

ORIGINAL

COMMONWEALTH OF PENNSYLVANIA
PUBLIC UTILITY COMMISSION

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Pennsylvania Public Utility Commission, et al. :
vs. Philadelphia Electric Company. :
Investigation into a requested \$660 million :Docket No.
annual rate increase. :R-850152

Further hearing

-----X
Pages 127 through 254

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Hearing Room 2
DEC 13 1985 North Office Building
SECRETARY'S OFFICE Harrisburg, Pennsylvania
Public Utility Commission
Wednesday, December 11, 1985

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

BEFORE:

JOSEPH MATUSCHAK, Administrative Law Judge

APPEARANCES:

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(For PUC Trial Staff)

DOCKETED
DEC 18 1985

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C O N T E N T S

| <u>WITNESSES</u> | <u>DIRECT</u> | <u>CROSS</u> | <u>REDIRECT</u> | <u>RECROSS</u> |
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NUMBER

FOR IDENTIFICATION IN EVIDENCE

Philadelphia Electric Company

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Office of Consumer Advocate

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P R O C E E D I N G S

1
2 ADMINISTRATIVE LAW JUDGE JOSEPH MATUSCHAK: We can
3 proceed.

4 MR. MacGREGOR: I'll call Alfred Wroblewski.
5 Whereupon,

6 ALFRED WROBLEWSKI
7 having been duly sworn, testified as follows:

8 JUDGE MATUSCHAK: You may be seated.

9 MR. MacGREGOR: Your Honor, I have previously
10 distributed to all the parties, to the court reporter and
11 to Your Honor copies of the document entitled, "Direct
12 Testimony of Alfred Wroblewski, Depreciation, Annual
13 Accrual, Accrued Reserve and Net Salvage."

14 I would ask that it be marked for identification
15 purposes as PECO Statement No. 21.

16 JUDGE MATUSCHAK: Very well.

17 (Whereupon, the document was
18 marked PECO Statement No. 21
for identification.)

19 MR. MacGREGOR: I have also distributed to the
20 parties, to the court reporter and to Your Honor copies of
21 three documents. The first is entitled, "Philadelphia
22 Electric Company, 1985 Electric Rate Filing, 1985 Deprecia-
23 tion Study, Electric and Common Plant." I would ask that it
24 be marked for identification as Exhibit AW-1.

25 JUDGE MATUSCHAK: Very well.

1 (Whereupon, the document was
2 marked PECO Exhibit AW-1 for
identification.)

3 MR. MacGREGOR: The second document is entitled,
4 "Philadelphia Electric Company, Electric Rate Filing, Plant
5 and Depreciation Claimed in the Historic Test Year, 12
6 Months Ended June 30, 1985," and I would ask that it be
7 marked for identification as Exhibit AW-2.

8 JUDGE MATUSCHAK: Very well.

9 (Whereupon, the document was
10 marked PECO Exhibit AW-2 for
identification.)

11 MR. MacGREGOR: Finally, the third document is
12 entitled, "Philadelphia Electric Company, Electric Rate
13 Filing, Plant and Depreciation Claimed in the Future Test
14 Year, 12 Months Ended June 30, 1986." I would ask that it
15 be marked for identification as PECO Exhibit AW-3.

16 JUDGE MATUSCHAK: So marked.

17 (Whereupon, the document was
18 marked PECO Exhibit AW-3 for
identification.)

19 DIRECT EXAMINATION

20 BY MR. MacGREGOR:

21 Q Mr. Wroblewski, do you have before you copies of
22 the four documents that have been marked for identification
23 as PECO Statement No. 21 and Exhibits AW-1, AW-2 and AW-3?

24 A Yes, sir, I do.

25 Q Were these documents prepared by you or under

1 your direct supervision?

2 A. Yes, they were.

3 Q. Mr. Wroblewski, do you have any corrections or
4 changes to make to these four documents at this time?

5 A. Yes. Since these documents were prepared there
6 have been a couple of changes and corrections. In Exhibit
7 AW-3, page A2, there was a change in the terminal date for
8 the production units Delaware 7 and 8, from 1988 as filed to
9 1990. And this produces a reduction in depreciation from
10 the amount shown in page A2 of \$5,202,609 to \$2,613,446.

11 There was also a correction made in Exhibit AW-1,
12 Appendix B, pages 3, 4 and 12. These changes correct an
13 error found in the survivor data for Accounts 312 and 322.

14 This correction is primarily for the record. It does
15 not change any of the estimates that were based on this data.

16 Q. Thank you, Mr. Wroblewski.

17 With those changes and corrections, is the information
18 contained in PECO Statement No. 21 and Exhibits AW-1, AW-2
19 and AW-3 true and correct to the best of your knowledge?

20 A. Yes, it is.

21 MR. MacGREGOR: Your Honor, I would ask that the
22 documents that have been marked for identification as PECO
23 Statement No. 21 and Exhibits AW-1, AW-2 and AW-3 be admitted
24 as evidence in this proceeding, subject to any timely motions
25 to strike or objections.

1 JUDGE MATUSCHAK: Under those conditions, the motion
2 is granted.

3 (Whereupon, the documents
4 marked PECO Statement No. 21
5 and PECO Exhibits AW-1, AW-2
6 and AW-3 were received in
7 evidence.)

8 MR. MacGREGOR: Thank you, Your Honor. Mr. Wroblew-
9 ski is available for cross-examination.

10 JUDGE MATUSCHAK: Very well. Staff?

11 CROSS-EXAMINATION

12 BY MS. SMITH:

13 Q Good morning, Mr. Wroblewski.

14 A Good morning.

15 Q I have one question, more in the nature of
16 discovery. Could you tell me what the remaining life of the
17 boiler at Eddystone 1 is?

18 A I would have to check in the exhibit, if you have
19 that.

20 Q If you could provide that for us --

21 A Provide it, yes, we will be glad to.

22 Q Sometime today?

23 A Yes, we will be happy to provide that.

24 MS. SMITH: That's all I have, Your Honor.

25 JUDGE MATUSCHAK: Consumer Advocate?

MR. RUBIN: Thank you, Your Honor.

Initially, I would like to have marked for

1 identification as OCA Exhibit No. 4 a three-page document
2 which we have so marked in the upper right hand corner.

3 JUDGE MATUSCHAK: Very well, it will be so marked.

4 (Whereupon, the document was
5 marked OCA Exhibit No. 4
6 for identification.)

6 MR. RUBIN: Thank you, Your Honor.

7 CROSS-EXAMINATION

8 BY MR. RUBIN:

9 Q. Mr. Wroblewski, OCA Exhibit No. 4 is an additional
10 response which we received from the company yesterday to
11 OCA Interrogatory Set 15, No. 6. Are you the witness who is
12 responsible for providing us with this information?

13 A. Could I have a minute to review this, please?
14 This is the first I believe that I have seen it.

15 (Witness perusing document.)

16 I have reviewed the exhibit, and I would be
17 responsible for certain portions of this response, namely
18 that dealing with depreciation, which is I believe Item c.

19 Q. Are you familiar with how this exhibit was
20 developed and how the net plant numbers which appear in the
21 last column on the last page of the exhibit were developed?

22 A. To some extent, I am. Again, to the extent that
23 this involves depreciation, I could probably respond to your
24 questions, and perhaps generally the rest of the material in
25 this response.

1 MR. RUBIN: Could we go off the record a moment, Your
2 Honor?

3 JUDGE MATUSCHAK: Yes.

4 (Discussion off the record.)

5 JUDGE MATUSCHAK: On the record.

6 BY MR. RUBIN:

7 Q Mr. Wroblewski, am I reading the last page of
8 this exhibit that is labeled "Attachment IR-OCA-15-6," am I
9 reading this page correctly? It appears that if we look at
10 Peach Bottom 2 and 3, the first entry on the page, that
11 those plants went into service in 1984, is that correct?

12 A That's correct.

13 Q And that PECO's original investment in its
14 portion of the plants was \$315.9 million, is that right?

15 A I think that is right, yes.

16 Q And by June 30, 1986, the company is projecting
17 that the net depreciated value of PECO's share of these
18 plants will be in excess of \$387 million, is that correct?

19 A Yes, sir, I believe that is correct.

20 Q So in this 11 and a half or 12 year period, capital
21 additions to the plant exceeded depreciation and retirements
22 by more than \$70 million, would that be correct?

23 A Yes, I think that is correct.

24 Q And would you agree that a similar occurrence
25 has taken place with the company's investments in its other

1 nuclear plants at Salem, though of course the dollar amounts
2 are a little bit different?

3 A. Well, if your question is, does the net plant
4 currently exceed the original investment, I think the answer
5 would be yes for Salem 1, and it would be yes for Salem 2,
6 and for common facilities, the Salem common, it would be
7 also yes.

8 However, as you point out, the dollars are not as
9 great as in the case of Peach Bottom 2 and 3.

10 Q. Would you accept subject to check that if you
11 were to total up the differences for Salem 1, Salem 2 and
12 the Salem common facilities, that in the roughly nine-year
13 period that Salem has been in service, the net depreciated
14 plant now exceeds the original investment by approximately
15 \$51 million?

16 A. I would respond yes, subject to check.

17 Q. Now, Mr. Wroblewski, would you also accept
18 subject to check that in the past 12 years, PECO's share of
19 capital additions at the Peach Bottom plants have totaled
20 approximately \$192 million?

21 A. Subject to check, I would say that is probably
22 correct.

23 MR. MacGREGOR: Mr. Rubin, are you deriving that
24 figure simply by summing the additions from 1975 through
25 1986 in the first column?

1 MR. RUBIN: Yes.

2 MR. MacGREGOR: Thank you.

3 BY MR. RUBIN:

4 Q And would you also accept that if that number is
5 correct, that represents approximately 60 percent of the
6 amount which the company originally paid for the plant back
7 in 1974?

8 A It's approximately 60 percent, yes.

9 Q And at Salem, PECO's share of the capital
10 additions has totaled approximately \$227 million, again
11 deriving that in the same way but summing it for Salem 1,
12 Salem 2 and the Salem common, would you accept that?

13 A Subject to check, yes.

14 Q And would you also accept that out of this
15 approximately \$227 million, that approximately \$93.5 million
16 of that or 41 percent were booked to Salem's common plant?

17 A I am not adding up those figures, but subject to
18 check, that would total the number of additions to Salem
19 common facilities.

20 Q And we would get that number just by totaling
21 1978 through 1986 under the heading, "Salem 100 Percent
22 Common Facilities," is that right?

23 A Yes.

24 Q... Thank you, Mr. Wroblewski.

25 MR. RUBIN: Thank you, Your Honor, that's all we have

1 Your Honor, at this time I would like to move into
2 evidence OCA Exhibit No. 4.

3 MR. MacGREGOR: No objection.

4 JUDGE MATUSCHAK: OCA Exhibit No. 4 is admitted into
5 evidence.

6 (Whereupon, the document
7 marked OCA Exhibit No. 4 was
8 received in evidence.)

9 JUDGE MATUSCHAK: Is there any further cross-
10 examination from the City of Philadelphia?

11 MR. RAINEY: The City of Philadelphia has no ques-
12 tions for this witness.

13 JUDGE MATUSCHAK: Any further cross-examination of
14 this witness?

15 MS. FERKIN: No.

16 MR. KLEPPINGER: I don't have any.

17 JUDGE MATUSCHAK: Any redirect?

18 MR. MacGREGOR: Just one or two questions, Your Honor.

19 REDIRECT EXAMINATION

20 BY MR. MacGREGOR:

21 Q Mr. Wroblewski, referring to the document that
22 has been moved into evidence as OCA Exhibit No. 4, would I
23 be correct that the dollar amounts listed for each of the
24 years 1974 through 1986 for the Peach Bottom column and
25 similarly for each of the Salem columns do not reflect
constant dollars but reflect dollars as expended in each of

1 the individual years?

2 A. Yes. They would reflect, those figures reflect
3 the current dollars in that year listed.

4 Q. Thank you.

5 MR. MacGREGOR: That's all I have, Your Honor.

6 JUDGE MATUSCHAK: Very well, thank you.

7 (Witness excused.)

8 MS. FERKIN: Your Honor, before we call the next
9 witness, may I raise a preliminary matter with respect to
10 the schedule for the rest of the week?

11 JUDGE MATUSCHAK: Very well.

12 MS. FERKIN: Your Honor, on tomorrow's schedule is
13 PECO Witness Mr. Carroll, and on Friday's schedule are PECO
14 Witnesses Mr. Hill and Mr. Williams.

15 I have reviewed the status of GEC discovery with
16 respect to these three witnesses, and I would request that
17 these witnesses be made available for cross-examination by
18 the Energy Council at a later date, based on the status of
19 our discovery.

20 JUDGE MATUSCHAK: What's the status of the discovery?

21 MR. MacGREGOR: Your Honor, there are several ques-
22 tions from the Governor's Energy Council Set II interroga-
23 tories that have not been answered on time. Those answers
24 will be provided to GEC this morning.

25 I have no problem if cross-examination with respect to

1 those interrogatory responses has to be deferred, and I
2 believe that is a reasonable request.

3 However, I would not agree that all cross-examination
4 of those witnesses would be deferred, but only that portion
5 which might relate to these interrogatory responses that
6 were not timely filed.

7 In addition, to the extent possible, if we can work
8 it out off the record to make those witnesses available by
9 telephone to GEC's consultant to assist him in preparing his
10 testimony, we can certainly do that to try to accommodate
11 the matter as well.

12 JUDGE MATUSCHAK: We would suggest that counsel
13 endeavor to cross-examine to the extent they are able to,
14 and then if there are areas in which the discovery has not
15 been responded to timely that would inconvenience or limit
16 the cross-examination on those interrogatories, we will
17 provide further opportunity to further cross-examine those
18 witnesses on those subjects.

19 MS. FERKIN: Your Honor, I understand that that is
20 the procedure. I have raised this matter at the time that I
21 have because I am certain, based on my discussions with my
22 expert, that it is going to be necessary to have these
23 witnesses recalled.

24 JUDGE MATUSCHAK: We are not going to deny anybody
25 ample opportunity for that.

1 MS. FERKIN: Thank you, Your Honor. I will endeavor
2 to work out the details of the recall of the witnesses with
3 the company off the record. Thank you very much.

4 JUDGE MATUSCHAK: I am sure we can make satisfactory
5 arrangements.

6 You may proceed.

7 MR. MacGREGOR: Your Honor, the company's next wit-
8 ness today is Dr. Barrie McLeod. Perhaps, with Your Honor's
9 permission, we could go off the record for a moment while
10 we are shifting papers.

11 JUDGE MATUSCHAK: Yes.

12 (Discussion off the record.)

13 JUDGE MATUSCHAK: Back on the record.

14 Whereupon,

15 N. BARRIE McLEOD

16 having been duly sworn, testified as follows:

17 JUDGE MATUSCHAK: You may be seated.

18 MR. MacGREGOR: Your Honor, I have previously
19 distributed to the parties and to the court reporter and to
20 Your Honor copies of a document entitled, "Direct Testimony
21 of N. Barrie McLeod, Ph.D., P.E., E.R. Johnson Associates,
22 Inc., on Nuclear Plant Decommissioning Costs," and I would
23 ask that it be marked for identification purposes as PECO
24 Statement No. 27.

25 JUDGE MATUSCHAK: So marked.

1 (Whereupon, the document was
2 marked PECO Statement No. 27
3 for identification.)

4 MR. MacGREGOR: In addition, Your Honor, I have
5 distributed copies of a document entitled, "Decommissioning
6 Cost Estimates for Limerick Generating Station, Units 1 and
7 2, Peach Bottom Atomic Station, Units 2 and 3, Salem Nuclear
8 Generating Station, Units 1 and 2," and I would ask that
9 that document be marked for identification as Exhibit NBM-1.

10 JUDGE MATUSCHAK: Very well.

11 (Whereupon, the document was
12 marked PECO Exhibit NBM-1 for
13 identification.)

14 DIRECT EXAMINATION

15 BY MR. MacGREGOR:

16 Q Dr. McLeod, you have before you copies of the
17 document that has been marked for identification as PECO
18 Statement No. 27?

19 A Yes, I do.

20 Q Is this document in fact a copy of your direct
21 testimony in this proceeding?

22 A Yes, it is.

23 Q Was this statement prepared by you or under your
24 direct supervision?

25 A Yes, it was.

Q Dr. McLeod, if you were asked the same questions
contained in Statement No. 27 again today, would your answers

1 be the same as those contained therein, and would they be
2 true and correct to the best of your knowledge?

3 A. Yes, they would.

4 Q. Dr. McLeod, were you also responsible for the
5 preparation of the document that has been marked for
6 identification as Exhibit NBM-1?

7 A. Yes, I was.

8 Q. Was that document prepared by you or under your
9 direct supervision?

10 A. Yes, it was.

11 Q. And is the information contained in this exhibit
12 true and correct to the best of your knowledge?

13 A. Yes, it is.

14 MR. MacGREGOR: Your Honor, I would ask that the
15 documents that have been marked for identification as PECO
16 Statement No. 27 and Exhibit NBM-1 be admitted as evidence
17 in this proceeding, subject to any timely motions to strike
18 or other objections.

19 JUDGE MATUSCHAK: Under those conditions, the motion
20 is granted.

21 (Whereupon, the documents
22 marked PECO Statement No. 27
23 and PECO Exhibit NBM-1 were
received in evidence.)

24 MR. MacGREGOR: Thank you, Your Honor. Dr. McLeod
25 is available for cross-examination.

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CROSS-EXAMINATION

BY MS. SMITH:

Q. Good morning, Dr. McLeod.

A. Good morning.

Q. Could you refer to page 3 of your statement, line 37, stating, "Initially,, I developed a method of decommissioning cost recovery which explicitly accommodates inflation as it occurs and also provides equitable treatment of ratepayers over time." Do you see that?

A. Yes, I do.

Q. Is this the method that's used by the company in this proceeding?

A. Yes, it is.

Q. Now, with respect to page 15, line 18, are you aware, Dr. McLeod, that the Commonwealth of Pennsylvania has entered into a compact to build a low level waste disposal site within the state?

A. Yes, I am.

Q. Are you also aware that the Barnwell, South Carolina site is scheduled to be closed in 1992, which is before the decommissioning activities described in your testimony will begin?

A. Yes, I am.

Q. How will the existence of the disposal site in Pennsylvania affect the transportation costs for the low

1 level wastes?

2 A. It will obviously reduce the cost of low level
3 waste, but I must add, as an offset, until the actual
4 disposal rates at the Pennsylvania site are established, we
5 do not have a basis for coming up with a combined cost of
6 transport or disposal of radioactive waste, and it is a
7 ground rule of this study that until we have a firm basis,
8 we will use the best existing basis, and we will make
9 modifications at the time they occur.

10 Q. But you would anticipate, based on distance alone
11 to be traveled, there would be some reduction?

12 A. I would so anticipate.

13 Q. With respect to Exhibit NBM-1, Figures 4-1, 4-2
14 and 4-3; would you agree that these figures show decommis-
15 sioning activity six, seven, and even up to ten years beyond
16 the end of commercial operations?

17 A. Could you repeat the last part of that question?

18 Q. Would you agree that these figures show
19 decommissioning activity six, seven and even ten years beyond
20 the end of commercial operations?

21 MR. MacGREGOR: Ms. Smith, could we have the page
22 reference again?

23 MS. SMITH: NBM, Figures 4-1, 4-2 and 4-3.

24 BY MS. SMITH:

25 Q. It's a series of charts and graphs. There are

1 four pages in Figure 4-1, three pages in 4-2.

2 A. Yes, I would agree with that, yes.

3 Q. Would this in mind, would you also agree that the
4 vast majority of decommissioning expenses occur after the
5 end of the commercial operation?

6 A. Yes, absolutely.

7 MS. SMITH: That's all I have, Your Honor. Thank
8 you, Dr. McLeod.

9 JUDGE MATUSCHAK: Consumer Advocate?

10 MS. WESTON: Good morning, Your Honor. My name is
11 Susan Weston. I will be cross-examining Dr. McLeod.

12 CROSS-EXAMINATION

13 BY MS. WESTON:

14 Q. Good morning, Dr. McLeod.

15 A. Good morning.

16 Q. Dr. McLeod, you said that your company prepared
17 the document NBM-1, and that is a study discussing Limerick
18 1, Salem 1 and 2, and Peach Bottom 2 and 3, is that correct?

19 A. That is correct.

20 Q. And did you also do a study of the decommissioning
21 costs of Peach Bottom Unit 1?

22 A. Yes, we did, as a component of the 2 and 3
23 decommissioning.

24 Q. And is that study summarized in NBM-1?

25 A. Please give me a minute.

1 Q Certainly.

2 (Witness perusing document.)

3 A I do not believe that it is in NBM-1.

4 Q Am I right that you have, however, developed
5 figures for that Peach Bottom 1 cost of decommissioning?

6 A Yes, we have.

7 Q And I believe those figures are referred to in
8 NBM-1.

9 A That is correct.

10 Q They are on page 2-2 and page 2-4 in footnotes.

11 A That is correct.

12 Q Could you tell me, please, did you use the same
13 methodology to develop the Peach Bottom 1 figures as you
14 used to develop the figures for the other plants?

15 A Yes, we did.

16 Q Are you aware that the company is making a claim
17 in this case for the decommissioning of Peach Bottom 1?

18 A Yes, I am aware.

19 Q And that is based on a decommissioning date of
20 2008?

21 A Consistent with Peach Bottoms 2 and 3, yes.

22 Q I would now like to ask you just a couple of
23 questions about the dates for which these prices were
24 developed. Your original study was done in March, 1984
25 dollars, is that correct?

1 A. That is correct.

2 Q. And would you turn please in NBM-1 to Table 4-9?

3 A. Yes.

4 Q. What are the numbers that are shown there as
5 base values index?

6 A. These are official index numbers that are
7 identified in the middle column there, which are to be
8 used hereafter as the reference from which these components
9 will be escalated, these cost components will be escalated.

10 Q. But they are not dollars escalated, they are
11 dollars which could be escalated?

12 A. They are an index. In some cases, they may
13 represent dollars. The intended use of these, however, is
14 that you will take an index for example in March, 1985 that
15 is done in a consistent basis but which will be higher or
16 lower, and you will then just ratio that component using
17 the ratio of the current index to this base index. And then
18 you will add all the components up.

19 Q. Have you done a study showing March, 1985 studies?
20 Did you do that ratio work?

21 A. No. That was done by Philadelphia Electric
22 Company, as is so described in Mr. Richard Wright's testimony.

23 Q. I wanted to clarify that. Thank you very much.

24 MS. WESTON: We have no further questions for this
25 witness.

1 JUDGE MATUSCHAK: Further cross-examination of
2 this witness?

3 MR. RAINEY: No questions, Your Honor.

4 MS. FERKIN: I have one question.

5 CROSS-EXAMINATION

6 BY MS. FERKIN:

7 Q. Dr. McLeod, my name is Zori Ferkin, representing
8 the Governor's Energy Council. Would you turn to page 9 of
9 your written testimony?

10 A. Yes.

11 Q. Dr. McLeod, on page 9 and the beginning of page 8,
12 you list four areas of activities in a nuclear power plant
13 decommissioning program, is that correct?

14 A. Yes, I do.

15 Q. And these activities are: pre-shutdown planning;
16 decontamination, equipment removal, and site restoration, is
17 that correct?

18 A. That is correct.

19 Q. Now, further down on page 9, in your discussion
20 of pre-shutdown activities, you state, and I'll quote you,
21 "...sound decommissioning project planning is essential for
22 ensuring that decommissioning activities will be carried out
23 in a same, timely and cost effective manner," is that your
24 testimony?

25 A. That is correct.

1 Q Would you agree, Dr. McLeod, that planning for
2 decommissioning is the responsibility of a utility?

3 A It definitely is, yes.

4 Q And would you also agree, Dr. McLeod, that if
5 planning and related preparations for decommissioning does
6 not occur in as timely or efficient a manner as you have
7 assumed in developing your estimate, that the actual
8 decommissioning costs could be higher than your estimate?

9 A That is a possibility, yes.

10 MS. FERKIN: Thank you very much. I have no further
11 questions.

12 JUDGE MATUSCHAK: Any further cross-examination?

13 MR. KLEPPINGER: Yes, Your Honor, just briefly.

14 CROSS-EXAMINATION

15 BY MR. KLEPPINGER:

16 Q Good morning, Dr. McLeod. My name is David
17 Kleppinger, and I represent the Philadelphia Area Industrial
18 Energy Users Group.

19 A Good morning.

20 Q Just very briefly, in response to the Staff, you
21 recognized that there is at least in the plans a waste
22 disposal site for Pennsylvania. I am curious as to whether
23 or not, when you refer on page 15 to all the radioactive
24 waste being disposed in the Barnwell, South Carolina facility,
25 is it your testimony that if the plan for Pennsylvania goes

1 through, all radioactive wastes may be able to be disposed
2 in Pennsylvania, or only the low level wastes?

3 A. All of the waste which qualifies as low level
4 waste would be disposed of in Pennsylvania. What is
5 normally referred to as high level waste or spent fuel is
6 handled under another arrangement as part of the spent fuel
7 clause, and that does not happen in Pennsylvania.

8 Q. If we could look at page 15 of your testimony
9 where you use the term, "All radioactive waste will be
10 disposed in Barnwell," is it your testimony that all of
11 that radioactive waste which you are referring to at line 18
12 there will now be disposed in Pennsylvania, or are we
13 talking about two different types of wastes?

14 A. No. It is the intention that all low level waste
15 would be disposed of in Pennsylvania if a site is operating
16 in Pennsylvania at the time of the decommissioning.

17 Q. And you are only referring to low level radio-
18 active waste on page 15, line 18?

19 A. Yes, that is correct.

20 Q. In the basic criteria for your study, you
21 indicate in number 1 on page 14 that you utilize current
22 regulations for radioactive waste disposal. Is there a
23 contingency factor included in your study for additional
24 regulations which may cause PECO to incur additional costs
25 when decommissioning ultimately takes place?

1 JUDGE MATUSCHAK: On the record.

2 MR. MacGREGOR: Your Honor, the company would call as
3 its next witness Mr. Richard W. Wright.

4 Whereupon,

5 RICHARD WILLIAM WRIGHT

6 having been duly sworn, testified as follows:

7 JUDGE MATUSCHAK: You may be seated.

8 MR. MacGREGOR: Your Honor, I have previously
9 distributed to the parties, to Your Honor, and to the court
10 reporter copies of a document entitled "Direct Testimony of
11 Richard W. Wright, Explanation of Certain Rate Base and
12 Expense Adjustments," and I would ask that that be marked for
13 identification as PECO Statement No. 20.

14 JUDGE MATUSCHAK: It will be so identified.

15 (Whereupon, the document was
16 marked as PECO Statement No. 20
17 for identification.)

18 DIRECT EXAMINATION

19 BY MR. MacGREGOR:

20 Q Mr. Wright, do you have before you a copy of the
21 document that has been marked for identification as PECO
22 Statement No. 20?

23 A Yes, I do.

24 Q Was this document prepared by you or under your
25 direct supervision?

A Yes, it was.

1 Q Mr. Wright, if you were asked the same questions
2 contained in this document again today, would your answers
3 be the same as those contained therein and would they be
4 true and correct to the best of your knowledge?

5 A Yes, they would.

6 MR. MacGREGOR: Your Honor, I would ask that the
7 document that has been marked for identification as PECO
8 Statement No. 20 be admitted as evidence in this proceeding
9 subject to any timely motions to strike or other objections.

10 JUDGE MATUSCHAK: Under those conditions, the motion
11 is granted.

12 (Whereupon, the document marked
13 as PECO Statement No. 20 was
14 received in evidence.)

15 MR. MacGREGOR: Mr. Wright is available for cross-
16 examination at this -- I'm sorry. Mr. Wright has one or
17 two corrections to make to his testimony.

18 BY MR. MacGREGOR:

19 Q Mr. Wright, do you have any corrections or addi-
20 tions to make to your Statement No. 20 at this time?

21 A Yes, I do. Actually, Statement No. 20 is correct,
22 to the best of my knowledge; however, there are a couple of
23 corrections to the pages within Accounting Exhibits TPH-1 and
24 TPH-2 for which I am responsible that I would like to make
25 corrections.

In TPH-2, on page C-8, which is the company's claim

1 for non-revenue producing construction work in progress. It
2 has come to my attention that C.A. No. 406704, which is the
3 last non-revenue producing construction work in progress item
4 listed on the page, the Keystone Installation of Water Curtain
5 Spray System Project, that that project has been cancelled
6 for the moment -- postponed would be a better word -- pending
7 resolution of financial considerations between the member
8 companies.

9 As a result, the company is dropping its claim for
10 C.A. No. 406704 as part of its non-revenue producing construc-
11 tion work in progress claim.

12 In that regard then, the totals at the bottom of the
13 page change. The total shown of \$7,175,000 becomes
14 \$7,134,000, and the further total shown as \$4,657,000 becomes
15 \$4,616,000.

16 That is all of the corrections to the non-revenue
17 producing construction work in progress claim.

18 In Exhibit TPH-1, C-10a, we have earlier by way of
19 Interrogatory IR-OCA-13-4 corrected the May and June, 1985
20 balances for M&S, that is materials and supplies, and also
21 for electric tools and related equipment. I would like to
22 enter those changes here and their impact on TPH-2 at this
23 time.

24 The figures at the bottom of the page for May in
25 materials and supplies, it read "43,241,000." It has been

1 corrected previously by an interrogatory to "45,888,000." The
2 June figure of "41,314,000" is corrected to "46,247,000."

3 The next column over, Tools and Related Equipment,
4 in May, the "2,172,000" is corrected to "2,267,000," and the
5 "2,067,000" is corrected to "2,243,000."

6 The totals then at the bottom of the page also change
7 correspondingly from "578,434,000" to "586,014,000;"
8 "44,495,000" changes to "45,078,000;" "31,767,000," which
9 is the 13-month total for electric tools and related equip-
10 ment, is revised to "32,038,000;" and the 13-month average
11 for tools and related equipment goes from "2,444,000," to
12 "2,464,000."

13 Bringing those changes forward to C-10, the page
14 before, we have the "Plant Materials and Supplies Electric
15 Operating Total" going from "\$44,495,000" to "\$45,078,000;"
16 the Tools and Related Equipment from "\$2,444,000" to
17 "\$2,464,000;" and Total Electric Materials and Supplies
18 from "\$93,451,000" to "94,054,000."

19 As I previously mentioned, these changes also impact
20 the 2 Exhibit, that is TPH-2, as follows: On page C-10 of
21 TPH-2, the Plant Materials and Supplies Electric Operating
22 Total claim shown as "\$48,495,000" is correspondingly
23 adjusted to "\$53,570,000." The Tools and Related Equipment
24 Electric shown as "\$2,221,000" is revised to "\$2,322,000,"
25 and the total, which is shown as "\$90,550,000" is revised to

s5

1 "\$95,726,000."

2 One final correction also to that page is associated
3 with the Limerick materials and supplies breakout shown in
4 double-starred footnote at the bottom of the page. The
5 total, of course, ties to the figure corrected above of
6 "\$53,570,000." That is, the total of "\$48,495,000" is now
7 "\$53,570,000." However the Limerick materials and supplies
8 \$5 million entry was in error. It should have read
9 "\$8,683,000." The Non-Limerick materials and supplies,
10 "\$43,495,000" then becomes "\$44,887,000." That is the end
11 of my corrections.

12 MR. MacGREGOR: Your Honor, these changes will be
13 reflected in the company's final accounting exhibit as to
14 their impact on revenue requirement.

15 Mr. Wright is now available for cross-examination.

16 CROSS-EXAMINATION

17 BY MS. SMITH:

18 Q Mr. Wright, on page 9 of your testimony, lines 7
19 to 9 concerning the Limerick-Whitpain project, you state,
20 "This project is needed for Limerick Unit No. 2 and will also
21 increase the reliability of the company's transmission system."

22 I would like to know how this line is going to increase
23 the reliability.

24 A Ms. Smith, the electronics of that question I feel
25 would be better addressed to Mr. Rush, the Chief Engineer in

1 our Research and Planning Division. While I am an engineer,
2 I do not profess to have knowledge as to the specific inter-
3 connection implications of this line.

4 Q What was the basis of you making this statement
5 then?

6 A I'm sorry; which statement, Ma'am?

7 Q What was the basis of you making that statement
8 in your testimony?

9 A Which statement, please?

10 Q Concerning the reliability, that it will increase
11 the reliability?

12 A Through my conversations with the System Planning
13 Department from which Mr. Cary Rush is the Chief Engineer.

14 Q But you have no independent knowledge?

15 A I have no independent knowledge, no, Ma'am.

16 Q With respect to page 12 of your testimony, lines
17 15 through 19, you refer there to a \$7.2 million increase
18 in plant materials and supplies.

19 Do you have with you the response to Staff Data
20 Request DR-Staff-RBP-1?

21 A Could I have that reference again, please?

22 Q DR-Staff-RBP-1. I am particularly interested in
23 the item of January 29, 1985. It is a rather large response.

24 A Would you give me just a moment to see if I have
25 that?

1 Q Yes.

2 (Pause.)

3 A Yes, Ma'am, I have that interrogatory.

4 Q And again, with respect to the attachment to that
5 dated January 29, 1985, "Inventory of Materials and Supplies,
6 Limerick Generating Station," Storeroom No. 348, and again
7 it's page 2, paragraph 1 --

8 A If you would give me just a moment to find it.

9 Q It is captioned "Bechtel Purchase Orders."

10 (Pause.)

11 A I have the 1-17-85 audit report that you are
12 referring to. You want wish page, please?

13 Q It is 1-29.

14 A I have that also.

15 Q Do you have page 2, "Bechtel Purchase Orders"?

16 A Yes, I have that.

17 Q According to the response, it is my understanding
18 that on July 1st of 1984, PECO Purchasing Department requested
19 Bechtel to temporarily assume the duties of procuring
20 operational spare parts and materials for Limerick Generating
21 Station; is that correct?

22 A If I may have just a moment to review this.

23 (Pause.)

24 A Yes, I believe that is true.

25 Q Am I correct that according to this report, there

1 is a 28 percent mark-up plus labor costs applied to all Bechtel
2 purchase orders?

3 A. According to the reference material, it says,
4 "According to terms of the agreement, Bechtel is to pay for
5 the ordered materials and in turn PECO will be billed at their
6 cost, plus the associated cost of labor, with a 28 percent
7 mark-up."

8 That is the extent of my knowledge of that transaction

9 Q. Again, according to the audit report here, am I
10 correct that 2 percent of the known Bechtel orders could have
11 been obtained through PECO's own central storage warehouse
12 at Berwyn?

13 A. I'm sorry; I did not understand that question.
14 Two percent, did you say?

15 Q. Two percent. I believe if you drop down to the
16 second paragraph, it refers to 2 percent of the amount ordered
17 by Bechtel, which represents a total of \$1,374, that 2 percent
18 of these orders could have been done through PECO. Is that
19 my understanding of what this says -- or is my understanding
20 correct?

21 A. Let me read it and interpret it.

22 (Witness perusing document.)

23 A. It does seem to indicate that, yes.

24 Q. Mr. Wright, have any adjustments been made in the
25 company's claim for Limerick materials and supplies to remove

1 the Bechtel surcharges?

2 A. Not to the best of my knowledge, no.

3 Q. Now, with respect to the nuclear units and the
4 decommissioning, could you tell me when will each of PECO's
5 nuclear units be retired?

6 A. Yes, if I could have just a minute.

7 (Pause.)

8 A. Interrogatory DR-Staff-RED-4 lists the retirement
9 dates for the Philadelphia Electric Company nuclear units.
10 Part D specifically refers to Peach Bottom 1, 1974; Peach
11 Bottom 2, the Year 2009, also the year for Peach Bottom 3;
12 Salem 1, 2112; Salem 2, 2116; Limerick 1, 2024.

13 Q. Through what years are the decommissioning funds
14 scheduled to accrue on these funds with respect to Peach
15 Bottom and Salem?

16 A. With respect to Peach Bottom and Salem, the
17 decommissioning accrual is structured to be fully funded in
18 the Year 2008, which is the date the operating licenses will
19 terminate at those sites.

20 Q. Could you explain the variance in the dates between
21 the retirements and the decommissioning schedules?

22 A. The retirement dates are an accounting function.
23 The decommissioning dates are set to equal the operating life
24 expiration date, which is the best information that we have at
25 this point for the formulation of a decommissioning cost claim.

1 It is the company's opinion that we must be fully
2 funded for the decommissioning effort at the time of de-
3 commissioning of the units. The best known information
4 at this time is the operating license expiration date.

5 Q As opposed to the retirement date?

6 A Yes, Ma'am.

7 Q Now, Mr. Wright, with regard to your cash working
8 capital lead/lag study, on page 14 of your testimony at lines
9 20 through 24, you state "For each of the billing routes for
10 a particular month, actual cash receipts were accumulated on
11 a day-by-day basis starting from the meter reading date and
12 continuing approximately four months beyond the meter reading
13 date." Do you see that?

14 A Yes, I do.

15 Q Could you tell us at what point the customers'
16 accounts would be considered delinquent and late payment
17 charges applied to the account?

18 A Yes. Of course, I would like to preface the
19 answer with the fact that this all depends upon the billing
20 cycle of the individual customer. That is, any particular
21 customer's billing date or due date or final due date, what-
22 ever, may fall on a holiday or a weekend, a long holiday
23 weekend.

24 We work in the world of what are called computer days,
25 the days that we are actually there working the bills. This

1 is approximately 20 days a month. Hence, there is going to
2 be some variance, plus and minus, in any answer I give.

3 But in general terms -- the specific question was
4 addressed to when a finance charge is applied; am I correct?

5 Q. When it would be considered delinquent and late
6 payment charges applied to the account.

7 A. The company's tariff at page 27, paragraph 17.2,
8 "Payment Period" refers to, quote, "Payment for service
9 received must be made on or before the due date on the bill,
10 which shall not be less than 20 days from the date of
11 transmittal of the bill for Rates R, RH, OP, POL and GS,
12 not less than 15 days from the date of transmittal of the
13 bill for all other rates."

14 Q. That's when it becomes late. Now, when is the
15 late payment charge applied to the account?

16 A. The late payment charge is applied -- if I may
17 continue, under the "Finance Charge" paragraph, 17.3, "If
18 payment is made by mail, the finance charge will be added if
19 payment is received by the company more than five days after
20 the due date shown on the bill."

21 So we are giving the customer another five days in
22 the case that they are paid by mail.

23 Now, that being the case, the finance charge is
24 applied to a residential bill on the next billing cycle. The
25 finance charge is applied to a small C & I, to a GS or a PD

1 or an HT customer in accordance specifically with the terms
2 outlined in the Standard Payment Terms that I just read to;
3 that is Section 17, subparagraphs.

4 Q So the company gives the customer a five-day grace
5 period after the due date of the bill; is that correct?

6 A In accordance with the tariff, yes.

7 Q And is at that point that the late payment charges
8 begin to accrue?

9 A Yes.

10 Q Or do they go back to the date of the actual bill?

11 A No. The late fee is, of course, applied on the
12 next billing cycle date. That is when the route is run
13 through the computer system.

14 Q Am I correct that the company's cost for the
15 service of carrying a delinquent is recovered through the
16 late payment charge?

17 A The late payment charge is in response to -- that
18 is the finance charge is in response to the customer's bill
19 being paid late, that I'll agree to.

20 Q What is your answer to my question?

21 A Can I have your question again?

22 Q Am I correct that the company's cost for the
23 service of carrying a delinquent account is covered through
24 the late payment charge?

25 A I don't believe it is fully recovered through the

1 late payment charge, no.

2 Q Do you have that from firsthand information?

3 A I would have to research that, frankly.

4 Q So you don't know.

5 Mr. Wright, am I correct that the Commission in
6 Docket No. R-842590, which was the most recent case before
7 this, excluded uncollectible accounts expenses from the
8 cash working capital allowance?

9 A Only from the expense side. In fact, they were
10 specifically excluded by both the ALJ and the Commission from
11 the expense page. That is, for instance, the equivalent to
12 our page C-12a this time.

13 Q Am I correct that the company has now incorporated
14 this item into the calculation of the revenue lag?

15 A As an element of the company's total revenue
16 lag, which is, I might add, still conservative.

17 Q So basically what we have is the company is
18 receiving a late payment charge for the delinquent account
19 and is also seeking a cash working capital allowance for the
20 revenue lag for these uncollectible accounts; is that
21 correct?

22 A That is correct.

23 Q With respect to the accounting involved in
24 tracing the uncollectible accounts expense, am I correct that
25 what transpires is that monthly, as a part of the month-end

1 closing, an accrual entry is made to expense an amount
2 for uncollectibles based on the amount of sales with a
3 corresponding credit entry to the accumulated provision for
4 uncollectible accounts receivable?

5 A I'm sorry. I did not follow that.

6 Q At the end of each month, at the month-end closing
7 on the books, an accrual entry is made to expense an amount
8 for uncollectibles based on the amount of sales -- this would
9 be to the accounts receivable -- with a corresponding credit
10 entry to the accounts receivable, contra account, with is
11 the accumulated provision for uncollectible accounts
12 receivable?

13 A The specific accounting I would have to research.
14 However, in terms that I am sure will answer the question,
15 on a periodic basis, which I believe to be monthly, the total
16 uncollectibles, which are, of course, identified as those
17 having accounts being terminated -- for instance, after
18 about 127 days -- and being through the full final collection
19 process, are identified and written off.

20 Q How are they written off? What account are they
21 written off against?

22 A If you want the specific accounting, I would be
23 more comfortable giving that to you in response to a transcript
24 interrogatory.

25 Q That's fine.

1 MS. SMITH: Your Honor, may I have one moment, please?

2 JUDGE MATUSCHAK: Yes.

3 (Pause.)

4 BY MS. SMITH:

5 Q If you would provide that for me, please, with the
6 specific accounting procedures that take place.

7 Now, Mr. Wright, with respect to the lag days used in
8 the calculation of the average lag and payment of operating
9 and maintenance expenses as shown in PECO Exhibit TPH-2, page
10 C-12a, the 11-day lag used for payroll expenses is detailed in
11 PECO Exhibit II-B-4a.

12 MS. SMITH: I don't believe that has been marked yet.

13 MR. MacGREGOR: No, it has not. I planned to mark it
14 when Mr. Hill takes the witness stand.

15 MS. SMITH: I am going to refer to it. If you want
16 to just wait a mark it later -- I'm going to be referring to
17 it, Your Honor. That's my concern.

18 MR. MacGREGOR: Your Honor, it is one of the volumes
19 of the basic filing requirements that the company filed in
20 response to the Commission's regulations. I will ask that
21 these volumes be marked as PECO Exhibit 1.

22 JUDGE MATUSCHAK: Very well.

23 (Whereupon, the document was
24 marked as PECO Exhibit No. 1
25 for identification.)

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BY MS. SMITH:

Q Then my reference would be to Exhibit 1, Attachment II-B-4a. Do you have that?

A Yes, I have that reference.

Q I am referring to the 11-day lag used for payroll expenses. As shown in this exhibit, you have allowed 3.5 days for the week's work and 7 days for a week's delay in the issuance of a paycheck; is that correct?

A I don't know that I'd term it a delay, but, yes, that's the mathematics of it.

Q Are all employees paid on a weekly basis?

A Yes.

Q And all with the same one-week delay?

A Yes.

Q Would you agree that PECO's payroll bank accounts will not reflect withdrawals the very next day after the date that the checks are issued?

A Yes, I would agree with that, and I would also agree that that certainly has an impact and is fully reflected within the company's compensating bank balance claim on the cash working capital side.

Q How is that shown?

A If I could have just a minute?

Q Yes.

1 (Witness perusing documents.)

2 A. If you would refer to prefiled Interrogatory
3 II-B-5, specifically the first page attached to that interrog-
4 atory, you will note that between the company's activity
5 charges of \$14,955,000 and the company's compensating bank
6 balances of \$8,485,000, we total \$23,440,000 in average bank
7 balance requirements to cover those two particular needs.

8 Referring now one column to the left, we have an
9 \$11,251,000 actual average daily bank balances.

10 Q. I'm sorry; you're going to have to go --

11 A. I'll take you through it again.

12 First, the company has the charges associated with
13 activities at its various banks, which includes all of the
14 various services that the banks perform for us with the
15 exception of the compensating bank lines. This totals
16 \$14,955,000 in balances which are required at those banks.
17 That is shown in the second-to-the-last column.

18 Now, referring one column to the left of that, we have
19 an \$8,485,000 balance required by the banks in order to main-
20 tain our compensating bank balances -- I'm sorry; our compen-
21 sating bank lines.

22 So, in total, the banks require that we maintain on
23 deposit \$23,440,000 in order to support the services and lines
24 that they are providing us with.

25 Referring now one column to the left again, my actual

1 average daily compensating bank balances, however, is only
2 \$11,251,000. So \$11,251,000 balances is covering, if you will,
3 \$23,440,000 in need. This is being done by way of the very
4 float that you were talking about on those payroll checks.
5 The customer is getting full credit for that float already is
6 the point I'm making.

7 Q Would that also be applicable to, for instance,
8 the interchange lag, 35 days, and for instance, the nuclear
9 fuel? Again, on page C-12, you have listed the payroll,
10 the net interchange, nuclear fuel, coal, et cetera. Would
11 they all be covered under that same float?

12 A To the extent that they are checks, yes. If it
13 is a wire payment, then by definition there is no float.
14 But, yes, if there is a float, yes, it is compensated for
15 right there. Those are our bank balances. They reflect all
16 of that activity.

17 MS. SMITH: Your Honor, before we proceed, I would note
18 for the record that we are missing one response to an
19 interrogatory which we will have to have before we can finally
20 finish with Mr. Wright, and that is IR-Staff-RBC-5. I would
21 like to get an estimate on approximately when we will be
22 receiving it.

23 MR. MacGREGOR: I understand we will be providing the
24 response this afternoon. You can review it and determine
25 whether you have further cross-examination based on that

1 question, and then we will arrange a time to do it.

2 MS. SMITH: If we need to do it, we can do it
3 telephonically, if necessary.

4 MR. MacGREGOR: Thank you.

5 MS. SMITH: Your Honor, that's all I have for
6 Mr. Wright. Thank you.

7 JUDGE MATUSCHAK: The Consumer Advocate.

8 CROSS-EXAMINATION

9 BY MS. WESTON:

10 Q Good morning, Mr. Wright. My name is Susan Weston.
11 I am with the Office of Consumer Advocate.

12 A Good morning, Ms. Weston.

13 Q I would like to start by asking you some questions
14 about the company's claim for its decommissioning fund.

15 MS. WESTON: If I may, Your Honor, I would like to
16 mark a document for identification. The document is the
17 answer that was given to the Office of the Consumer Advocate's
18 Question Set 8, No. 47. If I may, I would like to mark it
19 OCA Exhibit No. 5.

20 JUDGE MATUSCHAK: Do you have copies?

21 MS. WESTON: Yes, we do. They will be distributed.

22 JUDGE MATUSCHAK: It will be so marked.

23
24 (Whereupon, the document was
25 marked as OCA Exhibit No. 5
for identification.)

1 BY MS. WESTON:

2 Q Mr. Wright, have you had an opportunity to examine
3 the document?

4 A Yes, I have.

5 Q What I would like to talk to you about is Dr.
6 McLeod just testified a few minutes ago that he had developed
7 a cost index to a March, 1984 dollar.

8 What I would like to explore is how those figures
9 were expanded for the decommissioning claim and developed to
10 a June, 1986 level.

11 You previously said in your testimony that those
12 numbers were first escalated to March, '85 and then separately
13 to June, '86.

14 Now, in Exhibit 5, you had said the March, '85 numbers
15 came from Company Exhibit NBM-1, Table 4-9, but Dr. McLeod
16 has advised us that, no, those were the March, 1984 numbers.

17 I wonder if you would agree with Dr. McLeod's testimony
18 on that issue?

19 A I'm sorry; would you repeat the first part of that
20 question?

21 Q The first part of the question referred to your
22 answer to the exhibit, which was that the March, 1985 dollars
23 cost for decommissioning came from Company Exhibit NBM-1,
24 Table 4-9.

25 A I'm not following that. I don't know where I said

1 that Dr. McLeod provided the March, '85 index.

2 Q Would you look at the exhibit marked OCA Exhibit
3 No. 5?

4 A Oh, all right.

5 Q Would you review the question and the answer for
6 a minute.

7 (Witness perusing document.)

8 A The interrogatory -- not to split hairs -- but
9 the interrogatory says that -- well, let me quote the whole
10 thing -- "The known levels at March, 1985, excluding the
11 waste burial component, represent actual data from the
12 sources listed in Company Exhibit NBM-1..."

13 That is, Dr. McLeod did not provide the specific
14 data, which, by the way, is merely a librarian matter of
15 looking it up. He merely provided us with the initial index
16 sources.

17 Q Thank you for clearing that up. I had not under-
18 stood that answer fully.

19 In that case, what I would like to ask you is -- you
20 then go on to say in the answer that you have several sources
21 the listed sources, and the one listed in the interrogatory.
22 So we understand that.

23 Now, with regard to the escalation from March of '85
24 to June of '86, that was then based upon using an inflation
25 factor; is that correct?

1 A. That was done by our corporate economist, who I
2 have spoken to about the process.

3 Q. Could you tell me, please, what inflation factor was
4 used?

5 A. No inflation factor, quote, unquote, was used.
6 This was an analysis done by Dr. Thompson, which I believe we
7 have provided in answer -- that is, his work papers we have
8 provided in answer to DR-Staff-RED-7.

9 It is not so simple as to say you slap an inflation
10 factor on it and the answer comes out the other end.

11 Q. But this was done in a different manner than the
12 other expansions that you had done? You've used inflation
13 factors in other cases, and in this case you did a separate
14 analysis; is that correct?

15 A. As indicated in Staff-RED-7, each of the indexes,
16 eight indexes, are individually analyzed and inflated to
17 the values shown.

18 For instance, in Appendix B to my testimony, the third
19 column, the June, '85 index, those were each analyzed
20 individually by Dr. Thompson.

21 Q. Were the June, '86 dollars done by an individual
22 analysis from sources or was that done based on an inflation
23 factor?

24 A. They were done by way of an individual analysis
25 of factors impacting each of the individual categories.

1 Q Now, let me also ask you: with regard to the claim
2 for Peach Bottom 1, is the company's claim in this case to
3 begin collecting the full amount that would be required to
4 decommission the nuclear portion of the Peach Bottom 1 plant?
5 Is the company claiming the full amount that will be needed
6 for the nuclear portion?

7 A The full amount as versus what, for instance?

8 Q As versus sharing that with a co-owner or some
9 other party?

10 A Yes, that is correct.

11 Q You are claiming the complete amount.

12 Are you aware that when Philadelphia Electric Company
13 originally developed the Peach Bottom 1 plant, it was supported
14 in its proposal by 52 other companies?

15 A To a degree the initial capital cost was supported
16 by other companies. However, Philadelphia Electric Company
17 got the total benefit of all generation from that plant.
18 Philadelphia Electric Company paid the operation and mainten-
19 ance expenses on that plant.

20 Philadelphia Electric Company is and was responsible
21 for the decommissioning of that plant.

22 Q Did the Atomic Energy Commission pay any of the
23 capital costs of developing that plant?

24 A Whether the AEC was a member of the 52-group
25 consortium, I don't know.

1 Q Do you know whether the AEC contributed any funds
2 to the cost of Peach Bottom 1?

3 A No, I do not know that. It wouldn't surprise me,
4 but no, I don't know that, since it was a research project.

5 MS. WESTON: Your Honor, we have a number of
6 interrogatories outstanding regarding the Peach Bottom 1
7 decommissioning issue. We have recently been advised that
8 Mr. Boyer, rather than Mr. Wright, is the correct witness to
9 ask those questions. So, assuming that is so, we have no
10 further questions. But we will have to wait and see whether
11 Mr. Boyer has the answers.

12 MR. MacGREGOR: I take it these are the questions
13 relating to Peach Bottom 1, how long it operated, what portion
14 of its cost was reflected in the company's rates, and matters
15 like that.

16 MS. WESTON: That is correct.

17 MR. MacGREGOR: I believe those questions would
18 properly be deferred to Mr. Boyer.

19 MS. WESTON: This was last-minute information,
20 Your Honor.

21 MR. MacGREGOR: Or Mr. Hill.

22 MS. WESTON: But not Mr. Wright?

23 MR. MacGREGOR: That's correct. Particularly the
24 questions dealing with the extent to which the cost of Peach
25 Bottom was reflected in the company's rates and the energy

1 benefits produced by Peach Bottom would be more appropriately
2 addressed to Mr. Hill.

3 MS. WESTON: Then I believe I have asked Mr. Wright
4 all my questions on that issue.

5 BY MS. WESTON:

6 Q I would like to move now to the cash working
7 capital portion of the company's claim, Mr. Wright.

8 I wonder if you could turn in Exhibit 1, Attachment II,
9 I think it's called -- that is Volume II of the company's
10 filing -- in that document, turn to Section II-B-4c.

11 A I have that reference.

12 Q Mr. Wright, what I would like to ask you about is
13 the company's claim that there is a lag in the receipt of
14 revenue from the receipt of payment for the preferred
15 dividend payment. The company is claiming there is a net
16 lag of one day there, I believe.

17 A Yes, that is correct.

18 Q I wonder if you could tell me -- I believe in
19 answer to a question that we asked, we were informed that
20 the dates that preferred dividends will be paid in the future
21 test year are August 1, 1985, November 1, 1985, February 1,
22 1985, and March 1, 1986.

23 A Could you identify the interrogatory you're
24 referring to?

25 Q The interrogatory is OCA Set 8, No. 8.

1 A. Could you again read those dates?

2 Q. The dates for payment of preferred dividends are
3 August 1, 1985, November 1, 1985, February 1, 1986, and
4 May 1, 1986.

5 A. Yes, that is correct.

6 Q. Now, based on those dates, do you agree that the
7 average period between payment of preferred dividends is
8 91.25 days? You may take a few minutes to calculate.

9 A. I will accept your calculation. What the company
10 has done is taken a 90-day nominal quarter and identified
11 the mid-point as being 45 days.

12 Q. Could you tell me whether you have any basis
13 for that 90-day nominal quarter given the actual quarters
14 are 91.25 days on the average?

15 A. The basis is the fact that the Commission has
16 accepted this particular methodology in all of the cases that
17 I am aware of, which is at least a half a dozen.

18 Q. Then I would simply address my questions at this
19 point to the actual facts of the situation. It is the actual
20 case that there is a period of 91.25 days on the average
21 between payments of preferred dividends?

22 A. I will accept your calculations.

23 Q. And would you accept then that the mid-point of
24 the preferred dividend pay period actually is on the average
25 45.625 days?

1 A. If I was to carry it out to three decimal places,
2 I would agree with that.

3 Q. And if you were to round it, whether you carried
4 it out that far or not, would you agree that that rounds to
5 46 days?

6 A. That particular number does round to 46 days.

7 Q. I would now like to turn to the company's claim
8 for a revenue lag for taxes. Would you turn, please, in that
9 same volume to Section B-4b, page 1.

10 A. We are now looking at II-B-4; is that correct?

11 Q. II-B-4b, page 1.

12 A. I have that reference.

13 Q. Could you tell us briefly what that page shows?

14 A. The page shows how the company pays the various
15 taxes listed, which include capital stock, public utility
16 realty, state income tax, federal income tax, and then
17 calculates the weighted lag days associated with each of
18 those taxes.

19 Q. In the second column dealing with percentage of
20 total tax, I see that in paying the public utility realty
21 tax the company pays 22.5 percent of that tax in April and
22 the same in June, and in September, and in December, and then
23 another 10 percent the next April. Is that correct?

24 A. That's correct.

25 Q. And why do you make your payments that way?

1 A. I understand that is the statutory requirement.

2 Q. And you make the same payment pattern, 22.5 percent
3 four times and pay 10 percent the next April for the state
4 income tax.. What is the reason for that?

5 A. I do not know it for a fact. I assume that is
6 the statutory requirement.

7 Q. Do you know with regard to the public utility
8 realty tax again whether the requirement is that the payments
9 be broken up into those precise groups or is there instead
10 a requirement that 90 percent of the tax be paid by a
11 particular time?

12 A. If I could have just a minute. I don't know if
13 I have any specific information on that.

14 (Witness perusing documents.)

15 A. I do not have with me anything that authoritatively
16 addresses that particular question. I would have to respond
17 to you by way of an interrogatory.

18 Q. We would appreciate that. We would like to make
19 that a transcript interrogatory for information on the
20 precise requirements in that regard and, of course, the source
21 of those for the public utility realty tax and for the state
22 income tax both.

23 I assume you don't have those sources for state income
24 tax with you?

25 A. I have neither with me; that is correct.

1 Q Do you know what would happen if you did not pay
2 according to the statutory schedule?

3 A I believe we would certainly be subject to a
4 penalty by the taxing authority.

5 Q You say you believe, but you're not sure about
6 that?

7 A I know it for a fact in the case of federal income
8 taxes. I do not know it for a fact in the case of PURTA
9 or state income tax.

10 Q With regard to your 1984 liability for the PURTA
11 did you pay according to that schedule, in fact?

12 A I do not have anything with me that would tell me
13 that.

14 Q The 1984 tax liability, some of that you pay in
15 the next year. So that would be my question.

16 A How much of our 1984 liability did we pay --

17 Q Yes.

18 A I'm sorry. I cannot answer that. I do not have
19 any breakdown of 1984 taxes.

20 Q Would Mr. Sileo have that information?

21 A He may, or I can provide it to you by way of
22 interrogatory.

23 Q I would appreciate you doing that by way of an
24 interrogatory so that we have it.

25 A Could you --

1 Q This is with regard to the PURTA. My next
2 question would be about state income tax.

3 Again, did you pay your 1984 liability according a
4 schedule like the one set out here?

5 A We will provide that.

6 Q I would now like to move to the company's claim
7 for revenue lag for uncollectible accounts expense.

8 Mr. Wright, if I could go back just for a second to
9 the tax question, I do have one other question which you
10 probably will not have the answer to right now.

11 In regard to the 1984 liability, did the Philadelphia
12 Electric Company pay any penalties for not meeting statutory
13 requirements for dates of payment for the public utility
14 realty tax?

15 A I do not have that information.

16 Q Do you have that information for the state income
17 tax?

18 A I do not have it for state income tax or PURTA.

19 Q Could you get those for us, please?

20 A Specifically with regard to calendar year '84
21 taxes?

22 Q That is correct, for the year of liability that
23 has actually been paid.

24 If we could now go to the uncollectible accounts --
25 MS. WESTON: If I may, Your Honor, I would like to

1 mark another document for identification at this time. The
2 document is the answer to OCA Interrogatory Set 8, No. 5,
3 which deals with the uncollectible accounts expense. I
4 would like to mark it OCA Exhibit No. 6 for identification.

5 JUDGE MATUSCHAK: Do you have copies?

6 MS. WESTON: Yes, we have copies, and we will
7 distribute those.

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

11 BY MS. WESTON:

12 Q Mr. Wright, will you take a moment to review that
13 document.

14 (Witness perusing document.)

15 A I have reviewed it.

16 Q Are you the responsible witness for this document?

17 A Yes, I am.

18 Q I wonder if you would turn, please, to Appendix A
19 of your testimony and to page 1 of that Appendix.

20 A Yes.

21 Q What does this page show.

22 A Page 1?

23 Q Page 1, yes.

24 A Page 1 is a tabular summary of the revenue lag
25 for the residential class of service for the period March,
1984 through February, 1985 for customers of Philadelphia

1 Electric Company.

2 Q How was the number that is labelled "Revenue
3 Weighted Average, 32.7 days," developed?

4 A The number 32.7 is a revenue weighted figure arrived
5 at by revenue weighting all of the -- well, you can say it
6 two ways.

7 First, for instance, referring to the March, '84 row,
8 we averaged -- for instance, Route 2 shows 30.6, Route 9 shows
9 35.8, et cetera. We weight those across and arrive at a
10 weighted average of 33.8 days. That is done on a revenue
11 weighted basis.

12 Q And then you weight all of them and average them
13 all together from that whole chart there to produce the
14 32.7; is that correct?

15 A That is correct.

16 Q How many days did that study cover? What was
17 the cutoff date for which you did the study?

18 A The company's accounting system tracks payments
19 through approximately 127 days, again depending upon billing
20 cycles, number of days in the month, that kind of thing.

21 Q For revenues that were outstanding after the
22 126th day, were they treated as lagging the full 127 days?

23 A What we did for purposes of the study was took
24 the revenue which was outstanding after all payments had
25 been accounted for in the study and made the conservative

1 assumption in the first step of the analysis that every pay-
2 ment, every single dollar due at that 126th day suddenly
3 showed up on the 127th day; that's right.

4 Q And that assumption shows up in the 32.7 revenue
5 weighted average?

6 A That is correct.

7 Q That is what that reflects. And then the company
8 has an additional amount listed on page 1 for uncollectible
9 accounts. What is that number?

10 A The uncollectible accounts -- well, let us look
11 for a moment at the dollars that are known by way of the
12 revenue lag study to be outstanding at the end of let us say
13 127 days.

14 I am aware of the fact that, in fact, all of those
15 dollars are not instantly paid on Day 127. So, what I
16 attempted to do was to analyze to some degree when some of
17 those revenues actually do arrive.

18 Now, the uncollectible accounts expense portion of
19 the total revenue uncollected at Day 127 is a small portion,
20 on the order of 30 percent, I believe, of the total revenue
21 that we made the assumption suddenly arrived on Day 127.

22 Well, that small portion I can identify as being
23 outstanding, in fact not just for 127 days, but I know that
24 that particular stream of revenue did not arrive for another
25 80 days. And at this point, I would like to correct that.

1 In light of my conversations yesterday with our custo
2 service people, it is not 80 days. In fact, the total
3 process takes 104 days. So we have two conservative assump-
4 tions built into the company's claim. First the fact that
5 we are only claiming another 80 days for that small portion
6 of the revenue that was overdue at Day 126, plus I am still
7 making the assumption that the other 70 percent of that
8 revenue all came in on Day 127, which is clearly highly
9 conservative.

10 Q. Could you repeat -- the 30 percent is the amount
11 that is booked as uncollectible accounts expense?

12 A. Approximately, 30 percent.

13 Q. Tell me, with regard to amounts that were out-
14 standing on the 127th day, do you ever receive any of that
15 money?

16 A. Yes. At the 127th day, we initiate, as is
17 indicated in some of the interrogatories, we initiate a
18 final collection process. That final collection process
19 does, in fact, bring in some of the revenue.

20 Now, had we wanted to, we could have incorporated
21 that and reflected it into the lag. I didn't do that. I
22 only reflected the 30 percent that I can specifically
23 identify as being due listed here as 80 days later, really
24 104 days later.

25 Q. Which is written off as uncollected at that time?

1 A. That is correct.

2 Q. Do you ever receive money that is written off as
3 uncollected after that 80 or 104 days later?

4 A. No.

5 Q. Never?

6 A. No. It is turned over to a collection agency.
7 The collection agency makes their best effort. The amount
8 reflected as uncollectible is the net that the agency was
9 able to get. That's the end of the story.

10 Q. Does the collection agency then simply take all
11 of that money and keep it itself?

12 A. No. The collection agency keeps the proportion
13 that they are allowed, about 28 percent.

14 Q. And does it give PECO back the rest of the amount?

15 A. That is exactly right.

16 Q. So you do receive some of the amount later?

17 A. No, not in the terms that you are asking it. The
18 uncollectible accounts expense as booked reflects the net --
19 that is, it's not the gross figure -- it is the net received
20 from the collection agency.

21 That is, we subtract out whatever we do happen to get
22 back from the collection agency.

23 Q. All right; that is a corrected figure.

24 Now, I would like to try to get a hypothetical sense
25 of this process of dealing with accounts that turn out to be

1 uncollectible.

2 Suppose you have a customer who received service
3 in January and is billed for that service on February 1st.
4 Now, if that bill goes unpaid, on what day would you start
5 counting that account as revenue that is being lagged?

6 A. Just repeat the last part of the question. As I
7 understand it, you are asking me about a customer who receive
8 electric service in a month of January.

9 Q. And the bill is received on February 1st.

10 A. It wouldn't be, but for purposes of your example
11 we can proceed.

12 Q. Could you tell me roughly what you think would be
13 a better date for that?

14 A. If he received service in the month of January,
15 hypothetically, he would receive a bill about six to seven
16 days after the end of that month.

17 Q. I think we will stick with the February 1st bill,
18 and I'll understand that service was partly for December.

19 Now, for purposes of your revenue lag study, what
20 would be the first day that the February 1st bill would be
21 considered to be lagging if it was dated February 1st?

22 A. Well, a bill begins accruing lag, if you will,
23 from the mid-point of the service period. So by the time
24 of your hypothetical bill, we are already 15 days, plus six
25 or seven, or 22 days in lag of the revenue from the customer.

1 Q So then the customer doesn't pay the bill. The
2 customer is going to end up in your uncollectible accounts.
3 So the customer would not pay that bill and would continue
4 to receive service for a while, I presume, even though the
5 bill had not been paid.

6 A As you are perhaps aware, there is a filed process
7 by which we attempt to collect revenue from a customer which
8 includes many, many steps, a very expensive process, I might
9 add.

10 At the end of that period, yes, for purposes of this
11 conversation, we can say on Day 127 the customer is
12 terminated.

13 Q That is your assumption. All right. But for
14 127 days, he continues to receive service; is that correct?

15 A In accordance with the procedures filed with the
16 Commission, yes.

17 Q And I assume that would mean he would get a
18 March 1 bill, an April 1 bill, a May 1 bill, reflecting
19 increasing amounts? Not only the January 1 bill had not
20 been paid, but the February 1 -- not only the February 1 bill,
21 but the March 1 bill.

22 A Hypothetically, if the individual had used power
23 in those months, yes.

24 Q And those amounts would continue to grow. Are
25 all those amounts treated as written off as uncollectible

1 accounts?

2 A. No. We individually track all of the revenue
3 associated with a given month. The accounting system has
4 the capability,--the revenue lag study was programmed
5 specifically to look at only revenues associated with one
6 month's billing at a time.

7 We can track four independent cash streams from each
8 customer and we do; that is a cash stream from month one,
9 two, three and four contained within the 127-day lag period.

10 Q. So in the lag study, that difference is reflected?

11 A. Yes.

12 Q. Now, the 80 days is counted from the time of
13 cut-off to write-off; is that correct?

14 A. I would rather you use the figure 104. Yes, that
15 number begins at the time of cut-off, for purposes here 127.

16 Q. And that would include the February 1 bill, the
17 March 1 bill and the June 1 bill?

18 A. No. It only includes revenue associated with
19 the February 1 bill.

20 Q. So the March 1 bill you don't try to collect. You
21 spend another 30 days trying to collect after cut-off and
22 after your usual procedure?

23 A. The March revenue --

24 Q. For the same customer who was cut off 127 days
25 after the first lag began.

1 A. The March revenue is not included in the revenue
2 lag study. The fact that that customer is overdue that
3 revenue is fully accounted for within the accounting system,
4 however.

5 Q. So you cut the customer off on the 127th day; is
6 that correct?

7 A. That is correct.

8 Q. Do you write off the entire amount the customer
9 owed 104 days after cut-off?

10 A. We may if he falls within that 30 percent that
11 eventually we cannot recover through any means whatever.

12 Q. So if you are writing off that account, you write
13 off the whole amount? If you are doing that, you would write
14 off the whole amount that 104 days after cut-off if he is
15 in the 30 percent?

16 A. That is correct.

17 Q. I would now like to turn to the question of
18 plant materials and supplies.

19 MS. WESTON: If I may, Your Honor, I would like to
20 distribute another document. I would like to have it marked
21 for identification.

22 JUDGE MATUSCHAK: It may be so marked.

23 MS. WESTON: We would like to mark this Exhibit 7.
24 The document is the answer to OCA Interrogatory Set 18, No. 27
25

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

BY MS. WESTON:

Q Mr. Wright, are you the witness responsible for this document?

A Yes, I am. I have not seen this before and I would like to review it, please.

(Witness perusing document.)

A I have read that.

Q Mr. Wright, just to check, you had made a correction when you begin your testimony to a listing that was provided before, and that was to the May and June figures for non-fuel materials and supplies.

Would you check, please, in the first column of numbers for non-fuel materials and supplies and just make sure this exhibit is correct.

(Witness perusing document.)

A Yes, I agree with those numbers.

Q Those are the current figures being used?

A Yes.

Q Now, I wonder if you would look down that first column of numbers. It would appear to me that as you proceed from July, 1984 down into April, 1985, there is a bit of a trend downward; and then after that moving through to September, there is a very clear trend upward.

1 A. That's correct.

2 Q. What's going on there? Why is that number suddenly
3 starting to increase when that had not been its trend?

4 A. If I could just have a minute to review some
5 backup material.

6 (Witness perusing document.)

7 A. I do not have anything with me that explains
8 specifically why the balances were dropping. I thought I
9 did, but I do not.

10 Q. Do you have any explanation -- there is a similar
11 trend in the Non-Limerick portion of those expenses. Do you
12 know why those are going up? That's in column 4 of this
13 exhibit.

14 A. Going up?

15 Q. Going up starting in May. Those numbers are
16 clearly moving up. Do you know why that is?

17 A. I do not have a specific explanation for that
18 movement right now, no.

19 Q. Did you prepare this document?

20 A. It was prepared under my supervision.

21 Q. Did you ask any questions when you saw these
22 numbers coming in as to what they reflected?

23 A. Yes, I did. I didn't ask that question.

24 Q. I wonder if you could get back to us. I would
25 make a data request for some information on why this is

1 occurring. Also, I wonder if you would agree that there is
2 a Non-Limerick upward trend, that this is not just the entry
3 of Limerick?

4 A. I will agree that the numbers rise in certain
5 months, and we can identify which months those are.

6 Q. In regard to that request, I wonder if you could
7 also give us some explanation as to why the trend did seem
8 to be through April of moving somewhat down but mostly
9 remaining level and there is a sudden change, just to make
10 it clear what we are concerned with there.

11 Also, you made some revisions in these numbers, those
12 May and June revisions, and I wonder if you could explain why
13 those revisions were made.

14 A. Sure.

15 Referring to page C-10a of Exhibit TPH-1, the
16 corrections were made to M&S and Electric Tools and Related
17 Equipment for May and June. The M&S and Electric Tools
18 and Related Equipment for May and June of 1985 were in error
19 on page C-10a, as is explained, for instance, in OCA 13-4.

20 This was due to the Accounts Payable Division
21 implementing a new receiving system. I think that was also
22 alluded to in OCA Interrogatory 13-4.

23 During May and June of 1985, dollars which normally
24 clear into Account 154.1, which is M&S, and 154.9, which
25 is Electric Tools and Related Equipment, while this new

1 receiving system was being installed in Accounts Payable,
2 these dollars were instead cleared into a specially created
3 holding account, which was 154.6.0001.

4 In July the holding account was cleared back into
5 the proper accounts. The revised balances shown on OCA 13-4
6 reflect these back clearances.

7 Q. Why was that correction not made prior to the
8 company's filing? Why did we get the incorrect numbers?

9 A. Because those were the book numbers that we were
10 given by the General Accounting Division. It was the best
11 information they had.

12 They were unaware of the fact that the new receiving
13 system was installed and there were uncleared expenses in
14 this holding account 154.6.0001.

15 If I can continue with that explanation a little,
16 simultaneously, however, the Stores Division has an accurate
17 accounting of the material received. Hence, when they
18 developed an estimate of the increased M&S for 6-30-86, for
19 instance, the \$7.2 million increase, that estimate was correct
20 but was applied to a wrong opening balance, if you will.

21 So the differential is right. The \$7.2 million is
22 right, because Stores Division knew exactly what it was they
23 had to acquire, but what was wrong was the fact that it was
24 added to a wrong closing balance shown on C-10a of TPH-1.

25 As a result, this error cascaded into the company's

1 claim for the future test year, TPH-2; and I also corrected
2 those numbers.

3 Q Could you tell me, please, based on the document
4 that has been marked for identification as OCA Exhibit 7 --
5 and you might want to look at that -- when did M&S for
6 Limerick begin to be booked to the balance sheet?

7 A When the Limerick storeroom was established.
8 Obviously, prior to -- on or about July, '84 -- or prior to
9 it, let's put it that way, since we do have balances in
10 July of '84 shown.

11 Q Could I ask you to check those records as a
12 transcript request to see when, in fact, those documents
13 first hit the books, that those amounts first hit the books?
14 When did you first begin to book them to the balance sheet,
15 and could you update this document or backdate this document
16 starting when Limerick was put into the books, update
17 IR-OCA-18-27 so that it reflects the full process by which
18 Limerick came to be part of those expenses?

19 A We can provide that, I believe.

20 MR. MacGREGOR: I wonder how far back we may want to
21 go with that. It might be quite burdensome if it goes back
22 five or six years. We can provide the Limerick numbers.
23 I don't know if you want the non-fuel total M&S balances
24 going back some five or six-year period.

25 THE WITNESS: It could well be.

1 MS. WESTON: Could we go off the record for just a
2 minute, Your Honor?

3 JUDGE MATUSCHAK: Yes.

4 (Discussion off the record.)

5 JUDGE MATUSCHAK: Back on the record.

6 BY MS. WESTON:

7 Q Mr. Wright, our request is to know the figures
8 for Limerick as they developed month by month as far back as
9 they go. We are not requesting the total figures back that
10 far, just the entry of amounts that were for Limerick into
11 that account.

12 Mr. Wright, you also made a revision to TPH-2 on the
13 record, page C-10, at the bottom of the page to Limerick
14 materials and supplies which is listed in that double
15 asterisk note.

16 A That is correct.

17 Q Could you explain why that revision was made?

18 A Yes. As is detailed in my testimony, Statement 20
19 on page 12, quoting from line 15, "The bulk of the \$7.2 million
20 increase in the plant materials and supplies account reflects
21 approximately \$5 million for pumps, turbines, piping and other
22 required materials and supplies required for the safe and
23 reliable operation of Limerick 1."

24 That \$5 million is an increased balance, not an
25 absolute balance, which was inadvertently picked up as an

1 absolute balance and applied to the bottom of page C-10 in.
2 Exhibit TPH-2. It should have reflected both the expected
3 increase plus the initial balance.

4 Q I would like to look again at TPH-2, C-10, which
5 is the page at which you deal with the company's future test
6 year claim for materials and supplies.

7 A I have that.

8 Q You have listed on that page an amount for Stores
9 Expense Undistributed.

10 A Yes.

11 Q And that amount is 1,033,000.

12 A That is correct.

13 Q Could you tell me how that number was developed?

14 A That is explained in an interrogatory, frankly,
15 better than I could right now.

16 Q That is explained in OCA Interrogatory Set 1,
17 Question 9. What you said there is that that expense is
18 based on the actual 13-month average for the period ending
19 June 30, 1985, which is adjusted for inflation at 5.9 percent

20 A Yes.

21 Q What is the source of that 5.9 percent inflation
22 figure?

23 A I believe that the 5.9 percent figure was a
24 compilation by Stores Division of expected inflation between
25 the two years, 1985 and 1986. I'm not 100 percent certain of

1 its origin, but I believe it is a combination of the two.

2 Q. Would that be a combination of a half year of
3 1985 at 5.25 percent and a half year of 1986 at 6.4 percent?

4 A. That's, frankly, what I am guessing is the case,
5 yes.

6 Q. Would you accept that subject to check?

7 A. I will, in fact, check that for you.

8 Q. And would the sources for the 5.25 percent for
9 '85 and the 6.4 percent for '86 be Mr. Solecki and the
10 numbers that he developed?

11 A. The origin of the company's budgeted inflation
12 figure would have initiated with the Budgeting Control
13 Division, Al Solecki, in particular.

14 Q. As far as you know, those were the numbers that
15 were relied on by Stores Division in developing its figures?

16 A. As far as I know, that is true.

17 Q. But you are not sure of the precise formula that
18 was used?

19 A. I am only not sure, because I did not discuss that
20 particular point with him.

21 Q. So you will check on that. But subject to check,
22 you think it is likely that it is 5.25 and 6.4.

23 I would now like to turn to the company's construction
24 work in progress claim, which is primarily reflected in TPH-2
25 page C-8.

1 Do you have that page?

2 A. Yes, I have that reference.

3 Q. In the fifth column over, there is a column
4 marked "Total" on that page. Can you tell me what the numbers
5 entered in that column represent?

6 A. Those represent the total expected expense --
7 wait a minute.

8 (Witness perusing document.)

9 A. These are the total expected project costs taken
10 from the capital authorization or supplemental capital
11 authorizations as appropriate.

12 Q. But they are not totals that will be expended
13 through June 30, 1986?

14 A. They are not necessarily figures that will be
15 spent through June 30, 1986, no. However, a vast preponder-
16 ance of those figures will have been spent at that point.
17 In some cases, the total will have been spent at that point.

18 Q. Do you know the totals that will spent on each
19 of the projects through June 30, 1986?

20 A. Right now?

21 Q. Yes.

22 A. No, I do not.

23 Q. We would like to make a transcript request for
24 June 30, 1986 totals for each of the projects listed here,
25 with the exception of the Keystone Project, which we

1 understand has been cancelled.

2 A. To the extent that they are available. If a month
3 by month breakdown of expense is available, we will analyze
4 it and make it available to you. I don't know that that is
5 necessarily available in all cases.

6 Q. You claim, as is shown on this page, that each of
7 the two projects listed for the Salem Plant, the two fire
8 protection projects there are safety related.

9 A. That is correct.

10 Q. What safety problems would result if you did not
11 carry this project out?

12 A. As was identified by an inspector with the Nuclear
13 Mutual Limited group, the fire protection systems were found
14 to be inadequate, specifically at Salem station in the
15 welding shop and storage locker and the oil storage room at
16 that plant.

17 Q. What is Nuclear Mutual Limited?

18 A. Nuclear Mutual Limited is an insurance group
19 formed by -- it is an insurance captive formed by the
20 industry to insure certain risks at nuclear plants.

21 Q. And PECO is relying on their assessment for the
22 need for the project; is that correct?

23 A. It's not so much that we are relying on their
24 assessment as we are relying on the fact that when your
25 insurance inspector tells you that you need to make a

1 particular adjustment in order to maintain your particular
2 rate structure, you pay attention.

3 For instance, the total capital cost we are talking
4 about here is \$167,000, which will cost the customer on a
5 revenue requirements basis about \$35,000. \$35,000 represents
6 ballpark 5 percent of the insurance that is being paid for
7 fire insurance at the Salem plant.

8 It is frankly inconceivable to me, as someone that
9 knows something about insurance in the utility industry, that
10 rates would not go up at least 5 percent were we not to
11 oblige the NML inspector and put the required sprinkler
12 systems in.

13 So I am taking the less expensive route and also
14 acting in conformance I would say with good construction
15 standards in protecting the plant and the personnel and,
16 therefore, myself from a lawsuit.

17 Q The safety concern there, I assume your concern
18 is not the safety of your bankbook. Part of the concern
19 there is the safety of workers; is that what you're saying?

20 A Part of the concern certainly is the safety of
21 the workers, yes.

22 Q That is the safety concern that is referred to
23 in terms of the company's claim, or are you claiming --

24 A When we speak of safety, inevitably we are
25 speaking of human safety; yes, certainly. So, while I would

1 say, no, I am really talking here about the safety of the
2 plant; but, yes, if you want to bring it down to the base
3 level, of course, I'm not speaking of canines; I'm speaking
4 of human beings that could be hurt in that plant.

5 Q Is the safety which motivates the company to carry
6 out this project primarily the safety of the plant? Is that
7 the main loss you see being at risk here? When you said there
8 is safety of the plant and safety of persons, is the safety
9 of the plant seen as the larger thing that is at risk?

10 A No. The company would never view safety of plant
11 over safety of a human.

12 Q I was not assuming that. I was rather asking
13 whether you saw a large risk to the plant which grew large
14 in your consideration of what to do here.

15 A No. The point I am making is that in both human
16 terms and dollar terms, it makes sense to make this revision.

17 Q You also stated that the Peach Bottom isolation
18 valve replacement is safety related.

19 A That is correct.

20 Q Could you describe the safety problems that would
21 be involved in not making that replacement?

22 A It is more a multi-faceted question than the
23 fire question, of course. The ADS valves at Peach Bottom,
24 the automatic depressurization system valves that we're
25 talking about here were given a redundancy in their

1 operation which is by way of pneumatic -- that is nitrogen
2 system operation -- a redundancy such that no single failure
3 could render the automatic depressurization system incapable
4 of doing its job, and that is, as I understand, to quench
5 the overpressurized reactor into the -- I'm getting out of
6 my field now.

7 The backup nitrogen system was incapable of specific
8 sealing containment in two directions with the valves
9 utilized.

10 NRC requirements did not specifically identify the
11 fact that these two valves needed to seat in both directions.
12 However, our analysis was that this was an unsafe condition.
13 In this particular case, safety is safety again to personnel,
14 because were we to take this to its ultimate climatic
15 conclusion, the feeling was that with the valves not being
16 able to seat in the reverse direction, that we could be
17 supplying a never-ending supply of instrument nitrogen into
18 a containment area that was already overpressurized perhaps
19 by its own devices. The last thing it needs at that point
20 is to further pressurize it with nitrogen, for instance,
21 being supplied by the truckload.

22 So to the extent that any limitation of an over-
23 pressurized system within containment at a nuclear plant is
24 unsafe, then certainly avoiding further overpressurization
25 through the aggravation of that situation would also be

unsafe.

1 Q And the safety hazard would be the personnel
2 working in the plant?

3 A The safety could be to personnel working in the
4 plant, yes.

5 Q Is there any other safety that would be at risk
6 in that case?

7 A I'm not sure that I understand, again, by defini-
8 tion what else there is to safety. We are protecting human
9 beings.

10 Q You said personnel would be one issue. I was
11 asking if there were other issues that you wanted to
12 describe.

13 A I am not Dr. Rasmussen. I can't sit here and
14 analyze the nuclear safety issue. I am saying that I under-
15 stand that it would not be smart to further aggravate a
16 pressurized containment with instrument nitrogen that was
17 unnecessary to be injected.

18 If you are asking me: what are the potential safety
19 hazards throughout the site or off the site, I am not
20 qualified to even get into that.

21 MS. WESTON: Your Honor, would this be a suitable time
22 to take a short break?

23 JUDGE MATUSCHAK: It is 12:30. Let's recess until 1:30
24 (Witness temporarily excused.)

25 (Whereupon, at 12:30 p.m., the hearing was adjourned,
to be reconvened at 1:30 p.m., this same day.)

AFTERNOON SESSION

(1:32 p.m.)

JUDGE MATUSCHAK: You may proceed.

Whereupon,

RICHARD WILLIAM WRIGHT

having previously been duly sworn, testified further as follows:

CROSS-EXAMINATION (Continued)

BY MS. WESTON:

Q Mr. Wright, before we broke, we were discussing construction work in progress, and we were discussing the safety rationale of several projects. And you had described what the safety concerns were for the Salem fire projects and for the isolation valves.

I wonder if we could turn now to the Peach Bottom spent fuel storage expansion project. That's a safety project, too, is it not? You can take a minute.

A Thank you.

(Witness perusing document.)

Would you repeat that, please?

Q You have discussed some of the other safety-related construction work in progress projects, and for safety reasons you have described those. I'd like to turn to the Peach Bottom spent fuel storage expansion project, and that has been categorized by the company as a

1 safety-related project.

2 Could you explain to me what would happen if the
3 company did not carry out that project in terms of safety?

4 A. If I could have just a minute, yes, I think I can.

5 (Witness perusing document.)

6 The project referred to, which is increasing the
7 spent fuel storage capacity at Peach Bottom, is associated
8 with increasing the rack density in order to be able to
9 achieve what is known as a full core discharge past the
10 time which it now could be accomplished, which 1988 and 1989
11 I believe are the dates.

12 What this means is that after those dates, the
13 company would be unable to discharge an entire core of
14 nuclear fuel.

15 The problem of course with that is that there are
16 certain jobs which can be done with fuel in the reactor core,
17 but which cannot be done safely enough for Philadelphia
18 Electric Company with fuel in the reactor core.

19 It is our feeling then that it is necessary to at
20 this point change the racking to allow for a full core
21 discharge now such that were we to have to work for instance
22 on the recirculating piping or core spray spargers, feed-
23 water spargers and I'm sure many other systems, that we
24 could in fact more adequately assure the safety of the
25 workers involved in the process.

1 Q I understand the intention is also to be able to
2 continue to store spent fuel there. This is not fuel that
3 would be moved temporarily to go back into the reactor. It
4 is fuel that is going to be stored there for a number of
5 years, so that you would be progressively adding more fuel
6 to that storage, more spent fuel?

7 A That is correct.

8 Q So, this is not a temporary removal for replace-
9 ment into long-term removal?

10 A No. This is hopefully, if the government does
11 not change direction again, this will be the final fix
12 prior to the final solution of the spent fuel problem,
13 which of course would be being turned over to the DOE into a
14 facility for the long-term storage.

15 Q Now, your concern is in fact to remove the fuel
16 and store it up to the point when the government is planning
17 to take over that project. Is that the purpose for this
18 project, being able to store it? I believe the government's
19 date is 1998 or 1999 that they are going to provide
20 facilities.

21 A At this point, the DOE is contractually obliged
22 to take fuel in 1998. There is some feeling within the
23 industry that they will not be able to make that date.

24 Q But the purpose of this project is to carry PECO
25 through until that date?

1 A. The ultimate purpose of the project is to do that,
2 but the purpose of doing it now is to allow a full core
3 discharge.

4 Q. Is that a permanent discharge from the reactor?

5 A. No. You do not permanently discharge the core
6 of a reactor. You discharge the core of a reactor during
7 certain maintenance outages.

8 Q. Does the Nuclear Regulatory Commission require
9 you to have facilities that can take a full core discharge?

10 A. It is frankly unclear. One could interpret the
11 regulations in either way. It is Philadelphia Electric's
12 position, however, that full core discharge capability is a
13 requirement and is in fact on our "Q list."

14 Q. That's your quality assurance list?

15 A. I understand that's what it is, yes.

16 Q. Would the Nuclear Regulatory Commission shut the
17 plant down if you could not do a full fuel discharge?

18 A. I cannot answer that question. Frankly, I don't
19 think anybody can answer that question. The regulations as
20 I saw them and as others I have talked to see them are not
21 clear as to whether they absolutely mandate a full core
22 discharge or not.

23 One interpretation is that they do. However, in any
24 case, Philadelphia Electric would not feel it was safe to
25 operate the unit if we could not discharge a full core of

1 fuel to allow workers near the reactor vessel without fuel
2 in it.

3 Q So, if the project were not completed, Phila-
4 delphia Electric would feel that it needed to shut the plant
5 down? Is that what you see as the alternative?

6 A Philadelphia Electric would be facing a very
7 hard choice at that point, because clearly if you cannot
8 discharge the full core in a situation in which certain
9 extensive repair work needed to be done near the reactor
10 vessel, you would be perhaps subjecting personnel to
11 unsafe conditions, conditions beyond the level of safety
12 that Philadelphia Electric normally will accept.

13 Q Thank you very much. I would now like to move to
14 a somewhat different issue of this CWIP claim, having to do
15 with the time in which these projects were arrived at.

16 If you could turn to the company's Exhibit No. 1,
17 which is the volume of the filing, to Attachment II-B-2,
18 that provides the capital authorization for these projects,
19 Mr. Wright, in some cases for these projects, what we have is
20 a supplementary capital authorization form. I believe that's
21 the page for the Eddystone coal file and for the Conemaugh
22 ash mine.

23 A I have the CA forms you are referring to sorted
24 by project, so I will be a little slower in coming up --

25 Q Those two we have in the company's filing, the

1 supplementary forms for. And yet also, with regard to spent
2 fuel, that capital authorization includes transferring in a
3 cost from another capital authorization, is that correct?

4 What I am trying to do right now, Mr. Wright, is just
5 verify which forms we have at that location in the filing.

6 A. Well, that's what I'm trying to do for you.

7 (Witness perusing documents.)

8 Originally, filed for instance in the spent fuel case,
9 in Question II-B-2 was a capital authorization for the
10 project showing expected expenditures of \$3,960,000.

11 Q. We have a notation on that particular one that
12 says, charges to another capital account should be included
13 there.

14 A. I think that was provided in response to OCA 8-28,
15 and according to it, yes, that was a CA for \$350,000.

16 MS. WESTON: Your Honor, we have distributed three
17 documents in supplement to what the company has filed, which
18 we would now like to mark for identification.

19 The first of these documents is the original
20 authorization form for the Eddystone coal piles, since we
21 have been given the supplementary form in the company's
22 filing. We would like to mark that for identification as
23 Exhibit No. 8. That has been distributed. We had distribu-
24 ted them during the break, to save time.

25 JUDGE MATUSCHAK: Very well.

1 MS. WESTON: The document we would like to mark
2 No. 8 is the Eddystone coal pile original authorization
3 which was given in answer to OCA Question 8, No. 14.

4 JUDGE MATUSCHAK: It is so marked.

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

8 MS. WESTON: The second document which we would like
9 to mark Exhibit No. 9 is the original capital authorization
10 for the Conemaugh ash mine that was given in answer to OCA
11 Set 8, No. 33.

12 JUDGE MATUSCHAK: So marked.

13 (Whereupon, the document was
14 marked OCA Exhibit No. 9 for
15 identification.)

16 MS. WESTON: The document which we would like to mark
17 OCA Exhibit No. 10 is the capital authorization form for
18 preliminary work on the spent fuel project, which was
19 provided in answer to OCA Set 8, No. 28.

20 JUDGE MATUSCHAK: So marked.

21 (Whereupon, the document was
22 marked OCA Exhibit No. 10 for
23 identification.)

24 MS. WESTON: Thank you.

25 BY MS. WESTON:

Q. Now, Mr. Wright, I'd like to start with one of
the two Salem fire projects, which if you can find that
authorization in your file, that's the authorization for the

1 sprinklers in the welding shop.

2 A. Yes, I have those.

3 Q. Does the form state the date on which this
4 project was originally authorized?

5 A. C.A. 210182 reflects an authorization date of
6 September of 1982.

7 Q. Does that form state a projected completion date?

8 A. It estimates a completion date of December, 1986.

9 Q. Which is the company's current claim.

10 Could you tell me why this is a safety project for
11 the safety of your personnel, that having authorized it,
12 you plan to take four years to complete it?

13 A. I would assume that given that we are working
14 with a nuclear plant, and having worked in a nuclear plant
15 myself for a period of time, understanding what the labor
16 situation is, what requirements are, regulations, under-
17 standing just how difficult it is to get something put on a
18 blueprint much less implemented after that, that it takes a
19 period of time to accomplish frankly anything, in light of
20 all of the restrictions that are placed on a nuclear plant
21 operator, especially in light of the fact that this would
22 appear to me to be occurring during a period that various
23 TMI-related changes were being made to the nuclear stations
24 and the industry in general.

25 Perhaps, hypothesizing, this project may have gotten

1 a lower priority than some TMI-related work.

2 Q Am I correct then that you do not actually know
3 the reason for this, but you have some hypotheses and some
4 understanding of the general process?

5 A That is exactly right.

6 Q Now, I wonder if you could turn to the
7 authorization for the other Salem project, which is Form
8 210908. Do you have that?

9 A I do.

10 Q That also has a 1982 authorization date?

11 A It does.

12 Q And a December, 1986 completion date?

13 A That is correct.

14 Q Would you have the same general theory, no
15 particular knowledge, of why that was scheduled to take so
16 long?

17 A And I would add to that same general theory the
18 fact that we are dealing here with a plant that we are
19 certainly part owner -- in fact, we own 42.59 percent of that
20 plant -- but we are not even the operator.

21 As a result, we are at the disposal, if you will, of
22 the operator to pay for necessary changes that are made to
23 that plant, according to the timetable that the operator of
24 that plant can support.

25 So, not only would I have to hypothesize as I just

1 have as to why it is difficult to implement any change in a
2 nuclear plant, but I would also have to guess at the facts
3 and circumstances surrounding a different company.

4 Q. I wonder if you would turn please to the document
5 we had marked for identification as OCA Exhibit No. 8, and
6 take a minute to look at that document, if you wish.

7 (Witness perusing document.)

8 Q. Have you had an opportunity to review that?

9 A. Yes, I have.

10 Q. Let me ask you first, is PECO the operator of the
11 Eddystone plant?

12 A. We are the owner and the operator.

13 Q. And could you tell me the authorization date that
14 is shown on that document?

15 A. It authorized March, 1982.

16 Q. What's the estimated completion date there?

17 A. As shown on the C.A., April of 1984.

18 Q. That is not the current completion date, I
19 believe, correct?

20 A. The current completion date is December of 1986.

21 Q. Can you tell me why there has been that delay?

22 A. Yes, I think I can. The original design of the
23 ash settling basin --

24 Q. Is that for Eddystone?

25 A. Yes, it is. There were problems associated with

1 the original design of the settling basin. The original
2 design was such that the dewatering pad on the east side
3 of the north settling basin was to be used to just that,
4 dewater the muck, if you will, that settled in the settling
5 basin from the coal pile runoff.

6 As it turns out, the silts and lites, as they are
7 referred to, in the runoff were frankly of a finer
8 consistency than was expected.

9 As a result, this muck never dried. They had to find
10 a spot then to put it. The only spot to put it was in the
11 east coal pile runoff basin, the projected area where that
12 was to go.

13 So, we are caught here in a Catch-22 until a system
14 was devised whereby this goo could be disposed of. The
15 original solution to the problem was to truck off these
16 lites and silts.

17 We were cited repeatedly for motor vehicle violations
18 for dripping out of the rear of the truck, so that was no
19 good. It took a period of time to find a way to dispose of
20 the muck before the dewatering pad could then be used.

21 In the meantime, the area which was to become the
22 east coal pile runoff basin was used for the piling, if you
23 will, of these lites. As a result, the project was delayed.

24 Q And that delay is from the March, 1982 date, is
25 that right? Is that a delay that happened after March of

1 1982?

2 A. That is a delay that occurred after the settling
3 basin, the north settling basin and the dewatering pad had
4 been installed, halfway through the job, if you will.

5 Q. That would be after the capital authorization?

6 A. Yes.

7 Q. Would you turn now to the document that has been
8 marked for identification as OCA Exhibit No. 9?

9 (Witness perusing document.)

10 A. I have that.

11 Q. And that shows, does it not, an authorization date
12 of June, 1982 and a completion date of June, 1983?

13 A. That is correct.

14 Q. I would just like to ask you a question about the
15 first sentence of the descriptive text there which says,
16 "The initial area of the Ash & Mine Refuse Disposal Site
17 will reach maximum storage capacity by early 1984," which
18 is why the project was going to be necessary to be completed
19 in 1983. I wonder if you could tell us what happened? Did
20 that estimate turn out to be wrong or when you would need
21 this project?

22 A. According to the documentation that I have,
23 extremely poor weather in the fall of 1983 caused a delay in
24 the start of construction work. And the tightening of
25 Pennsylvania Department of Environmental Resource Regulations

1 has caused an increase in project costs, which also delayed
2 the project.

3 Q May I ask, then -- you said this was in the
4 fall of 1983?

5 A That's what it says here.

6 Q The project was expected to be completed in the
7 summer of 1983. Was there a previous delay?

8 A Yes, there was. That delay was in conjunction
9 with the fact that it was found that the existing Stage 1
10 disposal could provide sufficient capacity for calendar year
11 1984.

12 Q So, the company decided to delay it?

13 A That's exactly right.

14 Q I'd like to go back just for a minute to the
15 question of spent fuel, which, in Attachment II-B-2 there
16 is a capital authorization form for the final engineering
17 for that spent fuel project, which is Authorization Form
18 408301, provided in the company's filing. Do you have that
19 document?

20 A Yes, I do.

21 Q There's a section on that form for stating a
22 reason for the project about halfway down the page, and I
23 see there that reracking the fuel pools is expected to
24 extend the full core discharge reserve to 1992/1993. Is
25 that the current expectation?

1 A. The initial reracking prior to compaction will
2 extend through 1992/1993, yes, with full core discharge
3 capability.

4 Q. Thank you. I would like to ask just a few more
5 final questions on the isolation valves, which was the
6 Peach Bottom project. You are replacing valves there, is
7 that correct?

8 A. We are replacing valves which were brought in to
9 Peach Bottom from the Limerick Station, and found after
10 arrival that they did not meet spec.

11 Q. Spec for Peach Bottom?

12 A. Spec for the purpose intended, which was dual
13 isolation, that is two-way seating.

14 Q. Are the valves that are currently in place, which
15 are the valves to be replaced in this project, in rate base?
16 Are they part of the company's currently calculated rate base?

17 A. Yes, they would be.

18 Q. I'd like to ask you now just in finishing up on
19 this construction work in progress, we have an outstanding
20 interrogatory regarding construction work in progress and
21 regarding the dates that were given in the last rate case
22 for their in-service dates. I wonder if you could tell me
23 whether that answer has been prepared and is forthcoming.

24 MR. MacGREGOR: I believe it was provided this
25 morning.

1 MR. WERSAN: No.

2 MR. RUBIN: No.

3 MR. MacGREGOR: It wasn't in the package this
4 morning? I think we'll have it tomorrow, but we'll give you
5 a more specific date after the hearing is over.

6 BY MR. WESTON:

7 Q So, Mr. Wright, you have prepared that answer?

8 A It has been prepared under my supervision.

9 Q Are you aware in that case that for five of the
10 projects listed here, the actual in-service dates -- the
11 projects that were listed in the last case, that five of
12 those projects, the projected in-service dates turned out to
13 be incorrect and it turned out that the actual in-service
14 date was later than projected?

15 A I am only peripherally aware. I have only
16 reviewed that interrogatory briefly, but yes, basically I
17 am aware of that fact.

18 Q Very well.

19 MS. WESTON: We would like to reserve the right,
20 after we see that answer, Your Honor, to ask Mr. Wright
21 further questions, since we have not received it yet.

22 JUDGE MATUSCHAK: Very well.

23 MS. WESTON: Thank you.

24 BY MS. WESTON:

25 Q I would now like to move to the company's land

1 held for future use claim. Do you have your materials for
2 that?

3 A. Yes, just one moment.

4 (Pause.)

5 MS. WESTON: Your Honor, we would like to mark one
6 final document for identification for this witness. This is
7 the answer to OCA Interrogatory, Set 1, Question 6, and if
8 I may, I'd like to mark that OCA Exhibit No. 11.

9 JUDGE MATUSCHAK: Very well.

10 (Whereupon, the document was
11 marked OCA Exhibit No. 11
12 for identification.)

13 BY MS. WESTON:

14 Q Mr. Wright, you have a copy. Would you take a
15 minute to review that document, particularly the table on
16 the last page, which is what my questions will be addressed
17 to? It's the last page that will be at issue.

18 (Witness perusing document.)

19 A I have the last page.

20 Q That last page is a chart, is it not, showing
21 the company's claims for land held for future use in the
22 current case and a series of previous cases, is that correct?

23 A Yes, that is exactly what it is.

24 Q And that shows on that chart a claim for land
25 located in Woodbourne, is that correct?

A Woodbourne Substation?

- 1 Q. Yes.
- 2 A. Yes.
- 3 Q. And is it correct that in R.I.D. 863, the company
- 4 said the Woodbourne Substation would be in service in 1986--
- 5 all right, 1225, it said it would be 1986.
- 6 A. Yes, that is right.
- 7 Q. And in 1984, the company said 1987?
- 8 A. No. In Docket 2590.
- 9 Q. 2590, yes, I'm sorry, that is the 1984 rate case.
- 10 A. The projected in-service date was 1987, yes.
- 11 Q. And for the current case, the projected date is
- 12 1989?
- 13 A. Yes, that's right.
- 14 Q. Now, the company also has a claim, does it not,
- 15 for land held for future use for a Limerick-Whitpain line?
- 16 A. That's correct.
- 17 Q. And we can see from this chart that -- we'll try
- 18 to give the rate case numbers, too -- that in R-811626, the
- 19 company projected that that line would be in service in 1987?
- 20 A. That's correct.
- 21 Q. And in 1982, the company said 1988?
- 22 A. Correct.
- 23 Q. And now, in 1985, the company's projection is 1989?
- 24 A. Correct.
- 25 Q. The company also has a claim for the land for the

1 Bradshaw Reservoir, doesn't it?

2 A. It does.

3 Q. And I understand the company made a revision from
4 its original filing for this case regarding Bradshaw, is that
5 correct?

6 A. I believe that is correct.

7 Q. And in that revision, you have taken your claim
8 for Bradshaw out of rate base in the other places where it
9 appears?

10 A. Yes, in light of its expected in-service date.

11 Q. Why did you take it out of rate base in those
12 other accounts?

13 A. It's my understanding that the plant will --
14 first, Mr. Hill certainly can address that, since it is his
15 claim. I understand that it was removed from rate base
16 because it is presently not expected that the unit will be
17 in service prior to June 30, 1986.

18 Q. I take it that means the land also will not be in
19 service prior to 1986?

20 A. The land will still be in Account 105, land held
21 for future use.

22 Q. Isn't that the land on which construction work is
23 is progress?

24 A. Absolutely.

25 Q. Do you have TPH-1?

1 A. Yes, I do.

2 MS. WESTON: Has that been an identified document ye

3 MR. MacGREGOR: Not to my knowledge.

4 BY MS. WESTON:

5 Q. Would you turn to page C-9 of that document,
6 please? And I see there that the original value of the
7 land at Bradshaw is listed as \$2,498,000.

8 A. That is correct.

9 Q. Could you turn to TPH-2, the same page?

10 A. Yes.

11 Q. I see there, the Bradshaw land is valued at
12 \$2,515,000.

13 A. That is correct.

14 Q. Could you explain why there's a difference here?

15 A. Give me a moment.

16 (Witness perusing documents.)

17 A. Yes. Interrogatory IR-OCA-8-39 addresses that
18 very question.

19 Q. Could you tell me what the answer is, please?

20 A. Yes. The balance listed on page C-9 of TPH-2
21 for the test year ended June 30, 1986 for the Bradshaw
22 reservoir and the water right-of-way is an increase of
23 \$17,000 over the June 30, 1985 test period. The increase of
24 \$17,000 is associated with survey charges required to define
25 the right-of-way prior to the start of construction.

229
1 Q And I also have noted that between TPH-1 and TPH-2
2 with regard to Merrill Creek, there is a similar growth in
3 the value as cited. In TPH-1, the original value cited
4 was \$4,770,000, and in TPH-2, \$4,900,000, is that correct?

5 A That is correct.

6 Q And could you explain why there is that increase?

7 A Quoting from Interrogatory from the OCA 8-40, the
8 balance as of 6-30-86 for the Merrill Creek Reservoir, found
9 on page C-9 of TPH-2, is \$4,900,000, an increase of \$130,000
10 over the historic test year amount of \$4,770,000.

11 This \$130,000 increase represents expenditures
12 associated with property acquisitions and survey costs.

13 Q So, some of that is from buying additional land?

14 A That's exactly right.

15 Q And I take it, since you are relying on an
16 answer to an interrogatory, that you do not have information
17 regarding where that land is located and who it was purchased
18 from and that sort of information, that is more precise?

19 A I'd like to have an opportunity to look through
20 my material to see if I do have anything.

21 Q Go ahead.

22 (Witness perusing documents.)

23 A I asked that very question, and PGE&G was unable
24 specifically to identify land which had which had been
25 purchased during that period and identified a lag in

1 billing as being responsible for the increase in land
2 costs, that is a billing lag. The clearing of a bill for
3 land lagged, and has now cleared.

4 Q That is still a bill for land purchased --

5 A That is correct.

6 Q -- in addition to land that you previously gave
7 us. Could you tell me percentage of the total cost of
8 Merrill Creek is reflected on PECO's books?

9 A I might be able to do that.

10 (Witness perusing documents.)

11 In terms of direct percentage of participation in the
12 Merrill Creek project, which I believe is reflective of
13 how much of the Merrill Creek project Philadelphia Electric
14 Company owns, if you will, we are a 42.75 percent contributor.

15 Q So, PSE&G is controlling those purchases?

16 A I believe that is correct.

17 MS. WESTON: I would like to make a transcript
18 request for some followup information on that subject, which
19 we will be providing in writing.

20 What we would like to know is the date of purchase of
21 that additional land, to have a description of the land
22 purchased as to whether it was a right-of-way, fee interest,
23 et cetera, and of the municipality and county in which it was
24 located.

25 We would like the name of the seller or grantor. We

1 would like to have the price of that land, a basic full
2 itemization of those purchases, please.

3 THE WITNESS: We will contact PSE&G and see what we
4 can get.

5 BY MS. WESTON:

6 Q We would appreciate that. I understand the
7 company also has a claim here for the Middletown substation,
8 and I understand that that substation is currently under
9 construction.

10 A The 230/33 kV substation supplied by the
11 Concorde-Middletown 220 kV line was placed in service on
12 October 11, 1985 at 3:59 p.m.

13 Q It was placed in service in 1985, you said?

14 A October 11, 1985, at 3:59 p.m.

15 Q Would you explain to me, if it was placed in
16 service in 1985, why it is still being included in the land
17 held for future use claim?

18 A Because at the time the company's claim for land
19 held for future use in this proceeding was developed, the
20 land was expected to be going into service at a later date.
21 In this case, construction was pushed up.

22 Q I believe that completes my questions for you. We
23 do have several final transcript requests for updates
24 which I believe we can simply convey to the company, and we
25 would also like to ask for the latest estimates, if they are

1 available, as to the cost of decommissioning factors, the
2 dates, as close to the date as possible. We will be
3 conveying all of those to the company.

4 MR. MacGREGOR: Are you asking for the actual index
5 numbers?

6 MS. WESTON: The actual index numbers.

7 MR. MacGREGOR: The company plans to update its
8 claim to reflect the latest known and actual index numbers,
9 but we can also provide you with any additional actual
10 index figures that we have been looking at.

11 MS. WESTON: We would appreciate it.

12 No further questions, Your Honor. Thank you, Mr.
13 Wright.

14 JUDGE MATUSCHAK: Any further cross-examination of
15 this witness?

16 MR. KLEPPINGER: Yes, Your Honor.

17 CROSS-EXAMINATION

18 BY MR. KLEPPINGER:

19 Q. Good afternoon, Mr. Wright.

20 A. Good afternoon.

21 Q. At pages 24 and 25 of your testimony, you discuss
22 the spent fuel disposal adjustment. What I am interested in
23 is, what is mandated by the DOE and what your response is to
24 it. At line 25 of page 24, you indicate that DOE began
25 assessing 1 mill per kwh of gross electrical output

1 of a nuclear plant.

2 Mr. Wright, do you equate gross electrical output
3 with the phrase, normalized annual gross generation?

4 A I think they are two different concepts,
5 frankly, if I understand your question.

6 Q Am I correct that in order to develop the claim
7 for spent fuel disposal costs, PECO utilizes normalized
8 annual gross generation?

9 A Yes, For purposes of development of the claim,
10 we have no choice but to use normalized generation levels.

11 Q When the assessment is made upon PECO by DOE,
12 that assessment is then based on gross electrical output,
13 is that correct?

14 A Actual gross electrical output.

15 Q So that what you are telling me then is that
16 payments are not made to DOE based on projected output of
17 these units; it's after the fact actual output?

18 A The company's claim is a normalized claim. The
19 company's payments are actual.

20 Q If the claim is based on the projected output, I
21 am just curious then as to why the budget doesn't reflect the
22 full amount of the projection. Does the budget come out
23 before the projection of the nuclear unit output?

24 A The budget -- if I could have just a minute.

25 Q Yes.

(Witness perusing documents.)

1
2 A The budget is based on the electric production
3 department's estimate of the generation in the period, that
4 is their actual budgeted figures for output on a month-by-
5 month basis.

6 Further, the budget as reflected on page D-16 of
7 TPH-2 excludes Limerick spent nuclear fuel expense, whereas
8 on a normalized level, of course, Limerick is included.

9 Q I see. You're telling me that the \$11,715,000
10 excludes Limerick 1 spent fuel costs?

11 A That is correct.

12 MR. KLEPPINGER: Thank you, Mr. Wright. That's all
13 I have, Your Honor.

14 JUDGE MATUSCHAK: Any redirect?

15 MR. MacGREGOR: I have just two questions, Your
16 Honor.

17 REDIRECT EXAMINATION

18 BY MR. MacGREGOR:

19 Q Mr. Wright, during your cross-examination this
20 morning by Ms. Smith of Trial Staff, you were asked certain
21 questions concerning an inventory audit of materials and
22 supplies for Limerick Generating Station, is that correct?

23 A Yes, that's correct.

24 Q In particular, you were asked certain questions
25 concerning the portion of the audit captioned, "Bechtel

1 Purchase Orders," is that also correct?

2 A. That is correct.

3 Q. Could you, as a matter of completing the record,
4 read the portion of that audit discussion relating to a
5 comparison of the costs of using Bechtel to procure these
6 items versus Philadelphia Electric Company handling
7 procurement on their own?

8 A. Yes. The audit continues, "278 payments for
9 \$212,102 were made by Bechtel during August, September and
10 October. Associated labor cost was \$18,438, or about \$66
11 per order.

12 "PECo's cost is approximately \$70."

13 Q. So is it not, Mr. Wright, the conclusion of the
14 audit report that it was less expensive for PECO to use
15 Bechtel for this project rather than to do it themselves?

16 A. Yes, that was the conclusion.

17 Q. Finally, Mr. Wright, you were asked certain
18 other questions by Ms. Smith concerning the relationship of
19 late payment or finance charges the company charges on
20 delinquent bills and the company's revenue lag portion of
21 its cash working capital requirement.

22 Can you provide any further explanation of the
23 relationship of these two items?

24 A. Yes. I think two points should be noted. First
25 is the fact that finance charges clear through to other

1 revenue, hence reduce the company's overall revenue
2 requirement. And that is reflected in this case. The cash
3 working capital claim, however, which is associated with
4 revenue lag in general or the uncollectible parts
5 specifically, reflects a return to the shareholder for his
6 providing capital for the use of the ratepayer. That's the
7 first point.

8 The second point is that to the extent that revenue
9 becomes uncollectible, the finance charges on that revenue
10 become a moot point, since they also are uncollectible.

11 MR. MacGREGOR: Thank you, Mr. Wright. That's all I
12 have, Your Honor.

13 JUDGE MATUSCHAK: Is there nothing further of this
14 witness?

15 MS. SMITH: I have a question as a followup on that.

16 RE-CROSS-EXAMINATION

17 BY MS. SMITH:

18 Q. When PECO writes off the accounts receivable, am
19 I correct that at time no expense is recorded on the books,
20 and that the expense is actually taken on PECO's books as
21 part of the estimated accrued entry recorded in the month
22 of the sale, and, to follow up, that there is never a charge
23 to any of the company's cash accounts at any time in the
24 entire accounting process on this issue?

25 A. While that may be true, I'd like to follow up

1 with the fact that whether or not it is cash or not is
2 not the question. The question is, how long did the
3 shareholders of Philadelphia Electric Company have to
4 provide capital, and what return should they recover for
5 providing that capital.

6 Q But your answer basically is that at no point
7 was anything charged to the cash account, is that correct?

8 A That is my understanding.

9 MS. SMITH: Thank you. That's all I have, Your Honor.

10 JUDGE MATUSCHAK: The witness is excused.

11 (Witness excused.)

12 MR. MacGREGOR: Your Honor, we have Mr. Hill
13 available, but I am not certain that anyone is ready to
14 question him at this point.

15 MS. SMITH: I had already indicated that we would
16 start with him tomorrow.

17 MR. RUBIN: We are not ready for Mr. Hill yet either,
18 Your Honor.

19 JUDGE MATUSCHAK: This is the last witness you have
20 available today?

21 MR. MacGREGOR: Yes, Your Honor.

22 JUDGE MATUSCHAK: And the Commission Staff is not
23 ready to proceed with Mr. Hill?

24 MS. SMITH: Your Honor, Ms. Chestnut has indicated
25 that she may be able to commence on some portions of her

1 cross-examination of Mr. Hill.

2 MS. CHESTNUT: I have a discrete area that I could
3 probably cross-examine him on this afternoon, if you would
4 like to.

5 JUDGE MATUSCHAK: Let's take a short recess.

6 (Recess.)
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1 JUDGE MATUSCHAK: We can begin.

2 Whereupon,

3 THOMAS P. HILL, JR.

4 having been duly sworn, testified as follows:

5 JUDGE MATUSCHAK: Are you ready, Ms. Chestnut?

6 MR. CHESTNUT: Thank you, Your Honor.

7 Mr. MacGregor, has Mr. Hill been voir dired yet?

8 MR. MacGREGOR: No.

9 Your Honor, I have a number of documents for which
10 Mr. Hill is either solely or partially responsible, and I
11 would like to employ him as the responsible witness to move
12 a number of documents into the record.

13 JUDGE MATUSCHAK: Very well.

14 MR. MacGREGOR: I will mark these for identification.
15 The first is a document entitled "Direct Testimony of
16 Thomas P. Hill, Jr., Overview of Rate Request, Explanation
17 of Accounting Data and Certain Rate Base and Expense Claims."
18 I would ask that that be marked for identification as PECO
19 Statement Number 18.

20 JUDGE MATUSCHAK: Very well.

21 (Whereupon, the document was
22 marked as PECO Statement No. 18
23 for identification.)

24 MR. MacGREGOR: Similarly, Your Honor, I would ask
25 that a document that has been entitled "Supplemental
Testimony of Thomas P. Hill, Jr., Analysis of the Commission

1 Order at Docket R-78080459; Explanation of Changes in
2 Certain Rate Base and Expense Claims" be marked for identi-
3 fication as PECO Statement Number 18A.

4 JUDGE MATUSCHAK: Very well.

5 (Whereupon, the document was
6 marked as PECO Statement No.
18A for identification.)

7 MR. MacGREGOR: In addition, I would ask that a
8 document entitled "Philadelphia Electric Company Electric
9 Operations Revenue, Expenses, Income and Measures of Value,
10 12 Months Ending June 30, 1985" be marked for identifica-
11 tion as PECO Exhibit TPH-1.

12 JUDGE MATUSCHAK: Very well.

13 (Whereupon, the document was
14 marked as PECO TPH Exhibit No.
1 for identification.)

15 MR. MacGREGOR: Also, Your Honor, a document entitled
16 "Philadelphia Electric Company Electric Operations Revenue
17 Expenses, Income and Measures of Value, 12 Months Ending
18 June 30, 1986" be marked for identification as PECO
19 Exhibit Number TPH-2.

20 JUDGE MATUSCHAK: Very well.

21 (Whereupon, the document was
22 marked as PECO TPH Exhibit No.
2 for identification.)

23 MR. MacGREGOR: Further, that a document entitled
24 "Philadelphia Electric Company Electric Operations, R-850152,
25 Actual Experience in the future Test Year, Three Months

1 Ended September 30, 1985 be marked for identification as
2 Exhibit TPH-3.

3 JUDGE MATUSCHAK: So marked.

4 (Whereupon, the document was
5 marked as PECO TPH Exhibit No.
6 3 for identification.)

7 MR. MacGREGOR: In addition, I would ask that three
8 volumes be marked for identification collectively as PECO
9 Exhibit 1. These volumes consist of the company's responses
10 to the Commission's filing regulations at 52 PA Code,
11 Section 53.51 and 53.53.

12 JUDGE MATUSCHAK: Very well.

13 MR. MacGREGOR: Finally, I would ask that a document
14 which is entitled "Philadelphia Electric Company Electric
15 Operations, Statement of Reasons" be marked for identifi-
16 cation as PECO Exhibit 3.

17 JUDGE MATUSCHAK: Very well.

18 (Whereupon, the document was
19 marked as PECO Exhibit No. 3
20 for identification.)

21 DIRECT EXAMINATION

22 BY MR. MacGREGOR:

23 Q Mr. Hill, do you have before you a copy of the
24 document which has been marked for identification as
25 PECO Statement Number 18?

A Yes, I do.

Q Is this in fact a copy of your direct testimony

1 in this proceeding?

2 A Yes, it is.

3 Q Was this document prepared by you or under your
4 direct supervision?

5 A It was prepared by me.

6 Q Do you have any additions or corrections to make
7 to this document at this time?

8 A I have one typographical error on page 26, line
9 22. The spelling of Dr. McLeod's name is incorrect. It
10 should be M-c-L-e-o-d. That's the only correction to my
11 prefiled testimony.

12 Q Mr. Hill, do you also have before you a copy of
13 the document which has been marked for identification as
14 PECO Statement Number 18A?

15 A Yes, I do.

16 Q Is this a copy of your supplemental testimony in
17 this proceeding?

18 A Yes, it is.

19 Q Was this document prepared by you or under your
20 direct supervision?

21 A It was prepared by me.

22 Q Mr. Hill, do you have any additions or corrections
23 to make to Statement Number 18A?

24 A I have one revision that I would like to notify
25 all parties to. I have incorporated in Statement Number

1 18A an adjustment to remove the dollars of rate base
2 associated with the Bradshaw Reservoir property. The
3 dollars that I incorporated in Statement 18A reflect a
4 reduction to rate base of approximately \$12.9 million. It
5 has been brought to my attention that the \$12.9 million is
6 not correct, and in fact the number is slightly higher.
7 I have the direct cost associated with that project, and
8 am currently computing the associated allowance for funds
9 used during construction. When that is available, I will
10 supply that to all parties.

11 Q Mr. Hill, with those changes, if you were asked
12 the questions contained in PECO Statements Numbers 18 and
13 18A again today, would your answers be the same as those
14 contained therein, and would they be true and correct to
15 the best of your knowledge?

16 A Yes, they would.

17 Q Mr. Hill, do you also have before you a copy of
18 three documents that have been marked for identification
19 as Exhibits TPH-1, TPH-2 and TPH-3?

20 A Yes.

21 Q Were these documents prepared by you or under your
22 supervision?

23 A They were prepared under my supervision.

24 Q Mr. Hill, to the best of your knowledge, is the
25 information contained in these three exhibits true and

1 correct?

2 A Yes, with the exceptions noted by other witnesses
3 who have already been cross-examined.

4 Q Mr. Hill, do you also have before you a copy of
5 three volumes which have been marked for identification as
6 PECO Exhibit 1, which constitutes the company's responses
7 to the Commission's filing regulations for general rate
8 increases?

9 A Yes, I do.

10 Q Were these documents assembled and produced under
11 your direction and supervision?

12 A Yes, they were.

13 Q And is the information contained in these docu-
14 ments true and correct to the best of your knowledge?

15 A Yes, it is.

16 Q Finally, Mr. Hill, do you have before you a copy
17 of the document which has been marked as PECO Exhibit 3?

18 A Yes, I do.

19 Q Was this document prepared by you or under your
20 supervision?

21 A It was prepared under my supervision.

22 Q Is the information contained therein true and
23 correct to the best of your knowledge?

24 A Yes, it is.

25 MR. MacGREGOR: Your Honor, I would ask that the

1 documents that have been marked for identification as
2 PECO Statement Number 18, PECO Statement Number 18A,
3 Exhibits TPH-1, TPH-2 and TPH-3, and PECO Exhibits 1 and
4 3 be introduced as evidence in this proceeding, subject to
5 any timely filed motions to strike or other objections.

6 JUDGE MATUSCHAK: The motion is granted.

7 (Whereupon, the documents marked
8 as PECO Statement No. 18, PECO
9 Statement No. 18A, Exhibits TPH-1,
10 TPH-2, TPH-3, and Exhibits Nos.
11 1 and 3 were received in evidence.)

12 MR. MacGREGOR: Thank you, Mr. Honor. Mr. Hill is
13 available for cross-examination.

14 JUDGE MATUSCHAK: Staff.

15 CROSS-EXAMINATION

16 BY MS. CHESTNUT:

17 Q Good afternoon, Mr. Hill.

18 A Good afternoon, Ms. Chestnut.

19 Q Mr. Hill, before we start, I am going to be
20 referring to Exhibit TPH-2, page A-5.

21 A I have that document.

22 Q Specifically I am going to be asking you questions
23 concerning the total booked revenue, the numbers which
24 appear on column 3 of that exhibit.

25 A Fine.

Q Now, column 3 on page A-5 of Exhibit TPH-2 shows
the budgeted future test year revenues broken down by major

1 rate classes; is that correct?

2 A Yes, by tariff subdivisions.

3 Q Mr. Hill, do you have a copy with you of the
4 company's response to DR-STAFF-REP-3?

5 A Yes, it was given to me.

6 MS. CHESTNUT: Your Honor, I request that the
7 company's response to that data request be marked for
8 identification in this proceeding as Staff Exhibit Number 1.
9 Copies have been supplied to Your Honor, the court reporter
10 and all parties.

11 JUDGE MATUSCHAK: Very well, so marked.

12 (Whereupon, the document was
13 marked as Trial Staff Exhibit
14 No. 1 for identification.)

14 BY MS. CHESTNUT:

15 Q Mr. Hill, did you prepare this response?

16 A The response was prepared under my direction and
17 supervision.

18 Q You are listed as the responsible witness; is
19 that correct?

20 A That is correct.

21 Q In this data request the Staff asked for work
22 papers on the development of the budget future test year
23 revenues shown on page A-5; is that correct?

24 A Yes, that is.

25 Q And does this represent the entire response of

1 the company?

2 A I believe it does. It represents the base revenues
3 for the future test year for Pennsylvania jurisdictional
4 rates.

5 Q When you say that, you are referring to the fact
6 that the first four pages of this eight-page computer print-
7 out is labeled "1985 Budget Revenue" and the last four
8 pages are marked "1986 Budget Revenue; is that correct?

9 A Yes. The company's budget, as Mr. Solecki has
10 described, is a two-year monthly budget from which we have
11 isolated our test year, which runs for the period of July
12 1, 1985 through June 30, 1986, which spans both budget
13 years.

14 Q Are these all the work papers used by you or by
15 your subordinates in developing the numbers shown on page
16 A-5?

17 A Yes. These are the associated work papers. They
18 represent the computer program which is run in the Rate
19 Division for preparation of the company's budget and forecast
20 revenues.

21 Q I would like you to describe briefly, if you can,
22 the format of the information shown on these pages.

23 A Certainly. The company has a multitude of rates
24 and riders which provide base revenues -- or provide revenue
25 to Philadelphia Electric Company. Our budgeting process

1 accounts for each and every one of these rates; and, in fact,
2 in some cases subdivides these categories. We calculate
3 independently a base revenue component, which is the revenue
4 derived from the application of the tariff rates exclusive
5 or any riders or adjustments. We then calculate an energy
6 cost rate, which is the fuel adjustment mechanism, which
7 comprises part of the total bill. And finally we compute
8 the STAC component, which is the adjustment clause
9 applicable to the base revenue portion of the bill.

10 Those have been summarized for each of the classifi-
11 cations shown as total revenue, which would be construed
12 as total book revenue for Philadelphia Electric Company.
13 That can be added up then on a monthly basis to provide
14 the fiscal or annual determination of total revenue.

15 Q So these are your monthly budgeted amounts for
16 each classification for the periods indicated; is that
17 correct?

18 A That's correct.

19 Q When was the budget from which the 1985 figures
20 came finalized?

21 A I would suspect -- and I don't know if there is
22 a date on the computer output or not -- but I would suspect
23 it would be probably very late in December of 1984 when the
24 final revenue numbers were entered into the budget system.
25 The company performs a series of iterations throughout the

1 budget process because of changes in fuel estimates. As we
2 move through time there are more current data available on
3 fuel estimates, and normally the last element to be overlaid
4 is the latest estimate for the energy cost rate; so I
5 would suspect it would be very late in December, 1984.

6 Q How about for the 1986 budget revenues?

7 A That would be prepared at the same time as the
8 1985 budget. There may be a lag; it depends. Only the
9 1985 budget is presented to the Board of Directors at their
10 meeting in January. The '86 budget might have had an
11 additional lag of a month or perhaps six weeks. But they
12 are basically in that time frame.

13 Q Are the numbers shown on Staff Exhibit 1 used
14 to derive the future test year revenues shown on TPH-2,
15 A-5?

16 A They were the basis of those numbers. Mechanically
17 this represents the Rate Division's backup material
18 for budget revenues. These become part of the budget input.
19 Just as operating expenses, taxes, depreciation and other
20 elements of the budget go into Mr. Solecki's budget system,
21 we then receive in the preparation of any rate filing a
22 total summation of operating expenses, revenues, taxes and
23 depreciation. Those revenues would, hopefully, coincide
24 and would be one and the same; so I would say this precedes
25 in that we receive an interim step, that is the summary by

1 Mr. Solecki, which really is presented as the B Schedules in
2 the accounting exhibit identified as PECO Exhibit TPH-2.

3 Q But it is safe to say that we can derive the
4 booked revenue figures on TPH-2, A-5, from manipulation of
5 the numbers given in this exhibit?

6 A Yes, you should be able to do that.

7 Q So, for example, to arrive at the total booked
8 revenue figure for Class R shown on A-5 we would go through
9 Exhibit 1 and add the July through December 1985 total
10 revenue figures for Rates R, RS and RM, and then add the
11 January through June 1986 figures for those rates; is
12 that correct?

13 A Yes, that's correct.

14 Q So this exhibit does not really show us how
15 those numbers for base, fuel, sales and cents per kilowatt
16 hour numbers were derived; is that correct?

17 A As I mentioned, that is done internally in a
18 computer program.

19 Q Do you know how the base number is derived?

20 A I have some knowledge of the calculations. It
21 varies from rate class to rate class, as identified on this
22 sheet, if there is one specific one you would like to talk
23 about, or all of them.

24 It depends upon the rate structure. For instance, if
25 we had a demand energy rate the calculation would be

1 different from, for instance, the residential rate which is
2 solely an energy pricing.

3 Q Let's make life easy and let's look at Rate R,
4 which does not have a demand component in the rate schedule.

5 A Okay. Rate R is during the winter months of
6 October through May a flat pricing in cents per kilowatt
7 hour. Therefore, every kilowatt hour sold is the same unit
8 price, which appears in the company's tariff. What we
9 would do in the calculation in this computer program
10 would be to take the existing base revenue price, which is
11 in the company's tariff, and multiply that times the sales,
12 which were provided as input by Mr. Hoch. There is a
13 slight modification for the summer billings since we have
14 an inverted rate for the summer months of June through
15 September. The inversion takes place at 500 kilowatt
16 hours. Through internal reports produced by other areas
17 within the Rate Division, or at least summary reports, we
18 have the derivation of those kilowatt hours billed under
19 500 kilowatt hours and over 500 kilowatt hours. We first
20 look at the growth in total kilowatt hour sales which take
21 place during each of those months.

22 The increase between the budget number and the most
23 recent available month of actual data, if that difference
24 can be explained by a growth in customers, we make the
25 assumption that the growth occurs on a uniform basis, and

1 that is we are adding average customers; so, therefore, the
2 split between use under and over 500 would maintain its same
3 relative position.

4 If we find that kilowatt hours are growing in excess,
5 that would be growing at the incremental block at over 500
6 and we would price out our revenue increase accordingly.

7 Our basis of comparison is that we look at historic
8 data and the relationships between sales, customers and
9 revenue, and then we take the input of sales and customers
10 on a budget basis, which is supplied by Mr. Hoch, and we
11 calculate or derive a budget base revenue based upon
12 existing tariff pricings.

13 Q Is the cents per kilowatt hour line shown on this
14 exhibit a derivative number?

15 A That is a resultant number, yes.

16 And, by the way, the cents per kilowatt hour that is
17 shown there represents cents per kilowatt hour -- I'm
18 sorry; I believe it is total cents per kilowatt hour.

19 Q Could you explain the process in a rate class
20 which has a demand component such as -- how about large
21 commercial, which is on the third page of the 1985?

22 A That's done in several different steps. As
23 indicated, the categories of breakdown under large commer-
24 cial are primary service, Rate PD; high tension service
25 exclusive of the largest eight customers on the Philadelphia

1 Electric Company system; and then we also have the calcula-
 2 tion for the largest eight HT customers. For what is
 3 labeled here as the Big 8, our largest customers, we
 4 receive estimates of demand, billing demands, and energy
 5 consumption by month for each of those customers, and
 6 specific bills are calculated monthly for each of those
 7 customers' actual bill calculation. They are summed up
 8 for those eight customers, and that provides the summary
 9 for that class.

10 PD, Rate Primary Distribution, and HT excluding the
 11 Big 8 are computed in a similar fashion. We look at the
 12 most recent actual data available for each one of those rate
 13 classifications. We look at the billing demand in composite
 14 and we look at the kilowatt hours in composite, and derive
 15 an average load factor for those customers.

16 We then take the number of customers that have been
 17 budgeted for each one of the -- for the 24-month period,
 18 and the kilowatt hour sales. We apply the same load factor
 19 criteria that existed in the actual month to the budgeted
 20 number of customers to see whether we can consume all of
 21 the budgeted sales.

22 If there are sales left over after we have applied
 23 the average condition from the most recent months to the
 24 budget condition, we assume that all of those sales occur
 25 at the increment. Those are priced then on an incremental

1 basis by going into each one of the tariff rates and find-
2 ing out what price -- at what block the growth is occur-
3 ing. For instance, in Primary Distribution, if the average
4 hours use of that class of customers is 275 hours for the
5 month of October, we would go to the block in Rate PD to
6 determine what the increase in base revenue would be on the
7 energy price for Rate PD, and that would be added as an
8 increment to the mass of other customers growing at the
9 average.

10 So we do -- we try to rely on historic data to
11 explain conditions which exist and to predict, and then we
12 make an attempt by making assumptions about where growth
13 is occurring, that is at what point on average for that
14 class of customers; and we either add -- it might be a
15 positive growth or a negative growth. That amount of
16 dollars of revenue would be added or deducted from the
17 derived total to produce total budgeted base revenue.

18 We would then again overlay the energy cost rate
19 and the state tax adjustment.

20 Q When you refer to the historic period are you
21 referring to the last 16 years, or is there a different
22 period?

23 A No, I'm referring to the most recent 12-month
24 period available at the time the budget base revenue is
25 calculated. That data normally represents the 12 months

1 ended July of any given year. That's when we begin our
2 budget base revenue process.

3 MS. CHESTNUT: Your Honor, I would like to make an
4 on the record data request. There are a number of inputs
5 that we would like to have specified that Mr. Hill has
6 generally referred to. I think the easiest way to do this
7 would be for me to simply make a general on the record
8 data request and have Mr. Hill consult with the Staff
9 expert to see if we can narrow it down to exactly what we
10 need.

11 JUDGE MATUSCHAK: Very well.

12 MS. CHESTNUT: Mr. Hill, that's all I have.

13 THE WITNESS: The inputs that you are referring to,
14 additional inputs; I'm a little concerned about what you
15 are referring to.

16 MS. CHESTNUT: Things like billing determinants.

17 THE WITNESS: The historic data and the like?

18 MS. CHESTNUT: Yes.

19 THE WITNESS: Fine.

20 MR. RUBIN: Your Honor, I have just one or two
21 questions in the nature of a follow-up, and it might be
22 easier to do them now.

23 JUDGE MATUSCHAK: Go ahead.
24
25

CROSS-EXAMINATION

1
2 BY MR. RUBIN:

3 Q First, Mr. Hill, could you give us some idea of
4 the status of the company's 1986 budget process as it
5 would relate to producing something similar to Staff
6 Exhibit 1 for 1986 and the first part of 1987?

7 A As far as the Rate Division is concerned in
8 this exhibit, it was still under way when I left to come
9 up to hearings on Tuesday. It is my understanding that
10 we were in the process -- or that we would shortly be in
11 the process of calculating energy cost rate revenues for
12 the two-year period of '86 to '87. It's not final.

13 Q Do you have any idea when that would become
14 final?

15 A It becomes final when the Board of Directors
16 approves the 1986 budget in January.

17 Q Mr. Hill, could you provide us with a copy of
18 information comparable to that which is in Staff Exhibit
19 1 for the first six months of 1986 as it appears in the
20 1986 budget when it is finalized? I understand that
21 wouldn't be until sometime in January, but I'll make the
22 request now.

23 A You want a reproduction of the first six months
24 of 1986?

25 Q Yes, from your 1986 budget.

1 A Yes; fine; it is available.

2 Q And, Mr. Hill, would you also, looking back at
3 Staff Exhibit 1 -- I'm not certain what your answer was
4 before, but would you accept subject to check that the
5 cents per kilowatt hour entries which appear on this page
6 are base revenue?

7 A Base revenue; yes, I will.

8 Q Thank you.

9 MR. RUBIN: Thank you, Your Honor.

10 JUDGE MATUSCHAK: Is there anything further of this
11 witness at this time?

12 (No response.)

13 MR. RUBIN: Your Honor, before we go off the record
14 today -- this is not for Mr. Hill -- I would just like to
15 move into evidence OCA Exhibits Numbers 5 through 11
16 inclusive.

17 JUDGE MATUSCHAK: Any objection?

18 MR. MacGREGOR: No objection, Your Honor.

19 JUDGE MATUSCHAK: OCA Exhibits 5 through 11
20 inclusive are admitted in evidence.

21 (Whereupon, the documents marked
22 as OCA Exhibits Nos. 5 through
11 were received in evidence.)

23 MR. RUBIN: Thank you, Your Honor.

24 MS. CHESTNUT: Your Honor, I would like to move
25 Staff Exhibit Number 1 in at this time.

1 JUDGE MATUSCHAK: Staff Exhibit 1 is admitted into
2 evidence.

3 (Whereupon, the document marked
4 as Staff Exhibit No. 1 was
received in evidence.)

5 JUDGE MATUSCHAK: If there is nothing further, the
6 witness is excused at this time.

7 (Witness temporarily excused.)

8 JUDGE MATUSCHAK: If there is no further testimony
9 to present, we will adjourn at this time and reconvene
10 tomorrow at 10:00.

11 (Whereupon, at 3:05 p.m. the hearing was adjourned,
12 to be reconvened at 10:00 a.m. on Thursday, December 12,
13 1985 in Harrisburg, Pennsylvania.)
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I hereby certify, as the stenographic reporter, that the foregoing proceedings were reported stenographically by me, and thereafter reduced to typewriting by me or under my direction; and that this transcript is a true and accurate record to the best of my ability.

COMMONWEALTH REPORTING COMPANY, INC.

BY: Phyllis Glass
Phyllis Glass

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