atomic Power Company,
14. Maine Yankee Atomic Power Company and Vermont Yankee Nuclear
15. Power Corporation.
16. Q. What position do you hold with the applicant here, EUA Power
17. Corporation ("EUA Power")?
18. A. I am President and a Director of that company.
19. Q. Are you a member or officer of any utility groups?

1. A. I am Chairman of the Executive Committee of the Joint Owners'
2. Management Committee for the Seabrook project and a member of the
3. Management Committee. The Joint Owners' Management Committee
4. has oversight responsibility for the management of the Seabrook
5. project. The Executive Committee develops and presents proposals
6. to the Management Committee for its action.

7. I am a member of the New England Power Pool Executive
8. Committee and Vice Chairman of its Management Committee. I serve
9. as a Director of the Electric Council of New England. Also, I
10. represent my company on the Northeast Power Coordinating Council.

11. Q. What is your educational background?

12. A. I graduated from the University of Maine in 1949 with a Bachelor of
13. Science degree in Mechanical Engineering. I have since completed
14. various technical and business courses, including Northeastern
15. University's Management Development Program. I am a Registered
16. Professional Engineer in Massachusetts.

17. Q. Will you please briefly describe your business experience?

18. A. Upon graduation in 1949, I joined the New England Electric System
19. ("NEES") as an engineer-in-training. I held many progressively
20. more responsible positions in several subsidiary companies
21. throughout the NEES system, leading up to Vice President and
22. Regional Executive, which position I held before joining Eastern
23. Utilities Associates as Executive Vice President in 1969. I was
24. elected President of EUA in 1972 and assumed the additional duties
25. of Chairman when that position became vacant in 1975.

26. Q. What have been the major organizational and business initiatives that
27. EUA has undertaken since you became President in 1972?

1. A. During the 1970s EUA established the EUA Service Corporation and
2. reorganized itself into an integrated system. Previously, EUA had
3. two retail distribution companies in Massachusetts, and these were
4. consolidated into a single company, Eastern Edison Company. At the
5. same time, EUA simplified its holding company structure by making
6. Montaup Electric Company a subsidiary of only Eastern Edison
7. Company.

8. After accomplishing the corporate simplification, EUA
9. concentrated on improving its capital structure by issuing more
10. common equity and improving the quality of earnings. A major part
11. of this effort was to obtain rate base treatment of construction work
12. in progress. Mainly as a result of the Commission's allowance of
13. rate base treatment of CWIP, EUA has been able to reduce its
14. short-term (unsecured) bank loans from a high of 44% of its total
15. capitalization at the end of 1974 to zero at the end of 1982.

16. Determinations Sought

17. Q. Mr. Eichorn, please summarize the determinations sought in this
18. docket.

19. A. EUA Power proposes to acquire the shares in the Seabrook project of
20. three Maine utilities (Bangor Hydro Electric Company, Central Maine
21. Power Company and Maine Public Service Company) and one Vermont
22. utility (Central Vermont Public Service Corporation). These
23. companies I shall refer to as "the Sellers." Collectively, the Sellers
24. own approximately 11.3% of the Seabrook project. In connection with
25. its acquisition of the Sellers' shares, EUA Power seeks two
26. determinations:

1. First Determination

2. EUA first seeks a determination that the market in wholesale
3. coordination power in New England is sufficiently active and open
4. that EUA Power, as a speculative entrant in the market without any
5. existing customer base, will be allowed to sell power from Seabrook
6. to non-affiliates at market-based prices, without cost-based
7. ratemaking limitations.

8. Second Determination

9. EUA second seeks a determination on certain ratemaking and
10. accounting matters which would have consequence only if cost-based
11. ratemaking limitations apply. Such limitations would apply to (1) all
12. EUA Power sales if the Commission declines to allow the market-based
13. pricing to non-affiliates requested in the first determination and (2)
14. any EUA Power sales to an affiliate, regardless of whether the
15. Commission grants or denies market-based pricing for sales to
16. non-affiliates.

17. The second determination consists of the following four
18. elements:

19. (1) Approval of the Debt/Equity Ratio. EUA Power
20. plans that the initial capital structure would be
21. 80% debt and 20% equity. There may be
22. temporary variations in this ratio during the
23. construction period as a result of the timing of
24. financings. Thereafter, when Seabrook No. 1
25. comes on line, the common equity portion of the
26. capital structure may increase relative to the

1. debt portion as a result of the accumulation of
2. retained earnings and possible contributions of
3. common equity by EUA. The debt capital is to
4. be raised in the private placement market, and
5. the equity/capital is to be supplied by EUA.
6. The debt capital will not be guaranteed in any
7. way by EUA.

8. (2) Approval of the Equity Structure. EUA Power
9. plans that virtually the entire equity portion of
10. the initial capital structure would be supplied
11. through preferred stock. Common stock would
12. be issued by EUA Power to EUA to preserve
13. EUA's voting control, but the amount of capital
14. supplied through this issue would be nominal,
15. some \$10,000. The purpose of capitalizing the
16. equity portion through preferred stock is to
17. establish a fixed dividend rate.

18. (3) Approval of Rates of Return. The fixed
19. dividend rate on the preferred stock issued by
20. EUA Power to EUA prior to commercial operation
21. of Seabrook No. 1 would be 25% per annum.
22. The rate of return on the nominal amount of
23. common equity portion of the capital structure
24. would also be 25% per annum. As shown by
25. evidence offered here, this rate reflects the
26. risks of EUA's acquisition of the Sellers' shares
27. in the Seabrook project prior to its completion.

1. The rate of return on debt would be established
2. by the Commission's usual procedures -- that is,
3. at the weighted average of the actual interest
4. costs of the various issues. The return on debt
5. issued during the construction period might be
6. as high as 30% per annum. After three to ten
7. years, the initial debt would be refinanced and
8. the rate of return would be much closer to, but
9. still higher than, a typical rate of return for
10. utility debt.

11. (4) Effects of Any Subsequent Imprudence Findings.

12. In the event that, upon any rate filing by EUA
13. Power, any Seabrook No. 1 construction costs
14. incurred before the date of closing were to be
15. disallowed as imprudently incurred, the
16. disallowance would not be used to reduce EUA
17. Power's rates unless the disallowance reduced
18. rate base in the plant as it existed at the
19. closing date to a level below EUA Power's
20. acquisition price for the plant at that date.

21. Q. Mr. Eichorn, what role do the above determinations play in EUA's
22. consideration of whether to go forward with the acquisition of the
23. Sellers' Seabrook shares?

24. A. A favorable decision on both determinations, or on the second
25. determination, is prerequisite to EUA's proceeding with the
26. acquisition. As I shall explain later, EUA regards the investment as
27. involving risks that exceed the usual level of risks assumed by

1. utilities and therefore requires the opportunity to earn a return that
2. exceeds the usual level of returns allowed utilities. Without the
3. determinations sought here, EUA would have no basis on which to
4. believe that such opportunity would be allowed, and it will not go
5. forward.

6. Q. Do you understand that no determination by the Commission can be
7. binding upon future Commissions?

8. A. Yes, I have been advised of that principle. I also have been
9. advised that the courts have held that the Commission is required to
10. give weight to determinations of past Commissions that have induced
11. reliance. EUA Power is prepared to proceed on the basis that the
12. determinations sought here are not binding on future Commissions
13. but will be accorded the weight required by law.

14. The NuMaineCo Order

15. Q. Mr. Eichorn, has EUA Power previously sought declaratory relief
16. from this Commission in connection with the acquisition of shares in
17. Seabrook No. 1?

18. A. Yes. EUA Power Corporation is the new name of NuMaineCo
19. Corporation ("NuMaineCo"), which sought declaratory relief of this
20. Commission in Docket No. EL85-21-000. The relief was sought in
21. connection with a plan by NuMaineCo to acquire the shares of the
22. Maine utilities in Seabrook No. 1. The plan was to capitalize
23. NuMaineCo through combined debt and equity investments raised in
24. the venture capital markets. The Commission denied NuMaineCo's
25. petition for declaratory relief by an order issued on June 19, 1985.
26. The basis for the denial was that, at that point, the scope of

1. NuMaineCo's proposal was inadequately delineated. The Commission
2. stated that the denial of the petition was without prejudice to
3. refiling when the scope of the proposal was precisely established.

4. Q. Has the scope of the proposal now been precisely established?

5. A. Yes. The scope of the proposal set out in the petition refiled here
6. is precisely delineated in letter agreements between EUA and the
7. Sellers. These letter agreements are presented and explained later
8. in my testimony.

9. Q. In denying NuMaineCo's petition in the earlier proceeding, did the
10. Commission give any guidelines for refiling?

11. A. Yes. It indicated that the refiled petition should be accompanied by
12. evidence supporting the request for relief and made several remarks
13. relevant to such evidence. It noted, first, that it supported and
14. encouraged innovative solutions to issues. It then said that rates of
15. return should be commensurate with the risks involved and that, for
16. a proposal to acquire shares in Seabrook No. 1, the Commission
17. would consider, as relevant risks, the possibility that the unit would
18. not be completed, potential cost overruns or delays, the inability to
19. charge losses from cancellation against other sales, and uncertainties
20. in marketing project power (at 7-8). The Commission also said that,
21. if the power sold was coordination-type power, the rates might,
22. under Commission policy, exceed fully distributed costs (at 8). The
23. Commission said that it would consider the competitive environment
24. "in connection with a request to market power from the project at
25. such rates" (id.). It said that a refiled petition might present
26. evidence on "cost, non-cost, value, market or competitive factors"
27. (at 9).

1. The petition filed in this docket and the accompanying evidence
2. have been prepared in the light of the Commission's remarks.

3. Q. Does the petition refiled here closely resemble the petition previously
4. filed by NuMaineCo?

5. A. It resembles the previous petition in that it seeks determinations on
6. the basis of which investment will be made. But there are major
7. differences in the determinations sought. First, the present
8. petition, unlike its predecessor, does not seek a determination that
9. the rate base will be established by the selling utilities' investment
10. in unfinished plant rather than by the price paid by the purchaser
11. for such plant. Second, since the financing proposal here is
12. entirely different than the previous financing proposal, the refiled
13. petition seeks a different set of determinations on such matters as
14. capital structure and rates of return.

15. COUNSEL: Your honor, may we please have marked for identification
16. as Exhibit No. __ (EUA-101) a document entitled "Federal Energy
17. Regulatory Commission Order in NuMaineCo Corporation."

18. Q. Mr. Eichorn, please identify this exhibit.

19. A. The exhibit contains, for convenience of reference, the Commission's
20. order of June 19, 1985 to which I have referred and the order of
21. August 5, 1985 denying rehearing of the earlier order.

22. Witnesses' Responsibilities

23. Q. What is the division of responsibility among the witnesses in this
24. case?

25. A. I describe the background of EUA's offer to acquire the Seller's
26. shares. I then provide details on how agreement on the acquisition

1. was reached between EUA and the Sellers and set out and explain
2. the terms of the agreement. Finally, I describe EUA's objective in
3. pursuing the acquisition.

4. Mr. Pardus sponsors exhibits presenting data on the cost to
5. EUA Power of acquiring the Sellers' Seabrook shares. He also
6. explains the selection of the capital structure and rates of return
7. embodied in EUA's proposal here. Finally, he describes the effect of
8. the acquisition on ratepayers in Maine and Vermont and ratepayers
9. elsewhere in New England.

10. Mr. Benderly presents evidence that a 25% per annum dividend
11. on the preferred and return on common stock held by EUA is just
12. and reasonable in the light of the risks assumed by EUA.

13. Mr. Hildreth describes how debt capital will be raised in the
14. market to finance 80% of the acquisition price and estimates the cost
15. of the debt. He also estimates what would be the cost of raising
16. equity capital in the market, were the remaining 20% of the capital
17. requirement to be raised in that manner rather than being put up by
18. EUA.

19. Mr. Hatch describes the open and competitive character of the
20. market for wholesale power in New England and EUA Power's plans
21. to sell in that market.

22. II. BACKGROUND FACTS

23. The EUA System

24. Q. As a preliminary matter, Mr. Eichorn, would you please describe the
25. EUA system?

1. A. The system, as it exists today, consists of a holding company
2. (EUA), two retail electric companies (Blackstone Valley Electric
3. Company and Eastern Edison Company), a wholesale power supply
4. company for the system (Montaup Electric Company) and a company
5. which provides various services to the other subsidiaries (EUA
6. Service Corporation). The new company which will purchase the
7. Sellers' shares in the Seabrook project and sell the output from
8. Seabrook No. 1 in the New England market will be EUA Power
9. Corporation.

10. EUA, the parent, was organized in 1928 and is registered as a
11. holding company under the Public Utility Holding Company Act of
12. 1935. It is a Massachusetts Business Trust and is governed by a
13. board of trustees. EUA holds all of the common stock of Blackstone
14. Valley Electric Company, Eastern Edison Company and EUA Service
15. Corporation and will own EUA Power Corporation.

16. Blackstone Valley Electric Company ("Blackstone Valley") is a
17. Rhode Island corporation providing retail electric service in the
18. Cities of Pawtucket, Woonsocket, Central Falls and four adjacent
19. towns in northern Rhode Island. Blackstone Valley's service area
20. has a population of approximately 201,000. Blackstone Valley's rates
21. are regulated by the Rhode Island Division of Public Utilities and
22. Carriers.

23. Eastern Edison Company ("Eastern Edison") is a Massachusetts
24. corporation providing retail electric service in southeastern
25. Massachusetts to the Cities of Fall River, Brockton and 20 other
26. towns. Eastern Edison's service area has a population of
27. approximately 438,000. Its rates are regulated by the Massachusetts

1. Department of Public Utilities. Eastern Edison owns all of the
2. permanent securities of Montaup Electric Company ("Montaup").

3. Montaup is a Massachusetts corporation which provides the total
4. generation and transmission power requirements of Blackstone Valley
5. and Eastern Edison and sells wholesale power to non-affiliated
6. wholesale customers at the same price as to affiliates. Montaup's
7. rates are regulated by this Commission.

8. EUA Power will be the new subsidiary acquired by EUA to
9. purchase the Sellers' shares in Seabrook, complete that portion of
10. the project and market the project power. EUA Power is a New
11. Hampshire corporation, which, as I have said, was previously named
12. NuMaineCo Corporation. NuMaineCo was established by Merrill Lynch
13. Capital Markets ("Merrill Lynch") earlier this year. As originally
14. conceived, NuMaineCo was to be a vehicle for investment of venture
15. capital in the Maine utilities' shares of Seabrook No. 1, if the Maine
16. utilities chose or were forced to disengage from the project. When
17. EUA became the prime candidate to invest in those shares,
18. NuMaineCo was renamed EUA Power Corporation. While Mr. Pardus
19. and I are officers of EUA Power, the company has not yet been
20. acquired by EUA, since that step requires action by the Securities
21. and Exchange Commission. I expect that the action will be taken
22. within several months. Since EUA Power will not sell at retail, its
23. rates will be subject to regulation exclusively by this Commission.

24. COUNSEL: Your honor, may we please have marked for identification
25. as Exhibit No. __ (EUA-102) a document entitled "Eastern Utilities
26. Associates Annual Report 1984."

27. Q. Mr. Eichorn, please identify this exhibit.

1. A. The exhibit is a copy of EUA's annual report for 1984.

2. COUNSEL: Your honor, may we please have marked for identification
3. as Exhibit No. ___ (EUA-103) a document entitled "Securities and
4. Exchange Commission, Form 10-K, 1984 Annual Report Pursuant to
5. Section 13 or 15(d) of the Securities Exchange Act of 1934, Eastern
6. Utilities Associates."

7. Q. Mr. Eichorn, please identify this exhibit.

8. A. The exhibit is EUA's most recent Form 10-K filed with the Securities
9. and Exchange Commission.

10. Q. What is the purpose of Exhibit Nos. ___ (EUA-102) and ___ (EUA-103)?

11. A. They provide recent background information on the financial position
12. of EUA and the EUA system.

13. The Seabrook Project

14. Q. Mr. Eichorn, I ask you now to turn to the Seabrook project. Please
15. describe the project and its present status.

16. A. The Seabrook project consists of two nuclear units at Seabrook, New
17. Hampshire, each having a capacity of 1150 megawatts. The project
18. was conceived in 1970 as one of several nuclear projects to be jointly
19. owned by New England utilities. Public Service Company of New
20. Hampshire ("PSNH"), which now holds a 36% share in the project,
21. became the lead participant and manager of the project. The
22. remaining ownership is spread among 15 other utilities. The Sellers'
23. shares are as follows:

1.	Bangor Hydro-Electric Company	6.04178%
2.	Central Maine Power Company	2.17391%
3.	Central Vermont Public Service	
4.	Corporation	1.59096%
5.	Maine Public Service Company	<u>1.46056%</u>
6.	Total	11.26721%

7. Q. Does Montaup currently have a share in the Seabrook project?

8. A. Yes, it does. Montaup owns a 2.89989% share in the project.

9. Needless to say, none of the determinations sought in this docket
10. relate to Montaup's share.

11. COUNSEL: May we please have marked for identification as Exhibit
12. No. __ (EUA-104) a document entitled "Seabrook Joint Ownership
13. Agreement."

14. Q. Mr. Eichorn, please identify the exhibit.

15. A. The exhibit consists of the Seabrook joint ownership agreement of
16. May 1, 1973 and all amendments thereto. It sets out the rights and
17. obligations of the joint owners.

18. Q. Has the Seabrook project encountered difficulties?

19. A. Yes. The project has experienced repeated schedule delays and
20. increases in estimated construction costs. A new estimate in March
21. 1984 raised the total estimated costs from \$5.2 billion to \$9 billion,
22. and PSNH was thrown into a financial crisis. We were forced to
23. substantially reduce construction on the project in April. The joint
24. owners then undertook to reorganize and strengthen the management
25. of the project, and each owner was required to develop a plan to
26. finance its portion of the remaining construction of the first unit.
27. Construction of the second unit has ceased and the unit has
28. effectively been cancelled.

1. Q. What was done to reorganize and strengthen the management of the
2. project?

3. A. The joint owners approved the phased transfer, subject to regulatory
4. approvals, of responsibility for directing the management of the
5. project from the lead participant, PSNH, to New Hampshire Yankee
6. Electric. Also, the construction management of the project was
7. transferred from United Engineers and Constructors to New
8. Hampshire Yankee. At the present, New Hampshire Yankee Electric
9. remains a division of PSNH, but the management of the division is
10. substantially independent of PSNH's management and is answerable to
11. the joint owners' management committee. In due course, New
12. Hampshire Yankee Electric will become an independent corporation.

13. In addition to creation of New Hampshire Yankee Electric
14. Corporation, a joint owners' executive committee was created to
15. oversee the Seabrook budget and make recommendations to the
16. management committee. An independent consulting firm, Management
17. Analysis Corporation, was hired to review cost estimates. A new
18. project manager, William B. Derrickson, was hired. Mr. Derrickson
19. had built Florida Power & Light Company's 802 megawatt St. Lucie
20. nuclear unit in a period of six years, a benchmark in expeditious
21. nuclear construction. Finally, each owner agreed to present to the
22. joint owners' management committee a plan to finance completion of
23. its portion of Seabrook No. 1.

24. Q. What was the result of these changes in management and financial
25. arrangements?

26. A. The changes in management and financial arrangements made it
27. possible for increased construction of Seabrook No. 1 to resume in

1. August 1984. Construction of the first unit is now over 90%
2. complete. Fuel loading is scheduled to commence June 1986 and the
3. commercial operation is scheduled for October 31, 1986. No further
4. construction work is being done or is planned on the second unit,
5. which is approximately 25% complete. Montaup and other joint
6. owners have sought write-off of their investment in the second unit
7. as if it were cancelled.

8. Q. Mr. Eichorn, do you believe that the scheduled completion date of
9. October 31, 1986 for Seabrook No. 1 is realistic?

10. A. I do, assuming timely regulatory approvals.

11. Q. What is the basis of your judgment in this respect?

12. A. The management of New Hampshire Yankee has established a record
13. of setting realistic schedules and budgets and effectively holding to
14. those schedules and budgets. As the Chairman of the Executive
15. Committee of the Seabrook Joint Owners' Management Committee, I
16. have observed its performance closely. My observation causes me to
17. have very considerable confidence in the ability of Mr. Derrickson
18. and his team to do what they say they will do, when they say they
19. will do it, and at the cost they say will be incurred.

20. COUNSEL: Your honor, may we please have marked for identification
21. as Exhibit No. __ (EUA-105) a document entitled "Seabrook Unit 1 &
22. Common Target Budget and Schedule Update, July 24, 1985."

23. Q. Mr. Eichorn, please identify this exhibit.

24. A. This is the most recent forecast of the cost to complete Seabrook No.
25. 1 and the schedule of work to completion. It was prepared by New
26. Hampshire Yankee Electric.

27. Q. Mr. Eichorn, please summarize the main conclusions of the forecast.

1. A. The previous budget, prepared in August 1984, called for a
2. cash-to-go cost (that is, cash to complete the project) of \$830.3
3. million. Cash expenditures from August 1984 to June 1, 1985
4. amounted to \$206.1 million, leaving a cash-to-go budget as of June
5. 1, 1985 of \$624.2 million. The revised forecast lowers this
6. cash-to-go estimate to \$617.5 million. The \$617.5 million includes a
7. contingency provision of \$149.6 million. The remaining \$467.9 million
8. consists of projected monthly expenditures from June 1, 1985
9. through December 1986. Those projected expenditures assume that
10. existing limitations will be removed. At present, PSNH has some
11. restrictions imposed by the New Hampshire Public Utilities
12. Commission which we believe will be lifted beginning in September
13. 1985.

14. The schedule has been revised to slip the commercial operation
15. date by two months from August 31, 1986 to October 31, 1986. Fuel
16. loading has also been delayed from May 1986 to June 1986.

17. Q. Has the estimated total cost of the project changed since August 1984
18. budget?

19. A. Only slightly, from \$4.48 billion to \$4.56 billion. The increase is
20. due to higher AFUDC as a result of the two month delay in the
21. commercial date.

22. COUNSEL: Your honor, may we please have marked for identification
23. as Exhibit No. __ (EUA-106) a letter to Mr. Edward A. Brown of
24. New Hampshire Yankee from J.W. Briskin of Management Analysis
25. Company, dated July 25, 1985.

26. Q. Mr. Eichorn, please identify this exhibit.

1. A. The exhibit is a letter from Management Analysis Company ("MAC")
2. to New Hampshire Yankee stating that MAC has reviewed the updated
3. estimates presented here as Exhibit No. __ (EUA-105) and finds the
4. estimates to be detailed, thorough and reasonable. It will be
5. recalled that MAC is the organization hired by the joint owners to
6. given an independent review regarding Seabrook.

7. State Regulatory Developments

8. Q. Are there any clouds on the horizon with respect to timely
9. completion of the project?

10. A. Yes, and they are very troubling clouds. They arise from the
11. breakdown of support for the project among the state commissions
12. which regulate the joint owners. This breakdown is significant in
13. this proceeding in two respects. First, it explains how the Sellers'
14. shares in the Seabrook project came to be offered for sale. Second,
15. it bears on the risks assumed by EUA in purchasing the shares.

16. Q. Would you please describe the developments to which you refer?

17. A. Yes. I shall start with developments in Maine and then proceed to
18. those in Massachusetts, New Hampshire and Vermont. The key
19. documents to which I refer will be offered at the end of the
20. discussion of developments in each state.

21. Q. What are the Maine developments?

22. A. In June 1984, the Maine Commission instituted a proceeding on the
23. reasonableness of the Maine utilities' participation in the Seabrook
24. project. In an order in the proceeding issued on December 13,
25. 1984, the Maine Commission concluded that "the risks associated with
26. further participation in Seabrook 1 may well outweigh the benefits

1. for Maine consumers, and further expenditures by Maine utilities
2. under such circumstances would be an unreasonable act under 35
3. M.R.S.A. §294" (at 1). The Maine Commission ordered the Maine
4. utilities to obtain, by January 11, 1985, "credible firm offers to buy
5. their complete ownership shares..." (id.). The Maine Commission
6. found that the Maine utilities by offering their share in Seabrook
7. No. 1 for sale to other New England utilities, "will minimize the
8. adverse impact of their disengagement from Seabrook on the other
9. Joint Owners and on the region" (at 3). The Maine Commission
10. indicated that if credible firm offers to purchase were not obtained
11. by January 11, 1985, it would "unequivocally require the Maine
12. utilities to present plans for their complete disengagement from
13. Seabrook within a short time after January 11th" (id.). If such
14. offers were obtained, the Maine Commission indicated, the Maine
15. utilities would be permitted to continue to participate in Seabrook
16. No. 1 pending completion of the sale (at 1).

17. The Maine utilities sought to sell their shares in Seabrook No. 1
18. to other New England and New York utilities. They reported to the
19. Maine Commission on January 11, 1985 that they had received some
20. expressions of interest in buying approximately one-third of their
21. shares in Seabrook No. 1 but that none of the expressions could be
22. described as a "credible firm offer." Central Maine requested the
23. Maine Commission to refrain from ordering submission of a
24. disengagement plan and to allow, instead, the Maine utilities to
25. continue their efforts to find buyers.

26. On January 16, 1985, five days after the Maine utilities' report
27. was filed, the Maine Commission issued an order concluding that

1. none of the expressions of interest was, indeed, a "credible firm
2. offer." Adhering to its earlier order, it directed the Maine utilities
3. to submit, by February 8, 1985, "detailed plans to achieve their
4. complete and timely disengagement from Seabrook" (at 2). The
5. Maine Commission, however, granted permission to the Maine utilities
6. to continue to seek buyers for their interests in the project while
7. they put together a disengagement plan. The Maine Commission
8. said, "A sale of the Maine utilities' shares on favorable terms
9. remains a desirable outcome of these proceedings" (at 2). It
10. ordered the Maine utilities to report on their further efforts to find
11. purchasers when they submitted their disengagement plan on
12. February 8, 1985 (id.). The Maine Commission stated that it would
13. issue a final order after reviewing the disengagement plan and the
14. report on the further efforts to find purchasers (at 3). The Maine
15. utilities have appealed the Maine Commission's December 1984 and
16. January 1985 orders to the Maine Supreme Court, where the appeal
17. is pending.

18. EUA, through Montaup, then made an offer to the Maine
19. utilities to purchase 34.5 megawatts of Seabrook No. 1, together with
20. 34.5 megawatts of Maine Yankee. Canal Electric Company made an
21. offer to purchase 20 megawatts of Seabrook No. 1. NuMaineCo
22. offered to acquire the Maine utilities' entire ownership interests in
23. Seabrook No. 1 in exchange for subordinated preferred stock. The
24. Maine utilities forwarded these offers to the Maine Commission on
25. February 8, 1985.

26. Then there transpired a long period in which the Maine
27. Commission took no action in regard to Seabrook disengagement.

1. There were, however, a series of tangential developments before the
2. Maine Commission.

3. On April 17, 1985, the Maine Commission issued a proposed
4. decision dealing with prudence issues relating to the Seabrook
5. project. The proposed decision was issued in the same docket as
6. the disengagement proceeding, but in a different aspect of the
7. docket. It was prepared by a single commissioner and was
8. promulgated as the equivalent of an examiners report, subject to
9. written comments by the parties. It recommended that varying
10. portions of Seabrook No. 1 costs (depending on which of various
11. alternative findings were selected) be disallowed as imprudently
12. incurred.

13. The next development occurred in a Central Maine Power
14. Company retail rate proceeding. In that proceeding, the utility, the
15. Maine Commission staff, and the Maine Public Advocate entered into a
16. stipulation in the character of a settlement agreement on Seabrook
17. No. 1 costs. The stipulation disallowed the recovery of certain
18. investment in Seabrook No. 1 and provided terms for the recovery of
19. other investment in the unit, including future investment. The
20. stipulation also specifically contemplated that Central Maine might sell
21. its share of the project with the Maine Commission's approval.

22. Q. Would you briefly summarize the provisions of the stipulation?

23. A. Yes. They are somewhat complicated but may be briefly summarized
24. as follows:

25. 1. Central Maine agreed to write off on its books
26. and not to recover in retail rates 30% of its
27. Seabrook No. 1 investment, net of investment in

1. fuel, incurred through year-end 1984. The
2. remaining 70% is to be included in rate base
3. immediately. Whether or not the unit is
4. completed, the 70% is to be recovered over a 30
5. year period. If the unit is cancelled, the
6. unamortized balances of the write-off amount are
7. to earn carrying charges equal to Central Maine's
8. allowed cost of capital.
9. 2. The Seabrook No. 1 investment incurred after
10. 1984 and all investment in fuel whenever incurred
11. is to be treated as follows:
12. (a) If the unit is completed, Central Maine is to
13. receive full recovery through rates of
14. post-1984 investment and all investment in
15. fuel. The rates, however, are to be capped
16. at a so-called "benchmark" level for various
17. years as set out in an exhibit of the
18. stipulation. The "benchmark" level
19. represents an avoided cost rate for
20. cogeneration purposes.
21. (b) If the unit is cancelled, the post-1984
22. investment in plant and all investment in fuel
23. is to be treated as follows:
24. (1) investment incurred through May 1985
25. is to be treated as determined by the
26. MPUC under state law; and

1. (2) 50% of investment incurred after May
2. 1985 is to be recovered over 30 years
3. with carrying charges on unamortized
4. balances; the remaining 50% is to be
5. written off the books and not recovered
6. in retail rates.

7. 3. If the unit is sold for a cost in excess of the
8. post-1984 investment in plant and all investment
9. in fuel, the excess is to be applied to reduce
10. retail rates.

11. Q. Among the above provisions, which do you believe to be most
12. significant for purposes here?

13. A. Probably the provision that the agreed-to Seabrook No. 1 costs
14. incurred through 1984 are to be included in rate base immediately
15. and recovered over 30 years, whether or not the unit is ever put in
16. service for Maine customers. This means that, with the approval of
17. the Maine Commission, Central Maine Power Company can sell its
18. share in the project with assurance that it will recover its
19. pre-1985 costs at the same level as if the share had been retained
20. and the project put in service to Maine customers.

21. Q. Did the Maine Commission approve the stipulation?

22. A. Yes. The Maine Commission approved the stipulation on May 31,
23. 1985 without issuing an order on that date. It issued an
24. explanatory order on June 3, 1985.

25. Q. What occurred next?

26. A. The Maine Commission issued an order in the disengagement
27. proceeding on July 18, 1985. It said that its view of the economics

1. of Seabrook for the Maine utilities remained fundamentally
2. unchanged: "the Maine utilities remain better off without Seabrook
3. as long as they can arrange a sale on reasonable terms" (at 2-4).
4. The Maine Commission asserted that it had authority to order
5. disengagement, but chose not to do so at the time. It authorized
6. the Maine utilities to continue their efforts to dispose of their
7. Seabrook shares and to continue participation in the project in the
8. meantime.

9. COUNSEL: Your honor, may we please have marked for identification
10. as Exhibit No. __ (EUA-107) a document entitled "Maine Public
11. Utilities Commission Orders Regarding the Seabrook Project."

12. Q. Mr. Eichorn, please identify this exhibit.

13. A. The exhibit contains various orders of the Maine Commission which I
14. have discussed and the stipulation on the treatment of Seabrook No.
15. 1 costs in Central Maine Power Company's retail rates.

16. Q. Mr. Eichorn, please now turn to developments in Massachusetts.

17. A. In July 1984 Fitchburg Gas and Electric Light Company
18. ("Fitchburg"), Canal Electric Company, New England Power Company
19. and the Massachusetts Municipal Wholesale Electric Company
20. ("MMWEC") jointly requested the Massachusetts Department of Public
21. Utilities ("the DPU") to initiate a generic proceeding to examine their
22. Seabrook No. 1 financings, and the DPU in August 1984 opened a
23. proceeding on the request. The DPU issued its decision on the
24. merits on April 4, 1985. The DPU held that it would approve the
25. financing plans of the three investor-owned Seabrook owners only if
26. they were willing to give enforceable assurances and binding
27. obligations committing themselves to the following (at 73):

1. 1. In the event Seabrook 1 does not become
2. commercially operable, cost recovery from
3. ratepayers will be limited solely to those
4. expenditures which were prudently incurred
5. before the date of this Order.
6. 2. In the event that Seabrook becomes commercially
7. operable, cost recovery from ratepayers will be
8. limited to the marginal costs of capacity and
9. energy that would otherwise be faced by the
10. utility, but in no event more than the amount
11. which would be collected by placing the
12. prudently incurred, used and useful portion of
13. the cost of the plant in rate base and no less
14. than the amount that the company would be
15. entitled to collect if the plant were abandoned as
16. of the date of this Order.
17. 3. In the alternative, a company may choose to
18. receive an as-available marginal cost rate for
19. electricity produced throughout the life of
20. Seabrook 1, without a constraint on the minimum
21. and maximum levels of cost recovery.

22. In the same decision, the DPU refused to authorize the MMWEC to
23. issue bonds to pay for further construction costs of Seabrook No. 1.
24. The three investor-owned utilities and MMWEC have appealed the
25. DPU decision to the Massachusetts Supreme Judicial Court. No
26. decision has issued.

27. At the time the generic proceeding was opened, Fitchburg had
28. pending at the DPU a request for approval of a \$18 million
29. financing. Thereafter, Fitchburg reduced the amount of its
30. requested financing to \$5 million, asserted not to be related to
31. Seabrook, and requested immediate approval for that amount on an
32. emergency basis. The DPU October 26, 1984 denied the request on
33. the ground that Fitchburg had not assured that some portion of the
34. \$5 million might not be used for Seabrook purposes. The
35. Massachusetts Supreme Judicial Court sustained the decision in an
36. opinion issued on May 3, 1985. The court held that the DPU had

1. ample discretion to deny Fitchburg's interim financing request and
2. adequate basis to find no impending financial emergency. The DPU
3. has since allowed Fitchburg to finance, but only with agreement that
4. Fitchburg will make no further payments for Seabrook No. 1
5. construction costs. This order was issued on July 30, 1985.
6. Fitchburg is currently in default in its payments to the project.

7. COUNSEL: Your honor, may we please have marked for identification
8. as Exhibit No. __ (EUA-108) a document entitled "Massachusetts
9. Department of Public Utilities and Massachusetts Superior Judicial
10. Court Decisions Regarding Seabrook Project Financings."

11. Q. Mr. Eichorn, please identify the exhibit.

12. A. The exhibit contains the decisions of the Massachusetts DPU and
13. Supreme Judicial Court which I have discussed.

14. Q. Please now describe developments in New Hampshire.

15. A. The New Hampshire Public Utilities Commission ("the New Hampshire
16. Commission") on April 18, 1985 issued an order approving a
17. Seabrook No. 1 financing of \$525 million by Public Service Company
18. of New Hampshire as consistent with the public good. The New
19. Hampshire Commission, however, approved the additional financing
20. only on the condition that the securities not be marketed until
21. necessary regulatory approvals or financial commitments have been
22. made regarding joint owners in Maine, Massachusetts and Vermont
23. and restricted the amount of the funds that PSNH could contribute
24. to construction of the project. The Seacoast Anti-Pollution League,
25. one of the intervenors in the proceeding, appealed the portion of the
26. order approving the financing to the New Hampshire Supreme
27. Judicial Court, which has not issued a decision. PSNH is currently

1. applying to the New Hampshire Commission to lift the funding
2. limitation in Seabrook No. 1 to allow the joint owners to go to full
3. construction spending. No decision has been issued.

4. COUNSEL: Your honor, may we please have marked for identification
5. as Exhibit No. __ (EUA-109) a document entitled "New Hampshire
6. Public Utilities Commission Order Regarding Seabrook Project
7. Financings."

8. Q. Mr. Eichorn, please identify the exhibit.

9. A. The exhibit consists of the New Hampshire Commission's order of
10. April 18, 1985 which I just discussed.

11. Q. Now, Mr. Eichorn, would you turn to developments in Vermont?

12. A. The Vermont Public Service Board ("the Vermont Board") in
13. December 1984 had acted favorably on continued investment by
14. Vermont utilities in Seabrook No. 1, contingent upon the joint
15. owners' securing financing, including all necessary regulatory
16. approvals, by mid-April 1985. As mid-April approached, it was
17. obvious that the regulatory approvals in some of the other states
18. would not be in place. The Vermont Board then called a hearing on
19. the status of the financing plans and related regulatory approvals
20. for the out-of-state owners. On May 3, 1985, the Vermont Board
21. concluded that a number of participants had not yet obtained
22. regulatory approval of their financings and that, given the
23. regulatory delays in other jurisdictions, the prospect that Seabrook
24. No. 1 could be completed at a cost making the project economically
25. beneficial to Vermont ratepayers was "infinitesimally small" (at 10).
26. The Vermont Board continued (at 10):

1. There is no point, at this juncture, in attempting to
2. assign blame for the dismal facts with which we, and
3. Vermont ratepayers, are thus faced. Rather, the
4. task now is to take a frank and realistic appraisal of
5. Vermont's own best interests. The apparent anomaly
6. of considering the abandonment of a nearly completed
7. multi-billion dollar construction project must not
8. influence the decision: the plain fact is that it now
9. appears that it will be cheaper for Vermont to write
10. off all of its expenditures to date and to acquire new
11. power from other sources than to stick with Seabrook
12. to its completion.

13. The Vermont Board directed the Vermont joint owners to seek
14. cancellation by whatever means might be available under their
15. contractual arrangements and also to offer their interests for sale.
16. Recognizing, however, that it was unlikely that the Vermont utilities
17. could either force cancellation or make sales, the Vermont Board
18. required them to "pursue prudent means available, including, if
19. possible, the termination of further expenditures in support of the
20. project" (at 11). The Vermont Board ordered the Vermont
21. participants "to prepare for a show cause hearing at which the issue
22. will be whether we should enter an order requiring a cessation of
23. future payments" (id.). Further, it ordered the Vermont utilities to
24. show cause why they should not be required to cease accruing
25. AFUDC on Seabrook No. 1 as of May 9, 1985. Subsequently,
26. testimony was ordered filed, and the proceeding remains open.
27. Central Vermont has appealed the Vermont Board's order to the
28. Vermont Supreme Court, which has not issued a decision.

29. COUNSEL: Your honor, may we please have marked for identification
30. as Exhibit No. __ (EUA-110) a document entitled "Vermont Public
31. Service Board Orders Regarding Seabrook Project."

32. Q. Please identify the exhibit.

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3. Vermont ratepayers, are thus faced. Rather, the
4. task now is to take a frank and realistic appraisal of
5. Vermont's own best interests. The apparent anomaly
6. of considering the abandonment of a nearly completed
7. multi-billion dollar construction project must not
8. influence the decision: the plain fact is that it now
9. appears that it will be cheaper for Vermont to write
10. off all of its expenditures to date and to acquire new
11. power from other sources than to stick with Seabrook
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19. possible, the termination of further expenditures in support of the
20. project" (at 11). The Vermont Board ordered the Vermont
21. participants "to prepare for a show cause hearing at which the issue
22. will be whether we should enter an order requiring a cessation of
23. future payments" (id.). Further, it ordered the Vermont utilities to
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28. Vermont Supreme Court, which has not issued a decision.

29. COUNSEL: Your honor, may we please have marked for identification
30. as Exhibit No. __ (EUA-110) a document entitled "Vermont Public
31. Service Board Orders Regarding Seabrook Project."

32. Q. Please identify the exhibit.

1. A. The exhibit consists of the Vermont Board's orders which I just
2. discussed.

3. III. THE PROPOSED ACQUISITION

4. The Negotiations between EUA and the Sellers

5. Q. Mr. Eichorn, please describe the events that result in EUA's
6. agreement to purchase the Sellers' shares in the Seabrook project.

7. A. The discussion of a sale was initiated by Central Maine Power
8. Company ("Central Maine"). Central Maine personnel asked if they
9. could come to our offices in Boston on June 27, 1985 to discuss the
10. possibility of a sale. I said that we would be pleased to meet with
11. them.

12. Q. What occurred at the meeting?

13. A. Central Maine indicated its interest in selling its entire share in the
14. Seabrook project. I responded that, if the price were attractive,
15. EUA might be interested in the purchase, but that I would have to
16. explore various alternatives so that our existing customers would not
17. take any of the additional risks. That result, I thought, might be
18. achieved by creating a new subsidiary, which had implications under
19. the Public Utility Holding Company Act. After the meeting, I
20. satisfied myself that there were no obstacles to the purchase under
21. that Act and that a new subsidiary could be conveniently set up
22. under the Act to accomplish the purchase. EUA retained Merrill
23. Lynch to assist in analyzing the feasibility of financing the
24. acquisition.

25. Q. What occurred next?

1. A. A second meeting was held with Central Maine on July 10, 1985 at
2. Logan Airport in Boston. Both sides were represented by counsel.
3. Merrill Lynch was also present. The details of the acquisition were
4. negotiated at the meeting. At the close of the meeting, an
5. agreement in principle had been reached, subject to approval of the
6. Central Maine Board of directors and the EUA board of trustees.
7. Counsel for EUA was asked to prepare promptly a draft letter
8. agreement setting forth the terms of the understanding.

9. Immediately after the meeting, I called Bangor Hydro Electric
10. Company ("Bangor Hydro") and Maine Public Service Company
11. ("Maine Public Service") and told them that EUA had reached an
12. agreement in principle to purchase Central Maine's share in the
13. Seabrook project and inquired whether they would be interested in
14. having an offer to purchase on the same terms. They said they
15. would be interested, and we arranged to meet at EUA's offices on
16. the following day, July 11, 1985.

17. Q. What happened at that meeting?

18. A. I explained the terms of the agreement in principle and gave Bangor
19. Hydro and Maine Public Service a copy of the draft letter agreement
20. that had been drafted by EUA's counsel. Both Maine utilities
21. expressed interest in the proposal and said that it would be
22. promptly presented to their boards of directors.

23. Q. At what point were the discussions with the three Maine utilities
24. made public?

25. A. The Maine utilities issued press releases on July 12, 1985. News
26. reports were carried in New England newspapers and in the national
27. business press.

1. Q. What occurred then?

2. A. Apparently as a result of the press coverage, Central Vermont
3. Public Service Corporation ("Central Vermont") called to request a
4. meeting concerning a possible sale of their share in the Seabrook
5. project. The meeting was held July 16, 1985 in EUA's offices.
6. Central Vermont asked if EUA would be interested in purchasing
7. Central Vermont's share on the same terms offered to the Maine
8. utilities. On July 19 we agreed to extend to Central Vermont the
9. same proposal and to seek authorization to purchase its share from
10. the EUA board.

11. Q. What actions did the board of directors of the various utilities take?

12. A. The boards of the three Maine utilities approved the agreement in
13. principle and authorized management to negotiate and execute letter
14. agreements on the basis of the agreement in principle. The boards
15. of Bangor Hydro and Maine Public Service took that action on July
16. 17, 1985; the board of Central Maine on the following day, July 18.

17. Central Vermont's board was not scheduled to meet immediately,
18. but on July 18, 1985 the executive committee of the its board
19. authorized management to proceed with negotiations.

20. EUA's board of trustees endorsed the acquisition of both the
21. Maine utilities' shares and Central Vermont's share on July 22,
22. 1985. It authorized management to enter into letter agreements on
23. the terms of the acquisition.

24. The Letter Agreements

25. Q. Were letter agreements then executed?

1. A. Yes. The letter agreements were executed by the Sellers on the
2. following dates:

3.	Bangor Hydro	July 25, 1985
4.	Central Maine	July 31, 1985
5.	Central Vermont	July 25, 1985 */
6.	Maine Public Service	July 24, 1985 -

7. Since the Central Vermont board had not yet met, Central Vermont's
8. execution was made subject to the approval of its board. The board
9. gave its approval on July 29, 1985.

10. The letter agreements with the Sellers are similar in terms, and
11. the terms of all of the letter agreements are consistent with the
12. terms negotiated between Central Maine and EUA at the meeting of
13. July 10, 1985.

14. COUNSEL: Your Honor, may we please have marked for identification
15. as Exhibit No. __ (EUA-111) a document entitled "Letter Agreements
16. on EUA's Acquisition of Seabrook Ownership Interests from Maine
17. and Vermont Owners."

18. Q. Mr. Eichorn, please identify the exhibit.

19. A. The exhibit contains the four letter agreements to which I just
20. referred.

21. Q. Do the letter agreements represent the final agreement between EUA
22. and the Sellers?

23. A. No. The letter agreements express an agreement in principle that is
24. subject to the execution and delivery of a definitive agreement of
25. purchase and sale. Such purchase and sale agreements, however,
26. are to be consistent with the terms of the letter agreements. The

27.
28.

*/
29. Central Vermont's letter agreement does not bear a date, but Central
30. Vermont has informed us that it was executed on July 25, 1985.

1. purchase and sale agreements are to be prepared and executed
2. within 60 to 90 days of the dates of the letter agreements, unless
3. the parties agree otherwise.

4. Q. Mr. Eichorn, would you please summarize the terms of the letter
5. agreements?

6. A. Yes. I shall start with the price provisions. The price is to
7. consist of four components: (1) a stated amount for the Sellers'
8. shares in the Seabrook project as of June 1, 1985; (2) the amount of
9. the Sellers' progress payments from June 1, 1985 through the date
10. of closing; (3) accrued interest on the purchase price and progress
11. payments through the date of closing; and (4) certain specified
12. further payments for each month that the date of closing is delayed
13. beyond October 31, 1985. The payment of all of the above
14. components is to be made on the date of closing between EUA Power
15. and the Sellers.

16. Q. What amounts are to be paid the Sellers for the first component?

17. A. This component, representing payment for the Sellers' shares as of
18. June 1, 1985, is divided into two parts. One part represents the
19. payment for nuclear fuel, and the other part represents the payment
20. for Seabrook No. 1 plant. The payments are as follows:

	<u>Nuclear Fuel</u>	<u>Plant</u>	<u>Total</u>
21. Bangor Hydro	\$ 5,617,000	\$ 6,983,000	\$12,600,000
22. Central Maine	15,636,000	19,164,000	35,000,000
23. Central Vermont	4,144,000	5,156,000	9,300,000
24. Maine Pub. Serv.	3,844,000	4,656,000	8,500,000
25.			
26. Total	<u>\$29,441,000</u>	<u>\$35,959,000</u>	<u>\$65,400,000</u>

27. The payment for nuclear fuel is made dollar for dollar on the Sellers'
28. investment in such fuel as of June 1, 1985. The payment for plant

1. represents the value that EUA attaches to the unfinished
2. construction work as of that date in light of the risks and potential
3. rewards of assuming ownership. No part of the payment for plant is
4. attributable to Seabrook No. 2 plant, since, as a result of the
5. indefinite postponement of Seabrook No. 2, the unfinished Seabrook
6. No. 2 plant is valueless.

7. Q. How much is EUA paying on the dollar to acquire the Sellers' shares
8. as of June 1, 1985?

9. A. The Sellers' investment in nuclear fuel and in plant for Seabrook No.
10. 1 totals \$463 million as of that date. Thus, the price of \$65.4
11. million represents a payment of 14.2 cents on a dollar of investment.
12. If only the investment in Seabrook No. 1 plant is included, the
13. Sellers' total investment as of June 1, 1985 is \$434 million, and
14. EUA's price of \$36.1 million is 8.3 cents on a dollar of investment.
15. The fuel price of \$29.3 million equals the Sellers' value at that date.

16. Q. Will you provide further information on the second through fourth
17. components of the price.

18. A. The Sellers commit themselves in the letter agreements to continue to
19. support the project financially from June 1, 1985 to the date of
20. closing. This financial support consists of progress payments made
21. to New Hampshire Yankee. The second component of the price
22. consists of reimbursement to the Sellers for progress payments from
23. June 1, 1985 through the date of closing.

24. The third component of the price consists of interest accrued
25. on the first and second components. The accrued interest is to be
26. equivalent to the AFUDC that the Seller has booked.

1. The fourth component of the price consists of additional
2. payments that are to be made for each month through March 1986
3. that the date of closing is delayed past October 1985. The amount
4. of the additional payments is \$1.9 million per month for November
5. and December 1985 and \$4.7 million per month for January, February
6. and March 1986. Any partial month is to be prorated.

7. Q. Do you have estimates of the payments that EUA will make to the
8. Sellers for the second through fourth components of price?

9. A. The amounts of those payments will vary depending upon (1) the
10. monthly cost of constructing Seabrook No. 1 and (2) the date of
11. closing on the sale. If the costs estimated in Exhibit No. ____
12. (EUA-105) are experienced, and if the closing occurs on March 31,
13. 1986, the payments to the Sellers under the second through fourth
14. components will be \$78,448,000 for plant and \$4,943,000 for fuel:

		<u>Plant Progress Payments</u>	<u>Interest</u>	<u>Delay Payments</u>	<u>Total</u>
18.	Bangor Hydro	\$10,214,000	\$1,455,000	\$ 3,417,000	\$15,086,000
19.	Central Maine	28,384,000	4,017,000	9,500,000	41,901,000
20.	Central Vermont	7,473,000	1,076,000	2,700,000	11,249,000
21.	Maine Pub. Serv.	6,861,000	976,000	2,375,000	10,212,000
22.		<u>\$52,932,000</u>	<u>\$7,524,000</u>	<u>\$17,992,000</u>	<u>\$78,448,000</u>

		<u>Fuel Progress Payments</u>	<u>Interest</u>	<u>Fuel Total</u>
26.	Bangor Hydro	\$ 308,000	\$ 639,000	\$ 947,000
27.	Central Maine	855,000	1,800,000	2,655,000
28.	Central Vermont	225,000	471,000	696,000
29.	Maine Pub. Serv.	208,000	437,000	645,000
30.	Total	<u>\$1,596,000</u>	<u>\$3,347,000</u>	<u>\$4,943,000</u>

31. The above data have been developed by Mr. Pardus.

1. Q. What would be the total price to EUA of acquiring the Sellers' shares
2. if the above payments are experienced?

3. A. By adding the purchase price for the shares as they existed on June
4. 1, 1985 to the above payments, the total purchase price is
5. determined to be:

	<u>Plant</u>	<u>Fuel</u>	<u>Total</u>
7. Bangor Hydro	\$ 22,069,000	\$ 6,564,000	\$ 28,633,000
8. Central Maine	61,065,000	18,491,000	79,556,000
9. Central Vermont	16,405,000	4,840,000	21,245,000
10. Maine Pub. Serv.	<u>14,868,000</u>	<u>4,489,000</u>	<u>19,791,000</u>
11. Total	<u>\$114,407,000</u>	<u>\$34,384,000</u>	<u>\$148,791,000</u>

12. Q. Mr. Eichorn, using the costs estimated in Exhibit No. __ (EUA-105),
13. what is your estimate of the final cost of the 129 megawatts of
14. capacity EUA Power will be purchasing in Seabrook No. 1?

15. A. Based on the cost estimate included in Exhibit No. __ (EUA-105) and
16. assuming a March 31, 1986 closing and a cost of debt and preferred
17. stock of 25% after March 31, 1986, the total plant cost is estimated to
18. be \$147,920,000. In addition, the total fuel cost is etimated to be
19. \$40,286,000. The total investment at the October 31, 1986
20. commercial operation date will thus be \$188,206,000.

21. Q. What will the cost per Kw be using the above plant cost?

22. A. It works out to be \$1,142 per Kw.

23. Q. Mr. Eichorn, please proceed to describe the major non-price terms of
24. the letter agreements.

25. A. The letter agreements contemplate that the date of closing will most
26. likely be between October 31, 1985 and March 31, 1986. In the
27. event that the closing has not occurred by the latter date, the
28. Sellers have the option to terminate the purchase and sale. This

1. option is to be exercised by April 15, 1986. In any event, the
2. purchase and sale agreements are to expire on June 30, 1986 if the
3. closing has not occurred by that date. Upon closing, EUA Power
4. will have the Sellers' rights and obligations in Seabrook No. 1 and 2
5. and will assume the obligation to complete Seabrook No. 1 and make
6. all progress payments after the date of closing.

7. Q. Are there other significant non-price terms?

8. A. Yes. A critical non-price term is that the obligation to consummate
9. the purchase and sale is made subject to a series of conditions. The
10. most important of these conditions are:

11. 1. Approval by the boards of EUA and the Sellers
12. of the purchase and sale agreements developed
13. pursuant to the letter agreements.
14. 2. Favorable orders from the Securities and
15. Exchange Commission, the Federal Energy
16. Regulatory Commission and state regulatory
17. commissions on various subjects raised by the
18. proposed transactions. These orders are to
19. include an order from this Commission "providing
20. rate treatment for Subsidiary [EUA Power] with
21. respect to the purchase and sale on terms and
22. conditions satisfactory to EUA" (at 2).
23. 3. Obtaining of financing by EUA Power on terms
24. satisfactory to it.
25. Obtaining requisite releases, consents, waivers
26. or approvals of the Sellers' lenders or investors.

1. EUA Power and the Sellers at their option may waive conditions
2. imposed for their benefit if the conditions have not been fulfilled.

3. Q. Are there other non-price terms that deserve to be mentioned?

4. A. Two further non-price terms should be noted:

5. 1. The Sellers remain liable for claims and causes of
6. action against parties other than EUA and its
7. subsidiaries existing at the date of closing.

8. 2. The Sellers agree to indemnify EUA Power from
9. their shares of cancellation costs related to
10. Seabrook No. 2 incurred within five years of the
11. date of closing. Such indemnification payments
12. are not to exceed the lesser of stated amounts,
13. as follows,

14.	Bangor Hydro	\$1,619,000
15.	Central Maine	4,500,000
16.	Central Vermont	1,000,000
17.	Maine Pub. Serv.	<u>1,100,000</u>
18.	Total	<u>\$8,219,000</u>

19. or all costs incurred by the Seller on Seabrook
20. No. 1 in June, July and August, 1985.

21. IV. EUA's OBJECTIVE

22. Q. Mr. Eichorn, I ask you now to elaborate on EUA's objective in
23. pursuing this acquisition of additional shares in the Seabrook project
24. through EUA Power.

25. A. EUA's objective is to earn a relatively high profit on a relatively
26. risky investment.

1. The opportunity to earn the profit arises because the Sellers
2. perceive the risks of continuing in Seabrook to greatly outweigh the
3. potential benefits. The risks as perceived by the Sellers could
4. relate, on the one hand, to potential delays or cost overruns in
5. construction leading to cancellation of the project or, on the other,
6. to the possibility that, if the project is completed, the power may
7. not be needed by the Sellers or may not be the least expensive
8. power available to them. I do not know which of these
9. considerations, or what mix of them motivates the Sellers, but I do
10. know that they perceive the risks of continued participation to
11. outweigh the potential benefits. This is demonstrated by the fact
12. that they are willing to dispose of their shares at 8.3 cents on a
13. dollar of investment as of June 1, 1985 to be free of the obligation
14. to continue with the project. I note that since the letter agreements
15. provide that the purchase and sale is contingent upon the approval
16. of the Sellers' respective state commissions, the transaction cannot
17. go forward unless the state commissions concur in the Sellers'
18. assessment of the merits of disengaging from the project.

19. EUA sees the risks of acquiring the Sellers' shares as
20. substantial but believes that the potential benefits outweigh the risks
21. if power from the project can be sold at market-based prices or
22. cost-based prices that reflect the high risks involved. EUA Power
23. is prepared to assume the risks if the Commission allows such prices
24. by making the determinations sought here.

25. Q. Mr. Eichorn, you said earlier that the investment in the Sellers'
26. Seabrook shares is a relatively risky investment. What do you
27. perceive those risks to be?

1. A. I perceive two major risks to EUA. The first is that Seabrook No. 1
2. could be significantly delayed, driving up costs to levels that would
3. make the unit uneconomic and result in its cancellation. In my view
4. any significant delay will likely come from regulatory developments
5. rather than from construction problems, but the possibility of
6. regulatory delays is very substantial. There are five states with
7. oversight of joint owners (Connecticut, Maine, Massachusetts, New
8. Hampshire and Vermont), and the problem of obtaining coordinated,
9. timely action by the states on matters relating to Seabrook is
10. formidable. The project has already been significantly delayed as
11. various proceedings on the financing plans of individual joint owners
12. have taken their separate procedural courses. There is
13. long-standing political opposition to the project in New England.
14. The regulatory developments which I recounted earlier reveal, I
15. believe, an erosion of will to see Seabrook No. 1 completed, and that
16. erosion is very troubling.

17. If Seabrook No. 1 is cancelled, EUA Power will lose its entire
18. equity investment, since the salvage value of the unit is
19. non-existent or negative. Even the nuclear fuel will be essentially
20. valueless, since the fuel is fabricated to the unique specifications of
21. the unit and is not usable in other units. The fabrication of the
22. fuel is about to commence.

23. Q. Would the risks posed to EUA Power by a cancellation of Seabrook
24. No. 1 be greater than the risks posed to a typical joint owner?

25. A. Yes. A typical joint owner can write off investment in cancelled
26. plant to its existing retail and wholesale customer base. Since EUA
27. Power has no committed customer base, such write-off is not

1. available to it, and the entire abandonment loss would be borne by
2. EUA Power's investors.

3. Q. Are all risks of delay attributable to actions of state commissions?

4. A. By no means. There could be delays in licensing at the Nuclear
5. Regulatory Commission. Also, there could be delays involving direct
6. political opposition such as Long Island Lighting Company is
7. experiencing in bringing into operation its completed Shoreham plant.
8. Also, one can never discount entirely the possibility of delays for
9. purely technical reasons having to do with construction, although I
10. know of no reasons to anticipate any such delay at this time.

11. Q. If the first major risk involves cancellation, what is the second major
12. risk?

13. A. The second major risk is the risk that if Seabrook No. 1 is brought
14. on line, EUA Power's share of the power cannot be sold or cannot be
15. sold at compensatory costs. Having no existing retail and wholesale
16. customer base, EUA Power must sell its power entirely on the open
17. market. EUA Power bears the risk that the market will not accept
18. the power, or will not accept it at compensatory prices, when the
19. power is offered from time to time over the life of the project.
20. EUA's ability to market the power at compensatory prices depends
21. not only on transient supply and demand conditions which are
22. difficult if not impossible to predict accurately but also on the cost
23. of completing Seabrook No. 1. Delays and cost overruns in
24. construction could impair or destroy EUA Power's ability to market
25. the power at compensatory rates, even if it did not cause
26. cancellation of the unit. For a typical utility, the fixed costs of
27. unused capacity are spread among the committed retail and wholesale

1. customers; for EUA Power, lacking such customers, the costs of
2. unused capacity must be borne entirely by EUA Power's. Moreover,
3. because of the 20%/80% debt/equity ratio, any deficiency in revenues
4. from inability to market power at compensatory rates would have an
5. early and severe impact on dividends to the equity holder.

6. Q. Mr. Eichorn, if the sale is accomplished, will EUA Power sell any
7. Seabrook No. 1 power to Montaup or other affiliates?

8. A. Any sales to affiliates would be to Montaup as the system power
9. supply utility. The sales would be made on the following conditions:

10. 1. The sale would not be made at above the cost-based rate.
11. This condition is necessary because of the lack of arm's
12. length bargaining necessary to establish a market price.
13. 2. EUA Power would sell to Montaup only if EUA Power had
14. no buyers for the power at above the cost-based rate.
15. 3. Montaup would buy power from EUA Power only if the
16. power represented the most economical option available to
17. Montaup. The prudence of Montaup's purchases from EUA
18. Power would be subject to review in Montaup's rate
19. proceedings.

20. Q. Do you expect that there will be any sales to Montaup?

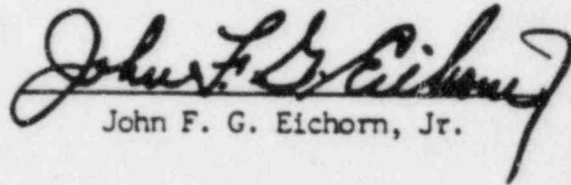
21. A. Not for several years at least. Montaup presently has sufficient
22. capacity to meet its projected load growth through 1989.

23. Q. Mr. Eichorn, does that complete your testimony?

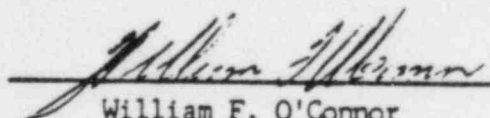
24. A. Yes, it does.

AFFIDAVIT
COMMONWEALTH OF MASSACHUSETTS

John F. G. Eichorn, Jr., being duly sworn, deposes and says: that he has read the foregoing questions and answers labeled as his testimony, and if asked the questions therein his answers in response would be as shown: that the facts contained in said answers are true to the best of his knowledge, information and belief.


John F. G. Eichorn, Jr.

Subscribed and sworn before me
this 26 th day of August 1985.


William F. O'Connor
Notary Public

My Commission Expires: May 23, 1991.