

Staff Statement No. CTW-1 and Ex CTW-1
Witness: Charles T. Weakley, III
Date: 1-29-86

1464
R-850152 SM

RECEIVED

PENNSYLVANIA PUBLIC UTILITY COMMISSION

JAN 30 1986

SECRETARY'S OFFICE
Public Utility Commission

v.

PHILADELPHIA ELECTRIC COMPANY

DOCKET NO. R-850152

EXHIBIT
FOLDER

DOCKETED
FEB 03 1986

Direct Testimony

of

Charles T. Weakley, III

Concerning:

Operation and Maintenance Expense Adjustments

PHILADELPHIA ELECTRIC COMPANY
DOCKET NO. R-850152

SUMMARY OF TESTIMONY

A downward adjustment of \$12,732,000 to the Company's claim for operating and maintenance expense is proposed as follows:

| | | |
|----|--|-------------|
| a. | Wages and Related Benefits and Taxes | \$4,590,000 |
| b. | Inflation Rate Adjustment | 6,782,000 |
| c. | Amortization of the Eddystone No. 1 Project | 1,360,000 |

1. Q. State your full name, employer and business address?

2. A. Charles T. Weakley III. I am employed by the Pennsylvania Public Utility
3. Commission, P. O. Box 3265, Harrisburg, Pennsylvania 17120.

4.

5. Q. What is your position with the Pennsylvania Public Utility Commission?

6. A. I am a Fixed Utility Financial Analyst of the Revenue and Expense Section,
7. Electric Division of the Bureau of Rates.

8.

9. Q. What is your educational and professional background?

10. A. See Appendix A.

11.

12. Q. What is the purpose of your testimony?

13. A. The purpose of my testimony is to recommend a number of adjustments
14. to Philadelphia Electric Company's (Company) Operation and Maintenance
15. expense claims. I have submitted Schedule No. 1 which summarizes my
16. recommendations. Briefly, my adjustments reduce the Company's total
17. operating expenses by \$12,732,000.

18.

19. Q. What is your recommended adjustment with regard to PECO's budgeted level
20. of employees?

21. A. As indicated on PECO's Exhibit TPH-2, Page D-5a, the Company expects
22. to have 11,286 employees on staff at the end of the future test year.

23. The actual number of employees as of November 1985 was 10,595. My adjust-
24. ment would reduce the Company's claim by \$4,590,000. As illustrated
25. on Schedule No. 2, this adjustment deals with salaries and wages of
26. employees claimed in this rate case but not yet hired. In addition,
27. it also includes the associated benefits and taxes.

1. Q. What is the basis for your adjustment?

2. A. The basis for this adjustment is that, to date, the Company has budgeted
3. a larger number of employees than it has actually employed. This comparison
4. is presented on Schedule No. 6 and shows that on average, during the first
5. 5 months of the future test year, the actual level falls short of the
6. budget by 354 employees which represents 3.2% of the total number budgeted.

7. As shown on Schedule No. 5, PECO has historically fallen short of
8. their budgeted levels. For the years ended 6/30/83 they were under by
9. 2.6%; 6/30/84 by 3.0% and 6/30/85 by 3.4%. Therefore, I am proposing
10. that the Commission disallow the expenses associated with 331 positions
11. which is 3% $(2.6 + 3.0 + 3.4/3)$ of the average number of employees budgeted
12. for the future test year.

13.

14. Q. Please state your opinion regarding this recommendation.

15. A. In my opinion, based on historic experience and considering what has occurred
16. in the first 5 months of the future test year, this adjustment would more
17. accurately reflect the actual number of employees that will be on staff
18. at 6/30/86.

19.

20. Q. Do you have any further comments regarding this adjustment?

21. A. Yes. My analysis of the Company's personnel levels indicates that an adjust-
22. ment should be made to the budget estimates. In calculating the dollar
23. amount of my adjustment, I used a weighted average of starting salaries
24. for the Company as a whole, recognizing the variations in the wage rates.

25. (See Schedule No. 3).

26.

27.

1. Q. Please explain your adjustment to the Company's inflation rate.

2. A. The Company used a 5.8% corporate inflation rate in preparing the budget
3. for the future test year ending 6/30/86. This composite inflation rate
4. was developed in November 1984. I am recommending a reduction, utilizing
5. a 3.28% inflation rate which represents a current estimate of inflation
6. for the future test year. This adjustment to the accounts listed on Schedule
7. No. 8 will reduce the Company's claim by \$6,782,000 (See Schedule No.
8. 7).

9.
10. Q. How was this rate developed?

11. A. The 3.28% inflation rate was provided by Dr. Richard E. Nellis of our
12. Bureau of Rates and based on the implicit price deflator for the gross
13. national product (See Schedule No. 16).

14.
15. Q. Will you explain Schedule No. 7?

16. A. Yes. The Company provides the dollar amounts attributed to inflation
17. for the accounts listed on Schedule No. 8. By subtracting PECO's inflation
18. dollars from the amounts budgeted results in the expense level for items
19. affected by inflation. This expense level (\$319,416,000) times the recom-
20. mended rate results in the total inflation dollars at the proposed rate
21. of 3.28%.

22.
23. Q. Are you aware of the customer accounts expense adjustment proposed in
24. Staff Statement No. KIL-1?

25.
26. A. Yes. Though I am not familiar with the details of the adjustment, there
27. may be a duplication with my recommendation. If the adjustment recommended

1. in Statement No. KIL-1 is accepted, as stated on Schedule No. 7 my adjustment
2. should be reduced to \$6,074,000 by removing accounts 902 and 903.
3.

4. Q. Please explain the Company's claim for the Eddystone No. 1 Project?

5. A. The Company has scheduled replacement of the transition tubes in No. 1
6. boiler. The \$3,400,000 project is to be performed during the next two
7. outages and the Company is claiming \$1,700,000 in expenses for the next
8. two years. Once replaced, these tubes will have an estimated life of
9. 22.9 years which is the remaining life of the boiler.
10.

11. Q. What is your recommended adjustment?

12. A. Since these expenditures are not annually recurring expenses, I am recom-
13. mending that the cost of the project be amortized over a 10-year period.
14. This adjustment will reduce the Company's claim by \$1,360,000. (See Schedule
15. No. 9).
16.

17. Q. Does this conclude your testimony?

18. A. Yes.
19.
20.
21.
22.
23.
24.
25.
26.
27.

APPENDIX A

Educational and Professional Background

Education: A.A. in Accounting, Harrisburg Area Community College, 1973.
B.B.A. in Administration, Pennsylvania State University, 1975.
Graduate Studies in Operations Management, Pennsylvania State University, 1977.

Employment: Prior to accepting my current position with the Bureau of Rates in February 1984, I was a Corporation Tax Officer with the Pennsylvania Department of Revenue since 1980. I am a Certified Public Accountant, however, my license is currently in an inactive status, since I am no longer in public practice. In addition, I am a member of the Pennsylvania Institute of Certified Public Accountants and have three years of public accounting experience.

Testimony: I have testified and/or submitted testimony in the following proceedings:

PECO Rate Case R-842590

Penn Power Rate Case R-842740

Met-Ed Rate Case R-842770

PENELEC Rate Case R-842771

Duquesne Light Rate Case R-850021

Staff Exhibit No. CTW-1
Witness: Charles T. Weakley, III
Date:

PENNSYLVANIA PUBLIC UTILITY COMMISSION

v.

PHILADELPHIA ELECTRIC COMPANY

DOCKET NO. R-850152

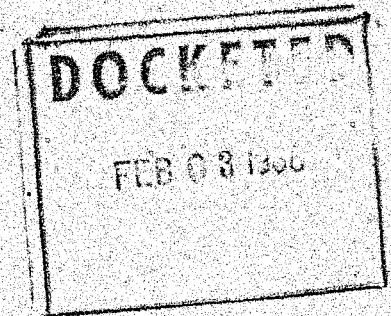
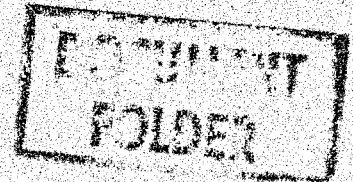


Exhibit to Accompany the
Direct Testimony
of
Charles T. Weakley, III



Concerning:

Operation and Maintenance Expense Adjustments

PHILADELPHIA ELECTRIC COMPANY
DOCKET NO. R-850152

SUMMARY OF TESTIMONY

A downward adjustment of \$12,732,000 to the Company's claim for operating and maintenance expense is proposed as follows:

- | | | |
|----|---|-------------|
| a. | Wages and Related Benefits and Taxes | \$4,590,000 |
| b. | Inflation Rate Adjustment | 6,782,000 |
| c. | Amortization of the Eddystone No. 1 Project | 1,360,000 |

PHILADELPHIA ELECTRIC COMPANY
DOCKET NO. R-850152

P.U.C. Staff Adjustment to compute
the Salary, Taxes, and Benefits Associated
with the Reduction to the
Number of Employees

| | |
|----------------------------------|---------------------------|
| Average Salary | \$18,624 |
| Allocated to Electric Operations | <u>59.0%</u> |
| | 10,988 |
| Employee Reduction | <u>331</u> |
| Total Wages | 3,637,000 |
| Associated Benefits and Taxes | <u>1,262</u> |
| Recommended Reduction | <u><u>\$4,590,000</u></u> |

- Source: A) PECO's response to
DR-STAFF-REW-2
- B) PECO's response to
DR-STAFF-REW-3
- C) PECO's Exhibit TPH-2,
Page D-5

DR-Staff-REW-2

✓ Q. DR-Staff-REW-2. Provide the average starting salary for each major category of employee and a weighted average of starting salaries for the Company as a whole, showing the computation.

A. DR-Staff-REW-2. The following data is presented for employees hired between January and June of 1985:

| <u>Classification</u> | <u>Category</u> | <u>Hourly Salary</u> | <u>No. of Employees Hired</u> | <u>Total Annualized Salaries</u> |
|-----------------------|---------------------------|----------------------|-------------------------------|----------------------------------|
| Entry | General Clerical | \$5.05 | 14 | \$147,056 |
| Entry | Typist/Stenographer | 5.43 | 12 | 135,533 |
| Entry | Trades & Meter Readers | 6.42 | 57 | 761,155 |
| Professional | Engineering Technologists | \$10.05 | 21 | 438,984 |
| Professional | Engineers | \$14.42 | 40 | 1,199,744 |
| | Total | | 144 | \$2,682,472 |

Weighted Average - $\$2,682,472/144 = \$18,624/\text{yr.}$

Responsible Witness: T.P.Hill, Jr., Asst. Manager-Rate Division

DR-Staff-REW-3

Q.DR-Staff-REW-3. Provide as a percentage of O&M payroll the following fringe benefits for the future test year:

- a. Hospitalization
- b. Pension Cost
- c. Workmen's compensation
- d. Life insurance
- e. Employer share of FICA
- f. Other (identify)

A.DR-Staff-REW-3. The requested data is provided in the table below. With regard to item c, workmen's compensation, the Company does not budget workmen's compensation. Additionally there is no insurance premium for this item as the Company is self insured.

| | (\$1,000) | |
|------------------------------------|---------------------|--------------------------------|
| | Annualized Costs | % of Annualized Payroll* |
| a) Hospitalization | \$16,834 | 6.0 |
| b) Pension Cost | 29,648 | 10.6 |
| c) Workmen's Compensation | - | - |
| d) Life insurance | 1,525 | 0.5 |
| e) Employee-Share-FICA | 18,582 | 6.6 |
| f) Tuition Refund | 458 | 0.2 |
| Contribution to Athletic Assoc. | 57 | - |
| Contribution to Employee Assoc. | 66 | - |
| Dental | 1,650 | 0.6 |
| Other | 4,880 | 1.7 |
| Total | \$73,700 | 26.2% |

*Estimated Annualized Payroll = \$280,834 (D-5)

Responsible Witness: T.P. Hill, Jr., Asst. Manager - Rate Division

PHILADELPHIA ELECTRIC COMPANY
DOCKET NO. R-850152

Comparing the Average Number of
Employees Budgeted to Actual

| | <u>6/30/83</u> | <u>6/30/84</u> | <u>6/30/85</u> |
|-------------------------|----------------|----------------|----------------|
| Budget | 10,452 | 10,722 | 10,914 |
| Actual | 10,179 | 10,405 | 10,544 |
| Number Under Budget | 273 | 317 | 370 |
| Percentage Under Budget | 2.6% | 3.0% | 3.4% |

Source: A) PECO's Response to IR-OCA-1-38

B) PECO's Response to DR-STAFF-REW-1

PHILADELPHIA ELECTRIC COMPANY
DOCKET NO. R-850152

Comparing the Number of Employees
Budgeted to Actual
for the First Five Months of the Future Test Year

| <u>1985</u> | <u>Budget</u> | <u>Actual</u> | <u>Number Under Budget</u> |
|-------------|---------------|---------------|------------------------------------|
| Jul. | 11,250 | 10,824 | 426 |
| Aug. | 11,250 | 10,832 | 418 |
| Sep. | 10,961 | 10,744 | 217 |
| Oct. | 10,947 | 10,578 | 369 |
| Nov. | 10,936 | 10,595 | <u>341</u> |
| Total | | | <u>1,771</u> |

Monthly Average of Employees
Under the Budgeted Level

$$1,771 \div 5 = \underline{354}$$

Source: A) PECO's Exhibit TPH-2, Page D-5a.

B) PECO's Response to IR-OCA-1-38.

PHILADELPHIA ELECTRIC COMPANY
DOCKET NO. R-850152

P.U.C. Staff Adjustment
to reduce the Company's Explained
Variation Attributed to Inflation
from a 5.8% to a 3.28% Rate
(\$000's)

| | |
|--|----------------|
| Stated Inflation | \$17,259 |
| Inflation at a 3.28% Rate ($\$319,416 \times 3.28\%$) | <u>10,477</u> |
| Recommended Reduction | <u>\$6,782</u> |

To compute the Inflation Adjustment if the Customer Accounts Expense Adjustment
in Staff Statement No. KIL-1 is Accepted by the Commission
(\$000's)

| | |
|--|----------------|
| Stated Inflation | \$14,630 |
| Inflation at 3.28% Rate ($260,855 \times 3.28\%$) | <u>8,556</u> |
| Conditional Reduction | <u>\$6,074</u> |

PHILADELPHIA ELECTRIC COMPANY
DOCKET NO. R-850152

Analysis of Stated Inflation Dollars
By Account at a 5.8% Inflation Rate
(\$000's)

| | (1) | (2) | (1)-(2)=(3) |
|----------------|-----------------------|--------------------------------|-----------------------------------|
| <u>Account</u> | <u>Amount(A)</u> | <u>Stated Inflation(B)</u> | <u>Uninflated Base Amount</u> |
| | \$ | \$ | \$ |
| 500 | 15,217 | 834 | 14,383 |
| 502 | 38,124 | 2,090 | 36,034 |
| 510 | 9,599 | 526 | 9,073 |
| 511 | 9,042 | 496 | 8,546 |
| 512 | 64,728 | 3,548 | 61,180 |
| 517 | 12,727 | 698 | 12,029 |
| 524 | 39,955 | 2,190 | 37,765 |
| 529 | 3,715 | 203 | 3,512 |
| 530 | 16,884 | 926 | 15,958 |
| 531 | 10,049 | 550 | 9,499 |
| 532 | 5,448 | 298 | 5,150 |
| 553 | 6,221 | 341 | 5,880 |
| 556 | 6,022 | 332 | 5,690 |
| 902 | 14,215 | 719 | 13,496 |
| 903 | 46,975 | 1,910 | 45,065 |
| 920 | <u>37,754</u> | <u>1,598</u> | <u>36,156</u> |
| Totals | <u><u>336,675</u></u> | <u><u>17,259</u></u> | <u><u>319,416</u></u> |

Source: A) PECO's Exhibit TPH-2, B-10.

B) PECO's Attachment II-D-16B

507-29-82

PHILADELPHIA ELECTRIC COMPANY
DOCKET NO. R-850152

P.U.C. Staff Adjustment
to Amortize the Transition Tubes
Replacement Costs at Eddystone No. 1
Over a 10-Year Period
(\$000's)

Expense Claimed \$1,700

Less One-Year Expense
(\$3,400 ÷ 10) 340

Recommended Reduction \$1,360

Source: PECO's Exhibit TPH-2, D-10c.

Q. IR-Staff-REM-01

Refer to TPH-2, Page D-10c and provide the following:

- a. A description of the transition tubes and their function.
- b. The extent of the replacements.
- c. The estimated life of the tubes.

A. IR-Staff-REM-01

- a) The transition tubes are a section of the water-steam circuit of a critical pressure boiler. It is in this part of the water-steam circuit where the critical pressure water changes properties and becomes steam. The transition section starts at the transition section inlet headers which receive the water from the water walls and supply four groups of tubes that form the deflection arch, roof tubes and front and rear walls of the rear gas pass, before joining in the lower portion of the transition section of the boiler in the rear gas pass. After the steam leaves the transition section through the outlet headers, it then goes through transition section junction headers which split the flow into eight radiant superheater sections.
- b) The extent of the replacement referred to in TPH-2, D-10c is the transition section of the boiler in the rear gas pass or convection section of the boiler. It does not include those tubes that comprise the deflection arch, roof tubes and front and rear walls of the rear gas pass.
- c) The estimated life of the tubes being replaced is the remaining life of the boiler.

IR-OCA-20-7

Q. IR-OCA-20-7. Regarding TPH-2, D-5a and IR-OCA-1-35, explain the variance between September, 1985 actual (\$7,377) vs budgeted (\$4,410) overtime pay.

A. IR-OCA-20-7. The major contributor to the \$2,967 excess of actual over budget is the Electric T&D Department. Electric T&D accounted for \$1,830 of the \$2,967 excess the \$1,830 is primarily weather related overtime. The bulk of which was necessitated by the major storm that occurred on September 26-27, 1985. The remaining \$1,137 difference is primarily due to overtime resulting from staffing levels being below budgeted levels.

Responsible Witness: T. P. Hill, Jr., Asst. Manager-Rate Division

IR-OCA-1-35

Q. IR-OCA-1-35. Provide an update to IR-OCA-1-26a from the prior rate case regarding actual payroll data for the period September, 1984 to date and update throughout the duration of this rate proceeding.

A. IR-OCA-1-35. Data for the period September 1984 to June 1985 is shown on page D-5a of Exhibit TPH-1. Attachment IR-OCA-1-35 provides the requested data for July 1985 to date.

Responsible Witness: T.P. Hill, Jr., Asst. Manager - Rate Division

Attachment IR-OCA-1-35

Philadelphia Electric Company

PAYROLL DATA
(Thousand \$)

| <u>Month</u> | <u>Total PE Payroll</u> | <u>PE Company Elec. Operations</u> | <u>PE Company Overtime</u> | <u>PE Company Regular Payroll</u> | <u>Elec. Oper. As % of Total Payroll</u> | <u>OT as % of PE Regular Payroll</u> |
|--------------|---------------------------------|--|------------------------------------|---|--|--|
| July 1985 | 38,310 | 22,494 | 5,091 | 33,219 | 58.7 | 15.3 |
| Aug. | 38,831 | 22,573 | 5,947 | 32,884 | 58.1 | 18.1 |
| Sep. | 39,351 | 23,377 | 7,377 | 31,974 | 59.4 | 23.1 |

IR-OCA-1-38

Q. IR-OCA-1-38. Provide a schedule showing actual versus budgeted total PECO employees by month for the period January, 1984 to date and update throughout the duration of this rate proceeding.

A. IR-OCA-1-38. The requested data is provided in the table below. Although the number of employees plays a part in budgeting the Company's payroll, the Company's claim is based on a level of payroll expense not a level of employees. The Table at the bottom of this page shows that the actual payroll, for 1984, was within approximately 0.1% of the budgeted amount and that in the first nine months of 1985 actual payroll exceeded budgeted payroll. Consequently, even though budgeted employees may exceed the actual number of employees, total budgeted payroll dollars are still approximately equal to actual payroll dollars.

| | <u>Employees</u> | |
|--------------|------------------|---------------|
| | <u>Budget</u> | <u>Actual</u> |
| January 1984 | 10,575 | 10,318 |
| February | 10,589 | 10,307 |
| March | 10,615 | 10,306 |
| April | 10,660 | 10,329 |
| May | 10,801 | 10,513 |
| June | 11,101 | 10,730 |
| July | 11,116 | 10,739 |
| August | 11,122 | 10,680 |
| September | 10,847 | 10,448 |
| October | 10,829 | 10,481 |
| November | 10,823 | 10,480 |
| December | 10,793 | 10,513 |
| January 1985 | 10,768 | 10,488 |
| February | 10,780 | 10,449 |
| March | 10,813 | 10,430 |
| April | 10,826 | 10,414 |
| May | 11,008 | 10,601 |
| June | 11,242 | 10,803 |
| July | 11,250 | 10,824 |
| August | 11,250 | 10,832 |
| September | 10,961 | 10,744 |

| | <u>Payroll (\$1,000)</u> | |
|---------------|--------------------------|---------------|
| | <u>Budget</u> | <u>Actual</u> |
| 1984 | \$420,212 | \$419,706 |
| Jan-Sept 1985 | \$337,001 | \$338,362 |

Responsible Witness: T.P.Hill, Jr., Asst. Mgr. - Rate Division

DR-Staff-REW-1

Q.DR-Staff-REW-1. For the twelve months ended 6/30/83 and 6/30/84, please provide the number of employee positions budgeted and the actual number of employees on staff. For the 6/30/85 and 6/30/86 test year provide the number of employees budgeted by month, also, the number of employees on staff available at this time and provide updates as the actuals become available. In addition, provide the above information for the employees (budgeted/actual) at Limerick.

A.DR-Staff-REW-1. The response to IR-OCA-1-38 provides the requested budget versus actual data for the period January 1984 to date. The requested data for the July 1982 to December 1983 period is provided below. Although the number of employees plays a part in budgeting the Company's payroll, the Company's claim is based on a level of payroll expense. As shown in response to IR-OCA-1-38, actual payroll for 1984 was within 0.1% of the budgeted amount and for the first nine months of 1985 was actually higher than the budgeted amount. That was the case in spite of the fact that the actual number of employees was lower than the budgeted number.

Attachment DR-Staff-REW-1 provides the requested data for Limerick.

| | Employees | |
|--------------|-----------|--------|
| | Budget | Actual |
| July 1982 | 10,565 | 10,293 |
| August | 10,572 | 10,271 |
| September | 10,331 | 10,016 |
| October | 10,310 | 10,023 |
| November | 10,316 | 10,039 |
| December | 10,247 | 10,090 |
| January 1983 | 10,371 | 10,108 |
| February | 10,391 | 10,146 |
| March | 10,423 | 10,138 |
| April | 10,440 | 10,161 |
| May | 10,570 | 10,312 |
| June | 10,893 | 10,555 |
| July | 10,903 | 10,583 |
| August | 10,906 | 10,549 |
| September | 10,631 | 10,276 |
| October | 10,631 | 10,283 |
| November | 10,641 | 10,303 |
| December | 10,609 | 10,360 |

Responsible Witness: T.P.Hill, Jr., Asst. Manager - Rate Division
J.J.Carroll-Staff Engineer - Services Division

Attachment DR-Staff-REW-1

Budget vs. Actual

Limerick Employees

| | <u>Budget</u> | <u>Actual</u> |
|--------------|---------------|---------------|
| July 1982 | 140 | 112 |
| August | 140 | 121 |
| September | 140 | 106 |
| October | 140 | 107 |
| November | 140 | 107 |
| December | 140 | 106 |
| January 1983 | 131 | 107 |
| February | 135 | 108 |
| March | 138 | 122 |
| April | 138 | 136 |
| May | 138 | 137 |
| June | 213 | 177 |
| July | 213 | 185 |
| August | 217 | 186 |
| September | 207 | 170 |
| October | 207 | 170 |
| November | 207 | 184 |
| December | 223 | 191 |
| January 1984 | 215 | 191 |
| February | 215 | 193 |
| March | 215 | 199 |
| April | 218 | 200 |
| May | 218 | 207 |
| June | 237 | 220 |
| July | 237 | 222 |
| August | 237 | 222 |
| September | 242 | 244 |
| October | 244 | 247 |
| November | 244 | 245 |
| December | 244 | 244 |
| January 1985 | 253 | 245 |
| February | 253 | 244 |
| March | 253 | 246 |
| April | 253 | 246 |
| May | 253 | 246 |
| June | 265 | 258 |
| July | 265 | 258 |
| August | 265 | 261 |
| September | 265 | 260 |

IR-OCA-20-1

Q. IR-OCA-20-1. Provide monthly budgeted regular payroll, overtime percent and total payroll for the period January 1985 to June 1985.

A. IR-OCA-20-1. The requested total Company budgeted data is provided in the table below.

| | <u>Regular</u> | <u>Overtime</u> | <u>%</u> <u>Overtime</u> | <u>Total</u> <u>Payroll</u> |
|--------------|----------------|-----------------|-----------------------------|--------------------------------|
| January 1985 | \$33,847 | \$4,190 | 12.4 | \$38,037 |
| February | 29,648 | 4,176 | 14.1 | 33,824 |
| March | 30,914 | 4,125 | 13.3 | 35,039 |
| April | 32,632 | 4,022 | 12.3 | 36,654 |
| May | 34,377 | 4,119 | 12.0 | 38,496 |
| June | 30,129 | 4,122 | 13.7 | 34,251 |

Responsible Witness: T. P. Hill, Jr., Asst. Manager-Rate Division

December 18, 1985

INFLATION FACTORS FOR YEARS ENDED MARCH 31

| | To | 1980 | 1981 | 1982 | 1983 | 1984 | *1985 | *1986 |
|---------|--------|--------|--------|--------|--------|--------|--------|--------|
| GNP IPD | 166.05 | 182.82 | 198.81 | 209.62 | 217.28 | 225.55 | 233.12 | |
| From | | | | | | | | |
| 1980 | 166.05 | 1 | 1.1010 | 1.1973 | 1.2624 | 1.3085 | 1.3583 | 1.4039 |
| 1981 | 182.82 | .90825 | 1 | 1.0874 | 1.1466 | 1.1885 | 1.2337 | 1.2751 |
| 1982 | 198.81 | .83523 | .91961 | 1 | 1.0544 | 1.0929 | 1.1345 | 1.1726 |
| 1983 | 209.62 | .79216 | .87218 | .94843 | 1 | 1.0366 | 1.0760 | 1.1121 |
| 1984 | 217.28 | .76422 | .84142 | .91497 | .96473 | 1 | 1.0381 | 1.0729 |
| *1985 | 225.55 | .73620 | .81057 | .88143 | .92936 | .96334 | 1 | 1.0336 |
| *1986 | 233.12 | .71229 | .78424 | .85280 | .89917 | .93205 | .96752 | 1 |

INFLATION FACTORS FOR YEARS ENDED JUNE 30

| | To | 1980 | 1981 | 1982 | 1983 | 1984 | *1985 | *1986 |
|---------|--------|--------|--------|--------|--------|--------|--------|--------|
| GNP IPD | 169.53 | 187.29 | 202.18 | 211.51 | 219.32 | 227.58 | 235.06 | |
| From | | | | | | | | |
| 1980 | 169.53 | 1 | 1.1047 | 1.1926 | 1.2476 | 1.2937 | 1.3424 | 1.3865 |
| 1981 | 187.29 | .90519 | 1 | 1.0795 | 1.1293 | 1.1710 | 1.2152 | 1.2551 |
| 1982 | 202.18 | .83850 | .92633 | 1 | 1.0461 | 1.0848 | 1.1256 | 1.1626 |
| 1983 | 211.51 | .80155 | .88550 | .95593 | 1 | 1.0370 | 1.0760 | 1.1114 |
| 1984 | 219.32 | .77298 | .85394 | .92186 | .96436 | 1 | 1.0377 | 1.0718 |
| *1985 | 227.58 | .74492 | .82294 | .88839 | .92935 | .96370 | 1 | 1.0328 |
| *1986 | 235.06 | .72123 | .79677 | .86014 | .89980 | .93305 | .96820 | 1 |

INFLATION FACTORS FOR YEARS ENDED SEPTEMBER 30

| | To | 1980 | 1981 | 1982 | 1983 | 1984 | *1985 | *1986 |
|---------|--------|--------|--------|--------|--------|--------|--------|--------|
| GNP IPD | 173.60 | 191.36 | 205.11 | 213.36 | 221.48 | 229.41 | 237.28 | |
| From | | | | | | | | |
| 1980 | 173.60 | 1 | 1.1023 | 1.1815 | 1.2290 | 1.2758 | 1.3215 | 1.3668 |
| 1981 | 191.36 | .90718 | 1 | 1.0718 | 1.1149 | 1.1574 | 1.1988 | 1.2399 |
| 1982 | 205.11 | .84640 | .93301 | 1 | 1.0402 | 1.0798 | 1.1185 | 1.1569 |
| 1983 | 213.36 | .81367 | .89692 | .96133 | 1 | 1.0381 | 1.0752 | 1.1121 |
| 1984 | 221.48 | .78382 | .86403 | .92607 | .96332 | 1 | 1.0358 | 1.0713 |
| *1985 | 229.41 | .75674 | .83417 | .89407 | .93004 | .96545 | 1 | 1.0343 |
| *1986 | 237.28 | .73163 | .80649 | .86440 | .89918 | .93341 | .96682 | 1 |

IR-OCA-10-3

Q. IR-OCA-10-3. Refer to PECO Statement 19, page 8. Please provide a table showing, for each of the past 10 years, the actual rate of inflation and the actual percentage increase in PECO's wage costs.

Q. IR-OCA-10-3.

| Year | Rate of Inflation | | Wage % Increase(a) |
|------|-------------------|--------------|--------------------|
| | GNP | CPI | |
| 1985 | 3.7 (Est.) ✓ | 3.6 (Est.) ✓ | 5.4 |
| 1984 | 3.8 | 4.3 | 6.0 |
| 1983 | 3.8 | 3.2 | 6.75 |
| 1982 | 6.0 | 6.1 | 8.8 |
| 1981 | 9.6 | 10.4 | 9.75 |
| 1980 | 9.2 | 13.5 | 9.5 |
| 1979 | 8.6 | 11.3 | 7.2 |
| 1978 | 7.4 | 7.7 | 7.0 |
| 1977 | 5.8 | 6.5 | 7.5 |
| 1976 | 5.2 | 5.8 | 8.0 |

(a) Effective August 1 of each year

Responsible Witnesses: T.P. Hill, Jr., Asst. Manager - Rate Division
A.J. Solecki, Manager - Budget & Control

DR-Staff-REB-4

Q. DR-Staff-REB-4. Refer to the direct testimony of Albert J. Solecki and provide the following:

- a. A copy of the instruction letter which sets forth the general assumptions and guidelines to be followed.
- b. What is the corporate inflation rate (%) used in preparing the budget for the future test year ending June 30, 1986 and provide the calculation.
- c. What is the total dollar amount expensed in the future test year attributable to this inflation factor excluding Limerick?
- d. Provide the requested information in part b and c for Limerick.

A. DR-Staff-REB-4. a. Attachment DR-Staff-REB-4a provides the original budget letter. Attachment DR-Staff-REB-4b provides changes to the original budget letter.

b. Reference attachments DR-Staff-REB-4a and DR-Staff-REB-4b.

c&d.

Dollar amounts attributable to inflation factors are not determinable as the factors are provided to budget preparers to be used only in the absence of more precise cost estimates.

Responsible Witness: A. J. Solecki, Manager - Budget & Control

Inflation Factors

For the 1985 and 1986 budgets, expected changes in cost and in the level of activity should be reflected wherever possible. In the absence of specific known cost changes, an inflation rate of 6.75% for 1985 and 7.0% for 1986 is suggested for your use.

All major changes expected in the forecast years should be included. In addition, the following factors have been developed for your use in order to reflect the effect of inflation on costs relative to the previous years.

| <u>Forecast Year</u> | <u>Percent</u> |
|----------------------|----------------|
| 1987 | 7.0% |
| 1988 | 7.0% |
| 1989 | 7.0% |

Generating Capacity

In preparing your estimates for 1985 through 1989, use the service dates for new generating units and retirement dates for major retirements indicated below:

| <u>Station</u> | <u>Capacity</u> | <u>Service Date</u> | <u>Retirement Date</u> |
|--|-----------------|---------------------|------------------------|
| Limerick #1 | 1-1005 mW unit | April 1, 1985 | |
| Merrill Creek Reservoir (PSE&G) | | November 1, 1987 | |
| Limerick #2 | 1-1005 mW unit | April 1, 1990 | |
| Richmond #9 | | | May 31, 1985 |
| Richmond Westinghouse and Worthington C.T.s | | | May 31, 1985 |
| Plymouth Meeting #9 and #15 | | | May 31, 1985 |
| Southwark #1, #2 and Diesel | | | December 31, 1985 |
| Delaware #7, #8 and Diesel | | | December 31, 1988 |
| Schuylkill #3 | | | December 31, 1988 |
| Cromby #2 | | | December 31, 1990 |

Additionally for purposes of this budget and forecast it is assumed the output from Salem #2 will be sold to Jersey Central Power and Light only through 1984 at which time the output will be used to serve PECO's ultimate customers.

Also, we are assuming the Allied MgO regeneration facility will be sold effective October 31, 1984.

Budget Distribution List

- 3 -

August 1, 1984

General Instructions

1. Sound reasons and adequate documentation should be developed to support variations in both budget years compared with the previous year (budget 1985 vs. 1984 reestimate and budget 1986 vs. budget 1985) and compared to goals.
2. The manpower used in developing both the budget and forecast should agree with that approved by Mr. Everett at his personnel reviews with each vice president during June and July.
3. Your budget should show dollars in the month the expense is expected to be booked, not when incurred. i.e., If an outage is to begin May 1, but the bills for outside service are not expected until June, the related expense should be budgeted for June..
4. Avoid including contingencies unless they have a high probability of occurring.
5. If in the preparation of your budget you make use of carrying charge rates as the basis of some of your charges, you should review the rate and also determine if there have been any significant capital improvements to the asset. Any questions concerning carrying charge rates should be referred to Rate Division.
6. You should expedite the preparation of the required budget data as much as possible ahead of the required date to allow additional time for executive review and approval.
7. The on-line budget system accesses the current valid number file (June business) to present screen formats. Therefore, only numbers currently in existence can be budgeted immediately.

To Add Numbers

For anticipated additional numbers to be budgeted you must contact Budget and Control Division in writing.

- (1) To add a Departmental Work Order sub you must supply the Work Order number (12 digits), a description and a clearance.
- (2) To add an Expense Authorization for budget purposes, you must prepare a budget Expense Authorization (an example is attached to this letter).
- (3) To add a FERC account number you must provide a 12 digit FERC number along with a description and a Responsible Area.

The above information should be sent to G. R. Shicora, Budget and Control Division, S22-2.

BE ADVISED THAT ADDING A NUMBER TO THE BUDGET FILE DOES NOT ADD THE NUMBER TO THE CURRENT VALID NUMBER FILE FOR THE REMAINDER OF 1984.

If a number is to be opened during 1984, a letter should be sent to General Accounting Division with a copy to Budget and Control Division.

These new accounts will be verified and added to your area of responsibility promptly after which they may be budgeted via a computer terminal.

To Delete Numbers

Since the on-line budget system accesses the current valid number file, all the numbers should be good. If for any reason we have provided values for a work order or account that should not be in existence simply zero out the account and write a letter to General Accounting requesting the number be deleted.

Association Expense (Form M-05236)

Membership and Association Expenses only for 1985 must be supported by itemizing proposed expenditures in accordance with the instructions outlined on the reverse side of the sample form. Please be sure the totals from your association form agree with your .x4xx departmental subdivision.

The original completed forms are due in the Budget and Control Division no later than September 21, 1984...

Research and Development Projects

Please prepare a list containing a description and the amount estimated for any project included in your operating budget and forecast which you feel may possibly qualify as a research and development expenditure.

This list should be submitted to Research Division of Engineering and Research Department for review. Budget and Control Division will make the appropriate changes in the budget and forecast.

Transportation Charges

The attached list shows by vehicle class the proposed 1985 budget transportation charges. In aggregate this list reflects a 12% increase relative to the 1984 rates. After adjusting for known changes, you should utilize the general inflation factors to project your transportation charges for 1986 through 1989.

Data Processing Services

To assist you in budgeting your data processing services, a separate instruction letter will be supplied to you in early August.

Budget Distribution List

- 5 -

August 1, 1984

Additional Attachments


Separate instructions detailing the On-Line Budget System and a 30 month history run are attached for your use.

Any questions concerning the budget should first be taken up with your budget coordinator. The budget coordinators are:

| | | |
|----------------|---|----------------------------------|
| J. E. Turner | - | Electric Production |
| E. T. Casey | - | Transmission & Distribution |
| N. Chabon | - | Purchasing & General Services |
| E. J. Donegan | - | Gas Department |
| N. T. Finnegan | - | Commercial Operations |
| T. J. Lehner | - | Engineering & Research |
| J. S. Hanson | - | Personnel & Industrial Relations |
| R. N. Spencer | - | Executive |
| J. Raudenbush | - | Corporate Communications |
| G. R. Shicora | - | Finance & Accounting |

The budget process is designed to aid you in the preparation of your budget data, while at the same time providing reviews to assure the best possible data is obtained. We would sincerely appreciate any comments or suggestions you may have concerning the process.

As always, your cooperation in effecting a smooth budget process is appreciated, and if Budget and Control can be of any further assistance, please do not hesitate to call. If further explanation is necessary, please call Dot Lyons or Allan Young on extension 6134.


Manager
Budget and Control Division

GRS/gfh
Attachments

3606E

Attachment OR-STAT-REF-4
2 pages

In November of 1984, the inflation rates provided in this letter were revised to 5.2% for 1985, 6.4% for 1986, and 6.0% through 1989.

Budget and Control Division
November 5, 1985

2301 Market Street
Twenty-First Floor

November 21, 1984

FROM: J. F. Paquette, Jr.

TO: E. G. Bauer, Jr.
W. B. Morlok
C. Brenner
C. L. Fritz
S. L. Daltroff
J. S. Kemper
P. G. Mulligan
T. W. Coppock
R. F. Holman
A. L. Parry, Jr.
Vice Presidents

SUBJECT: Final 1985 Operating Budget

Based on our discussion at yesterday's staff meeting and the Chairman's request to pare operating expenses to minimum levels, I am requesting that each Vice President again review his areas of responsibility in light of our objective to reduce the 1985 budgeted corporate expenses by \$20 million. In order to achieve that target, we must take a long, hard look at all expenses.

In connection with this review of the 1985 budget, we have re-examined our assumptions and have decided, based on current data, to lower our preliminary assumption for the 1985 General Inflation Rate from 6.75% to 5.25%. In addition, we will also be revising downwards our assumption concerning the 1985 General Wage Increase.

The adjustment for the general wage increase will be handled automatically by the Budget and Control Division. However, the salary dollars that clear directly to the work in progress accounts and are ultimately reflected in FERC accounts must be adjusted by the individual departments. A revised payroll budget will be sent to your respective budget coordinators.

In reviewing all your accounts, the overall inflation rate of 5.25% should be used as a guide for evaluating your 1985 budget relative to 1984 (9+3).

Please send a list of your proposed budget reductions to D. P. Scott by November 30. We will notify you of the changes approved by the Chairman and the President by Decemoer 5. These approved changes must be entered into the budget system by December 7. Any adjustments to 1985 should also be reflected in the subsequent budget and forecast years where applicable.


Vice President

Staff Statement LJ-1 *Staff*
Witness: L. B. Jones
Date: 1-29-86

1469
R-850152
50r

RECEIVED

JAN 30 1986
SECRETARY'S OFFICE
Public Utility Commission

PENNSYLVANIA PUBLIC UTILITY COMMISSION

v.

PHILADELPHIA ELECTRIC COMPANY

DOCKET NO. R-850152

DOCUMENT
FOLDER

Direct Testimony

of

L. B. Jones

DOCKETED
JAN 30 1986

Concerning:

Operation and Maintenance
Expense Adjustments

PHILADELPHIA ELECTRIC COMPANY

Docket No. R-850152

SUMMARY OF TESTIMONY

A downward adjustment of \$839,900 to the Company's claim for operation and maintenance expense is proposed as follows:

- a. To reduce claimed rate case expenses \$(839,900)

1 Q. State your name and the name and address of your employer.

2 A. Llewellyn B. Jones. I am employed by the Pennsylvania Public Utility
3 Commission, P.O. Box 3265, Harrisburg, Pennsylvania 17120.
4

5 Q. What is your position with the Pennsylvania Public Utility Commission
6 and how long have you been employed by the Commission?

7 A. I am currently an analyst for the Electric Division in the Bureau of
8 Rates. I have been employed by the Commission as an analyst from
9 April 1972 until 1977 in the Financial Section - Bureau of Rates and
10 Research, in the Office of Special Assistants from 1977 until 1980,
11 and in the Water and Sewer Division of the Bureau of Rates from 1980
12 until 1982 when I transferred to my present position.
13

14 Q. What is your educational and professional background?

15 A. See Appendix A.
16

17 Q. Have you previously presented testimony?

18 A. Yes. See Appendix B.
19

20 Q. Have you completed any courses on utility regulation?

21 A. Yes, I have completed the following courses: "Annual Regulatory
22 Commission Development Short Course" sponsored by NARUC at the
23 University of Colorado in August 1972, "Physical Functioning of Public
24 Utility Equipment" in October 1976 through January 1977, "Seminar
25 on Accounting and Finance" in June 1977 sponsored by Penn State
26 University, and the annual regulatory conference at Williamsburg,
27 Virginia in December 1985 sponsored by the Institute of Public
Utilities at Michigan State University.

1 Q. State your involvement in this proceeding.

2 A. In my capacity as an analyst, I was assigned to the task of reviewing
3 the rate filing. My review included a determination of the accuracy
4 and reasonableness of Philadelphia Electric's revenue and expense
5 claims.

6
7 Q. Would you briefly state the conclusions of your analysis?

8 A. Yes, based upon my analyses, I have concluded that it is appropriate
9 to reduce the Company's claimed rate case expenses by \$839,900.

10
11 Q. What is your opinion regarding the claim for rate case expenses?

12 A. This is a claimed expense for the future test year which is unreason-
13 able and should be adjusted downward for ratemaking purposes. The
14 Company has claimed an amount of \$2,680,000 for the current rate
15 case to be amortized over a two-year period, or an annual claim of
16 \$1,340,000 (PECO Exhibit TPH-2, page D-12a). Further detail of
17 this amount can be found in the filing in Volume II, attachment II-D-6.
18 In response to an interrogatory request (IR-OCA-1-48) which is
19 attached as Staff Exhibit LJ-1A the Company claims an amount of
20 \$3,730,000 was expensed as of November 1, 1985. Included within the
21 category legal and management consultants and transcripts (see
22 Staff Exhibit LJ-1B) are claims of \$1,918,000 for Theodore Barry &
23 Associates, \$500,000 for National Economic Research Associates,
24 Inc. (NERA), \$315,000 for Putnam, Hayes & Bartlett, Inc. (PNB), and
25 \$65,000 for International Energy Associates Limited (IEAL).

26 All of these studies, evaluations, and assessments center on
27 the argument supporting the prudence of the Company's investment

1 and the satisfaction of the licensing requirements in Limerick 1
2 and related common plant. These costs are clearly distinct and
3 unique in contrast to the costs of standard rate proceedings. Any
4 benefits derived from normal rate proceedings such as better earnings
5 and a lower cost of capital are of short-term duration as attested
6 to by the frequency of the Company rate filings. On the other hand,
7 Limerick 1 costs are immense with the anticipated benefits being of
8 long-term duration. The benefit of any studies associated with the
9 construction of Limerick 1 would likewise be of a longer-term
10 duration than ordinary rate case claims.

11 Therefore, I would recommend that the costs of the Limerick 1
12 studies be amortized over a five-year period, at the very least.
13 My recommendation applied to the total studies' cost of \$2,798,000
14 produces an annual allowance of \$559,600. This amount compared to
15 the claim of \$1,399,500 results in a disallowance of \$839,900.

17 Q. Does this complete your testimony?

18 A. Yes.

19
20
21
22
23
24
25
26
27

Appendix A

Educational and Professional Background

I graduated from Lehigh University in 1963 with a B.S. degree in Business Administration, majoring in accounting. Upon graduation I was commissioned an officer in the U.S. Army, successfully completed the Basic Quartermaster Officers Course at Fort Lee, Virginia, and served the remainder of my active duty assignment at Fort Hood, Texas. In 1965, I was employed by E.I. DuPont Co. as a Cost Analyst at the Kinston, North Carolina plant. My duties included the development of budgets, measurement of performance against the budgets with explanations, and monthly cost presentations to plant management. While employed at DuPont, I attended night classes in pursuit of a master's degree and completed on a full-time basis the requirements for an M.B.A. degree from East Carolina University in 1967. Immediately upon receiving my advanced degree I accepted employment with the Phoenix Mutual Life Insurance in Hartford, Connecticut as an investment analyst. My responsibilities included the study and analysis of money markets for bond and common stocks investment and the writing of investment recommendation reports. In October 1968, I was hired as a staff assistant by the Southern New England Telephone Company, New Haven, Connecticut and remained in that capacity until June 1970 when I became assistant budget coordinator for the company. My duties consisted of a joint effort with all the departments to develop and monitor the corporate budget and the preparation of financial results for top management. I served in that position until April 1972 when I joined the staff of the Pennsylvania Public Utility Commission.

During the period from 1972 until 1977 I was an analyst in the

financial section of the Bureau of Rates and Research. My responsibilities were to thoroughly review and evaluate the testimony and exhibits pertinent to the revenue and expense aspects of a formal rate case. The accomplishment of these responsibilities included such duties as preparation of written interrogatories, preparation of cross-examination for public hearing, attendance at the public hearings with the attorney in the role of an accounting advisor, review and analysis of transcripts and any additional exhibits, and the study of all parties' briefs to prepare the findings and conclusions based upon the record in the form of an order for the Commission's adoption. I have analyzed the same issues as testified herein in numerous electric, water, telephone and gas cases which have come before the Commission.

In November 1977 I assumed an assignment as an analyst in the Office of Special Assistants. My duties included the analysis of the monetary effects of Commission revisions to the rate decisions of the Administrative Law Judge, and the drafting of final Commission orders in accordance with those revisions. These duties required an understanding of the measures of value, fair value, rate of return, revenues, expenses, tax and rate structure issues and their inter-relationships contained in the briefs of the parties. Presently, I am an analyst for the Electric Division in the Bureau of Rates.

TESTIMONY BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

1. Pa.P.U.C. v. Butler Township Water Company
Docket No. R-811651.
2. Pa.P.U.C. v. UGI-Luzerne Electric
Docket No. R-811725 (submitted testimony)
3. Pa.P.U.C. v. Duquesne Light Company
Docket No. R-821915
4. Pa.P.U.C. v. Pennsylvania Power Company
Docket No. R-821918 (submitted testimony)
5. Pa.P.U.C. v. Pennsylvania Power & Light Company
Docket No. R-822169
6. Pa.P.U.C. v. Philadelphia Electric Company
Docket No. R-822291
7. Pa.P.U.C. v. Pennsylvania Power Company
Docket No. R-832409
8. Pa.P.U.C. v. Philadelphia Electric Company
Docket No. 842590
9. Pa.P.U.C. v. Pennsylvania Electric Company
Docket No. R-842771
10. Pa.P.U.C. v. Duquesne Light Company
Docket No. R-850152

Exhibit
Staff ~~Statement~~ LJ-1
Witness: L. B. Jones
Date:

PENNSYLVANIA PUBLIC UTILITY COMMISSION

. v .

PHILADELPHIA ELECTRIC COMPANY

DOCKET NO. R-850152

DOCUMENT
FOLDER

Exhibit to Accompany the

Direct Testimony

of

L. B. Jones

DOCKETED

Concerning:

Rate Case Expenses

IR-OCA-1-48

- Q. IR-OCA-1-48. Regarding the Company's claim for amortizations and rate case expenses on TPH-2, D-12:
- Provide expenses to date broken down by appropriate categories for the current rate case, ECR #8, ECR #9 and Limerick #2 show cause.
 - Provide a breakdown of the Heaton-Byberry abandoned engineering costs.
 - Explain the Company's claim for \$2.2 million for legal consultants in the present proceeding.
 - Provide a breakdown of rate case expense for the Company's prior rate case similar to that shown on Attachment II-D-6.

- A. IR-OCA-1-48.
- Attachment IR-OCA-1-48 provides the requested data.
 - A breakdown on the Heaton-Byberry abandoned engineering costs between AFUDC and actual engineering costs is provided below:

| | | |
|-------------------------|------------------|----------------------|
| Direct Costs | \$505,327 | |
| AFUDC | 196,906 | |
| Sub-Total | <u>\$702,233</u> | |
| Tax Effects @ (50.915%) | 257,287 | = \$505,327 x .50915 |
| Net to Write off | <u>\$444,946</u> | |
| 5 Year Amortization | \$88,989 | |

- While the Company's claim reflected on page D-12 of Exhibit TPH-2 is for \$2,200,000, the Company has actually expensed \$3,527,000 as of November 1, 1985. These expenses are associated with the firms listed on Attachment IR-OCA-1-48.
- Attachment IR-OCA-1-48 provides the requested data.

Responsible Witness: T.P. Hill, Jr., Asst. Manager-Rate Division

Attachment IR-OGA-1-48

Philadelphia Electric Company
 Rate Case Expense
 As of November 1, 1985
 (\$1,000)

| | <u>R-842590</u> | <u>R-850152</u> | <u>ECR #8</u> | <u>ECR #9</u> | <u>Limerick II Stow Cause</u> |
|---|-----------------|-----------------|----------------|---------------|-----------------------------------|
| Cost of Money Consultants | \$61 | \$81 | - | - | - |
| Legal and Management Consultants and Transcripts | 1,223 | 3,527 (a) | \$779 | \$42 | \$1,439 |
| Plant Consultants | 252 | 48 | - | - | - |
| Technical Consultants | - | - | 202 | 6 | 3,360 |
| Rate Consultants | - | - | - | - | - |
| Pa. PUC Consultants | - | - | 588 | - | - |
| Consumer Notification | 50 | 1 | - | - | - |
| Data Processing | 15 | 37 | - | - | 258 |
| Travel, Hotel & Misc. Expense | 24 | 36 | 4 | - | 55 |
| Total Actual Cost | \$1,625 | \$3,730 | \$1,573 | \$48 | \$5,112 |

IR-Staff-REA-1

- Q. IR-Staff-REA-1. Refer to Attachment IR-OCA-1-48. Provide a breakdown of the \$3,527,000 among the various consultants for the legal and management consultants' fees claimed in this proceeding.
- A. IR-Staff-REA-1. The \$3,527,000 spent as of November 1, 1985 is composed of the following items:

| | |
|-----------------------------|--------------------|
| Morgan, Lewis & Bockius | \$720,000 |
| Theodore Barry & Associates | 1,918,000 |
| Putnam, Hayes & Bartlett | 315,000 |
| NERA | 500,000 |
| IEAL | 65,000 |
| Coopers & Lybrand | 9,000 |
| Total | <u>\$3,527,000</u> |

Responsible Witness: T. P. Hill, Jr., Asst. Manager-Rate Division

Staff of TVP-1A & 1B

Staff Statement No. TVP-1

Witness: Tolbert V. Prowell

Date: 1-29-86

14b
R-850152
SCM

PENNSYLVANIA PUBLIC UTILITY COMMISSION

v.

PHILADELPHIA ELECTRIC COMPANY

Docket No. R-850152

RECEIVED

JAN 30 1986

SECRETARY'S OFFICE

Public Utility Commission

Direct Testimony

of

T. V. Prowell

DOCUMENT
FOLDER

DOCKETED
JAN 30 1986

Concerning:

Coal Inventory

Materials & Supplies

SUMMARY OF TESTIMONY

R-850152

A downward adjustment of \$1,624,000 to Respondent's claim for fuel inventory is proposed. This reflects a recommended allowance of a 50-day coal inventory for Philadelphia-area coal-fired generating stations, as opposed to the 60-day coal inventory claimed by Respondent.

The 50-day allowance is in accordance with the coal inventory levels the Commission has allowed other Pennsylvania electric utilities to claim for ratemaking purposes in recent rate proceedings. It also reflects the fact that with Limerick No. 1 in service, Philadelphia-area coal-fired generation now represents only a minor fraction of Respondent's generating capacity.

A downward adjustment of \$2,431,000 to Respondent's claim for Limerick Materials and Supplies is proposed. This reduces Respondent's claim by 28%, which is the surcharge Bechtel applied to the procurement of Limerick operational spare parts for Respondent's purchasing department at Respondent's request. The 28% surcharge represents a "onetime" proposition, thus it represents an "abnormal" situation. Rates should be set on the basis of a normalized test year for a normal period of operation.

The adjustment is being applied to the entire claim for Limerick Materials and Supplies since Respondent was unable to segregate this claim by purchaser (PECO or Bechtel).

Both proposed adjustments reduce Respondent's rate base claim for Electric Materials and Supplies by \$4,055,000.

1 Q. What is your name and business address?

2 A. T. V. Prowell. My business address is Pennsylvania Public Utility
3 Commission, P. O. Box 3265, Harrisburg, Pennsylvania 17120.

4
5 Q. By whom are you employed?

6 A. I am employed by the Pennsylvania Public Utility Commission.

7
8 Q. In what capacity are you employed?

9 A. I am a Fixed Utility Valuation Engineer in the Valuation Section
10 of the Electric Division of the Bureau of Rates.

11
12 Q. What is your educational background?

13 A. In Jun 1967, I received a B.S. in Electrical Engineering from the
14 Pennsylvania State University. I also have a B.S. in Mathematics
15 and Physics which I received from Elizabethtown College in May,
16 1958. Appendix "A" describing my work experience is attached to
17 this testimony.

18
19 Q. Do you have any professional accreditation?

20 A. Yes. Upon graduation from Penn State in 1967, I was awarded an
21 Engineer-in-Training Certificate.

22
23 Q. Have you ever testified before the Pennsylvania Public Utility
24 Commission?

25 A. Yes. I have testified in a number of general rate increase
26 investigations before this Commission, and in several other formal
27 proceedings, as noted in Appendix A to my testimony.

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

2 A. I am testifying concerning Staff's adjustments to Respondent's Rate
3 Base claims for Coal Inventory, and Materials & Supplies (Limerick).
4

5 Q. What adjustment are you making to Respondent's claim for coal
6 inventory?

7 A. I am proposing to reduce the level of coal inventory at Respondent's
8 Philadelphia area generating stations that Respondent has claimed
9 in this proceeding.
10

11 Q. What level of coal inventory has Respondent claimed in the past for
12 the Philadelphia area generating stations?

13 A. In the past, Respondent has claimed a 60-day inventory level for
14 these plants.
15

16 Q. What coal inventory levels has the Commission recently allowed other
17 Pennsylvania electric utilities to claim for ratemaking purposes?

18 A. Pennsylvania Electric Company - 45 days (R-842771).
19 Pennsylvania Power & Light Company - 45 days (R-842651).
20 West Penn Power Company - 50 days (R-842632).
21 Duquesne Light Company - 50 days (R-850021).
22

23 Q. What percentage of Respondent's generating capacity does the
24 Philadelphia-area coal-fired generating stations represent with
25 Limerick No. 1 in service?

26 A. With Limerick No. 1 in service, Philadelphia area coal-fired generation
27 will represent just about 10% of Respondent's generating capacity.

1 Q. How do you know that, Mr. Prowell?

2 A. According to Filing Requirement I-B-2d, Respondent's planned capacity,
3 with Limerick 1, for 1986 is 7,856 megawatts. Of that, coal-fired
4 generation is as follows:

5 Keystone Station (PECO Share) = 357 mw

6 Conemaugh Station (PECO Share) = 352 mw

7 Eddystone 1 = 311 mw

8 Eddystone 2 = 324 mw

9 Cromby 1 = 144 mw

10 Total 1,488 megawatts

11 Source: Filing Requirement I-B-2a

12 Of Respondent's coal-fired generating capacity of 1,488 megawatts,
13 Philadelphia-area coal-fired generation (Eddystone 1 & 2, and
14 Cromby 1) represents 779 megawatts, which is about 10% of Respondent's
15 planned generating capacity for 1986 of 7,856 megawatts.

16
17 Q. What level of coal inventory are you recommending that Respondent
18 be allowed to claim for ratemaking purposes?

19 A. I am recommending that Respondent be allowed to claim a 50-day
20 supply of coal for ratemaking purposes.

21
22 Q. What are your reasons for recommending a 50-day supply?

23 A. I am recommending a 50-day supply because:

24 -Philadelphia-area coal-fired generation, with Limerick

25 No. 1 in service now represents only a minor fraction (10%) of
26 Respondent's generating capacity.

27 -It is in line with what the Commission has allowed other
28 Pennsylvania electric utilities in recent rate cases.

1 -In my opinion it represents a reasonable inventory level for
2 ratemaking purposes.
3

4 Q. Mr. Prowell, considering that the Commission in recent rate cases
5 has allowed Penelec and PP&L a 45-day coal inventory level for
6 ratemaking purposes, why are you recommending that PECO be allowed
7 a 50-day coal inventory level for ratemaking purposes in this
8 proceeding?

9 A. My 50-day recommendation recognizes the fact that PECO's Philadelphia-
10 area coal-fired generating stations are approximately 300-400 track
11 miles from the coal sources -- much farther than those of Penelec
12 and PP&L. The extra five days in my recommendation takes into
13 account the potential for minor disruptions to coal deliveries
14 that can occur with 300 to 400 miles of rail transportation separating
15 the generating stations from their sources of coal.
16

17 Q. Mr. Prowell, does your 50-day recommendation include any sort of a
18 contingency for potential coal miners' strikes?

19 A. No, it does not. Strikes are abnormal occurrences. Rates should
20 be set on the basis of a normalized test year for a normal period
21 of operation.
22

23 Q. What methodology did you use to calculate the Staff allowance for a
24 50-day coal inventory level?

25 A. I started with Respondent's future test year claim for Philadelphia
26 area coal inventory of 204,000 tons at \$47.74/ton = \$9,741,000
27 (PECO Exhibit TPH-2, Page C-10). I then took five-sixths of

1 204,000 tons which yielded a figure of 170,000 tons at \$47.75/ton =
2 \$8,117,500. This is a reduction of \$1,623,500 to Respondent's rate
3 base claim for coal inventory. (Ref: Trial Staff Exhibit No. 1A,
4 Schedule 1, page 1 of 1).

5
6 Q. Mr. Prowell, what adjustment are you making to Respondent's claim
7 for Materials & Supplies?

8 A. This adjustment is being made to Respondent's future test year
9 claim for Limerick Materials & Supplies (Ref: TR 156, Line 9)
10 which amounts to \$8,683,000.

11
12 Q. What adjustment are you proposing to make to this claim?

13 A. I am proposing to reduce this claim by 28%.

14
15 Q. Why are you proposing this adjustment?

16 A. This adjustment came out of Staff's review of the January 29, 1985
17 PECO Inventory Audit of Materials & Supplies at the Limerick Generating
18 Station, Storeroom #348. (Ref: DR-STAFF-RBP-1, Exhibit TVP 1B,
19 pages 1 thru 6.) Page 2, paragraph 1 of that internal audit report
20 states that:

21 Bechtel Purchase Orders -

22 "Effective July 1, 1984, PECO Purchasing Department
23 requested Bechtel Construction, Inc. to temporarily
24 assume the duties of procuring operational spare parts
25 and materials for Limerick Generating Station.
26 Purchasing stated that it was unable to meet the needs
27 of Limerick, at the time, and that expected duration
of the Bechtel assistance was 12-18 months. According
to terms of the agreement Bechtel will be billed at
their cost, plus the associated cost of labor with a
28 percent markup. Two hundred seventy eight payments
for \$212,102 were made by Bechtel during August,

1 September, and October. Associated labor cost was
2 \$18,438 or about \$66 per order (PECO cost is approxi-
3 mately \$70)."

4 Thus, anything purchased by Bechtel for PECO had a 28% surcharge
5 added to it.

6 Q. Mr. Prowell, in your opinion is it proper for Respondent to attempt
7 to collect this 28% surcharge from the ratepayers?

8 A. The 28% surcharge is a "one time" proposition. Bechtel will only
9 be handling the procurement of Limerick operational spare parts
10 temporarily while PECO Purchasing is unable to do so. Again, this
11 represents an "abnormal" situation. As I said earlier in my Testimony,
12 rates should be set on the basis of normalized test year for a normal
13 period of operation.

14 Therefore, I do not think it is proper for Respondent to attempt
15 to collect this 28% surcharge from the ratepayers.

16
17 Q. Why are you applying this adjustment to the entire claim for Limerick
18 Materials and Supplies?

19 A. In the Answer to IR-STAFF-LIM-5 (Exhibit TVP-1B, page 7), Respondent
20 stated that the Materials & Supplies inventory in Storeroom #348
21 at Limerick has not been segregated by purchaser (PECO or Bechtel).
22 Therefore, it was not possible for me to determine what fraction
23 of this M&S inventory was purchased by Bechtel and had the 28%
24 surcharge applied to it.

25 Therefore, I deemed it proper, in this instance, to apply
26 this adjustment to the entire M&S claim, \$8,683,000.
27

1 Q. What impact does your adjustment have to Respondent's rate base
2 claim for Materials and Supplies?

3 A. My adjustment reduces this claim by \$2,431,000. (Ref: Exhibit TVP-1A,
4 Schedule 1, page 1 of 1.)
5

6 Q. Mr. Prowell, what is the total impact of your adjustments to
7 Respondent's Rate Base Claim for Electric Materials and Supplies?

8 A. My adjustments reduce Respondent's Rate Base Claim for Electric
9 Materials and Supplies by \$4,055,000. (Ref: Exhibit TVP-1A,
10 Schedule 1, Page 1 of 1.)
11

12 Q. Does this conclude your direct testimony in this proceeding?

13 A. Yes, it does.
14
15
16
17
18
19
20
21
22
23
24
25
26
27

EDUCATIONAL AND PROFESSIONAL BACKGROUND

In May 1958 I received a B.S. in Mathematics and Physics from Elizabethtown College. After graduation, I was hired by Hill Electronics, Inc. and was employed in the engineering department in the area of crystal oscillator and frequency source design. In January 1965 I enrolled at the Pennsylvania State University and subsequently received a B.S. in Electrical Engineering in June 1967. I then joined C-Cor Electronics, Inc., as an electronic design engineer responsible for the design of amplifiers and other electronic devices for cable television systems.

In May 1975, I joined the Pennsylvania Public Utility Commission and was employed by the Bureau of Investigations, Service and Enforcement, later the Bureau of Safety and Compliance, as an electrical engineer. I participated as technical advisor to Commission Staff Attorneys in eminent domain proceedings, and in proceedings involving the siting and construction of high voltage transmission lines. I also acted as technical advisor to Consumer Services Representatives in the Commission's Bureau of Consumer Services on customer complaints involving character of service provided by electric utilities.

In August 1980, I was assigned to the Valuation Section of the Electric Division of the Bureau of Rates as a valuation engineer responsible for review and evaluation of claims for depreciation, fuel inventory, materials and supplies, and plant held for future use in electric rate proceedings before the Commission.

In October of 1980, I attended a special Depreciation Training Program sponsored by Western Michigan University in Kalamazoo, Michigan, entitled Fundamentals of Service Life Forecasting.

In August of 1981, I attended a special Depreciation Training Program sponsored by Western Michigan University in Kalamazoo, Michigan, entitled Dynamics of Life Estimation.

I was a valuation engineer in the following major rate proceedings before the Pennsylvania Public Utility Commission: (1) the Philadelphia Electric Company at Docket Number R-80061225; (2) the Metropolitan Edison Company at Docket Number R-80051196; (3) the Pennsylvania Electric Company at Docket Number R-80051197; (4) UGI-Luzerne Electric at Docket Number R-80019303; (5) Pennsylvania Power Company at Docket Number R-811510; (6) Philadelphia Electric Company at Docket Number R-811626; (7) Pike County Light and Power Company at Docket Number R-821857; (8) Duquesne Light Co. at Docket Number R-821945; (9) Metropolitan Edison Company at Docket Number R-822249; (10) Pennsylvania Electric Company at Docket Number R-822250; (11) Pennsylvania Power Company at Docket Number R-832409;

(12) Pennsylvania Electric Company (Steam Heat) at Docket Number R-832513; (13) Metropolitan Edison Company at Docket Number R-832549; (14) Pennsylvania Electric Company at Docket Number R-832550; (15) Philadelphia Electric Company at Docket Number R-842590; (16) Duquesne Light Company at Docket Number R-842583; (17) Pennsylvania Power and Light Company at Docket Number R-842651; (18) Pennsylvania Power Company at Docket Number R-842740; (19) West Penn Power Company at Docket Number R-842632; (20) Metropolitan Edison Co. at Docket Number R-842770; (21) Pennsylvania Electric Company at Docket Number R-842771; and (22) Duquesne Light Company at Docket Number R-850021.

I have testified in the following cases:

- (1) West Penn Power Company at I.D. 236.
- (2) Philadelphia Electric Company at R-8006225.
- (3) Metropolitan Edison Company at R-80051196.
- (4) Pennsylvania Power Company at R-811510.
- (5) Philadelphia Electric Company at R-811626.
- (6) West Penn Power Company at A-00103260.
- (7) Metropolitan Edison Company at R-822249.
- (8) Pennsylvania Electric Company at R-822250.
- (9) Philadelphia Electric Company at R-842590.
- (10) Duquesne Light Company at R-842583.
- (11) Pennsylvania Power and Light Company at R-842651.
- (12) West Penn Power Company at R-842632.
- (13) Pennsylvania Electric Company at R-842771.
- (14) Duquesne Light Company at R-850021.

Staff Exhibit No. TVP-1
Witness: Tolbert V. Prowell
Date:

PENNSYLVANIA PUBLIC UTILITY COMMISSION

v.

PHILADELPHIA ELECTRIC COMPANY

Docket No. R-850152

Exhibit to Accompany the

Direct Testimony

of

T. V. Prowell

Concerning:

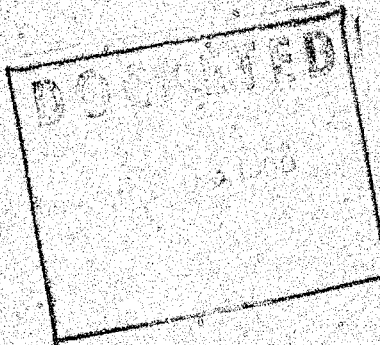
Coal Inventory

Materials & Supplies

R-850152

Summary of Adjustments
Electric Materials & Supplies
\$000

| | | |
|----------------------------------|-------------------|-------------------|
| Coal Inventory Claim | \$18,356 | |
| Staff Adjustment | <u>(\$ 1,624)</u> | |
| | | \$16,732 |
| Oil Inventory Claim | | \$19,328 |
| Plant Materials & Supplies Claim | \$53,570 | |
| Staff Adjustment | <u>(\$ 2,431)</u> | |
| | | \$51,139 |
| Tools Claim | | 2,322 |
| Stores Expense Claim | | <u>1,033</u> |
| Staff Allowance, Electric M&S: | | <u>\$90,554</u> |
| Staff Adjustment, Electric M&S: | | <u>(\$ 4,055)</u> |



January 29, 1985

D. P. Scott, Controller

Dear Sir:

Attached is a report of the Inventory Audit of Materials and Supplies at the Limerick Generating Station, Storeroom #348.

The value of the storeroom has increased significantly since the last inventory in September 1982 - from 747 material codes valued at \$54,419 to 7,715 codes valued at \$2,366,752 in October 1984.

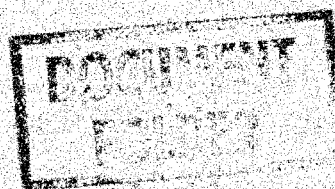
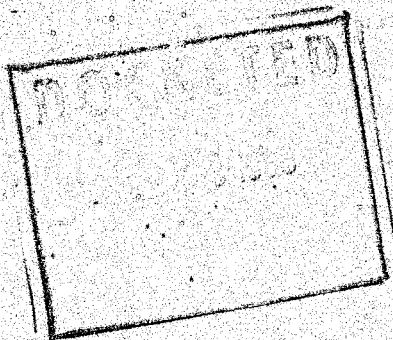
Two areas, not normally reviewed as part of regular IAS sample routines, involved Bechtel purchase orders for procurement of PECO materials and requests for new storeroom materials. Both areas were discussed with Stores management and to the extent of review, were considered satisfactory. Overall storeroom performance is considered good.

Very truly yours,

R. J. Heist

Internal Auditor

Attachment



Inventory of Materials and Supplies of 7
Limerick Generating Station
Storeroom #348

Scope:

The scope of the inventory audit included a physical count of a statistical sample of materials and supplies charged to Storeroom #348 at the Limerick Generating Station. In addition, reviews of other selected areas of the Stores operations were made.

Objective:

The objective of the inventory audit was to validate accounting accuracy of the Inventory Management system balance as of October 26, 1984 by using statistical sampling and to determine that other selected areas of storeroom operations were being properly handled in accordance with corporate and departmental guidelines.

Statistical Sample (IAS):

Five hundred eighty (7.2%) of the 8,095 material codes with balances were physically counted. The IAS sample included \$1,588,823 (64.9%) of the \$2,446,767 book value of inventory. It should be noted that the value of inventory at the Limerick Storeroom was probably understated by about \$400,000, as of year end 1984, due to start-up problems associated with the Bechtel purchase of operational spare parts for the plant, as mentioned later in report. No estimate of the under valuation is currently available for October 26, 1984, the date of the inventory balance. Plant Accounting, Accounts Payable, and Purchasing are addressing the problem, and corrective action will be made shortly.

Requests for New Storeroom Material -

"Bulk Letters" are requests prepared by Bechtel, for new storeroom materials which require assigning of PECO material code numbers before orders can be placed by Bechtel. The requests first are reviewed and approved by PECO station operating personnel and then sent to Stores Standards Section for application of Stores material code numbers. A review of one week's accumulation of Bulk Letters was made to determine possible causes for delays (usually 60-70 days) before materials can be ordered.

The delays were attributed primarily to the Stores Standards Section, and the Supervisor summarized his workload as follows:

| | |
|----------|--|
| 7/31/84 | Backlog: 565 Bulk Letters; 4,734 codes |
| 8/31/84 | Backlog: 531 Bulk Letters; 4,180 codes |
| 9/30/84 | Backlog: 586 Bulk Letters; 3,983 codes |
| 10/31/84 | Backlog: 441 Bulk Letters; 3,099 codes |
| 11/30/84 | Backlog: 346 Bulk Letters; 2,773 codes |

The Supervisor stated that a significant part of his November backlog could be completed in December unless an unusually large number of Bulk Letters was received. The Superintendent, Stores felt that adequate manpower was being dedicated, at this point, to clean up the backlog of Bulk Letters.

Bechtel Purchase Orders -

Effective July 1, 1984, PECO Purchasing Department requested Bechtel Construction, Inc. to temporarily assume the duties of procuring operational spare parts and materials for Limerick Generating Station. Purchasing stated that it was unable to meet the needs of Limerick, at the time, and that expected duration of the Bechtel assistance was 12-18 months. According to terms of the agreement, Bechtel is to pay for the ordered materials and, in turn, PECO will be billed at their cost, plus the associated cost of labor with a 28 percent markup. Two hundred seventy eight payments for \$212,102 were made by Bechtel during August, September, and October. Associated labor cost was \$18,438, or about \$66 per order (PECO's cost is approximately \$70).

Review was made to determine if any of the materials purchased by Bechtel could have been obtained through the Central Stores Warehouse at Berwyn. It was found that five of the 278 orders reviewed were for materials stocked by Stores. However, the five orders represented only \$1,374.50, or two percent of the total amount ordered by Bechtel. The majority of the Purchase orders were for materials in material class #110 (material that is expected to be purchased one time only) and class #114 (spare parts for Limerick).

Open Orders -

"Release Number" is the sub-numbering system automatically generated by the Direct Delivery System (DDS). When storeroom personnel place more than one order for a coded item during the calendar year DDS automatically assigns the next higher release number. Review of open purchase orders and open release numbers for each yearly purchase order showed a duplicate release number that should not have been created by DDS. Review with the Stores Technical Assistant proved that the instance was not a computer programming error. The duplicate release number was entered into the system manually by an unknown person, apparently in error.

To preclude this possible error in the future, a program fix was made to significantly upgrade access authority in this area.

Open Orders, Receiving, and Bin Section 41 -

All incoming materials enter the storeroom through the receiving area which is a non-secure area. Stores personnel verify that the material received matches quantity ordered, create a receiver, and forward the material to the storeroom proper, which is a secure area. The material is then temporarily held in Bin Section 41 until stores personnel in the secure area assign it a permanent location.

It was noted that a copy of the "Bin 41 Utilization Report" (listing all materials held, pending permanent location) listed nine material codes which could not be located in Bin 41. The materials had been put away in permanent locations without an appropriate bin transfer being made; the materials, one code worth nearly \$50,000, were in essence, lost. The errors were referred to the Storekeeper, materials found, and records corrected.

Open Stock Transfers -

A review of "open" stock transfers as of November 15, 1984 indicated that 32 codes of materials on 17 stock transfers from the main Stores Warehouse at Berwyn were unresolved. During the review it was determined that seven codes had been received and seven codes were on backorder (still open) at Berwyn. The remaining 18 codes should have been considered complete by Limerick, because Berwyn had shipped part of the requested amount along with an under shipment report. An under shipment report indicated that the sending storeroom cannot, at the time, send the full, requested amount and that the requesting storeroom should place another order for the remaining material desired.

A listing of the material code transfers that should have been considered complete was given to the General Storekeeper who made review, correction, and re-instructed his personnel in this area.

Inventory Management System (IMS) Compare -

The Supervising Storekeeper stated that the storeroom attempts to reconcile IMS/DDS differences (listed from a computer match of stock quantities on the two systems) approximately two weeks after listing is received allowing time for General Accounting to resubmit workorder kick-outs and other transactions that have been posted to the DDS but not the IMS in the previous month. However, 24 code numbers with the same differences shown on both September and November 1984 listings had not been reconciled as of December 4, 1984. The General Storekeeper was unable to explain, but stated that he would monitor this operation more closely in the future.

DDS/IMS balances for four code numbers which were also included in the IAS sample were not in agreement as of December 4, 1984. Two differences were caused when non-DDS storerooms created, referenced, and sent Stock Transfers to the IMS. Stock Transfers for the same codes were also generated by the DDS and sent to the IMS thus duplicating the transactions between DDS and non-DDS storerooms and has reinstructed Stores personnel. The two other differences were only temporary, caused when transactions posted to the DDS and IMS on two different dates. Balances for both of these codes were in agreement when the codes were inventoried.

Open Purchase Orders -

A review of open purchase orders using a "Document Status Report" dated November 8, 1984 was made to determine the status of ten orders shown on the report with no vendor's name and certain other irregularities. In seven instances, Purchasing neglected to send a copy of the purchase order containing the vendor's name to the storeroom. In three instances Purchasing did send updated purchase order information but the storeroom failed to correct the open purchase order file. Errors were referred to the Storekeeper and corrected.

Material Quantity and Location Errors -

Eight codes (1.3% of the 580 sample codes) had quantity or location errors which were referred to the General Storekeeper and corrected.

Zone 98 -

Zone 98 is an area designated for materials with a "Shelf Life", period beyond which it is unacceptable for plant use, which were waiting proper documentation from the vendor. PECO Engineering designated the length of time allowed for shelf life. A review of this area was made, and the eight codes included in the sample were counted. The system appeared adequate and no exceptions were noted.

Zone 99 -

Zone 99 is the area where material is held because it is incorrect or associated documentation is incorrect. During the review of material in this zone, there were 39 receivers being held for further disposition. The dates of the receivers ranged from April to November 1984. All material in the zone was counted and compared with "Held" receivers. No significant exceptions were noted. However, follow-up on "Held" receivers was being done on a low priority basis. The storekeeper has agreed to follow-up receivers on a more timely basis.

Philadelphia Electric Company Internal Auditing Division
 Inventory Audit System
 Inventory of Materials and Supplies
 Storeroom 348 Summary
Limerick Generating Station

| | <u>Sample</u> | <u>High Value</u> | <u>Total</u> |
|-------------------------------|--------------------|--------------------|--------------------|
| Total Items in Inventory | <u>7,963</u> | <u>132</u> | <u>8,095</u> |
| Book Value of Inventory | <u>\$1,173,381</u> | <u>\$1,273,386</u> | <u>\$2,446,767</u> |
| Total Items Counted | <u>448</u> | <u>132</u> | <u>580</u> |
| Book Value of Items Counted | <u>\$ 315,437</u> | <u>\$1,273,386</u> | <u>\$1,588,823</u> |
| Percent of Items Counted | <u>5.6%</u> | <u>100%</u> | <u>7.2%</u> |
| Percent of Value Verified | <u>26.9%</u> | <u>100%</u> | <u>64.9%</u> |
| Audit Value of Items Verified | <u>\$ 315,279</u> | <u>\$1,266,634</u> | <u>\$1,581,913</u> |
| Absolute Net Discrepancy | <u>\$ 158</u> | <u>\$ 6,752</u> | <u>\$ 6,910</u> |
| Absolute Gross Discrepancy | <u>\$ 237</u> | <u>\$ 6,824</u> | <u>\$ 7,061</u> |
| Confidence Level | <u>95%</u> | | |
| Level of Precision Achieved | <u>.1%</u> | | |

Sample Ratio:

| | | | | | |
|---|--------------------|---|--------------------|---|--------------------|
| Book Value | <u>Audit Value</u> | = | <u>\$ 315,279</u> | = | <u>.9995</u> |
| | | | <u>\$ 315,437</u> | | |
| Book Value: | <u>Sample</u> | | <u>High Value</u> | | <u>Total</u> |
| Ratio: | <u>\$1,173,381</u> | | <u>\$1,273,386</u> | | <u>\$2,446,767</u> |
| Inferred Value: | <u>.9995</u> | | | | |
| Sampling Error (Plus or Minus) | <u>\$1,172,794</u> | | <u>\$1,266,634</u> | | <u>\$2,439,428</u> |
| Estimated Difference Between Book Value and the Audit Value | <u>\$ 1,115</u> | | | | |
| High Value = | <u>\$ 587</u> | | <u>\$ 6,752</u> | | <u>\$ 7,339</u> |
| | <u>\$ 2,500</u> | | | | |

Q. IR-Staff-LIM-5. Provide the amount of Limerick Materials and Supplies in Storeroom #348 which was purchased by Bechtel and remains in the Limerick Materials and Supplies Account.

A. IR-Staff-LIM-5. All Limerick plant operating and maintenance materials and supplies have been obtained by PECO purchasing supplemented by Bechtel Field Procurement (acting as PECO's purchasing agent), mostly for start-up and operational spare parts. All of this purchased material is the property of PECO and as such is posted to the M&S inventory management system accounts for Storeroom #348 at Limerick. Issues from Storeroom #348 are from total stock and is not segregated by purchaser.

Responsible Witnesses: T.P. Hill, Jr., Asst. Manager-Rate Division
R.W. Wright, Supervisor-Financial Division

Staff Statement MJM-1 ^{EXS} MJM-1-A
1-29-86
Hbg
R-850152 SQm

RECEIVED

PENNSYLVANIA PUBLIC UTILITY COMMISSION

JAN 30 1986

v.

SECRETARY'S OFFICE

Public Utility Commission

Philadelphia Electric Company

R-850152

Direct Testimony
of
Martin J. Mayer

DOCUMENT
FOLDER
RECEIVED
FEB 08 1986

Concerning Decommissioning Expences

1 This testimony presents four adjustments to the Company's claims
2 for decommissioning expenses.

3
4
5 1 Extending the amortization of the \$1,355,000
6 Decommissioning funds to match the 1,037,000
7 life of the units. 2,392

8
9 2 Amortizing the Reserve Deficiency \$2,229,000
10 over the remaining life of the
11 units instead of the 5 years the
12 Company proposes.

13 3 Apportioning the liability for \$ 680,000
14 decommissioning Salem 2 after
15 taking the sale to JCP&L into
16 account.

17
18 4 Removing the claim for \$ 691,000
19 decommissioning Peach Bottom 1.

20 TOTAL (eliminate double counting) \$3,806,000
21
22
23
24
25
26
27

1 Q. Please state your name and business address.

2
3 A. My name is Martin J. Mayer. My Business address is P.O. Box
4 3265 Harrisburg, PA 17120.

5
6
7 Q. By whom are you employed and in what capacity?

8 A. I am employed by the Pennsylvania Public Utility Commission
9 as a Fixed Utility Valuation Engineer in the Electric
10 Division of the Bureau of Rates.

11
12
13 Q. What is your educational background?

14
15 A. In 1979 I received a B. S. in Mechanical Engineering from
16 the Carnegie-Mellon University.

17
18
19 Q. Please outline your professional experience.

20 A. Upon graduation from college I was employed by the Union
21 Carbide Corporation, Fremont, Ohio; as a Mechanical Engineer
22 in their Plant Engineering Department. In 1980 I joined
23 Schlumberger Technology Corporation as a Junior Field
24 Engineer at their Houma, Louisiana office. In 1981 I was
25
26
27

1 promoted to Field Engineer, and in 1982 to Senior Field
2 Engineer. In 1983 I was hired by The Pennsylvania Public
3 Utility Commission as a Fixed Utility Valuation Engineer
4 Trainee. In 1984 I was promoted to my present position.
5
6

7 Q. What is the purpose of your testimony?

8 A. The purpose of my testimony is to make certain adjustments
9 to the expenses claimed by PECO for decommissioning their
10 nuclear generating units.
11

12 I am proposing 4 separate adjustments to these expenses as
13 shown on Schedule 1 of Staff Exhibit MJM-1A.
14
15

16 Q. Please describe PECO's claim for nuclear decommissioning
17 expenses.

18 A. The claim consists of two parts; an annual accrual of
19 \$10,021,000 plus \$2,870,000 reflecting a five year
20 amortization of an adjustment to bring the reserve up to the
21 level required by the current decommissioning study. As
22 shown in PECO Exhibit TPH-2, D-15.
23
24
25

26 Q. What is your first adjustment?
27

1 A. PECO is claiming decommissioning fund accruals for Peach
2 Bottom and Salem in an amount necessary to have the funds
3 fully paid-up by 2008. However Peach Bottom 2 and 3 will
4 remain in service until 2009, Salem 1 will remain in service
5 until 2012, and Salem 2 until 2016. As shown in DR-Staff-
6 RED-4, Schedule 1 of Staff Exhibit MJM-1B.

7
8 The vast majority of decommissioning expenses will occur
9 after the units end commercial operation. Therefore, the
10 Decommissioning reserves do not need to be fully funded
11 until the end of each unit's service life.

12 My proposal is to extend the amortization period until the
13 retirement year for each of the units. This will add one
14 year to the amortization period for Peach Bottom 2 and 3,
15 four years for Salem 1 and eight years for Salem 2.

16
17
18 Q. What is the amount of this adjustment?

19
20 A. A reduction of \$1,355,000 from test year expenses. As shown
21 on Schedule 3 of Staff Exhibit MJM-1A.

22
23
24 Q. Please discuss your second adjustment.

1 A. My second proposal eliminates the five year amortization of
2 the reserve deficiency, and instead amortizes this amount
3 over the remaining life of the units.
4
5

6 Q. Why is this better than the company's method?
7

8 A. My method is fair to all ratepayers, both current and
9 future. The Reserve Deficiency has developed as the result
10 of a re-evaluation of decommissioning fund needs, as well as
11 inadequate earnings of the fund historically to keep pace
12 with the cost increases determined by that re-evaluation,
13 and as such, is not the liability of any particular group of
14 ratepayers. To charge only current ratepayers for this
15 expense is simply unfair.
16
17

18 Q. How did you develop this adjustment?
19

20 A. First I reviewed the estimated cost of decommissioning each
21 individual unit. From that amount I removed the estimated
22 amount in the reserve for that unit. The unfunded dollars
23 were then divided by the remaining life of the unit. This
24 calculation resulted in the total annual accrual for each
25 unit.
26
27

Q. What is the amount of this adjustment?

1 A. This adjustment reduces test year expenses by \$2,229,000.
2 As shown on Schedule 4 of Staff Exhibit MJM-1A.
3
4

5 Q. Please discuss your third adjustment.

6
7 A. My third adjustment reflects the fact that Salem Unit 2 has
8 not been used by Pennsylvania Jurisdictional Ratepayers for
9 its entire life.
10

11 Q. What is the history of this unit?
12

13 A. Salem 2 first went into operation in 1981. For the first
14 four years the output of the unit was sold to Jersey Central
15 Power & Light. Since January 1, 1985 the unit has been used
16 by Pennsylvania ratepayers. This unit is expected to have a
17 service life of 35 years. Thus Pennsylvania ratepayers will
18 receive benefits for only 31 of the expected years of its
19 life.
20

21 With this in mind it is unfair to expect Pennsylvania
22 ratepayers to pay for 100% of the costs of decommissioning.
23
24

25 Q. What is your proposal?
26
27

1 A. I propose to limit the decommissioning liability of
2 Pennsylvania ratepayers to their proportional share of the
3 life of Salem 2, that is $31/35$ 'ths or 88.6%. Thus the
4 estimated total cost that Pennsylvania ratepayers should be
5 liable for should be reduced to \$33,960,000 (based upon the
6 most recent study).

7
8
9 Q. Did PECO make payments to the decommissioning reserve during
10 the time that the output of Salem 2 was being sold to JCP&L?

11 A. Yes. However if due to management's decisions these funds
12 prove to be insufficient to pay the 11.4% decommissioning
13 costs associated with service provided to JCP&L, then PECO's
14 ratepayers should not be expected to make up the difference.
15

16
17 Q. Does your proposal properly credit payments made to the
18 Salem 2 reserve before January 1, 1985?

19
20 A. Yes. Only funds deposited after January 1, 1985 and their
21 associated interest have been included in the calculations,
22 shown on Schedule 5 of Staff Exhibit MJM-1A. Hence pre-
23 January 1, 1985 responsibility has been removed from both
24 the estimate and the reserve.
25

26
27 Q. What is the amount of this adjustment?

1 A. This adjustment reduces test year expenses by \$680,000.
2 (Schedule 5).
3
4

5 Q. Please describe your fourth adjustment.

6 A. I propose to eliminate the collection of ratepayers funds
7 for the decommissioning of Peach Bottom Unit 1. Peach
8 Bottom Unit 1 is not currently used and useful; it does not
9 provide any benefit to the current ratepayers, and it is not
10 even included in rate base.
11
12

13 Q. Did Peach Bottom Unit 1 ever provide service?
14

15 A. Yes. This unit began operation in 1967, and was retired in
16 1974. Any claim for decommissioning should have been made
17 at the time the unit was in operation. This is the first
18 time that PECO is making this claim, twelve years after the
19 unit was shut down.
20
21

22 Q. What is the amount of this adjustment?
23

24 A. This adjustment reduces test year expenses by \$691,000. As
25 shown on Schedule 6 of Staff Exhibit MJM-1A.
26
27

Q. What is the total amount of all your adjustments?

1 A. After eliminating the effects of double counting, a
2 reduction in test year expenses of \$3,806,000. As shown on
3 Schedule 7 of Staff Exhibit MJM-1A.
4

5
6 Q. Does this conclude your testimony?
7

8 A. Yes it does.
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27

PENNSYLVANIA PUBLIC UTILITY COMMISSION

v.

Philadelphia Electric Company

R-850152

Exhibits to accompany the

Direct Testimony

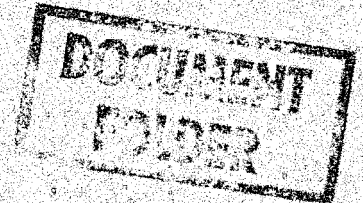
of

Martin J. Mayer

Concerning Decommissioning Expences

Summary (\$000)

| | Yearly | Amortization | Total |
|-------------------------------|--------|--------------|--------|
| Company Claim | 10,021 | 2,870 | 12,891 |
| Extended Amortization | 9,351 | 2,185 | 11,536 |
| Amortizing Reserve Deficiency | | | 10,662 |
| Salem 2 Reapportionment | 9,859 | 2,352 | 12,211 |
| Peach Bottom 1 Elimination | 9,330 | 2,870 | 12,200 |
| All | | | 9,085 |
| Less Company Claim | | | 12,891 |
| Total adjustment | | | -3,806 |



COMPANY CLAIM

SCHEDULE 2

| UNIT | DECOMISS. EST. 6.86 | AMORT. PERIOD | YEARLY CLAIM | YEARS TO 6/86 | RESERVE REQUIREME. | ACTUAL RESERVE | 5 YEAR AMORT. | TOTAL ANNUAL |
|----------------|------------------------|------------------|-----------------|------------------|-----------------------|-------------------|------------------|-----------------|
| PEACH BOTTOM 2 | 46,030 | 28 | 1,644 | 6.14 | 10,094 | 6,305 | 758 | 2,402 |
| PEACH BOTTOM 3 | 46,030 | 28 | 1,644 | 6.14 | 10,094 | 6,332 | 752 | 2,396 |
| SALEM 1 | 38,342 | 28 | 1,359 | 6.14 | 8,406 | 4,944 | 692 | 2,061 |
| SALEM 2 | 38,342 | 27 | 1,420 | 4.72 | 6,702 | 3,365 | 667 | 2,087 |
| LIMERICK 1 | 123,629 | 38 | 3,253 | 0.00 | 0 | 0 | 0 | 3,253 |
| PEACH BOTTOM 1 | 15,197 | 22 | 691 | 0.00 | 0 | 0 | 0 | 691 |
| TOTAL | 387,570 | | 10,021 | | 35,296 | 20,946 | 2,870 | 12,691 |

EXTENDED AMORTIZATION PERIOD

SCHEDULE 3

| UNIT | DECOMISS. EST. 6.86 | AMORT. PERIOD | YEARLY CLAIM | YEARS TO 6/86 | RESERVE REQUIREME. | ACTUAL RESERVE | 5 YEAR AMORT. | TOTAL ANNUAL |
|----------------|------------------------|------------------|-----------------|------------------|-----------------------|-------------------|------------------|-----------------|
| PEACH BOTTOM 2 | 46,030 | 29 | 1,587 | 6.14 | 9,744 | 6,305 | 688 | 2,275 |
| PEACH BOTTOM 3 | 46,030 | 29 | 1,587 | 6.14 | 9,744 | 6,332 | 682 | 2,269 |
| SALEM 1 | 38,342 | 32 | 1,198 | 6.14 | 7,356 | 4,944 | 482 | 1,680 |
| SALEM 2 | 38,342 | 36 | 1,065 | 4.72 | 5,027 | 3,365 | 332 | 1,397 |
| LIMERICK 1 | 123,629 | 38 | 3,253 | 0.00 | 0 | 0 | 0 | 3,253 |
| PEACH BOTTOM 1 | 15,197 | 23 | 661 | 0.00 | 0 | 0 | 0 | 661 |
| TOTAL | 307,570 | | 9,351 | | 31,871 | 20,946 | 2,185 | 11,536 |
| COMPANY CLAIM | 307,570 | | 10,021 | | 35,296 | 20,946 | 2,870 | 12,891 |
| DIFFERENCE | 0 | | 670 | | 3,425 | 0 | 685 | 1,355 |

AMORTIZING RESERVE DEFICIENCY

SCHEDULE A

| UNIT | DECOMISS. EST. 6.86 | ACTUAL RESERVE | AMORT. PERIOD | TOTAL CLAIM |
|----------------|------------------------|-------------------|------------------|----------------|
| PEACH BOTTOM 2 | 46,030 | 6,305 | 22 | 1,806 |
| PEACH BOTTOM 3 | 46,030 | 6,332 | 22 | 1,804 |
| SALEM 1 | 38,342 | 4,944 | 22 | 1,518 |
| SALEM 2 | 38,342 | 3,365 | 22 | 1,590 |
| LIMERICK 1 | 123,629 | 0 | 38 | 3,253 |
| PEACH BOTTOM 1 | 13,197 | 0 | 22 | 691 |
| TOTAL | 307,570 | 20,946 | | 10,662 |
| COMPANY CLAIM | 307,570 | 20,946 | | 12,891 |
| DIFFERENCE | 0 | 0 | | 2,229 |

SALEM 2 ADJUSTMENT

SCHEDULE 5

| UNIT | DECOMISS. EST. 6/86 | AMORT. PERIOD | YEARLY CLAIM | YEARS TO 6/86 | RESERVE REQUIREME. | ACTUAL RESERVE | 5 YEAR AMORT. | TOTAL ANNUAL |
|----------------|------------------------|------------------|-----------------|------------------|-----------------------|-------------------|------------------|-----------------|
| PEACH BOTTOM 2 | 46,030 | 28 | 1,644 | 6.14 | 10,094 | 6,305 | 758 | 2,402 |
| PEACH BOTTOM 3 | 46,030 | 28 | 1,644 | 6.14 | 10,094 | 6,332 | 752 | 2,396 |
| SALEM 1 | 38,342 | 28 | 1,369 | 6.14 | 8,406 | 4,944 | 692 | 2,061 |
| SALEM 2 | 33,960 | 27 | 1,258 | 1.50 | 1,887 | 1,139 | 150 | 1,408 |
| LIMERICK 1 | 123,629 | 38 | 3,253 | 0.00 | 0 | 0 | 0 | 3,253 |
| PEACH BOTTOM 1 | 15,197 | 22 | 691 | 0.00 | 0 | 0 | 0 | 691 |
| TOTAL | 303,188 | | 9,859 | | 30,481 | 18,720 | 2,352 | 12,211 |
| COMPANY CLAIM | 307,570 | | 10,021 | | 35,296 | 20,946 | 2,870 | 12,891 |
| DIFFERENCE | 4,382 | | 162 | | 4,815 | 2,226 | 518 | 680 |

PEACH BOTTOM 1 ELIMINATION

SCHEDULE 6

| UNIT | DECOMISS. EST. 6.86 | AMORT. PERIOD | YEARLY CLAIM | YEARS TO 6/86 | RESERVE REQUIREME. | ACTUAL RESERVE | 5 YEAR AMORT. | TOTAL ANNUAL |
|----------------|------------------------|------------------|-----------------|------------------|-----------------------|-------------------|------------------|-----------------|
| PEACH BOTTOM 2 | 46,030 | 28 | 1,644 | 6.14 | 10,094 | 6,305 | 758 | 2,402 |
| PEACH BOTTOM 3 | 46,030 | 28 | 1,644 | 6.14 | 10,094 | 6,332 | 752 | 2,396 |
| SALEM 1 | 38,342 | 28 | 1,369 | 6.14 | 8,406 | 4,944 | 692 | 2,061 |
| SALEM 2 | 38,342 | 27 | 1,420 | 4.72 | 6,702 | 3,365 | 667 | 2,087 |
| LIMERICK 1 | 123,629 | 38 | 3,253 | 0.00 | 0 | 0 | 0 | 3,253 |
| PEACH BOTTOM 1 | 0 | 22 | 0 | 0.00 | 0 | 0 | 0 | 0 |
| TOTAL | 292,373 | | 9,330 | | 35,296 | 20,946 | 2,870 | 12,200 |
| COMPANY CLAIM | 307,570 | | 10,021 | | 35,296 | 20,946 | 2,870 | 12,891 |
| DIFFERENCE | 15,197 | | 691 | | -0 | 0 | 0 | 691 |

ALL ADJUSTMENTS

SCHEDULE 7

| UNIT | DECOMISS. EST. 6.86 | ACTUAL RESERVE | AMORT. PERIOD | TOTAL CLAIM |
|----------------|------------------------|-------------------|------------------|----------------|
| PEACH BOTTOM 2 | 46,030 | 6,305 | 23 | 1,727 |
| PEACH BOTTOM 3 | 46,030 | 8,332 | 23 | 1,726 |
| SALEM 1 | 38,342 | 4,944 | 26 | 1,285 |
| SALEM 2 | 33,960 | 1,139 | 30 | 1,094 |
| LIMERICK 1 | 123,629 | 0 | 38 | 3,253 |
| PEACH BOTTOM 1 | 0 | 0 | 22 | 0 |
| TOTAL | 287,991 | 10,720 | | 9,085 |
| COMPANY CLAIM | 307,570 | 35,296 | | 12,891 |
| DIFFERENCE | 19,579 | 16,576 | | 3,806 |