EUA Power Corporation
Docket No. EL85-________
Exhibit No. ___ (EUA-200)

PREPARED DIRECT TESTIMONY OF DONALD G. PARDUS

I. INTRODUCTION

Q. Please state your name and business address.

A. My name is Donald G. Pardus and my business address is One Liberty Square, Boston, Massachusetts 02107.

Q. Mr. Pardus, will you please state your present positions with Eastern Utilities Associates and its subsidiaries?

A. I am Executive Vice President, Chief Financial Officer, Treasurer and a Trustee of Eastern Utilities Associates ("EUA"). I am also Vice President and member of the Board of Directors of the other EUA subsidiary companies, Montaup Electric Company ("Montaup"), Blackstone Valley Electric Company ("Blackstone Valley"), Eastern Edison Company ("Eastern Edison") and EUA Service Corporation.

Q. What positions do you hold in the applicant here, EUA Power Corporation ("EUA Power")?

A. I am Treasurer and a member of the Board of Directors.

Q. Will you describe your education and business background?

A. I am a graduate of the University of Hartford, Connecticut with a Bachelor of Science degree in Business Administration and an Accounting major. I am also a graduate of Harvard University Graduate School of Business Administration - Program for Management Development. Prior to joining EUA in June, 1979, I was employed for twenty-one years by Northeast Utilities ("Northeast") in Hartford, Connecticut. At the time I left, I had responsibility for financial planning and investor relations activities for Northeast and its sixteen subsidiary companies. I have been directly involved in the issuance of over $1.4 billion of permanent securities for Northeast and EUA.

Q. What are the responsibilities of your present position?

A. As Chief Financial Officer of EUA, I am responsible for arranging the necessary temporary and permanent financing for the system. In discharging this responsibility, I work closely with the commercial and investment bankers who handle short-term, intermediate-term and long-term financings for the system and for the utility industry in general.

Q. Do you belong to any industry or professional organizations?

A. I am a member of the Edison Electric Institute's Finance Division Finance Committee. I am also Chairman of the Financial and Accounting Advisory Board of the Electric Council of New England and Chairman of the Finance Committee of the New England Power Pool. My professional memberships include the Financial Executives Institute and the Boston Public Utility Analysts group.

Q. Have you testified before any regulatory agencies?

A. Yes. I have appeared as a witness before this Commission in the proceeding in Docket Nos. ER81-749-000 and ER82-325-000 concerning Montaup's M-7 filing and the CWIP surcharge to that filing. I have also appeared before the Massachusetts Department of Public Utilities, the Connecticut Public Utilities Control Authority and the Rhode Island Public Utilities Commission in numerous proceedings involving financing authorizations. I have testified on financial matters in rate proceedings for Blackstone Valley before the Rhode

Island Public Utilities Commission. I have also testified on financial matters in rate proceedings before the Massachusetts Department of Public Utilities on behalf of Eastern Edison.

Q. What is the subject of your testimony in this proceeding?

A. First, I will sponsor exhibits setting forth the costs of EUA Power's acquisition of the Seabrook shares of Bangor Hydro Electric Company, Central Maine Power Company, Central Vermont Public Service Corporation and Maine Public Service Company, collectively referred to here as "the Sellers." The exhibits also show, for comparison to the purchase price, the Sellers' investment in the assets to be acquired as of June 1, 1985. Second, I explain the capital structure and rates of return that are involved in EUA's proposal and the reasons for the selection of the capital structure and rates of return. Third, I describe the effect of acquisition by EUA Power of the Sellers' Seabrook shares on ratepayers in Maine and Vermont and upon ratepayers elsewhere in New England.

II. COST OF ACQUISITION

Q. What types of assets will EUA Power acquire from the Seller?

A. They will consist of (1) plant under construction and (2) nuclear fuel.

Q. What base price will EUA Power pay for the plant portion of the acquisition as it existed as of June 1, 1985 and what was the Sellers' investment in the plant portion as of that date?

A. The base price of the Seabrook Unit No. 1 plant as of June 1, 1985 is $36.0 million. The Sellers' investment in Seabrook Unit No. 1 plant as of that date is $433.9 million, including Allowance For Funds

Used During Construction. EUA Power will thus be acquiring the Sellers' Seabrook Unit No. 1 plant investment through June 1, 1985 at a discount of $397.9 million. That represents a purchase price of approximately 8.3 cents on the dollar of investment.

Because Seabrook Unit No. 2 has been indefinitely postponed, the Seabrook Unit No. 2 plant is valueless and is being conveyed to EUA Power without charge.

Q. What is the base price and the Sellers' investment as of June 1, 1985 in the nuclear fuel portion of the acquisition?

A. The base price for the nuclear fuel portion of the acquisition will be $29.4 million. The Sellers' investment in nuclear fuel on June 1, 1985 is the same amount. EUA will pay the Sellers dollar for dollar the amount of their investment in nuclear fuel.

Q. What is the total base price that EUA Power will pay to the Sellers for both plant and nuclear fuel?

A. It is $65.4 million, consisting of the above stated amounts of $36.0 million for plant and $29.4 million for nuclear fuel.

Q. Have you developed the price and investment for plant and nuclear fuel by individual sellers?

A. Yes. My Exhibit No. __ (EUA-201) sets out those data.

Q. As Mr. Eichorn testified, certain payments in addition to the base payment will be made to the Sellers. These payments are reimbursement of progress payments from June 1, 1985, accrued carrying charges on the base payments and progress payments and payments for delay in the closing date beyond October 31, 1985. Have you computed EUA Power's total payments to the Sellers, including these additional payments?

A. Yes, I have, assuming two closing dates. One assumed closing date is October 31, 1985; the other is March 31, 1986. The latter date is the date as of which the Sellers, at their option, may cancel the purchase and sale agreements if closing has not yet occurred. My computations assume the cash construction costs to go set out in Mr. Eichorn's Exhibit No. __ (EUA-105).

Q. What are the results if closing occurs on October 31, 1985?

A. EUA Power would pay the Sellers approximately $96 million as follows:

	CMP	BHE	CV (000)	MPS	Total
Plant Expenditures	$34,210	$12,402	$ 9,123	$ 8,294	$64,029
Fuel Expenditures	$17,319	$ 6,146	$ 4,533	$ 4,205	$32,203
Total	$51,529	$18,548	$13,656	$12,499	$96,232

The above data are derived in my Exhibit No. __ (EUA-202).

Q. What are the results if closing occurs on March 31, 1986?

A. EUA Power would pay the Sellers approximately $149 million as follows:

	CMP	BHE	CV (000)	MPS	Total
Plant Expenditures	$61,065	$22,069	$16,405	$14,868	$114,407
Fuel Expenditures	$18,491	$ 6,564	$ 4,840	$ 4,489	$ 34,384
Total	$79,556	$28,633	$21,245	$19,357	$148,791

The above data are derived in my Exhibit No. __ (EUA-203).

Q. What is the total amount of debt and equity financing required by EUA Power to pay the Sellers and to pay for completion of Seabrook Unit No. 1 assuming a closing with the Sellers on October 31, 1985 and, alternatively, on March 31, 1986.

A. Assuming an October 31, 1985 closing, EUA Power would require the total of $35 million equity financing from EUA and a total of $139 million debt financing from other investors. For a March 31, 1986 closing, EUA Power would require $38 million equity financing and $151 million debt financing. The financing amounts represent the proposed debt/equity ratio of 80%/20% which would exist at Seabrook Unit No. 1's assumed commercial operation date of October 31, 1986.

Q. Mr. Pardus, I ask you now to assume that the closing occurs on March 31, 1986. What would be the capital structure of EUA Power at the October 31, 1986 commercial operation date, assuming a March 31, 1986 closing date?

A. The capital structure would depend on the interest rate on EUA Power's debt, a factor that cannot be precisely known at this time. Below are two capital structures, the first assuming the 30% interest rate considered maximum by Merrill Lynch and the second a 25% interest rate.

30% Interest Rate

Type	Amount	%	Cost	Weighted Cost
Debt	$153,775	80.00%	30.00%	24.00%
Preferred	$ 38,434	19.99%	25.00%	5.00%
Common Equity	$ 10	.01%	25.00%	.00%
	$192,219	100.00%		29.00%

25% Interest Rate

Type	Amount	%	Cost	Weighted Cost
Debt	$150,565	80.00%	25.00%	20.00%
Preferred	$ 37,631	19.99%	25.00%	5.00%
Common Equity	$ 10	.01%	25.00%	0.00%
	$188,206	100.00%		25.00%

Q. Mr. Pardus, assuming a closing date of March 31, 1986 and interest rates of both 30% and 25%, what would be the costs of power to EUA Power from Seabrook Unit No. 1?

A. The estimated cost of Seabrook No. 1 power in the unit's first year of operation would be 12 cents per kilowatt-hour assuming a 30% interest rate on EUA Power's debt and 11 cents per kilowatt-hour assuming a 25% interest rate. The derivation of the above costs is set out in my Exhibit No. __ (EUA-204).

Q. Mr. Pardus, is EUA Power exploring leasing the nuclear fuel acquired from the Sellers?

A. Yes, it is. It is not clear whether or not such a leasing arrangement is possible. If it were possible, the leasing arrangements would remove the nuclear fuel from the balance sheet, and the capital requirements of EUA Power would be reduced by the amount invested in fuel when the project goes on line. The above capital structures would be altered accordingly. The reduction in capital requirements would be $40.3 million and would apply ratably to the debt and equity components.

III. CAPITAL STRUCTURE AND RATES OF RETURN

Q. Mr. Pardus, please describe the proposed capital structure of EUA Power.

A. The debt/equity ratio during the construction period of Seabrook No. 1 will be 80%/20%. There may be, and probably will be, departures from that ratio caused by the timing of the issuance of securities, but any departures will be temporary. After Seabrook No. 1 is placed in commercial operation, the common equity percentage may increase relative to the debt percentage as a result of the accumulation of retained earnings and possible further contributions of equity by EUA.

Q. Why was a debt/equity ratio of 80%/20% selected?

A. The 80%/20% ratio requires EUA to put up an estimated $38 million in equity capital. This is approximately the limit of equity capital that EUA is willing to commit to acquisition of additional Seabrook shares. It is important to EUA that the debt investors assume a major part of the risk of loss of capital. Merrill Lynch has advised that a debt/equity ratio of 80%/20% is common for project financings and would be acceptable to potential investors in debt securities. Merrill Lynch further advised that it could raise up to $200 million in debt, which is more than enough to cover the anticipated $151 million required of debt investors in the debt/equity ratio 80%/20%. Thus, the debt/equity ratio was adopted for four reasons: (1) it accommodates the amount of capital that EUA is willing to place at risk for this project; (2) it distributes the risk of loss of capital to debt investors to the maximum extent feasible; (3) it is a ratio known and acceptable to debt investors in this type of investment; and (4) the debt requirement from outside investors is within the amount that Merrill Lynch states that it can raise for EUA Power.

Q. In the event Seabrook Unit No. 1 were to be cancelled, would the write off of EUA's $38 million equity investment jeopardize its ability to pay dividends to its common shareholders?

A. No. EUA currently has approximately $45.1 million of unrestricted retained earnings from which it can pay dividends. This amount continues to increase since EUA does not pay out 100% of its earnings in the form of dividends. A write off of its $38 million equity investment would result in a net charge to retained earnings of approximately $19 million. This charge would in no way inhibit EUA's ability to pay dividends.

Q. You mentioned that, once Seabrook Unit No. 1 goes into commercial operation, the equity percentage may increase from the accumulation of retained earnings. Why would EUA Power accumulate retained earnings instead of paying out full earnings to its parent?

A. Any nuclear project has on-going requirements for new investment, such as retrofit obligations, replacements and repairs. It may be prudent for EUA Power to retain some cash to meet the need for additional investments in the plant. Also, EUA may make additional common equity contributions to EUA Power for these or other purposes.

Q. Does the 80%/20% debt/equity ratio leave the equity holder with unusually high risks?

A. The greater the leverage in a capital structure, the greater are the risks to the common stockholder from a fluctuating net income. The proposed capital structure therefore poses more risks to the equity holder than would a typical utility capital structure. And, of course, the risks are particularly troublesome for an entity like EUA Power which is a new entrant into the power supply market which has no established share of the market and must market its share in the open wholesale market. Any inadequacy of sales revenues to cover costs would quickly impact the equity holder. But EUA considers the risks tolerable, if it is allowed the opportunity to charge market-based rates or to earn the equity return sought here under cost-based rates.

Q. What equity structure does EUA Power propose?

A. EUA Power proposes to raise almost the entire equity component of the capital structure through issuance of preferred stock to EUA. A nominal amount of common stock will be issued to EUA in order that the parent may retain voting control of the subsidiary, but this amount of capital raised by the issuance of the common stock will only amount to approximately $10,000.

Q. What is the purpose of employing preferred stock to raise the vast bulk of the equity component?

A. The purpose is to establish a contractually committed dividend to which EUA is entitled over the life of the project. EUA sees the investment as a high risk investment in which a substantial part of the risk -- that related to construction delays, cost overruns and possible cancellation -- occurs in the early years. EUA is unwilling to make the investment unless it has contractual assurances from the subsidiary that the 25% return will continue in later periods when the risk, though remaining relatively high by utility standards, is certainly diminished.

Q. Do you consider a declaratory order approving a 25% preferred stock dividend as confering a greater assurance of acceptance by a future Commission than an order approving the same level of return for common equity?

A. Yes, I do. The reason is the contractual character of the preferred stock dividend. The contractual character leaves no mistake that the intent was that the rate be continued unchanged throughout the life of the project. That, I believe, would make it relatively more difficult for a future Commission to retreat from any approval of the rate given by this Commission. Obviously, EUA must be concerned that, once it has taken the risks of this acquisition, if its decision proves well-advised, the risk will seem to have been not so great as it in fact was, and the pressure then might build to lower the allowed return for incurring the risk. It is a central point of EUA Power's petition here to alleviate that concern.

Q. Mr. Pardus, what rate of return do you request be approved for the equity portion of capital structure?

A. The requested rate of return on equity capital is 25% per annum, both for the preferred stock portion and the common stock portion. This rate of return is the rate which is necessary to attract EUA's investment of the required equity capital in view of the risks discussed by Mr. Eichorn and Mr. Benderly. I point out that EUA stands to lose its entire equity investment if the plant is cancelled. The salvage value of a cancelled nuclear plant is negligible or negative. Not even the nuclear fuel would be salvageable. Once nuclear fuel is fabricated, the fuel becomes essentially valueless, since the fuel is fabricated specifically to the requirements of the specific plant. The fabrication process has already commenced.

The 25% rate of return, I believe, is substantially lower than the rate of return that would be required by equity investors from the venture capital market. Mr. Hildreth of Merrill Lynch testifies that a return of 40% would be required to raise equity investment in the venture capital market.

Q. Is it not true that normally the return on common stock would be higher than the dividend rate for preferred stock?

A. Yes. The common equity investment is normally considered more risky than a preferred stock investment, since the dividend on preferred stock is contractually fixed and takes precedence over common stock dividends. In this case, however, the common stock is not really a capital raising vehicle; its purpose is to confer control. In the circumstances, while the common stock does bear a greater risk than the preferred stock, EUA believes that it is simplest for the common stock to earn the same rate of return as the preferred stock. The common stock will not produce enough dollar return to warrant the trouble and expense of a separate analysis to establish a separate rate of return for it.

Q. Mr. Pardus, does EUA request that any equity contributions made by EUA after Seabrook Unit No. 1 has become commercially operable be included in its capital structure at the 25% rate of return?

A. No, it does not. Any contributions after that date would bear a lower risk, and EUA would expect that the determination sought here would not apply to such contributions. The rate of return for such contributions would be established on rate filings made with this Commission. The rate of return for such contributions would be that appropriate to EUA Power in the post-commercial operation period.

Q. Does EUA request that EUA Power's retained earnings accumulated after commercial operation be included in its capital structure for ratemaking purposes at the 25% rate of return?

A. No. Since risk will be reduced after that date, retained earnings accumulated after commercial operation are not requested to be included in the capital structure for ratemaking purposes at the 25% rate of return. EUA intends that they be included in the capital structure at a rate of return appropriate for EUA Power in the post-commercial period.

Q. Mr. Pardus, what will be the rate of return on the debt portion of the capital structure?

A. The rate of return on the debt portion will be established at the weighted average of the interest rates actually experienced on the various debt issues. While we ask that the Commission approve this approach for EUA Power, I note that there is nothing out of the ordinary in the approach; it is the Commission's usual practice in developing the allowed rate of return on debt in wholesale ratemaking.

Q. What levels of rate of return on debt may be anticipated?

A. According to Merrill Lynch, the interest rates on the initial issue of debt during the construction period will likely be in the neighborhood of 30% per annum maximum. The rate represents the risks perceived by the market in an investment in a generating company whose only asset is the unfinished Seabrook Unit No. 1. EUA will not guarantee in any way the debt, and the debt investors, like EUA Power as the equity investor, will stand to lose their principal if Seabrook Unit No. 1 is cancelled.

Q. Does EUA Power plan to raise the debt capital in one issue or over a series of issues?

A. I believe it likely that the debt capital will be raised in one issue, but it is possible that it could be raised in several issues.

Q. When will the initial issue of the debt capital mature?

A. It will have a term of up to ten years. However, EUA Power will seek the right to call this debt in as few as three years. The potential investors in debt securities see that many of the risks of the project occur during the construction period and, in return for assuming those risks, they seek to obtain the relatively high returns of the initial issue over as long a period as they can obtain. The shorter the term of the debt securities, the higher will be the rate of interest that they demand. EUA Power will negotiate the best balance of length of term and rate of interest. By best balance, I mean the balance producing the lowest debt costs over time.

Q. What will happen when the initial issues mature?

A. The debt component of the capital structure will be refinanced. The refinancing will occur after Seabrook Unit No. 1 has been placed in service. If EUA Power has succeeded in marketing its share of the power from the project, the interest rates on the refinanced debt should be considerably lower than the interest rates on the initial debt. I believe, however, that the interest rate on the refinanced debt would be closer to, but higher than, the interest rate for a typical electric utility. The rate would be higher than the interest rate for a typical electric utility because of the higher debt component of capitalization and the unusual risks of a single asset nuclear generating company without an established customer base.

Q. Does EUA Power have any plans to issue short-term debt during the construction period?

A. We believe that it will be impossible to obtain any bank loans during the construction period because banks are unwilling to take the significant risks associated with cancellation or delay.

Q. Mr. Pardus, for accounting and ratemaking purposes how does EUA Power intend to treat the carrying charges on its capital costs incurred during construction?

A. It intends to accrue those carrying costs as allowance for funds used during construction pursuant to this Commission's regulations promulgated in Order No. 561, 57 F.P.C. 608 (1977), reh. denied, 59 F.P.C. 1340 (1977). The amounts so accrued will be added to rate base when Seabrook Unit No. 1 enters service.

Q. Mr. Pardus, Mr. Eichorn indicated that EUA Power seeks a determination in this proceeding regarding the effect of any subsequent imprudence findings with respect to expenditures on unfinished construction as of the closing date. Please explain the determination sought.

A. The determination sought here relates to the treatment that would be accorded to EUA Power in the event that in such a proceeding some costs of unfinished construction incurred before the closing were found to be imprudent. EUA Power asks for a determination that any disallowance of such costs would not affect its rates unless the disallowance were to reduce the allowed rate base for construction before the closing to a level below the total purchase price that EUA paid for the unfinished construction as of the closing date.

To illustrate, assume that the Sellers' investment in unfinished construction work at the closing date was $500 million. Further assume that EUA Power's total purchase price at that date was $150 million. If in a subsequent proceeding the Commission were to disallow as imprudent say, $10 million of the $500 million of Sellers' investment at the closing date, EUA Power's rates would not be affected. But if the Commission were to disallow, say, $400 million of the costs expended before the closing date, EUA Power's rate base for the plant acquired as of that date would be reduced from its $150 million acquisition price to $100 million ($500 million minus $400 million equals $100 million).

I emphasize that EUA Power does not seek in this proceeding any determination as to whether or not any Seabrook expenditures to date were prudent. Any determination on the prudence of particular expenditures would be appropriately made in any proceeding in which EUA Power filed a rate schedule for sales to a customer under a cost-based rate (note that prudence would not be an issue in respect to a market-based rate).

IV. EFFECT OF ACQUISITION ON RATEPAYERS

Q. Mr. Pardus, would you assess the effect of EUA Power's acquisition of Seller's Seabrook shares on ratepayers?

A. Yes. I begin with a perhaps somewhat obvious statement that is nonetheless of underlying importance in assessing the impact of the acquisition on ratepayers: Since EUA Power has no committed customer base and must sell its power on the open market, it can make sales only if the sales are beneficial to the purchasing utility and therefore to that utility's ratepayers. Put differently, no utility will make purchases from EUA Power unless the purchase is less expensive than the purchasing utility's next most economic source of power -- that is, is below the purchasing utility's decremental costs. Therefore, any power that EUA Power sells -- whether the price is market-based or cost-based -- will be of benefit to ratepayers. If the sale of power by EUA Power is not of benefit to ratepayers, it will not be made, because there will be no purchasers.

Q. Please proceed with your analysis.

A. My analysis of ratepayer impact of the acquisition examines separately the effect upon ratepayers in Maine and Vermont and the effect on ratepayers elsewhere in New England, since the impact upon these two groups is necessarily different.

Q. What would be the effect of the acquisition on ratepayers in Maine and Vermont?

A. The effect on ratepayers in Maine and Vermont is twofold. On the one hand, the ratepayers enjoy the benefit of being freed of the obligation of continuing to support the project. That in turn frees them of two risks: (1) that the project may eventually be cancelled and that they may have to bear the write off of amounts that could be avoided by disengagement and (2) that the project may be completed but that the power from the project may not be needed by them or may not be the most economic power available to them. On the other hand, the ratepayers assume two detriments: (1) they immediately bear the write off of the difference between the investment in Seabrook and the very considerably lower payment that they will receive from EUA Power for the unfinished plant and (2) they lose the opportunity to realize any benefit from Seabrook No. 1 if it is completed and proves to be an economic project.

Whether or not the benefits of disengagement outweigh the detriments is a question that involves assessment of various facts and judgment on a number of imponderables. In my view, the resolution of the question is best left to the Sellers and the state regulatory commissions that regulate them, since they are in a position to best know the facts and therefore to best make the decision. They are also the ones who will have to live with the results.

Q. How would the ratepayers in Maine and Vermont be affected if it transpires that they require power from Seabrook Unit No. 1 and their utilities then turn to EUA Power to supply the power?

A. The answer depends on whether the Commission endorses EUA Power's market-based price proposal or its cost-base rate proposal. Under the market-based price proposal, the ratepayers in Maine and Vermont, depending on market conditions, might pay either more or less for Seabrook power than they would have paid if their utilities had not disengaged from the project.

Under the cost-based proposal, they would pay less to EUA Power for the Seabrook power than they would have paid to their own utilities for the same power, but they would also be making write off payments to their own utilities. The reason that they would be paying less to EUA Power for the Seabrook power is that, while EUA Power under its cost-based proposal would earn higher rates of return than would the Maine and Vermont utilities, the rates of return would be applied to a vastly reduced rate base. The effect of the rate base reduction more than offsets the effect of the higher rates of return.

Presumably, however, as I said, the ratepayers in Maine and Vermont will be independently bearing, through retail and wholesale rates paid to their utilities, the write off of the losses that the utilities experienced on their sale of the Seabrook shares to EUA Power. The amount of the Maine and Vermont utilities' losses on the project equal, of course, the rate base reduction that the ratepayers enjoy under EUA Power's rates. Thus, the Maine and Vermont ratepayers would bear the entire cost of recovery of the investment in Seabrook Unit No. 1. But they would pay a higher rate of return on a part of that investment if the purchase of Seabrook power is made from EUA Power. Thus, they would be somewhat disadvantaged in the event that their utilities sell their shares in the project but then are compelled to buy back project power.

Q. Is this fact disturbing?

A. No. The sale of the shares by the Maine and Vermont utilities was made on an assessment by those utilities and the state commissions that regulate them of what is in the best interests of their ratepayers in the long term. If their assessment is correct, the ratepayers will be benefitted. If it is not correct and Seabrook Unit No. 1 is completed and the power turns out to be needed in Maine and Vermont, it is hardly surprising that the ratepayers in Maine and Vermont will suffer some detriment.

Q. In respect to a possible sale back of Seabrook power to Maine and Vermont, how does EUA Power's proposal differ from the previous proposal of NuMaineCo Corporation?

A. The NuMaineCo proposal sought approval for inclusion in NuMaineCo's rate base of the Maine utilities' full investment in Seabrook Unit No. 1, even though NuMaineCo proposed to acquire the Maine utilities' share at a value less than the Sellers' investment. Under the NuMaineCo proposal, in the event of a sale back, the Maine ratepayers would have supported the recovery of the same investment twice -- once to the Maine utilities through write off of the loss on the sale in retail and wholesale rates and once to NuMaineCo through depreciation charges in its rates for Seabrook power. This cannot occur under EUA Power's proposal. Any additional charges to Maine and Vermont ratepayers are attributable to differences in rate of return reflecting differences in risks.

Q. Mr. Pardus, what would be the effect of the sale of the Seabrook shares to EUA Power on ratepayers in New England outside of Maine and Vermont under the cost-based rate proposal?

A. In the case of such ratepayers the effect would be unreservedly beneficial. First, let us consider the case of an upside market, in which power is scarce and its market value is high. Under the cost-based rate proposal, EUA Power's maximum rate for Seabrook No. 1 power will be lower than the cost-based rates that the Sellers would have charged if they had completed the project. Again, this is because, while EUA Power would earn a higher rate of return than the Sellers would have earned, the high rate of return would be applied to a vastly reduced rate base.

Second, let us consider the case of a downside market, in which power is relatively plentiful and the market value is relatively low. In such a situation, EUA Power is more likely than the Sellers would have been to offer the Seabrook power to the market at less than compensatory prices. This is because EUA Power, lacking a committed customer base, will be under extreme compulsion in a downside market to sell all the Seabrook power that it can, even at cut-rate prices, to help cover its fixed operating and debt costs. By contrast, the Sellers would be under less compulsion to offer the power to the market at cut-rate prices, since they might anticipate that committed customers would bear the costs of unused capacity through their regular rates.

Q. Would the proposed acquisition have any effect on the customers of Montaup Electric Company ("Montaup")?

A. EUA Power would only sell power to Montaup if it had the power available and the power were the most economical source available to Montaup. The price would be the rate under the cost-based proposal advanced here. The acquisition could thus be advantageous to Montaup's customers and their ratepayers.

A second possible effect arises outside the area of power supply. Under this Commission's current practice, the overall cost of capital is based on the overall cost of capital of the entire EUA system. The introduction of the high-cost debt issued by EUA Power would, without adjustment, increase the rate of return component in the rates paid by Montaup's customers, even if

Montaup purchased no power from EUA Power. This effect could be eliminated, by removing EUA Power's high cost debt from the EUA system capitalization in determining the rate of return for Montaup. Montaup will propose such elimination in its rate filings.

Q. Mr. Pardus, does that complete your testimony?

A. Yes, it does.

AFFIDAVIT

COMMONWEALTH OF MASSACHUSETTS

Donald G. Pardus, 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.

Donald G. Pardus

Donald G. Pardus

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

William F. O'Connor

William F. O'Connor
Notary Public

My Commission Expires: May 23, 1991.