Staff Statement MJM-1-B

PENNSYLVANIA PUBLIC UTILITY COMMISSION

V.

Philadelphia Electric Company

R-850152

Exhibits to accompany the

Direct Testimony

of

Martin J. Mayer

Concerning Decommissioning Expences

Q.DR-Staff-RED-4. For each unit for which a claim for decommissioning is made, provide the following:

a. In service date
b. Date first dedicated to use for Pennsylvania jurisdictional ratepayers (if different than (a).)
c. Service life
d. Retirement year
e. Remaining life

A.DR-Staff-RED-4. The requested data is provided below:

a.

Peach Bottom 1	1967
Peach Bottom 2	1974
Peach Bottom 3	1974
Salem 1	1977
Salem 2	1981
Limerick 1	1986

b.

Peach Bottom 1	1967
Peach Bottom 2	1974
Peach Bottom 3	1974
Salem 1	1977
Salem 2	1984
Limerick 1	1986

c.

Peach Bottom 1	7 years
Peach Bottom 2	35 years
Peach Bottom 3	35 years
Salem 1	35 years
Salem 2	35 years
Limerick 1	39 years

d.

Peach Bottom 1	1974
Peach Bottom 2	2009
Peach Bottom 3	2009
Salem 1	2012
Salem 2	2016
Limerick 1	2024

e.

Peach Bottom 1	-
Peach Bottom 2	23 years
Peach Bottom 3	23 years
Salem 1	26 years
Salem 2	30 years
Limerick 1	39 years

Responsible Witness: R.Wm.Wright,Supervisor-Financial Division

Q.DR-Staff-RED-6. Provide workpapers supporting the Company's claim on TPH-2, D-15 for:

a. Future annual accrual for decommissioning
b. Expense to correct prior accruals for inflation.

A.DR-Staff-RED-6. a. Attachment DR-Staff-RED-6a provides the requested information.

b. Attachments DR-Staff-RED-6b and 6c provide the requested information.

Responsible Witness: R.Wm.Wright, Supervisor, Financial Division decscej1

PECO DECOM ANALYSIS (1000$)
DECOM CLAIM

	MAR'84$ TOTAL	NUC PART AT MAR'84	NUCPART AT JUN'86	OWNERSHIP PORTION	COMPANY COST	AMORTIZATION PERIOD YEARS
	(1)	(2)	(3)	(4)	(5)=(3)X(4)	(6)
PEACH BOTTOM 2	136776	95802	108331	0.4249	46030	28
PEACH BOTTOM 3	136776	95802	108331	0.4249	46030	28
SALEM 1	105807	80112	90027	0.4259	38342	28
SALEM 2	105807	80112	90027	0.4259	38342	27
LIM1	146228	109675	123629	1.0000	123629	38
PEACH BOTTOM 1	19072	13581	15197	1.0000	15197	22
TOTAL	650466	475084	535542		307570	

YEARLY CLAIM	YEARS TIL JUN'86	RES REQ AT 6/86
(7)=(5)/(6)	(8)	(9)=(7)X(8)
1644	6.14	10094
1644	6.14	10094
1369	6.14	8406
1420	4.72	6702
3253	0.00	0
691	0.00	0
10021		35296

COST CATEGORY	MARCH'84INDEX	JUN'86 INDEX
CRAFT LABOR, SKILLED	353.6	405.0
CRAFT LABOR, COMMON	420.0	502.0
PROFESSIONAL LABOR	122.2	135.0
EQUIPMENT	355.8	372.0
LOW LEVEL WASTE BURIAL	21.57	25.49
IRON&STEEL SCRAP	311.8	275.0
COPPER SCRAP	149.6	135.0
ENERGY AND OTHER	309.6	326.0

NUCLEAR PORTION
PEACH BOTTOM 2

COST CATEGORY	MAR'84COST	JUN'86COST
CRAFT LABOR, SKILLED	21543.0	24674
CRAFT LABOR, COMMON	12391.5	14811
PROFESSIONAL LABOR	25317.5	27970
EQUIPMENT	9413.0	9842
LOW LEVEL WASTE BURIAL	18784.0	22198
IRON&STEEL SCRAP	-238.0	-210
COPPER SCRAP	0.0	0
ENERGY AND OTHER	8591.0	9046
	95802.0	108331

PEACH BOTTOM 3

COST CATEGORY		
CRAFT LABOR, SKILLED	21543.0	24674
CRAFT LABOR, COMMON	12391.5	14811
PROFESSIONAL LABOR	25317.5	27970
EQUIPMENT	9413.0	9842
LOW LEVEL WASTE BURIAL	18784.0	22198
IRON&STEEL SCRAP	-238.0	-210
COPPER SCRAP	0.0	0
ENERGY AND OTHER	8591.0	9046
	95802.0	108331

SALEM 1

COST CATEGORY		
CRAFT LABOR, SKILLED	18924.0	21675
CRAFT LABOR, COMMON	8070.5	9646
PROFESSIONAL LABOR	25119.5	27751
EQUIPMENT	7685.0	8035
LOW LEVEL WASTE BURIAL	11843.5	13996
IRON&STEEL SCRAP	-32.0	-28
COPPER SCRAP	0.0	0
ENERGY AND OTHER	8501.5	8952
	80112.0	90027

SALEM 2

COST CATEGORY		
CRAFT LABOR, SKILLED	18924.0	21675
CRAFT LABOR, COMMON	8070.5	9646
PROFESSIONAL LABOR	25119.5	27751
EQUIPMENT	7685.0	8035
LOW LEVEL WASTE BURIAL	11843.5	13996
IRON&STEEL SCRAP	-32.0	-28
COPPER SCRAP	0.0	0
ENERGY AND OTHER	8501.5	8952
	80112.0	90027

LIMERICK 1

COST CATEGORY		
CRAFT LABOR, SKILLED	25827.0	29581
CRAFT LABOR, COMMON	10902.0	13031
PROFESSIONAL LABOR	31762.0	35089
EQUIPMENT	10378.0	10851
LOW LEVEL WASTE BURIAL	19747.0	23336
IRON&STEEL SCRAP	-563.0	-497
COPPER SCRAP	0.0	0
ENERGY AND OTHER	11622.0	12238
	109675.0	123629

PEACH BOTTOM 1

COST CATEGORY		
CRAFT LABOR, SKILLED	1857.0	2127
CRAFT LABOR, COMMON	849.0	1015
PROFESSIONAL LABOR	6849.0	7566
EQUIPMENT	814.0	851
LOW LEVEL WASTE BURIAL	1848.0	2184
IRON&STEEL SCRAP	-101.0	-69
COPPER SCRAP	0.0	0
ENERGY AND OTHER	1465.0	1543
	13581.0	15197

ATTACHMENT OR-Staff-RGD-66
page 1 of 2

rec1

ACTUAL RESERVE THROUGH 6/30/85
DECOMMISSIONING

126ACCT-PRE7/19/84

	PB2	PB3	SAL1	SAL2	LIM1	TOTAL
ESCROW	1662869	1658443	1236104	794589	0	5352005
INV INC	308040	329474	244332	112670	0	994516
TRUSTEE FEES	-5985	-6027	-4471	-1430	0	-17913
TAX SAVINGS	3535	3563	2647	876	0	10621
OTHER	0	0	0	0	0	0
POST 7/19/84ESC	1052285	1043955	844651	717283	0	3658174
CAP GAINS(LOSSES)	16441	36694	29612	-1113	0	81634
TOTAL ESCROW	3037185	3066102	2352875	1622875	0	10079037
190 ACCT						
OTHER DEF TAX	0	0	0	0	0	0
PRE7/19 DEF TAX	1760983	1756341	1309061	840614	0	5666999
TOTAL DEF TAX	1760983	1756341	1309061	840614	0	5666999
TOTAL RESERVE	4798168	4822443	3661936	2463489	0	15746036

	ESC AT 6/30/85 A	DEF TAX 6/30/85 B	ESC OTHER ADJ "D	ESCACCUM 7/85TO 6/86 E	INTON ES OF 7/85 AT6/86 F	INT ON ESC ACCUM & OTHER AT6/86 G	ESC+ INT+ DEFTAX AT6/86	ONGOING EXP FOR 7/85-6/86	YEARS FR INITIAL ACC TO 6/86	RES REQ AT 6/86	RES REQ LESS ACT RES AT6/86
PB2	3037185	1760983	0	1205004	252086	50008	6305266	1644000	6.14	10094160	3788894
PB3	3066102	1756341	0	1205004	254486	50008	6331941	1644000	6.14	10094160	3762219
SAL1	2352875	1309061	0	1044000	195289	43326	4944551	1369000	6.14	8405660	3461109
SAL2	1622875	840614	0	735996	134699	30544	3364728	1420000	4.72	6702400	3337672
LIM1	0	0	0	0	0	0	0	3253000	0	0	0
TOTAL	10079037	5666999	0	4190004	836560	173886	20946486	9330000		35296380	14349894

E-ESC ACCUM JUL85TO JUN'86		12 MO
PB2	100417 PERMON	1205004
PB3	100417	1205004
SAL1	87000	1044000
SAL2	61333	735996
LIM1	0	0

F-INT ON ESC OF 6/30/85 AT 6/30/86		
PB2	3037185	252086
PB3	3066102	254486
SAL1	2352875	195289
SAL2	1622875	134699
LIM1	0	0

WEIGHFAC 1 (12/12) INT RATE 0.083

G-INT ON ESC ACCUM&OTHER		
PB2	1205004	50008
PB3	1205004	50008
SAL1	1044000	43326
SAL2	735996	30544
LIM1	0	0

WEIGHT FAC(12/12X1/2) 0.5
INT RATE 0.083

D-OTHER	MAR'85 DECOM	APR'85 DECOM	TOTAL
PB2	0	0	0
PB3	0	0	0
SAL1	0	0	0
SAL2	0	0	0
LIM1	0	0	0

($1000)

NG	ONGOING EXPENSE	PRIORPER EXPENSE	TOTAL EXPENSE	PRIOR PERIOD 5 YEAR AMORTIZ	TOTAL EXPENSE W/5YR AMORTIZ
PB2	1644	3789	5433	758	2402
PB3	1644	3762	5406	752	2396
SAL1	1369	3461	4830	692	2061
SAL2	1420	3338	4758	668	2088
LIM1	3253	0	3253	0	3253
PB1	691	0	691	0	691
TOTAL	10021	14350	24371	2870	12891

ATTACHMent DR-Staff-Red-6c

12 months ended June 30, 1986
Decommissioning Expense
Budget

UNIT	EXPENSE
PB2	1,205,004
PB3	1,205,000
SAL1	1,044,000
SAL2	735,996
Lim 1	1,382,812
less Lim 1	(1,382,812)
	$4,190,000

Q.DR-Staff-RED-8. Provide the year by year accumulation of the decommissioning trust fund segregated by unit and separated between principal, interest and expense (if any).

A.DR-Staff-RED-8. Attachment DR-Staff-RED-8 provides the requested information.

Responsible Witness: R.Wm.Wright, Supervisor - Financial Division

FORM 126-09282-REV'D 1-70

ATTACHMENT DR-STAFF-RDD-8

PREPARED		
CHECKED		
TYPED		
COMPARED AND FOOTED		

DECOMMISSIONING TRUST FUND BALANCES

	PRINCIPAL $	INTEREST $	OTHER* $
	PB 2		
12/31/80	362,578	3843	—
12/31/81	996,436	16,972	(231)
12/31/82	1,864,340	46,545	(1817)
12/31/83	2,904,126	122,323	(2449)
12/31/84	3,897,271	233,038	15,819
6/30/85	4,476,137	$308,040	13,991
	PB3		
12/31/80	362,578	3,843	—
12/31/81	996,436	16,972	(231)
12/31/82	1,864,340	61,329	(1817)
12/31/83	2,903,712	138,264	(2463)
12/31/84	3,875,429	248,059	35,221
6/30/85	4,458,729	329,474	34,230
	SAL1		
12/31/80	267,846	2843	—
12/31/81	737,392	12,569	(171)
12/31/82	1381,997	45,407	(1,351)
12/31/83	2,154,929	102,497	(1,822)
12/31/84	2,895,618	185,199	27,295
6/30/85	3,389,816	244,332	27,788
	SAL2		
12/31/80	—	—	—
12/31/81	51,777	7458	31
12/31/82	659,846	10,906	(316)
12/31/83	1,224,525	29,344	(554)
12/31/84	1,991,332	72,902	(2,205)
6/30/85	2,352,486	112,670	(1667)

* OTHER ITEMS INCLUDE TRUSTEE FEES, TAX SAVINGS DUE TO DEDUCTIBILITY OF TRUSTEE FEES, AND CAPITAL GAINS AND LOSSES

Witness: J. M. Heverling

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PENNSYLVANIA PUBLIC UTILITY COMMISSION

v.

Philadelphia Electric Company

R-850152

Direct Testimony

of

Jeffrey M. Heverling

__Concerning:__

Deferred Income Taxes

PHILADELPHIA ELECTRIC COMPANY

SUMMARY OF TAX ADJUSTMENTS AND RESULTANT EFFECT UPON REVENUE REQUIREMENT

Description of Adjustment	Increase (Decrease) to Rate Base ($1,000)		Increase (Decrease) to Cost of Service ($1,000)
Deny annual claim for deferred taxes relating to capitalized pensions & taxes at 6/30/86 [Staff Exhibit JMH-1,Schedule 2]	$6,012		($6,012)
Deny annual claim for deferred taxes relating to capitalized employee benefits at 6/30/86 [Staff Exhibit JMH-1,Schedule 2]	$3,566		($3,566)
Provide first year of the five year amortization for deferred taxes accumulated as of 6/30/85 relative to capitalized pensions, taxes employee benefits [Staff Exhibit JMH-1, Schedule 1]	$6,630		($6,630)
Provide first year of the five year amortization for State deferred taxes relative to liberalized depreciation, and accumulated as of 6/30/85 [Staff Exhibit JMH-1, Schedule 5]	$7,832		($7,832)
Provide adjustment to increase Federal deferred taxes, premised upon five-year amortization of State deferred income taxes [Staff Exhibit JMH-1, Schedule 5]	($3,603)		$3,603
Total Increase (Decrease) to Rate Base and Cost of Service	$20,437		($20,437)
Weighted Cost of Capital [Staff Exhibit ARO-1, Schedule 1]	x 12.03%		
After-tax Revenue Requirements	$2,459		($20,437)
Before-tax Revenue Factor	÷ 50.23%		÷ 50.23%
Before-tax Revenue Requirement Attributable to Rate Base and Cost of Service	$4,894		($40,686)
Combined Before-tax Revenue Requirement		($35,792)	

Q. PLEASE STATE YOUR NAME, OCCUPATION AND BUSINESS ADDRESS.

A. My name is Jeffrey M. Heverling. I am a Fixed Utility Financial Analyst in the Tax Section of the Bureau of Rates, Pennsylvania Public Utility Commission. My business address is P.O. Box 3265, Harrisburg, Pa., 17120.

Q. PLEASE DESCRIBE YOUR EDUCATIONAL AND PROFESSIONAL EXPERIENCE.

A. This information is detailed in Appendix A which is attached to my testimony.

Q. WOULD YOU DESCRIBE THE RESPONSIBILITIES OF YOUR PRESENT POSITION.

A. I am responsible for the review and analysis of the claims for tax expense submitted by utilities as part of their cost of service for ratemaking purposes. Additionally, I provide assistance to other divisions within the bureau, on such matters as evaluation of the financial and tax impacts of alternative methodologies to be utilized in ratemaking. Based upon this review and analysis, I develop and advocate the Staff position in areas which impact upon ratemaking proceedings.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS CASE?

A. My testimony is intended to explain the deferred income tax expense adjustments which I recommend be made based upon my analysis of the expense claims of the Respondent in this ratemaking proceeding.

Q. HAVE YOU SUBMITTED AN EXHIBIT IN CONJUNCTION WITH YOUR TESTIMONY?

A. Yes. I have prepared Staff Exhibit JMH-1, which accompanies this testimony. The exhibit contains company provided information in support of my recommendations and the computations upon which the recommended adjustments are based.

Q. WHAT CONCLUSIONS HAVE YOU DRAWN FROM YOUR ANALYSIS?

A. The Company's claim for deferred income taxes is not computed in conformity with the Commission's recently accepted methodologies regarding the ratemaking treatment of deferred income taxes.

Q. CAN YOU EXPLAIN HOW THE COMPANY'S CLAIM FOR DEFERRED TAXES IS INAPPROPRIATE, AND THE IMPACT OF SUCH IN THIS PROCEEDING?

A. Yes, there are two areas of concern relative to Philadelphia Electric Company's claim for deferred income taxes.

First, the Company proposes to collect Federal and State deferred taxes on capitalized overheads on amounts of pensions, taxes and employee benefits which have been capitalized for ratemaking . While such treatment has been viewed as appropriate in the past, Staff believes that new guidelines have become applicable subsequent to this Commission's prior decision at __Pa. P.U.C. vs. Philadelphia Suburban Water Company__, Docket No. R-842592. Accordingly, Staff recommends that deferred taxes on capitalized overheads be flowed through to ratepayers, thus reducing the Provision for Deferred Income Taxes.

Secondly, the Company is amortizing previously collected deferred state income tax over the remaining life of its assets. Staff believes that it is more appropriate to amortize the state deferred income tax back to ratepayers over a substantially shorter period, thus providing additional reduction of deferred taxes over the amount currently claimed in this case.

Q. PLEASE EXPLAIN HOW THE PHILADELPHIA ELECTRIC COMPANY CLAIMS DEFERRED TAXES ON CAPITALIZED OVERHEADS?

A. In this proceeding, Philadelphia Electric Company is claiming a total of $9,578,000 in deferred taxes composed of the following categories.

	($1,000)		
	Total	Federal	State
Capitalized Pensions & Taxes	6,012	4,938	1,074
Capitalized Employee Benefits	3,566	2,929	637
	9,578	7,867	1,711

Based upon a previous Commission order (R-80061225), the Company capitalized for ratemaking, certain overhead type costs related to pension expense, taxes and various employee benefits, related to its capital projects. Later, the Company recovers these costs over the lives of its assets, when the assets are placed into service. In contrast, these same overhead costs are deducted by the Company on a current basis for determining actual income taxes. Thus, a timing difference results, upon which deferred taxes are calculated for ratemaking.

Q. WHAT IS YOUR POSITION REGARDING THE TAX BENEFITS OF CAPITALIZED OVERHEADS?

A. My position is that the benefit of all applicable capitalized overhead deductions used to reduce a utility's current State and Federal tax liability, should be passed on to the current ratepayers.

My view is consistent with the long established regulatory principle that only actual expenses are proper expenses for ratemaking purposes. It is inconsistent with this principle to deny ratepayers the income tax deduction in ratemaking, when the Company consistently takes the deduction on the actual tax return.

Additionally, consistent treatment of these overheads between the actual tax return and ratemaking will insure fair treatment to ratepayers without cross-subsidization. In other words, current ratepayers will benefit only from currently incurred expenses and future ratepayers will benefit from future expenses. There will be no sharing of benefits between current ratepayers and those ratepayers who will be served in the future.

Finally, since there is <u>no</u> legal requirement that mandates normalization in this situation, this Commission has the authority to prescribe the ratemaking accounting treatment which it believes most appropriate. In this regard, my recommendation is consistent with the accounting treatment which this Commission accepted for this same issue in <u>Pa. P.U.C. vs. Philadelphia Suburban Water Company</u> at Docket No. R-842592.

Q. WHAT CONCLUSION HAVE YOU REACHED IN REGARD TO THE COMPANY'S CLAIM FOR NORMALIZATION OF CAPITALIZED OVERHEADS?

A. The ratepayers should not be further burdened by additional deferred income taxes associated with capitalized overheads. The Company's current provision for Deferred Income Taxes should be reduced by $9,578,000.

Additionally, the accumulated deferred taxes on capitalized overheads, exclusive of the claim for the future test year, should be returned to the ratepayers as rapidly as possible. Accordingly, the total deferred taxes allowed should reflect an additional reduction of $6,630,000 premised upon a five-year amortization as calculated in Staff Exhibit JMH-1, Schedule 1.

Q. PLEASE EXPLAIN THE RECENT DEVELOPMENTS WHICH REQUIRE THIS COMMISSION TO ADDRESS THE TIMING OF THE REVERSAL FOR PREVIOUSLY DEFERRED STATE INCOME TAXES.

A. The Company has historically been permitted to collect deferred State income taxes in rates until most recently, when this Commission directed it to switch to flow-through at Pa. P.U.C. v. Philadelphia Electric Company, Docket No. R-842590.

Subsequent to the Commission's decision to order flow-through, the Pennsylvania Supreme Court filed its Barasch Opinion [Barasch v. Pa. P.U.C., 491 A2d. 94 (1985)], which directed that in all cases, normalization of State income taxes was prohibited.

Following the issuance of the Supreme Court's directive, the Commission was conducting hearings in Pa. P.U.C. v. Bell Telephone Company, Docket No. R-842779, the first case to be impacted by the Barasch Opinion. In this Bell Telephone proceeding, the time frame for refunding previously deferred taxes was addressed, and this Commission ordered a five-year amortization as appropriate for same.

Q. IN LIGHT OF THE RECENT DEVELOPMENTS JUST OUTLINED, WHAT METHODOLOGY DO YOU RECOMMEND FOR REVERSAL OF PREVIOUSLY ACCUMULATED DEFERRED STATE INCOME TAXES?

A. The balance of State deferred income taxes, which have accumulated at June 30, 1985, relative to liberalized depreciation (with the exception of the portion of State deferred income taxes already being amortized to ratepayers over three years as ordered at R-842580), should be amortized and returned to ratepayers over five years.

A five-year amortization is the most appropriate methodology for the following reasons:

1. It provides a greater probability of returning the funds which the Company has held from prior rate collection, to the ratepayers who originally paid those funds. (Obviously a greater amortization period such as remaining asset life, would significantly lessen this probability of matching the refund to the payor).

2. It provides the greatest benefit to the ratepayer over both the reasonably near future, in absolute dollars, and the long term future, on a present value basis.

3. It resembles the five year amortization procedure that the Commission has recognized as appropriate for returning excess deferred Federal income tax that resulted from the lowering of the corporate tax rate.

My recommendation to amortize and return these funds over five years would have the effect of reducing total deferred income taxes by $4,299,000, calculated as detailed in Staff Exhibit JMH-1, Schedule 5.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes.

Appendix A
Professional and Educational Experience
Jeffrey M. Heverling

Professional Experience

1974-1975	As a fiscal specialist for the Department of Education, Commonwealth of Pennsylvania, I was responsible for payroll tax compliance and filings with various government agencies, as well as maintenance of an accounting operation for procurement purposes.
1975-1976	As a grant accountant for the Governor's Office, Commonwealth of Pennsylvania, I was responsible for financial administration of specific federal grants, cash management and financial statement preparation.
1976-1979	As assistant chief of fiscal control for the Governor's Office, et al, I was responsible for administration of Commonwealth accounting systems, internal auditing of accounting systems, and for insuring compliance with Commonwealth budgetary and fiscal codes.
1980-1984	As business manager for the Derry Township School District, Hershey, Pennsylvania, I was charged with total fiscal administration including cash and investment management, budgeting, tax compliance and collection, insurance, etc.
1984	As a Fixed Utility Financial Analyst for the Pennsylvania Public Utility Commission, I am responsible for analysis of the tax expense claims made by utilities as part of their cost of service for rate making purposes, and for review of tax related effects upon measures of value.

I have been involved in the review of tax and related financial information for water, gas and electric utilities. I have submitted direct testimony concerning taxes and other financial matters in the following:

R-842590:	Philadelphia Electric Company
R-842621:	Western Pa. Water Co. - Western Region
R-842622:	Western Pa. Water Co. - Warren District
R-842623:	Western Pa. Water Co. - Indiana/Kane District
R-842624:	Western Pa. Water Co. - Butler District
R-842625:	Western Pa. Water Co. - Clarion/Punxsutawney
R-842725:	Riverton Consolidated Water Company
R-842740:	Pennsylvania Power Company
R-842769:	Equitable Gas Company
R-842770:	Metroploitan Edison Company
R-842771:	Pennsylvania Electric Company
R-850096:	Western Pa. Water Co. - Western Region
R-850097:	Western Pa. Water Co. - Warren District
R-850178:	Pennsylvania Gas and Water

Additionally, my responsibilities have included the establishment and maintenance of various computerized financial data bases used in the analysis of taxes and cost of capital for special investigations such as: the Limerick No. 2 Nuclear Generating Station Investigation (I-840381) and evaluation of such issues as flowthrough versus normalization.

Self Employment

1975-1979 — As a consultant during this period I offered small business and partnership accounting services for businesses within the Harrisburg area. In addition, I served as a tax consultant for the public accounting firm, "Leonardo Herrada, PA".

Educational Background

1970-1974 — Shippensburg University
Shippensburg, PA
Bachelor of Science in Business Administration with concentration in Accounting and Data Processing.

1974-Present — Continuing Professional Education Courses and Seminars offered by various institutions and government agencies covering personal and corporate taxation and arbitrage regulations.

Wi[illegible]ess: J. M. Heverling

1-29-86
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R-850152

PENNSYLVANIA PUBLIC UTILITY COMMISSION

v.

Philadelphia Electric Company
R-850152

Exhibit to Accompany

the

Direct Testimony

of

Jeffrey M. Heverling

Concerning:

Deferred Income Taxes

Calculations Underlying the Amortization of
Deferred Income Taxes on Capitalized Overhead Items

		Accum. Def Income Tax ($1,000)
1.	Capitalized Pensions and Taxes	$31,744[a]
2.	Capitalized Fringe Benefits	$10,982[a]
3.	Total Accumulated Deferred Taxes on Capitalized Overheads at 6/30/86	$42,726
	Less Annual Claims for 6/30/86:	
4.	Capitalized Pensions and Taxes	($6,012)[b]
5.	Capitalized Employee Benefits	($3,566)[b]
6.	Total Accumulated Deferred Taxes on Capitalized Overheads at 6/30/85	$33,148
7.	Recommended Amortization Period	÷ 5
8.	Recommended Annual Amortization	$6,630

[a] Source: PECO response to IR-OCA-1-17 (Staff Exhibit JMH-1, Schedule 3)

[b] Source: PECO response to IR-Staff-TXD-1 (Staff Exhibit JMH-1, Schedule 2)

Q. IR-Staff-TXD-1. Provide a detailed schedule of the Provision for Deferred Income Taxes (Account No. 410-1) at the proforma, proposed rates level, using the categories that appear at Exhibit TPH-2, D-8, footnote (c), and segregating federal versus state deferrals.

A. IR-Staff-TXD-1. The requested estimated deferred income tax balance at proforma, proposed rates at 6/30/86 is provided below:

	($1,000)		
	Total	Federal	State
Turbine Lease Cancellation	$19,961	$17,163	$2,798
Capitalized Pensions & Taxes	6,012	4,938	1,074
Capitalized Employee Benefits	3,566	2,929	637
Deferred Fuel Cost	(108,599)	(93,375)	(15,224)
Excess Depreciation on Nuclear Fuel	(4,121)	(4,121)	-
Excess Depreciation on Plant	120,899	120,899	-
Limerick Deferred Costs	47,600	39,093	8,507
Limerick No. 1 Value of Generation and Pre-Commercial Generation	(44,307)	(36,389)	(7,918)
	$41,011	$51,137	($10,126)

Responsible Witness: G. A. Sileo, Manager, Taxes Division

Q.IR-OCA-1-17. Provide a breakdown of the Company's claim for accumulated deferred taxes as shown on TPH-2, B-16.

A.IR-OCA-1-17. The breakdown of the Company's claim for accumulated deferred taxes as shown on TPH-2, B-16 is as follows:

	(Thousand $)
Electric Plant	$458,416
Capitalized Pensions & Taxes	31,744
Capitalized Fringe Benefits	10,982
Salem II Tax Sale	17,244
Allocated Common	7,780
	$526,166

Responsible Witness: G. A. Sileo, Manager - Taxes Division

Q. IR-Staff-TXD-5. Provide a detailed schedule of the composition of accumulated deferred income taxes which reduce measures of value at Exhibit TPH-2, A-2. In responding, provide a schedule which separately details the balances in terms of the categories under footnote (c) of TPH-2, D-8, as well as state versus federal deferred amounts.

A. IR-Staff-TXD-5. The requested information is as follows:

Deferred Tax Balances
Per TPH-2, A-2
($1,000's)

	Federal	State	Total
Accelerated Amortization Property			
Certified Facilities	423	- - -	423
Pollution Control Facilities	1,518	382	1,900
	1,941	382	2,323
Other Property			
Liberalized Depreciation	425,526 (a)	40,669 (a)(b)	466,195
Liberalized Depn.-Salem 2 Lease	17,244	- - -	17,244
Capitalized Pensions & Taxes	25,645	6,099	31,744
Capitalized Employee Benefits	8,933	2,050	10,983
	477,348	48,818	526,166

(a) For years in which federal and state tax normalization was recognized, the balances reflect an average effective federal tax rate of 41.3% and a state effective rate of 10.1%. However, in order to maintain a federal balance at the 46% statutory rate for these years, an adjustment decreasing the state portion by $19,402 and increasing the federal portion for a like amount would be necessary.

(b) Includes $1,509 unamortized balance of 10-1/2% to 9-1/2% CNI rate decrease which is being flowed back to ratepayers over a 3 year period (R-842590)

Responsible Witness: G. A. Sileo, Manager - Taxes Division

Calculations Underlying the Amortization of Deferred Income Taxes on Liberalized Depreciation

		Accum. Def Income Tax ($1,000)
1.	Accumulated Deferred State Income Taxes (Staff Exhibit JMH-1, Schedule 4)	$40,669
2.	Less Unamortized Balance Attributable to Reduction of State Tax Rate (already being amortized over three years)	($1,509)
3.	Net Amount Subject to Amortization	$39,160
4.	Recommended Amortization Period	÷ 5
5.	Recommended Annual Amortization	$7,832
6.	Concomitant Increase to Federal Deferred Income Taxes (Line 5 x 46%)	$3,603
7.	Net Adjustment to Deferred Income Taxes (Line 5 less Line 7)	$4,229

Staff Statement DPH-1 + Staff Ex DPH-1
Witness: D. P. Hosler
Date: 1-29-86

R-850152

PENNSYLVANIA PUBLIC UTILITY COMMISSION

v.

PHILADELPHIA ELECTRIC COMPANY

DOCKET NO. R-850152

RECEIVED
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Public Utility Commission

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Direct Testimony

of

Dennis P. Hosler

Concerning:

Annualization of Power Plant Outage Expenses
Amortization of Salem Management Evaluation Program
Amortization of Damaged Nuclear Fuel Assemblies
Cash Working Capital

PHILADELPHIA ELECTRIC COMPANY
DOCKET NO. R-850152

Summary
($000)

The specific expense adjustments are reflected below:

Annualized Power Plant Outage Expenses	$5,494
Amortization of Salem Management Evaluation Program	3,484
Amortization of Damaged Nuclear Fuel Assemblies	104
Total Expense Adjustment	$9,082

The reduction to rate base for the allowance for Cash Working Capital is:

Operating and Maintenance Expense	$12,527
Taxes	41,255
Interest Payments	5,557
Preferred Dividend Payments	934
Total CWC REduction	$60,273*

*Includes the elimination of the revenue lag for uncollectible accounts and a modification to the lag day study by rounding to the nearest tenth of a day.

Q. Please state your full name and business address.

A. My name is Dennis P. Hosler. My business address is Pennsylvania Public Utility Commission, P. O. Box 3265, Harrisburg, Pennsylvania 17120.

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

A. I am employed by the Pennsylvania Public Utility Commission as a Fixed Utility Financial Analyst in the Revenue & Expense Section in the Electric Division of the Bureau of Rates.

Q. What is your education and professional background?

A. See Appendix A attached to this statement.

Q. Mr. Hosler, can you summarize the items which you will be addressing thrrough your prepared testimony?

A. Yes. Briefly, I propose to reduce the Company's total expense claim by $9,082,000. Additionally, I propose to reduce the Company's claim for Cash Working Capital requirements included in its measure of value by $60,273,000.

Q. Mr. Hosler, would you summarize your adjustment regarding operation and maintenance expenses for power plant outages?

A. Yes, the Company is claiming operation and maintenance expenses for power plant outages based on a normalized expense level. While I do agree that the Company should properly recover these expenses on a normalized expense level, I do not believe the expense levels, as proposed, to be an acceptable representation of the Company's normal levels. In my opinion, the normalized power plant outage expenses should be at a level of $54,739,000 or $5,494,000 less than that requested by the Company.

Q. Why have you proposed this reduction to the Company's normalized outage expenditure levels?

A. The Company's witness, Mr. Carroll, has proposed normalized levels based on the Commission's allowance in the Company's last rate case (R-842590) adjusted to reflect the Company's inflation and growth rates. A review of the Company's experienced and budgeted expense levels reveal that the Company's proposed allowance is too high. Therefore, I propose that these expenses be based on a levelized or normal level of expenditure over a period of years.

Q. Would you breifly explain how you arrived at your $5,494,000 adjustment for power plant outage expenses?

A. I computed the Company's outage expense level for each nuclear station and the Philadelphia area fossil steam stations and compared them to the Company's proposed levels. On Exhibit DPH-1, Schedule 1, page 1 you can see how I arrived at the $5,494,000 reduction to the Company's proposed level of rate case allowance.

Q. Would you explain how you arrived at a normalized level of $11,654,000 for the Peach Bottom Station and $12,004,000 for the Salem Station?

A. Yes, the two nuclear stations each have two nuclear units, with each of the four units operating on 18 month refueling cycles. Thus, to arrive at a at a normalized level of outage expenditure you must look at more than a one-year period of time to acquire an appropriate portion of outage and running time. The effects of two refueling cycles at the stations normally could be seen over a three-year period; however, the period from July 1982 through June 1985 was not a normal period of time at either Peach Bottom or Salem nuclear stations. Each station experienced extended outages for repairs duirng the period and the switch from 12-month to 18-month refueling cycles was completed during the beginning of this time period.

In order to calculate a normal level of expenditure for these stations the most appropriate period for review would be the last three historic years plus the Company's budgeted amounts for the next three years. Since the Company's Budget & Forecast beyond the rate case's fiscal year is done only on a calendar year basis, my calculations on Exhibit DPH-1, Schedule 1, pages 2 and 3 encompass $3\frac{1}{2}$ years budgeted information instead of three years. In addition, the adjustment of the historic data for inflation to the end of the future test year results in a more representative amount to be used for rate case noralization. I have not adjusted the Company's budgeted amount or removed abnormal expenses from the historic period.

Q. Would you please tell us on what basis you inflated the historic data used in Exhibit DPH-1, Schedule 1?

A. The inflation rates were developed by Dr. Richard E. Nellis of the Commission's Bureau of Rates and based on the implicit price deflator for the gross national product. (See Exhibit DPH-1, Schedule 5, page 1.)

Q. Please explain how you computed your normalized outage expense level for the Limerick No. 1 unit?

A. Since the unit has no historic end of cycle outage history, projections or budgeted amounts must be used. I have computed my normalized amount by taking the Company's budget amounts for the first two refueling outages and dividing by three years as shown on Exhibit DPH-1, Schedule 1, page 4.

Q. Would you please explain your method of computing normalized outage expenses for the Philadelphia area fossil plants?

A. Yes, I examined the Company's five-year actual historical expense level as provided in answer to staff interrogatory IR-STAFF-REO-9 (See Exhibit DPH-1, Schedule 5, page 2b). The only adjustment I made to the Company's data was to remove the Southwark outage cost and index for inflation to the end of the future test year. The Company's normalization calculation provided by Mr. Carroll also removed the Southwark units scheduled for retirement.

A review of the modified five-year historical data as shown on Exhibit DPH-1, Schedule 1, page 5, revealed that the year ended June 1981 was much lower than the other years. Rather than average the five years I felt it was appropriate to remove the abnormally low year from the calculation Thus, I removed the high and low historical years, the years ended June 1981 and June 1983, and averaged the three remaining years. In my opinion, this $18,831,000 represents the Company normal level of fossil plant outage expense.

Q. If I compare your recommended normalization level for Philadelphia area fossil steam units of $18,831,000 to the Company's requested level of $22,728,000, I note you are recommending a 17% decrease. Why is your recommended normalization level so much lower than the Company's request?

A. The Company's request is computed off a prior Commission allowance and on its face appears to be too high. If you look at the inflation adjusted historical expenditures, as shown on Exhibit DPH-1, Schedule 1, page 5, you will see the Company has not in the past five years reached its proposed normalized level. If you include the Company's future test year budgeted amount (from PECO Exhibit TPH-2, page D-10b) of $18,700,000 there are 6 consecutive years the Company has not, or does not expect to reach its proposed normalized level. The Company's method of computing the normalized level of outage expenditure at $22,728,000 resulted in an amount not remotely resembling normal level of expenditure.

Q. Mr. Hosler, would you briefly explain how you arrived at your $3,484,000 reduction to the Company's operation and maintenance expenses related to the Salem Management Evaluation Program?

A. My adjustment (see Exhibit DPH-1, Schedule 2) reflects a three-year amortization of PECO's share of the $1,111,627 paid to Management Analysis Company (MAC), the consultant hired by Public Service Electric and Gas Company (PSE&G), to help develop an action plan for management of the Salem nuclear facility. The Company has proposed amortization of these costs and other expenses incurred by PSE&G in development of an action plan resulting from the Nuclear Fegulatory Commission (NRC) questioning their ability to operate and manage a nuclear facility.

Q. Would you explain why you have proposed recovery and amortization of onl the costs associated with MAC?

A. Yes. The Company's testimony and exhibits indicated the amount claime was incurred when MAC was hired to develop an Action Plan for PSE&G to use in improving the operation and management of their nuclear facili PECO is requesting to amortize $7,283,000 for their share of the tota cost, which based on PECO's 42.59% ownership in the Salem Station indicates the total cost was approximately $17.1 million. Staff data request DR-STAFF-RET-01 (Exhibit DPH-1, Schedule 5, page 5) was sent to obtain more detail as to what was included in the review, and what results and benefits have been or are expected to be obtained. The Company's response resulted in very little additional information. Thus another interrogatory (IR-STAFF-RET-3, Exhibit DPH-1, Schedule 5, page 6) was sent to follow-up on these areas.

On cross-examination Mr. Carroll indicated that the Company's claim included other expenses involved in development of the Action Plan (Tr. 369-370). According to Mr. Carroll, the expenses were incurred for the cost of consultant, PSE&G employees not on the Salem station payroll, outside technical people, and everybody else active in developing the action plan. The interrogatory response later revealed that the total MAC review cost was only $1,111,627 (PECO's share $473,442) of the approximately $17.1 million total cost of the program. None of the remaining $16 million cost of the program has been specifically identified by the Company. These costs may or may not be of an appropriate rate case amortization nature. The exact nature of these expenses are unknown, i.e. are they capital items, expense items, or monthly operation and maintenance expenses. Furthermore, Mr. Carroll testified that the same type of audit was performed at Peach Bottom about four years ago, and the expenses were billed as monthly expenses on a proportionate basis to each owner. In my opinion, it is very likely that these expenses may be no different than any other monthly O&M expenses previously provided to the Company through the rates in effect at the time these expenses were incurred. Thus, I recommend that PECO not be permitted to recover their share of the $16 million dollars, but only be permitted to amortize their $473,000 share of the MAC audit expense or $158,000 a year for three years. This results in staff's recommendation of a $3,484,000 reduction to the Company's claim.

Q. Mr. Hosler, would you briefly explain your $104,000 adjustment to the Company's expenses for the amortization of damaged nuclear fuel assemblies at the Salem No. 1 unit?

A. Yes. The Company originally recovered the cost of the damaged nuclear fuel assemblies through the Energy Cost Rate (ECR). The Commission's 1982 fuel audit disclosed this fact, and in response to an Audit Finding in the Audit Report the Company agreed to refund this cost plus appropriate interest through the ECR.

The Company's witness, Mr. Hill, during cross examination (Tr. 439) disclosed that of the $929,000 requested to be amortized over three years, that only $617,495 was for the cost of the damaged fuel rods. The remaining amount was for recoupment of the interest the Company had also refunded. Interest applied to the amount inappropriately collected from customers through the ECR was to reflect the time value of money and to discourage such action by the Company. This interest is similar in nature to interest paid on ECR overcollectons, which is not recoverable as a rate case item.

My adjustment (see Exhibit DPH-1, Schedule 3) reflects the $617,495 cost of the damaged fuel rods amortized over three years or $206,000 per year. This is $104,000 less than the Company's request of $310,000 per year and excludes the interest the Company is not entitled to collect from its customers.

Q. Mr. Hosler, regarding your proposed reduction to the Company's cash working capital request, would you briefly explain what is a cash working capital allowance for ratemaking purposes?

A. Cash Working Capital (CWC) is the investment of funds necessary to meet current costs incurred in rendering service to the customer until revenues from the customers are received in payment of service.

Q. Briefly, what adjustments to the Company's claim are included in your $60,273,000 proposed reduction?

A. I am proposing that the following adjustments be made to the Company's CWC claim:

a. That all lead/lag days used in Company's calculations should be carried out to the tenth of a day (to the 1st decimal),

b. The elimination of uncollectible accounts from the revenue lag days,

c. A reduction to the Company's revenue lag days,

d. A modification to the Company's computation of lag days for interest and preferred dividends, and

e. An increase to the Company's lag days for payment of taxes.

Q. Why do you believe the lead/lag days should be carried to the tenth (to the 1st decimal) of a day?

A. Several of the Pennsylvania utilities using the lead/lag study for their CWC claims are rounding to the tenth of a day. Philadelphia Electric Company, the largest utility with the largest CWC claim is rounding to the nearest day. The effect of the rounding to the nearest day in the current case is such that if the revenue lag increases by 1 day the CWC claim would increase by $7 million. I believe that rounding to a tenth of a day requires little or no additional effort and will make the Company's CWC claim significantly more accurate. In my opinion, this modification is well worth the minimal effort required.

Q. Why have you eliminated uncollectible accounts from the revenue lag days as included in the Company's request?

A. Uncollectible accounts do not create an additional need for funds by the Company. All of the Company's operating expenses required to serve customers, including expenses to serve those customers which ultimately do not pay, are included in the composition of the Commission's approved rates. In fact, the Company records, or should record, a monthly accrual accounting entry, to match the uncollectible account receivable expense to the month it records the revenue. The Company's balance sheet, included in the annual report to the Commission on page 110, (See Exhibit DPH-1, Schedule 4, page 11) shows the contra account to Accounts Receivable as Accum. Prov. for Uncollectible Accounts - Credit (144) on line number 30. Each month an estimated amount based on either sales or the balance in accounts receivable is expensed and the credit, or other half of the accounting entry, is to this contra account receivable account. Then months later when specific customer accounts receivable are determined to be uncollectible, the account receivable is reduced and this contra account receivable (Accum. Prov. for Uncollectible Acct.) is also reduced or a debit recorded. Thus, through an estimate the uncollectible expense is recorded in the month of sale not in the month the specific account receivable is written off.

To allow the Company CWC to carry the uncollectible account would mean the Company would receive an allowance for an expense it actually received revenue for the month of sale. The revenue lag for uncollectible accounts is no different than the revenue lag for collectible accounts. The Company's revenue level is set to cover the cost of uncollectible accounts, thus all revenue received actually includes some revenue for uncollectible accounts.

Q. What is the effect of removing the uncollectible accounts from the Company's revenue lag?

A. As shown on Exhibit DPH-1, Schedule 4, page 3, the average revenue days revised to remove the uncollectible accounts and carried to the tenth of a day is 45.7 days. The Company's original claim was for a revenue lag of 46.4 days rounded to 46 days, thus removal of uncollectible accounts results in a .7 day decrease to the revenue lag.

Q. Mr. Hosler, you have made another reduction to the Company's revenue lag, would you explain what that is, please?

A. A double benefit occurs to to the Company due to its use of an excessive number of lag days. First, when a customer pays late, the Company is compensated for the revenue lag by the late payment charge. PECO's current late payment or finance charges are 1.25 percent for residential, small commercial and industrial customers and 2 percent for large commercial and industrial cutomers. As stated by the Company in response to staff interrogatory IR-STAFF-REL-1 (Exhibit DPH-1, Schedule 5, page 3), "late payment charges are a rate for the service of carrying delinquent accounts." The second benefit occurs because the Company is also claiming a CWC allowance for the lag days subsequent to the date the finance charge is applied. The Commission in the past has reduced the revenue lag days (Pa. P.U.C. v. UGI Corporation - Gas Division, R-832331) to eliminate days after the bill due date.

Q. How did you determine the appropriate adjustment to revenue lag days?

A. On Exhibit DPH-4, Schedule 4, page 2, I determined a maximum revenue lag to the point finance charges are applied. After that point PECO receives compensation for the cost of carrying the late payment accounts through the finance charge. This is a fair and equitable method where only the customers paying late are compensating the Company for the cost of this service, rather than including an allowance in rate base and charging all customers.

Staff's revised revenue lag reflects all payments made five days after the due date to allow for the grace period allowed for payment by mail per the Company's tariff (see Exhibit DPH-1, Schedule 4, page 12). This results in a weighted average revenue lag days of 42.3 days. This of course results in a very conservative revenue lag adjustment as it reflects no payments received prior to the data finance charges are applied.

Q. Mr. Hosler, would you please explain your proposed modification to the Company's computation of lag days to payment of interest and preferred dividends?

A. Yes. The Company has computed the lag days to payment of both interest and preferred dividends based on a 360-day year. In my opinion, the Company should be required to use the more accurate lag days resulting from the minimal additional effort required to compute these lag days based on the 365-day future test year.

I have recalculated the interest and preferred dividend lag days based on a 365-day year and rounded to a tenth of a day as shown on Exhibit DPH-1, Schedule 4, page 8. The result is 82.6 lag days or 1.3 more days for interest and 45.6 lag days or .6 additional day for preferred dividends. The effect of these modifications is a $5,557,000 CWC reduction for interest payments and a $934,000 reduction for preferred dividend payments as shown on Exhibit DPH-1, Schedule 4, page 1.

Q. Mr. Hosler, would you briefly summarize your adjustments to the Company's computation of lag days for payment of taxes?

A. Yes. I have adjusted three of the Company's four groups of taxes used to compute the average lag in payment of tax on PECO Exhibit TPH-2, page C-12b (See Exhibit DPH-1, Schedule 4, page 5). It would be preferable for the Company to compute lag days for each tax it pays, but I have worked with the tax groups and information provided in the rate case. The adjustment I have made for the 'Ad Valorum' taxes and 'Other Taxes Other Than Income', is to reflect the fact that tax prepayments made during the tax year for these taxes are based on normally lower previous years actual tax amounts and not estimates of the tax year amount. The adjustment to Federal Income Tax lag days is to correct the Company distribution of quarterly tax prepayments.

Q. Would you explain your adjustment to Taxes Other Than Income lag days?

A. Yes. The Pennsylvania Gross Receipt Taxes (GRT) account for 87 percent of taxes included in the Company's Taxes Other Than Income tax group. On Exhibit DPH-1, Schedule 4, page 10, I have adjusted the Company's computation as found in Volume II, Attachment II-4-4b, page 12. The Company's calculation attempts to correctly reflect the 90% prepayment based on the prior year's tax amount, but overly inflates the prior years tax amount before doing the calculation. The Company adjusts the prior year tax amount to reflect the current rates for the full period and also to reflect its current rate request during the year. This negates the growth in GRT.

To reflect the growth in GRT from year to year I developed the compound growth rate from data found in the Company's Exhibits TPH-1 and 2, pages B-14 for the years ended June 1983 through June 1986. The GRT growth rate of 7.85% was then reflected in the lag day computation made on Exhibit DPH-1, Schedule 4, page 10 resulting in 13.6 weighted average lead days in payment of Taxes Other Than Income or 17.2 days less than the Company 30.8 day calculation.

Q. Would you explain your adjustment to the Ad Valorum taxes lag day calculation?

A. Yes. The Company's computation of the lag days for Ad Valorum taxes was based on the weighted average payment of Pa. Capital Stock and Public Utility Realty Taxes (Volume II, Attachment II-B-4b, page 1). The prepayment for Capital Stock Tax is 85% of the year preceding the prior year's tax amount and the quarterly prepayments of Public Utility Realty Tax are required to be 90% of the tax on the prior year's tax base. The Company's lag days do not reflect the fact that the prepayments of these taxes are based on prior year amounts. My adjustment reflects a 16.9% compound growth rate for Capital Stock and a 15.05% growth rate for Realty Taxes based on the four years of data provided on page B-14 of PECO Exhibits TPH-1 and 2. I then calculated the Ad Valorum lag days based on growth dollars from the above compound growth rates and then weighted them for the two taxes as the Company had done. The result was 79.6 lag days or 53.4 more lag days than the Company's calculation of 26.2 days. (See Exhibit DPH-1, Schedule 4, page 9.)

Q. Would you explain your adjustment to the Company's lag days for Federal Income Tax payments?

A. Yes. Federal Income Tax prepayments must be made quarterly to equal 90% of the tax for the current tax year. The Company's calculation reflects each of the first three quarterly payments to be based on 100% of the estimated tax with the fourth quarterly payment reduced to equal only a 90% total prepayment. I have simply corrected the Company's calculation to make all the quarterly payments equal (see Exhibit DPH-1, Schedule 4, page 9). The result is 60.5 lag days or 14 more lag days than the Company's computation of 46.5 lag days.

Q. Have you made any other adjustment to the Company's computation of CWC for payment of taxes?

A. No, I have computed my adjustment to the Company's CWC for payment of taxes using all of the other data as filed by the Company.

Q. What is your net recommended reduction to the Company's CWC request of $99.4 million?

A. As shown on Exhibit DPH-1, Schedule 4, page 1 my recommended reduction is as follows:

	($000)
Operating and Maintenance Expense	12,527
Taxes	41,255
Interest Payments	5,557
Preferred Dividend Payments	934
Reduction to CWC	60,273*

*Includes the elimination of the revenue lag for uncollectible accounts and a modification to the lag day study by rounding to the nearest tenth of a day.

Q. Do your adjustments represent the final recommended allowance for Cash Working Capital?

A. No. All adjustments to the Company's claims for revenue, expenses, taxes and rate base must be consistently brought together in the ALJ's Recommended Decision, and then again in the Commission's Final Order. This process is known as "iteration" and it effectively prevents the determination of a precise C.W.C. or revenue number until such time as all adjustments have been made to the Company's claim.

Q. Does this conclude your testimony?

A. Yes, it does.

Education and Professional Background

Education: B.S. in Accounting, 1977
Elizabethtown College, Elizabethtown, Pennsylvania

Employment: Prior to accepting my current position of Fixed Utility Financial Analyst with the Bureau of Rates in May 1985, I was a Public Utility Auditor in the Bureau of Audits since November 1981. Prior to that I had worked two years as an accountant in the private sector, preceded by two years in food service management.

Professional Licenses

Certified Public Accountant

Testimony: Before the Pennsylvania Public Utility Commission:

Energy Cost Rate 1307(e) proceedings

Gas Cost Rate 1307(e) proceedings

Philadelphia Electric Company Energy Cost Rate Investigation P-830453, M-840375, M-FACE8408, et al.

Duquesne Light Company rate case (R-850021).

Staff Exhibit DPH-1
Witness: D. P. Hosler
Date:

PENNSYLVANIA PUBLIC UTILITY COMMISSION

v.

PHILADELPHIA ELECTRIC COMPANY

DOCKET NO. R-850152

Exhibits to Accompany the

Direct Testimony

of

Dennis P. Hosler

Concerning:

Annualization of Power Plant Outage Expenses
Amortization of Salem Management Evaluation Program
Amortization of Damaged Nuclear Fuel Assemblies
Cash Working Capital

PHILADELPHIA ELECTRIC COMPANY
DOCKET NO. R-850152

Staff Adjustment
Normalized Power Plant Outage Expenses
($000)

	Staff Recommended Level (a) $	Company Claim $	Recommended Decrease (Increase) $
Nuclear			
Peach Bottom Station	11,654	12,737(b)	1,083
Salem Station	12,004	11,262(b)	(742)
Limerick No. 1 Unit	12,250	13,506(b)	1,256
Sub-Total	35,908	37,505(b)	1,597
Fossil Plants	18,831	22,728(c)	3,897
Totals	54,739	60,233	5,494

(a) See: Exhibit DPH-1, Schedule 1, pages 2, 3, 4 and 5

(b) PECO Exhibit TPH-2, p. D-10a.

(c) PECO Exhibit TPH-2, p. D-10b.

PHILADELPHIA ELECTRIC COMPANY
DOCKET NO. R-850152

Development of Staff Recommended Allowance for
Normalized Outage Expense - Peach Bottom Station
($000)

Period End.	Actual Expenditures $	Budgeted Expenditures $	Inflation Rate 6/86 $ (e) %	Outage Expense 1986 $ $
6/83	8,962 (a)		1.1114	9,960
6/84	7,178 (a)		1.0718	7,693
6/85	11,715 (b)		1.0328	12,099
6/86		8,849 (c)	1	8,849
12/86		14,563 (d)	1	14,563
12/87		13,027(d)	1.	13,027
12/88		9,558(d)	1.	9,558
			Total	75,749
		6.5 Year Average		11,654

(a) See: Exhibit DPH-1, Schedule 5, page 8

(b) PECO Exhibit TPH-1, p. D-10a.

(c) PECO Exhibit TPH-2, p. D-10a

(d) See: Exhibit DPH-1, Schedule 5, page 9

(e) See: Exhibit DPH-1, Schedule 5, page 1

PHILADELPHIA ELECTRIC COMPANY
DOCKET NO. R-850152

Development of Staff Recommended Allowance for
Normalized Outage Expense - Salem Station
($000)

Period End	Expenditures $	Expenditures $	Inflation Rate 6/86 $ (e) %	Outage Expense 1986 $ $
6/83	15,144(a)		1.1114	16,831
6/84	7,449(a)		1.0718	7,984
6/85	17,372(b)		1.0328	17,942
6/86		8,005(c)	1	8,005
12/86		9,139(d)	1	9,139
12/87		9,100(d)	1	9,100
12/88		9,024(d)	1	9,024
				78,025
		6.5 Year Average		12,004

(a) See: Exhibit DPH-1, Schedule 5, page 8

(b) PECO Exhibit TPH-1, p. D-10a

(c) PECO Exhibit TPH-2, p. D-10a

(d) See: Exhibit DPH-1, Schedule 5, page 9

(e) See: Exhibit DPH-1, Schedule 5, page 1

PHILADELPHIA ELECTRIC COMPANY
DOCKET NO. R-850152

Development of Staff Recommended Allowance for Normalized Outage Expense - Limerick No. 1 Unit
($000)

First Outage	1987	$19,703(a)
Second Outage	1988	17,046(a)
Total		$36,749
3 Year Average		$12,250

(a) See: Exhibit DPH-1, Schedule 5, page 9

PHILADELPHIA ELECTRIC COMPANY
DOCKET NO. R-850152

Developmnet of Staff Recommended Allowance
for Normalized Fossil Plant Outage Expenses
($000)

Year Ended	Expenditures w/o Southwark (a) $	Inflation Rate 6/86 $ (b) %	Outage Expense 1986 $ $
6/81	11,159	1.2551	~~14,006~~
6/82	15,746	1.1626	18,306
6/83	19,933	1.1114	~~22,154~~
6/84	17,352	1.0718	18,598
6/85	18,966	1.0328	19,588
			56,492
	3 Year Average		18,831

(a) See: Exhibit DPH-1, Schedule 5, page 2b

(b) See: Exhibit DPH-1, Schedule 5, page 1

PHILADELPHIA ELECTRIC COMPANY

DOCKET NO. R-850152

Development of Staff Recommended Amortization
of Salem Management Evaluation Program
($000)

	$
Total Company claim	7,283(a)
Company Proposed Two-Year Amortization	÷2
Company Proposed Rate Case Amortization	3,642
Cost of Management Analysis Company Review	1,112(b)
PECO share of Salem Nuclear Station	x.4259
PECO share of the cost	474(b)
Three-Year Amortization	÷3
Staff Recommended Amortization	157,814
Company Proposed Two-Year Amortizaton	3,642
Staff Recommended Amortization	158
Rate Case Adjustment	3,484

(a) PECO Exhibit TPH-2, page D-10d

(b) See Exhibit DPH-1, Schedule 5, pages 6 and 7

PHILADELPHIA ELECTRIC COMPANY
DOCKET NO. R-850152

Staff Adjustment to Amortization of
Damaged Nuclear Fuel Assemblies
($000)

Amount Refunded through ECR	617(b)
Interest Refunded through ECR	312
Total Company Claim	929(a)
Staff Recommended 3-Year Amortization of Amount Refunded Less Interest (617 ÷ 3)	206
PECO Requested Amortization	310(a)
Staff Recommended Amortization	206
Staff Adjustment	104

(a) See PECO Exhibit TPH-2, page D-17

(b) See Tr. 439

PHILADELPHIA ELECTRIC COMPANY
DOCKET NO. R-850152

Cash Working Capital
June 30, 1986
($000)

	Company Claim $	Staff Adjustment $	Staff Recommended $
Operating and Maintenance Expense	91,104	12,527	78,577(a)
Taxes	35,028	41,255	(6,227)(b)
Interest Payments	(36,698)	5,557	(42,255)(c)
Preferred Dividend Payment	217	934	(717)(d)
Average Bank Balances	9,700	0	9,700(e)
Totals	99,351	60,273	39,078

(a) From Exhibit DPH-1, Schedule 4, page 4.

(b) From Exhibit DPH-1, Schedule 4, page 5.

(c) From Exhibit DPH-1, Schedule 4, page 6.

(d) From Exhibit DPH-1, Schedule 4, page 7.

(e) See PECO Exhibit TPH-2, page C-12.

PHILADELPHIA ELECTRIC COMPANY
DOCKET NO. R-850152

Staff Calculation of Maximum Revenue Lag Days
Before Finance Charges are Applied

	Residential & Small Comm. & Ind.	Large Comm. & Ind.
Ave. usage period (a)	15.2	15.2
Bill preparation (b)	4.5	4.5
Payment period (c)	20.0	15.0
Grace period (c)	5.0	5.0
Total days before finance charges	44.7	39.7

	Dollars(d) $	Lag Days	Lag $ $
Residential	928,292	44.7	41,494,652
Small Comm. & Ind.	359,462	44.7	16,067,951
Large Comm. & Ind	1,174,680	39.7	46,634,796
Totals	2,462,434		104,197,399
Maximum Revenue Lag Days		42.3	

(a) 365 ÷ 12 ÷ 2 = 15.2 days.

(b) (3 + 6) ÷ 2 = 4.5 See Exhibit DPH-1, Schedule 5, page 4a.

(c) See Exhibit DPH-1, Schedule 4, page 12.

(d) See PECO Exhibit TPH-2, page C-12a.

PHILADELPHIA ELECTRIC COMPANY
DOCKET NO. R-850152

Revenue Lag Days Computed without
Uncollectible Accounts Lag Days
($000)

	Dollars(a) $	Lag Days(b)	Lag $ $
Industrial	928,292	47.7	44,279,528
Small Comm. & Ind.	359,462	47.6	17,110,391
Large Comm. & Ind	1,174,680	43.5	51,098,580
Totals	2,462,434		112,488,499

Average Revenue Lag Days 45.7

(a) See PECO Exhibit TPH-2, page C-12a.

(b) See PECO Statement No. 2, Appendix A, less Uncollectible Accounts Days.

PHILADELPHIA ELECTRIC COMPANY
DOCKET NO. R-580152

Staff Adjusted
Cash Working Capital Required for
Operating and Maintenance Expenses
June 30, 1986
($000)

Average Lag in Receipt of Revenue	42.3(a)
Average Lag in Payment of O&M Expenses	21.6(b)
Average Lag in Days Between Receipt of Revenue and Payment of Expenses	20.7
Pro forma Test Year O&M Expenses	1,385,527
Average Daily Expenses	3,796
Working Capital Requirement	78,577

(a) See Exhibit DPH-1, Schedule 4, page 2

(b) Average Lag in Payment of Expenses

	Actual $	Pro Forma Adjustments $	Pro Forma Expenses $	Lag Days	Lag Dollars $
Payroll	275,564	5,270	280,834	11	3,089,174
Net Interchange	421,472	(196,960)	224,512	35	7,857,920
Nuclear Fuel	136,823		136,823	47	6,430,681
Coal	84,660		84,660	31	2,624,460
Coal Freight Bills	16,766		16,766	5	83,830
Oil	120,360		120,360	19	2,286,840
Benefits	19,276	6,194	25,470	2	50,940
Pensions	29,009	639	29,648	15	444,720
Other Invoices	315,051	63,491	378,542	15	5,678,130
A&G Expenses and Rents	87,912		87,912		1,318,680
Total O&M Expenses	1,506,893	(121,366)	1,385,527		29,865,375

Average Lag in Payment of Expenses 21.6

PHILADELPHIA ELECTRIC COMPANYU
DOCKET NO. R-850152

Staff Adjusted
Cash Working Capital Required for
Payment of Taxes
June 30, 1986
($000)

Average Lag in Receipt of Revenue	42.3(a)
Average Lag in Payment of Taxes	45.5(b)
Average Lag in Days Between the Receipt of Revenue and Payment of Taxes	(3.2)
Pro forma Test Year Taxes	710,342
Average Daily Taxes	1,946
Decrease in Working Capital Requirement	6,227

(a) See Exhibit DPH-1, Schedule 4, page 2
(b) Average Lag in Payment of Taxes

	Actual $	Pro Forma Adjustments $	Pro Forma Taxes $	Lag Days	Lag Dollars $
Ad Valorum	69,124		69,124	79.6(c)	5,502,270
Other Taxes Other than Income	130,713	34,013(c)	164,726	(13.6)(d)	(2,240,274)
State Income Taxes	26,900	48,201(d)	75,101	63.6(c)	4,776,424
Federal Income Taxes	105,773	295,618(d)	401,391	60.5(c)	24,284,156
Total Taxes	332,510	377,832	710,342		32,322,576
Average Lag in Payment of Taxes				45.5	

(c) See Exhibit DPH-1, Schedule 4, page 9
(d) See Exhibit DPH-1, Schedule 4, page 10

PHILADELPHIA ELECTRIC COMPANY
DOCKET NO. R-850152

Staff Revised Cash Working Capital
Interest Payment Offset
($000)

		(a)
Rate Base	@ 6/30/86	6,963,532
% Financed by Debt		50.70
Rate Base Financed by Debt		3,530,511
Cost of Debt		10.84
Interest Allocated to Rate Base		382,707
Average Daily Interest		1048.5
Net Lag Days (a)		40.3 (b)
Decrease in Cash Working Capital		42,255

(a) From PECO Exhibit TPH-2, page C-12c

(b) See Exhibit DPH-1, Schedule 4, page 8

PHILADELPHIA ELECTRIC COMPANY
DOCKET NO. R-850152

Staff Revised Cash Working Capital
Preferred Dividend Payment Requirement
($000)

	(a)
Rate Base @ 6/30/86	6,963,532
% Financed by Preferred	10.80
Rate Base Financed by Preferred	752,061
Cost of Preferred	10.54
Dividends Allocated to Rate Base	79,267
Average Daily Dividends	217.2
Net Lag Days	3.3(b)
Decrease in Cash Working Capital	717

(a) From PECO Exhibit TPH-2, page C-12d

(b) See Exhibit DPH-1, Schedule 4, page 8

PHILADELPHIA ELECTRIC COMPANY
DOCKET NO. R-850152

Staff Revised
Calculation of Interest Payment Lag (a)

	$	% Tot.	Lag	Wtd. Lag
Semi-Annual	388,564	82.00	91.25	74.8
Quarterly	75,735	16.42	45.6	7.5
Monthly	9,561	2.02	15.2	.3
	473,860	100.00		82.6 days
		Revenue Lag		42.3 (b)
		Net Lag		40.3 days

Preferred Dividend Payment (Quarterly)

Lag in Payment (365 ÷ 4 ÷ 2)	45.6 days
Lag in Receipt of Revenue	42.3 days (b)
Net Lag	3.3 days

(a) From PECO Volume II - Attachment II-B-4c

(b) See Exhibit DPH-1, Schedule 4, page 2

Exhibit DPH-1
Schedule 4
Page 9 of 12

PHILADELPLHIA ELECTRIC COMPANY
DOCKET NO. R-850152

Development of Staff Revised Lag Days in Payment of Taxes
Based on Calendar Year 1985

	Total Tax	Payment Date	Period Covered From	Period Covered To	Lag Days	1,000's Dollars	Weight %	Compound Growth Rate %	Growth Dollars	% of Total Dollars	Lag Days	Weighted Lag Days
Ad Valorum												
Capital Stock	85	4/15/85	4/15/85	7/1/85	(76)	20,919			850	62.18	(47.26)	
	15	4/15/86	7/1/85	4/15/86	289	3,692			517	37.82	109.30	
	100%					24,611	43.35	16.887	1,367	100.00%	62.04	26.89
Public Utility Realty	22.5	4/15/85	4/15/85	7/1/85	(76)	7,236			225	19.565	(14.87)	
	22.5	6/15/85	6/15/85	7/1/85	(15)	7,236			225	19.565	(2.93)	
	22.5	9/15/85	7/1/85	9/15/85	77	7,236			225	19.565	15.07	
	22.5	12/15/85	7/1/85	12/15/85	168	7,236			225	19.565	32.87	
	10.0	4/15/86	7/1/85	4/15/85	289	3,218			250	21.74	62.83	
	100.0%					32,162	56.65	15.049	1,150	100.00%	92.97	52.67
						56,773	100.00					79.56
State Income Tax	22.5	4/15/85	4/15/85	7/1/85	(76)	8,414				22.50	(17.10)	
	22.5	6/15/85	6/15/85	7/1/85	(15)	8,414				22.50	(3.38)	
	22.5	9/15/85	7/1/85	9/15/85	77	8,414				22.50	17.33	
	22.5	12/15/85	7/1/85	12/15/85	168	8,414				22.50	37.80	
	10.0	4/15/86	7/1/85	4/15/86	289	3,742				10.00	28.90	
	100.0 %					37,398				100.00	63.55	
Federal Income Tax	22.5	4/15/85	4/15/85	7/1/85	(76)	22,989				22.50	(17.10)	
	22.5	6/15/85	6/15/85	7/1/85	(15)	22,989				22.50	(3.38)	
	22.5	9/15/85	7/1/85	9/15/85	77	22,989				22.50	17.33	
	22.5	12/15/85	7/1/85	12/15/85	168	22,989				22.50	37.80	
	10.0	3/15/86	7/1/85	3/15/86	258	10,218				10.00	25.80	
	100.0%					102,174				100.00	60.45	

PHILADELPHIA ELECTRIC COMPANY
DOCKET NO. R-850152

Staff Revised Development of
Other Taxes Lag Days
($000)

	$
Gross Receipts Tax as adjusted @ 6/30/86	141,537(a)
Compound Growth Rate	÷1.0785
Adjust Prior Year Tax	131,235
April 15 Prepayment Percent	x.90
Estimated Payment 4/15/85	118,112
ADjusted GRT @ 6/30/86	141,537
90% Payment	118,112
Remaining GRT	23,425

	$	%	Lag(b)	Wtd. Lag
90% Payment	118,112	72.82	(76)	(55.3)
Remaining GRT	23,425	14.44	289	41.7
Other	20,658	12.74	0	0
Totals	162,195	100.00		(13.6) days

(a) From PECO Volume II , Attachment II-B-4b, page 2

COMPARATIVE BALANCE SHEET (ASSETS AND OTHER DEBITS)

Line No.	Title of Account (a)	Ref. Page No. (b)	Balance at Beginning of Yr (c)	Balance at End of Year (d)
1	UTILITY PLANT		//////////////	//////////////
2	Utility Plant (101-106,114)	200	5,222,165,553	5,338,417,673
3	Construction Work in Progress (107)	200	3,393,895,164	4,185,813,412
4	TOTAL Utility Plant (Enter Total of lines 2 and 3)	-	8,616,060,717	9,524,231,085
5	(Less) Accum. Prov. for Depr. Amort. Depl. (108,111,115)	200	1,545,171,568	1,677,455,655
6	Net Utility Plant, Less Nuclear Fuel (Enter Total of Line 4 less 5)	-	7,070,889,149	7,846,775,430
7	Nuclear Fuel (120.1-120.4, 120.6)	201	484,801,745	530,563,819
8	(Less) Accum. Prov. For Amort. of Nuclear Fuel Assemblies (120.5)	201	10,077,115	10,077,115
9	Net Nuclear Fuel(Enter Total of line 7 less 8)	-	474,724,630	520,486,704
10	Net Utility Plant (Enter Total of lines 6 and 9)	-	7,545,613,779	8,367,262,134
11	Utility Plant Adjustments (116)	122	-	-
12	Gas Stored Underground-Noncurrent (117)	214	-	-
13	OTHER PROPERTY AND INVESTMENTS		//////////////	//////////////
14	Nonutility Property (121)	215	15,993,425	14,802,698
15	(Less) Accum. Prov. for Depr. and Amort. (122)	215	1,547,654	1,583,992
16	Investments in Associated Companies (123)	216	-	-
17	Investment in Subsidiary Companies (123.1)	217	128,777,596	130,096,007
18	(For cost of Acct. 123.1, see footnote page 217, line 23)	-	//////////////	//////////////
19	Other Investments (124)	216,219	1,224,902	1,112,216
20	Special Funds (125-128)	-	24,583,491	59,608,459
21	TOTAL Other Property and Investments (Enter Total of lines 14 thru 20)	-	169,031,760	204,035,388
22	CURRENT AND ACCRUED ASSETS		//////////////	//////////////
23	Cash (131)	-	44,508,588	16,707,267
24	Special Deposits (132-134)	-	10,004,227	38,315,558
25	Working Funds (135)	-	7,047,363	6,103,039
26	Temporary Cash Investments (136)	216	-	-
27	Notes Receivable (141)	-	226,045	243,128
28	Customer Accounts Receivable (142)	-	298,684,515	341,109,537
29	Other Accounts Receivable (143)	-	37,106,080	38,985,732
30	(Less) Accum. Prov. for Uncollectible Acct.-Credit (144)	-	1,125,179	1,075,559
31	Notes Receivable from Associated Companies (145)	-	-	-
32	Accounts Receivable from Associated Companies (146)	-	5,574,776	8,183,506
33	Fuel Stock (151)	218	45,591,025	62,827,908
34	Fuel Stock Expense Undistributed (152)	218	332,040	63,458
35	Residuals (Elec) and Extracted Products (Gas) (153)	218	-	-
36	Plant Material and Operating Supplies (154)	218	50,082,607	52,126,873
37	Merchandise (155)	218	3,423,363	3,149,654
38	Other Material and Supplies (156)	218	-	-
39	Nuclear Materials Held for Sale (157)	201	-	-
40	Stores Expenses Undistributed (163)	218	1,150,801	1,404,571
41	Gas Stored Underground - Current (164.1)	214	25,867,954	25,421,393
42	Liquefied Natural Gas Stored (164.2)	214	3,889,804	4,691,015
43	Liquefied Natural Gas Held for Processing (164.3)	214	-	-
44	Prepayments (165)	-	6,838,589	6,717,248
45	Advances for Gas Explor., Devel. and Prod. (166)	219	-	-
46	Other Advances for Gas (167)	219	-	-
47	Interest and Dividends Receivable (171)	-	-	-
48	Rents Receivable (172)	-	-	-
49	Accrued Utility Revenues (173)	-	-	-
50	Miscellaneous Current and Accrued Assets (174)	-	183,068,820	270,530,681
51	TOTAL Current and Accrued Assets (Enter Total of lines 23-50)	-	722,271,418	875,505,009

RULES AND REGULATIONS-Continued

17. STANDARD PAYMENT TERMS

17.1 BILLING PERIOD. Billing for service will be based upon the amount of use and the time interval of its supply. Rate values stated for direct application to monthly supply periods will be adjusted when time elapsed between readings is substantially greater or less than a month.

17.2 PAYMENT PERIOD. Bills are payable upon presentation, and payment may be made at any commercial office of the Company or at any authorized payment agency. Payment for service received must be made on or before the due date shown on the bill, which shall be not less than 20 days from the date of transmittal of the bill for Rates R, R-H, OP, POL and GS; not less than 15 days from the date of transmittal of the bill for all other rates, with the exception of accounts with the United States of America or the Commonwealth of Pennsylvania or any of their departments or institutions for which 30 days will be allowed. If the normal due date should fall on a Saturday, Sunday, bank holiday, or any other day when the offices of the Company which regularly receive payments are not open to the general public, the due date shall be extended to the next business day. The payment period will not be extended because of the Customer's failure to receive a bill unless said failure is due to the fault of the Company.

17.3 FINANCE CHARGE. If payment is made at a Company office or authorized payment agency after the due date shown on the bill, a finance charge will be added to the unpaid balance until the entire bill is paid. If payment is made by mail, the finance charge will be added if the payment is received by the Company more than 5 days after the due date shown on the bill. For Rates R, R-H, OP, POL and GS, this finance charge will be 1-1/4% per month; for all other rates the finance charge will be 2% per month.

17.4 BUDGET BILLING. At the option of a Customer receiving service under Rates R, R-H, OP, POL and GS, an estimated total bill for all service to be received by the Customer over a twelve-month period may be budgeted over the period and an average bill rendered monthly for payment each month, and such monthly budget bill will not be subject to finance charges. Any difference between the budgeted amounts so paid and the actual charges for the twelve-month budget period will be adjusted in the twelfth month. If a monthly budget bill is not paid, the Customer will be notified with the next monthly budget bill that budget billing will be terminated unless payment of the past due budget bill is made on or before the due date of the current budget bill. If budget billing is terminated, a finance charge of 1-1/4% per month will be added to the unpaid balance of actual charges on the next billing date in accordance with Rule 17.3

17.5 CALCULATION OF FINANCE CHARGE. Where a finance charge is applicable, the amount of the finance charge to be added to the unpaid balance shall be calculated by multiplying the unpaid past due balance, exclusive of any previous unpaid finance charges, by the appropriate finance charge rate.

17.6 APPLICATION OF PAYMENT. When payment is received by the Company from a Customer who has an unpaid balance which includes finance charges, the payment will be applied first to the finance charge and then to the remainder of the unpaid balance.

17.7 RETURNED CHECK CHARGE. If a check received in payment of a Customer's account is returned to the Company unpaid by the Customer's bank and cannot be redeposited by the Company for payment on the second attempt, an $8.00 charge for the returned check will be added to the Customer's account.

INFLATION FACTORS FOR YEARS ENDED MARCH

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

INFLATION FACTORS FOR YEARS ENDED JUNE 30

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

INFLATION FACTORS FOR YEARS ENDED SEPTEMBER 30

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

Q.DR-Staff-REO-9 Refer to Statement No. 22, Schedule 2 and pages D-10b of Exhibits TPH-1 and TPH-2. Provide, by plant, budget versus actual fossil plant outage expenditures for the 12 months ended June 1981, 1982, 1983, 1984 and 1985. Provide the budgeted expenditures for the 12 months ended June 1986 in the same manner.

A.DR-Staff-REO-9 Attachment DR-Staff-REO-9 shows the actual vs budget expenditures for outages at the fossil plants for the fiscal years ending June 30 for 1981, 1982, 1983, 1984 and 1985.

The budgeted expenditures for the future test year ending June 1986 are shown in IR-OCA-1-23.

Responsible Witness: J. J. Carroll, Staff Engineer, Services Division

FOSSIL OUTAGES

BUDGET VS ACTUAL

$1,000

YEAR ENDING	6-30-81	6-30-82	6-30-83	6-30-84	6-30-85
SCHUYLKILL					
BUDGET	268	1623	1096	3349	1686
ACTUAL	955	22	1056	1422	1631
EDDYSTONE					
BUDGET	9237	9956	13468	5777	13226
ACTUAL	6674	12139	12514	13768	11741
CROMBY					
BUDGET	688	1356	1873	1478	3583
ACTUAL	899	3526	1629	1543	3745
DELAWARE					
BUDGET	1286	2165	2820	1896	1964
ACTUAL	2681	57	4734	819	1649
SOUTHWARK					
BUDGET	534	605	721	301	391
ACTUAL	254	462	669	352	391
TOTAL					
BUDGET	12083	18705	19978	13841	20850
ACTUAL	11413	16208	20602	17704	19347
Actual w/o Southwork	11159	15746	19933	17352	18966

Q.IR-Staff-REL-1. Refer to page 27 of PECo's Electric Tariff. Provide the following information regarding the late payment charge for payments received after the due date. When were the current finance charges established? What costs does the Company recover through these finance charges? Provide detail as to the Company's statements and/or exhibits the request was made from which the Commission's approval was received.

A.IR-Staff-REL-1. The late payment charges now defined under paragraph 17.3 in the Company's Rule & Regulations, became effective September 19, 1981. This first revision to Rule 17 was filed as Supplement No. 27 to PECo's Tariff No. 25 on 7/20/81. See Attachment IR-Staff-REL-1(a) for the detail of this filing.

PECo first incorporated a finance charge in its Tariff in Supplement No. 47 to Tariff No. 24, which became effective September 5, 1975. See Attachment IR-Staff-REL-1(b) for the detail of this filing. Late payment charges are a rate for the service of carrying delinquent accounts.

Responsible Witness: R. C. Williams, Manager, Rate Division

Q.DR-Staff-RBC-5. Refer to Statement No. 20, Appendix A. Regarding the Revenue Lag Study, provide detailed information on how the study was performed. Also provide detailed information on the billing process from date of meter reading; regarding number of days to generation of bills, when bills are mailed, when bill payments are due, number of and aging of overdue bills, and when bills are determined to be Uncollectible. Provide back-up to the revenue lag used for each category for Uncollectible Accounts.

A.DR-Staff-RBC-5. The Company has performed a lead/lag computation to develop the cash-working capital requirements for the average lag in receipt of revenue. The Company has analyzed the payment pattern of residential, commercial and industrial customers. This specific analysis was ordered by the Commission at R-811719 and is consistent with that accepted by the Commission previously most recently in its order at R-852590. The resultant lag in receipt of revenue for the period of study was 46 days. A copy of the Company's summary of the revenue lag study was attached to the Testimony of Richard Wm. Wright, Statement 20 as Appendix A. As indicated in Appendix A, the Company analyzed residential electric revenues for six of the 21 billing routes for 12 monthly meter readings ending February 1985. Attachment DR-Staff-RBC-5 provides as an example a copy of one route of the February 1985 tracking of revenue for classes of revenue utilized in the study. For each of the billing routes, actual cash receipts (payments) were accumulated on a day-by-day basis, utilizing the Company's master customer file starting from the meter reading date running through four months beyond the meter reading date. Customer bills are normally prepared from 3 to 6 days after meter reading depending on weekends and holidays. Each of the payments were weighted by the number of days from the meter reading date. This computation is shown in Column 3 of Attachment DR-Staff-RBC-5 entitled "Days Times Payments". A summation of total payments and weighted payments derived the average lag in the receipt of revenue from the meter reading date through the collection period. In the Company's revenue lag study all revenue is assumed to be collected by the end of the 127th days (last day in the computerized study). One reason for using 127 days was that under the Company's current termination procedure, which is on file with the Commission, it takes approximately 127 days to terminate a customer's service for non-payment. However, once an account is terminated it takes approximately 80 additional days prior to writing off the account as uncollectible.

A similar analysis was performed on small commercial accounts on the same billing routes.

In the case of industrial customers, the computation was based on six billing routes for the months of February and March of 1985. The industrial accounting system was being computerized from October 1984 through January 1985 and, hence, data from this transition period is not available.

The revenue weighted average was taken for residential, commercial, and industrial customers and to that average 15 days were added to account for the midpoint of the period of monthly service rendered to each group. This resulted in 49 lag days for residential customers, 48 days for commercial customers, and 44 lag days for industrial customers. The resultant lag days were then weighted by actual revenue for each of the rate schedules listed on page A-5 of Exhibits TPH-1 and TPH-2.

At the end of the four month period, service to customers with outstanding revenue is terminated and the outstanding revenue is submitted for final collection. In the course of this collection process, a series of steps are taken in a final effort to secure payment prior to writing off the revenue. This final collection procedure is initiated at the time the service is terminated and takes approximately 80 days after which time revenue is written off and declared uncollectible.

With regard to back-up to the revenue lag used for each category of uncollectible accounts see Attachment IR-OCA-8-5.

Responsible Witness: R.W. Wright, Supervisor-Financial Division

Q. DR-Staff-RET-01. Refer to Statement No. 22, pages 18 and 19. Provide the following regarding the management review performed by Management Analysis Company, on the Salem nuclear facility, of which PECO's share of the cost was $7.3 million.

a. Comparative bid information including a summary of each bid with the total cost and PECO's share of the cost shown separately.

b. What cost savings will result from the study?.

c. Where are the cost savings from the study reflected in the rate request?

d. What is the estimated length of time the benefits will be felt?

A. DR-Staff-RET-01.

a. Because of the need to expedite the management review, comparative bids were not pursued for the project. Public Service relied upon its and NRC's opinion of MAC's expertise.

b. The study was performed to increase the efficiency of operations with the primary emphasis being the return of Salem 1 to service and improvement of the unit's performance in the future.

c. Cost savings through any improved performance of the Salem units will be automatically reflected in the Company's Energy Cost Rate as a reduction in the level of fuel and energy costs incurred.

d. Benefits of the study will continue over the remaining life of the Salem units.

Responsible Witness: J. J. Carroll, Staff Engineer, Services Division

Q.IR-Staff-RET-3. Refer to PECO Statement No. 22, pages 18 and 19; PECO Exhibit TPH-2, page D-10D; and also DR-Staff-RET-1. Provide the following regarding the Salem Management Evaluation Program resulting from the review performed by Management Analysis Company (MAC).

a. Provide a copy of the technical/cost proposal.

b. Provide a copy of the contract.

c. Over what time period did MAC perform the review and when were the results released to PSE&G?

d. What was the total cost of the MAC review?

e. Provide a copy of the project's final report or any reports resulting from the MAC review.

f. Provide copies of any detailed recommendation not included in the reports provided in (e) above.

g. Provide the company's estimated cost savings to result from the review used to warrant the cost of the study, and the company's revised estimated cost savings after MAC had completed its review.

h. What is the remaining life of the Salem units currently used by PECO for accounting purposes?

A.IR-Staff-RET-3. a. IR-Staff-RET-3-Attachment 1 (Management Assessment Corporation (MAC) proposals MAC-83-F113 and MAC-83-U027) provide the requested information.

b. IR-Staff-RET-3-Attachment 2 (PSE&G purchase orders 885292 and 885295) provides the requested information.

c. The review was performed between March and August, 1983. The MAC action plan for the stations was issued June 24, 1983 and the MAC assessment of the Quality Assurance Program was issued July 27, 1983.

d. The total cost of the MAC review per Purchase Orders 885292 and 885295 was $1,111,627.42.

e. IR-Staff-RET-3-Attachment 3 provides a copy of the MAC review of station operations, the MAC review of the QA program, and the subsequent PSE&G plan for imrpovement of Nuclear Department operations.

f. There are no detailed recommendations other than those provided above, in response to (e).

g. This information was provided in response to DR-Staff-RET-1.

h. The remaining life of the Salem units currently used by PECO for accounting purposes is 24.3 yrs. for Salem 1 and 28.6 yrs. for Salem 2.

NOTE: The attachments to this response are voluminous and have been provided to Staff only.

Responsible Witness: John J. Carroll, Staff Engineer-Services Division

Q.DR-JJC1-Staff   Provide a breakdown of costs in the Salem Management Study performed by MAC including the fee paid to MAC.

A.DR-JJC1-Staff   MAC received a total of $1,111,627.42 for services associated with the Salem Action Plan. Included in this total was $964,313.29 for development of the Management Assessment and Action Plan included in the response to DR-Staff-RET-01. All of these costs are for the Total Salem Plant and PECo's costs were $473,442.12 and $410,701.03, respectively.

Responsible Witness: J. J. Carroll, Staff Engineer, Services Division

Q.DR-Staff-REO-07 Refer to TPH-1, page D-10a. Provide actual outage expenses by unit for Peach Bottom and Salem for years ended June 30, 1983 and June 30, 1984.

A.DR-Staff-REO-07 Listed below are the expenses incurred during the fiscal years ending June 30, 1983 and June 30, 1984 for O&M activities associated with outages of the nuclear units.

	$1,000	
	7-1-82 to 6-30-83	7-1-83 to 6-30-84
Peach Bottom #2	1,170	2,111
Peach Bottom #3	7,792	5,067
Salem #1	8,481	3,414
Salem #2	6,663	4,035

Responsible Witness: J. J. Carroll, Staff Engineer, Services Divisio

Q.DR-Staff-REO-08 Refer to TPH-2, page D-10a. Provide budget outage expensed by unit for Peach Bottom, Salem, and Limerick for years ended June 30, 1987 and June 30, 1988.

A.DR-Staff-REO-08 Philadelphia Electric Company's budgeting process requires monthly budget information for the first two years of the Budget & Forecast and yearly values for the remaining 3 calendar years. The present filing used the monthly information from July 1985 through June 1986. Therefore, monthly information for future fiscal years ending June 30 is not available. The data listed below is provided in the only form available from PECO's official Budget & Forecast.

Nuclear Outage Budget O&M Expenses

$1,000

Unit	7/1/86-12/31/86	Year 1987	Year 1988
Peach Bottom #2	$8,650	$ 8,810	---
Peach Bottom #3	$5,913	$ 4,217	$ 9,558
Salem #1	---	$ 9,100	---
Salem #2	$9,139	---	$ 9,024
Limerick #1	---	$19,703	$17,046

Responsible Witness: J. J. Carroll, Staff Engineer, Services Division

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PENNSYLVANIA PUBLIC UTILITY COMMISSION

v.

PHILADELPHIA ELECTRIC COMPANY
DOCKET NO. R-850152

Direct Testimony

of

John P. Prego, CPA

Concerning: Continuing Property Record Audit Adjustments

Q. Please state your name and address for the record?

A. John P. Prego, P. O. Box 3265, Harrisburg, PA., 17120.

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

A. I am employed by the Pennsylvania Public Utility Commission as a Public Utility Audit Supervisor in the Bureau of Audits.

Q. What is your educational background?

A. I graduated from Wilkes College, Wilkes Barre, PA, in 1968 with a Bachelor of Science Degree in Commerce and Finance with a major concentration in accounting. I have also attended various specialized courses concerning public utility and private industry accounting, financial and regulatory matters.

Q. Please describe your professional experience?

A. I was first professionally employed by the State of New York, Department of Audit and Control as a college intern during early 1968 and as Auditor Trainee from June 1968 to November 1968. From November 1968 through October 1972, I served in the United States Navy. Upon my discharge from the Navy, I accepted employment with the Commonwealth of Pennsylvania, Department of the Auditor General. While with the Auditor General, I was responsible for conducting financial and operational audits of various public and private organizations receiving state monies.

I was employed by the Public Utility Commission in March of 1977. As a Public Utility Auditor III, I was in charge of numerous audits of various electric, natural gas, steam heat and water utilities providing service in Eastern Pennsylvania. These audits varied in scope and included the following types:

A. Automatic Adjustment Clause

Operating income and expense as related to histories and future ratemaking test years

Continuing Property Records

Special cost studies and analyses

In all cases, these audits were conducted in accordance with generally accepted auditing standards and primarily focused on the applicable Uniform System of Accounts prescribed by this Commission for the particular utility type.

I have served in my current position since 1979. As a Public Utility Audit Supervisor, I am responsible for supervising and directing the Bureau of Audits' Eastern Region-Philadelphia area staff in conducting applicable examinations of various utilities providing service to or with main offices located in Eastern Pennsylvania. These audits cover all utilities subject to the jurisdiction of the Commission and vary in scope depending on the type and nature of the particular examination. To conduct these examinations, the Bureau of Audits maintains a staff of eight auditors, all having accounting related college degrees. In addition to myself, two of the eight are actively licensed Certified Public Accountants.

As one of three members of the Bureau of Audits', Audit Procedures Committee, I also share the responsibility for maintaining and, where considered necessary, improving the quality of all audits conducted by the Bureau. This committee work provides exposure to the operations of, accounting systems and methodologies used by and a variety of problems encountered by the many utilities providing service throughout the Commonwealth. The committee is also responsible for the development and implementation of procedures and techniques to insure adequate audit coverage and maintain staff efficiency

A. in a dynamic environment of many applicable rules, regulations, laws and practices.

Q. Are you active in any professional organizations?

A. Yes. I am a member of the American Institute of Certified Public Accountants and its Federal Tax Division. I am also a member of the Pennsylvania Institute of Certified Public Accountants, actively serving on its committee on State Taxation and the Greater Philadelphia Chapter's Committee on Continuing Professional Education. An interface with the National Association of Regulatory Commissioners Accounting Committee is maintained through Bureau leadership and representation on that Committee. This is also true of the Pennsylvania Institute of Certified Public Accountants Accounting Procedures Committee.

Q. What is the purpose of your testimony in these proceedings?

A. The purpose of my testimony is to address those changes to the Company's continuing property records resulting from a recently completed audit and to which Philadelphia Electric Company objects. This examination was conducted under my direction and supervision. Specifically, the recommended changes with which the Company disagrees, include Adjusting Entries 4, 9 and 13 of Staff Exhibit JPP-1.

Q. Would you please explain these Adjusting Entries in greater detail?

A. Of the three adjusting entries with which Philadelphia Electric Company disagrees, No. 9 is the most significant. This is a compound entry reclassifying from plant in service accounts, costs incurred for 17 different projects affecting both the Peach Bottom and Salem Nuclear Generating Stations. In my opinion, all these costs were improperly or erroneously capitalized for a variety of different reasons that will be explained as each issue is addressed.

Q. Did Philadelphia Electric Company agree with any of the reclassifications from plant in service included in Adjusting Entry 9?

A. Yes, of the total Adjusting Entry 9 reclassifications from plant in service amounting to $15,596,177, Philadelphia Electric Company has agreed with several issues which represent reclassifications totaling $261,747. The first of these was a reclassification from Reactor Plant Equipment (Account 322) representing Philadelphia Electric Company's share of costs incurred to remove the central rod drive return line nozzle and cap the inside and ouside penetrations of the reactor vessel at Peach Bottom. Although originally capitalized by the Company, it has agreed that the work performed under this project more appropriately should have been classified as cost of removal. As such, Philadelphia Electric Company has accepted this Adjusting Entry 9 reclassification amounting to $224,804. The other issue with which Philadelphia Electric Company agrees involves unrecorded retirements of cables at Peach Bottom. Although originally identified as six different cable rerouting projects, our review of detailed supporting records indicated that the Company did not actually reroute existing cables. Instead, new cables were installed in different locations while the old cables were left in place but no longer used. As a result, Philadelphia Electric has agreed to retire from Reactor Plant Equipment (Account 322) the original installed cost of the old cables totaling $36,943.

Q. Does the Company agree with any other reclassifications or issues included in Adjusting Entry 9?

A. No. The Company does not agree with the remaining reclassifications included in the adjusting entry.

Q. Would you please explain these reclassifications?

A. Reclassifications from Reactor Plant Equipment (Account 322) of $5,277,662 and Turbogenerator Units (Account 323) of $14,148 represent Philadelphia Electric's share of costs incurred by Public Service Electric and Gas Company for reviewing, inspecting, testing and modifications, where necessary, at its Salen Nuclear Generating Station to satisfy requirements of Nuclear Regulatory Commission Bulletins 79-02 and 79-14. These bulletins concerned safety related piping systems at the station. The evaluations, analyses and actual modifications performed were examined by the Federal Energy Regulatory Commission during its audit of Public Service Electric and Gas Company's plant in service accounts and determined to have been improperly capitalized. Their Audit Report for the Four Years Ended December 31, 1982, dated January 11, 1985, includes a reclassification entry, with which Public Service Electric and Gas concurred, to remove the costs incurred for these projects from the utility plant accounts. Since Public Service Electric and Gas, as operator of the Salem facility, is responsible for properly classifying and recording transactions related to plant construction and operations, we believe that Philadelphia Electric's treatment of its share of the costs incurred for these projects should follow its classification. As such, Adjusting Entry 9 includes a reclassification from Philadelphia Electric's plant in service accounts for its share of the cost applicable to these same projects. This entry, similar to the one made by the Federal Energy Regulatory Commission, transfers these costs to a deferred account, Unrecovered Plant and Regulatory Study Costs (Account 182.2), and reverses the Allowance for Funds Used During Construction that was therefore improperly accrued thereon.

A. Although recording this adjustment provides consistent classification of these project costs among the joint owners of the plant, we further believe that ratemaking treatment of the costs reclassified to Account 182.2 requires additional comment. The above referenced Federal Energy Regulatory Commission audit report on Public Service Electric and Gas Company established as reasonable, a three year amortization period for these costs. While we do not disagree with the length of this period for book purposes, we do not believe that recovery of this amortization in future rates is proper. Supporting documentation examined during our Continuing Property Record audit of Philadelphia Electric indicated that Public Service Electric and Gas originally classified the costs of reviewing, testing, inspecting and modifying, where necessary, the Salem Nuclear Generating Station safety related piping systems as maintenance expense. Since this original classification was clearly in conformity with the applicable Uniform System of Accounts; Operating Expense Instructions, we believe that this original classification was proper and that these project costs were recovered through rates in effect at that time. We do not believe that Public Service Electric and Gas' subsequent capitalization of these costs which was also followed by Philadelphia Electric, was proper. However, the Federal Energy Regulatory Commission's later reclassification of these costs to Account 182.2, while not preferrable, is an acceptable treatment provided that amortization of the amounts so reclassified is not permitted in future rate recovery.

Q. Do any other reclassifications included in Adjusting Entry 9 pertain to Philadelphia Electric's ownership of the Salem Nuclear Generating Station?

A. No. The remaining reclassifications included in Adjusting Entry 9 all relate to the plant in service accounts for Peach Bottom Atomic Generating Station.

Q. Would you please explain these reclassifications?

A. Of those remaining, reclassifications from Reactor Plant Equipment (Account No. 322), amounting to $6,009,683, represent Philadelphia Electric's share of costs incurred to inspect, test, evaluate and modify, where necessary, various piping systems and masonry walls at Peach Bottom. Like the Salem reclassifications discussed above, these projects were undertaken to satisfy the requirements of various Nuclear Regulatory Commission bulletins and were improperly capitalized.

However, unlike the above Salem reclassifications, where we primarily relied on the position taken by the Federal Energy Regulatory Commission based on its audit of Public Service Electric and Gas detailed records and minimal corroborating records available from Philadelphia Electric, Peach Bottom reclassifications were based on our in-depth review of the detailed supporting records available. This documentation consisted primarily of engineering correspondence and narrative descriptions of the actual work accomplished under each project.

Our review of these detailed records revealed that while certain plant modifications were made to satisfy the Nuclear Regulatory Commission requirements, some were generally minor in nature. These minor modifications primarily consisted of installing, replacing, repairing and reinforcing pipe supports, clamps, anchor bolts and guides and installing fire damper vents in certain masonry walls and replacing a solid door with a grilled type to alleviate unequal pressures.

A. Since these items of property are smaller than the retirement units followed by Philadelphia Electric for its Peach Bottom continuing property records, they would be classified as a minor items of property according to definitions prescribed by the Uniform System of Accounts. As such, the cost of activities involving, affecting or relating to these items of property would be subject to the accounting treatments prescribed by the Uniform System of Accounts.

The Operating Expense Instructions of the Uniform System of Accounts contains a list of specific work operations applicable to plant in service which should properly be accounted for as maintenance expense. Among these are the following:

- inspecting, testing and reporting on the condition of plant specifically to determine the need for repair, replacements, rearrangements and changes and inspecting and testing the adequacy of repairs which have been made
- replacing or adding minor items of plant which do not constitute a retirement unit

Repairs and reinforcement of minor items of property since these operations should be generally less than replacements are implicitly included in the latter.

Based on this criteria and our detailed analysis of the work actually performed to satisfy the Nuclear Regulatory Commission requirements, we believe that costs capitalized as plant totaling $6,009,683 should more appropriately have been accounted for as a maintenance expense and that these costs were recovered through rates in effect during the period of incurrence. Adjusting Entry 9 includes reclassifications from the Peach Bottom plant in service accounts to correct Philadelphia Electric's misclassification of these costs.

A. It should be noted that the Uniform System of Accounts - Electric Plant Instructions do provide for certain circumstances where the addition and replacement of minor items of property may be properly capitalized. These are as follows:

> . . . When a minor item of property which did not previously exist is added to plant . . ., if a substantial addition results (Section 10C(1))
>
> * * *
>
> . . . When a minor item of depreciable property is replaced independently of the retirement unit of which it is a part . . ., if the replacement effects a substantial betterment . . . . (Section 10C(3))

However, since Philadelphia Electric does not follow betterment accounting nor did it separately track the cost of installing minor items of property that did not previously exist under the five projects comprising the subject reclassifications, the use of these accounting treatments cannot be justified.

Q. Does this complete your testimony concerning Adjusting Entry 9?

A. No. One other issue remains to be addressed.

Q. Would you please explain this issue?

A. Adjusting Entry 9 also includes reclassifications from Reactor Plant Equipment (Account 322) totaling $3,942,248 and Miscellaneous Power Plant Equipment (Account 325) amounting to $90,689. These reclassifications represent Philadelphia Electric's share of costs incurred to mitigate intergranular stress corrosion cracking in the piping welds of Peach Bottom's residual heat removal and reactor recirculating water systems. This consisted of treating the affected welds with a newly developed process which was to prevent, or at least lessen, further cracking which could have resulted

A. in plant shutdown or failure. As such, we believe that the costs of the work performed were erroneously capitalized according to the provisions of the Uniform System of Accounts.

Again, the Uniform System of Accounts, Operating Expense Instructions clearly and specifically provide criteria for recording such costs. This criteria provides that work operations performed for the purpose of preventing failure restoring serviceability or maintaining plant life should properly be classified as maintenance expense. Additionally, since no new retirement unit or minor item of property was added through application of the process and Philadelphia Electric does not follow betterment accounting, we do not believe that the above noted circumstances provided for in the Electric Plant Instructions were satisfied. As a result, Adjusting Entry 9 includes reclassifications from plant in service to correct Philadelphia Electric's misclassifications of costs attributable to performing the Induction Heat Stress Improvement Process.

Q. If that concludes your testimony concerning Adjusting Entry 9, please explain the other two entries with which the Company disagrees.

A. Adjusting Entry 4 removes from the following plant in service accounts, supplementary costs capitalized for the installation of Philadelphia Electric's System Automatic Monitoring and Control (SAMAC) computerized power control system:

Account Title	Amount
Steam Production Accessory Electrical Equipment	$671,360
Nuclear Production Accessory Electrical Equipment	9,260
Hydraulic Production Accessory Electrical Equip.	9,260
Transmission Plant-Station Equipment	92,600
Distribution Plant-Station Equipment	18,520
TOTAL	$801,000

A. These amounts represent the costs for additional testing and engineering manhours attributable to the poor quality of the integrated circuit cards, electronic circuits and remote power supplies and the inadequacy of design documentation supplied by the contracted vendor.

Although inherent in its responsibility to adequately protect its customers' interests, Philadelphia Electric made no formal attempts to recover these additional costs from the contractor. We, therefore, believe that these costs should be written off from the plant in service accounts to preclude any future recovery from its customers.

Adjusting Entry 13 is a reclassification from construction work in Progress (Account 107) totaling $121,381 which represents the cost of surveying and designing an aerial section of a 13kv distribution line between Philadelphia Electric's Callowhill and Delaware Substations. This project was originally started in 1976 but was delayed approximately five years due to lower than expected load growth. During this time, community opposition arose and succeeded in requiring that the line be constructed entirely underground. Since Philadelphia Electric customers will not benefit from surveying and designing of aerial section of this line, we believe that the cost of performing this position of the work should have been treated as abandoned and written off to expense.

Q. Does this complete your testimony concerning the continuing property record audit adjustments?

A. Yes,however, I would like to make a few general comments concerning the adjustments I just addressed. First, it should be noted that accounts and related amounts presented above represent Philadelphia Electric's continuing property records at December 31, 1983. Our adjustments thereto were prepared with the primary objective of correcting these records. The Company's disagreement with these entries requires corresponding adjustments to properly reflect the plant in service and related accumulated depreciation

A. account balances in these rate proceedings. However, we also believe that our reclassifications to the various income, expense and deferred accounts represent the proper accounting that should have been made at the time the transactions were originally classified as plant in service. The Company's effective rates at that time, therefore, included our reclassifications to the various income, expense and deferred accounts. As such, we do not believe that these reclassifications should impact any future rates established for Philadelphia Electric Company.

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October 18, 1985

SUBJECT: Review of Philadelphia Electric Company - Electric Division Plant in Service Accounts For The Five Years Ended December 31, 1983

TO: The Commission

FROM: Director Dial
Bureau of Audits

RECEIVED
JAN 30 1986
SECRETARY'S OFFICE
Public Utility Commission

Submitted herewith is a report on our review of Philadelphia Electric Company - Electric Division Plant in Service Accounts (Continuing Property Records) for the five years ended December 31, 1983. This report is presented for your information regarding ongoing audits performed but not requiring Commission action at public meeting.

The following Bureau of Audits' adjustments and findings were discussed with Company representatives who agreed with many, but also provided additional information concerning their disagreement with others. Based on staff's review of this additional information, several areas of adjustments , specifically noted below, remain:

1. Unrecorded retirements totaling $16,167,356 representing generating station buildings and equipment, crude oil desalting equipment and coal handling equipment no longer used and useful in utility operations.

2. Reclassifications and reversals of related allowance for funds used during construction accruals amounting to $15,910,697 representing nuclear power plant regulatory study costs, cost of removal and maintenance expense improperly capitalized. The Company agreed with $451,777, but did not accept the remaining $15,458,920. However, the Company did agree to prospectively apply to future projects, the accounting treatment recommended for adjustments totaling $10,722,818 of this latter amount.

3. Unrecorded retirements totaling $2,104,197 representing property units previously retired from service but not cleared from the books.

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4. Reclassifications to expense amounting to $823,614 representing survey and engineering design not resulting in actual construction. The Company agreed with $702,233, but did not accept $121,381.

5. Write offs amounting to $801,000 representing imprudently incurred construction delay, testing and engineering charges capitalized. The Company did not agree with these adjustments.

6. Reversal of allowance for funds used during construction totaling $190,472 accrued after the constructed facility was placed in service.

7. Transfers to non-utility property amounting to $4,073 representing land and land rights no longer used in utility operations.

The report also contained three non-monetary findings addressing the need for certain improvements in the following areas:

procurement practices

control over salvageable assets

allowance for funds used during construction calculations

The Company generally agreed with these issues and the Bureau of Audits' recommendations.

A copy of this report has been sent to the utility, and the Bureau of Rates. We have requested the utility to send copies of its recorded journal entries to our office. Staff intends to pursue any unresolved adjustments in the Company's current rate case.

cc: Bureau of Rates
V. Smith
M. Chestnut
C. Smetak

PHILADELPHIA ELECTRIC COMPANY

A REPORT ON THE ELECTRIC PLANT IN SERVICE

FOR THE FIVE YEARS ENDED DECEMBER 31, 1983

Prepared For The Public Utility Commission

By The Bureau of Audits

Contents

COMMONWEALTH OF PENNSYLVANIA
PENNSYLVANIA PUBLIC UTILITY COMMISSION
P. O. BOX 3265, HARRISBURG, Pa. 17120

October 18, 1985

IN REPLY PLEASE
REFER TO OUR FILE

Donald Scott, Controller
Philadelphia Electric Company
2301 Market Street
Philadelphia, PA 19101

Dear Mr. Scott:

The Bureau of Audits' staff has completed an examination of the Continuing Property Records of Philadelphia Electric Company - Electric Division. The examination included a review of the supporting changes in the cost of electric plant accounts for the period January 1, 1979 to December 31, 1983. The staff also conducted a selective review of accounting policies and practices as well as internal controls to test overall compliance with the accounting and related regulations of the Commission. A copy of the report is enclosed for your information.

At the conclusion of the audit, an exit conference to review the Staff's recommendations was held on July 10,1985. At that time your Company agreed to take certain corrective action and provide additional information on other issues with which you disagreed. Based on Staff's review and evaluation of that information, original recommendations were revised where considered appropriate. Please record these enclosed adjustments on the books of Philadelphia Electric Company - Electric Division and forward copies to this Bureau within ten working days. Also, if appropriate, comment in detail on any adjustment you do not agree to make.

We wish to express our appreciation for the cooperation and assistance given us during the course of our examination by the staff of Philadelphia Electric Company.

Very truly yours,

John L. Dial

John L. Dial, CPA
Director, Bureau of Audits

Enclosure

cc: J. Crawford
W. Smith

PHILADELPHIA ELECTRIC COMPANY
Statement of Electric Plant in Service (As Adjusted)
As of December 31, 1983

Electric Plant In Service

Intangible Plant		
Organization	$	-0-
Franchised Consents		162,934
Miscellaneous Intangible Plant		-0-
Total Intangible Plant	$	162,934
Production Plant - Steam		
Land & Land Rights	$	7,597,707
Structure & Improvements		216,175,070
Boiler Plant Equipment		594,125,653
Engine & Engine Driven Generators		-0-
Turbogenerator Units		174,668,256
Accessory Electric Equipment		115,987,674
Miscellaneous Power Plant Equipment		12,052,312
Total Steam Production Plant	$	1,120,606,672
Production Plant - Nuclear		
Land & Land Rights	$	332,330
Structure & Improvements		292,924,087
Reactor Plant Equipment		556,842,742
Turbogenerator Units		199,713,087
Accessory Electric Equipment		171,267,089
Miscellaneous Power Plant Equipment		38,192,459
Total Nuclear Production Plant	$	1,259,271,794
Production Plant - Hydraulic		
Land & Land Rights	$	1,420,822
Structures & Improvements		14,473,699
Reservoirs, Dams & Waterways		34,291,944
Water Wheels, Turbines & Generators		21,891,340
Accessory Electric Equipment		8,000,901
Miscellaneous Power Plant Equipment		2,781,348
Roads, Railroads & Bridges		997,676
Total Hydraulic Production Plant	$	83,857,730
Production Plant - Other		
Land & Land Rights	$	850,711
Structures & Improvements		4,402,448
Fuel Holders, Products & Accessories		21,467,376
Prime Movers		-0-
Generators		90,903,083
Accessory Electric Equipment		13,063,702
Miscellaneous Power Plant Equipment		2,272,288
Total Other Production Plant	$	132,959,608

Statement of Electric Plant in Service (As Adjusted)

As of December 31, 1985

Transmission Plant	
Land & Land Rights	$ 45,490,741
Structures & Improvements	14,659,024
Station Equipment	213,432,954
Towers & Fixtures	159,917,485
Poles & Fixtures	450,711
Overhead Conductors & Devices	73,314,166
Undergroung Conduit	2,521,205
Undergroung Conductors & Devices	33,724,051
Roads & Trails	1,730,102
Total Transmission Plant	$ 545,240,439
Distribution Plant	
Land & Land Rights	$ 20,532,143
Structures & Improvements	36,412,403
Station Equipment	270,588,277
Storage Battery Equipment	-0-
Poles, Towers, Fixtures	121,137,621
Overhead Conductors & Devices	185,805,210
Underground Conduit	136,063,735
Underground Conduit & Devices	227,663,959
Line Transformers	140,206,702
Services	85,349,726
Meters	81,133,806
Installation on Customer Premises	275,520
Leased Property on Customer Premises	-0-
Street Lighting & Signal System	24,143,127
Total Distribution Plant	$ 1,329,312,229
General Plant	
Land & Land Rights	$ 1,735,985
Structures & Improvements	13,751,357
Office Furniture & Equipment	291,436
Transportation Equipment	-0-
Stores Equipment	400,229
Tools, Shop & Garage Equipment	4,341,902
Laboratory Equipment	6,288,819
Power Operated Equipment	-0-
Communication Equipment	860,984
Miscellaneous Equipment	931,236
Other Tangible Property	(3,636,302)
Total General Plant	$ 24,965,646
Total Electric Plant in Service	$ 4,496,377,052

PHILADELPHIA ELECTRIC COMPANY

Statement of Changes in Electric Plant in Service

For The Five Years Ended December 31, 1983

	Plant Accounts at 1/1/79	Additions	Retirements Adjustments and Transfers	Plant Accounts 12/31/83	PUC Audit Adjustments	Plant Accounts As Adjusted 12/31/83
gible Plant	$ 162,934	$ -0-	$ -0-	$ 162,934	$ -0-	$ 162,934
ction Plant-Steam	884,817,521	323,328,817	71,267,299	1,136,879,039	(16,272,367)	1,120,606,672
ction Plant-Nuclear	737,310,797	545,615,864	6,303,011	1,276,623,650	(17,351,856)	1,259,271,794
ction Plant-Hydraulic	81,613,954	2,499,061	246,025	83,866,990	(9,260)	83,857,730
ction Plant-Other	138,631,541	5,508,380	10,195,473	133,944,448	(984,840)	132,959,608
mission Plant	458,689,505	92,702,321	5,989,327	545,402,499	(162,060)	545,240,439
ibution Plant	1,098,339,771	248,752,430	17,573,033	1,329,519,168	(206,939)	1,329,312,229
al Plant	16,304,145	6,961,542	(1,699,959)	24,965,646	(-0-)	24,965,646
Electric Plant in Service	$3,415,870,168	$1,225,368,415	$109,874,209	$4,531,364,374	$(34,987,322)	$4,496,377,052

At December 31,1983

Account		Debit	Credit
	(1)		
108	Accumulated Provision for Depreciation of Electric Utility Plant	$ 69,460	
353	Transmission Plant Station Equipment		$ 69,460
	To retire from plant in service, Barbadoes Training Center station equipment no longer useful in utility operations		
	(2)		
108	Accumulated Provision for Depreciation of Electric Utility Plant	$ 55,721	
361	Distribution Plant Structures and Improvements		$ 35,899
362	Distribution Plant Station Equipment		19,822
	To retire from plant in service, Barbadoes Generating Station buildings and station equipment no longer useful in utility operations		
	(3)		
108	Accumulated Provision for Depreciation of Electric Utility Plant	$ 5,026,337	
311	Steam Production Structures and Improvements		$ 4,906,310
362	Distribution Plant Station Equipment		120,027
	To retire from plant in service, Chester Generating Station buildings and station equipment no longer useful in utility operations		
	(4)		
108	Accumulated Provision for Depreciation of Electric Utility Plant	$ 801,000	
315	Steam Production Accessory Electrical Equipment		$ 671,360
324	Nuclear Production Accessory Electrical Equipment		9,260
334	Hydraulic Production Accessory Electrical		9,260
353	Transmission Plant Station Equipment		92,600
362	Distribution Plant Station Equipment		18,520
	To eliminate from plant in service, imprudently incurred construction delay related additional testing and engineering charges capitalized in connection with installation of the System Operation Computer and Data Transmission System		

PHILADELPHIA ELECTRIC COMPANY
PA PUC Audit Adjusting Entries to Plant in Service Accounts
At December 31, 1983

Account		Debit	Credit
	(5)		
108	Accumulated provision for depreciation of electric utility plant	$ 980,767	
342	Fuel holders, producers & accessories		$ 980,767

To retire from plant in service, Crydon Combustion Station crude oil desalting equipment rendered useless in utility operations because of environmental restrictions on burning this fuel.

Account		Debit	Credit
	(6)		
108	Accumulated provision for depreciation electric utility plant	$ 672,299	
312	Boiler Plant Equipment		$ 659,628
366	Distribution Plant Underground Conduit		12,671

To record the retirement of Eddystone Station particulate and sulfur dioxide removal equipment and Spring Garden St., Phila., PA, underground conduit removed from service but not retired.

Account		Debit	Credit
	(7)		
121	Nonutility property	$ 4,073	
340	Other Production Land & Land Rights		$ 4,073

To transfer from Plant in Service to nonutility property land and land rights, located at Barbadoes and Chester Stations, no longer used in utility operations.

Account		Debit	Credit
	(8)		
108	Accumulated provision for depreciation of electric utility plant	$10,035,071	
311	Steam Production Structures & Improvements		$ 2,339,343
312	Steam Production Boiler Plant Equipment		7,695,728

To retire from plant in service coal related structures and equipment at the Southwark, Richmond and Delaware generating stations. Plant was determined as not used or useful in utility operations during the 1979 Commission audit but inadvertently had not been retired.

PA PUC Audit Adjusting Entries to Plant in Service Accounts
At December 31, 1983

Account		Debit	Credit
	(9)		
108	Accumulated provision for depreciation of electric utility plant	$ 250,843	
182.2	Unrecovered plant & regulatory study costs	6,305,768	
419.1	Allowance for other funds used during construction	507,263	
530	Maintenance of reactor plant equipment	8,441,614	
532	Maintenance of miscellaneous nuclear plant	90,689	
322	Reactor Plant Equipment		$15,491,340
323	Turbogenerator units		14,148
325	Miscellaneous power plant equipment		90,689

To reclassify from utility plant in service to maintenance expense plant and regulatory study costs and costs of removal, improperly capitalized costs associated with Salem Nuclear Generating Station, Unit 1 and Peach Bottom Atomic Power Station and to reverse the AFUDC accrued thereon.

Account		Debit	Credit
	(10)		
108	Accumulated provision for depreciation of electric utility plant	$ 1,431,898	
530	Maintenance of reactor plant equipment	190,000	
322	Reactor Plant Equipment		$ 1,621,898

To record the cost of platforms, wallways and nonrails supports at Peach Bottom Atomic Power Station that were replaced but not removed from the books and to expense the cost of replacing minor items of property improperly capitalized.

Account		Debit	Credit
	(11)		
419.1	Allowance for other funds used during construction	$ 1,541	
529	Maintenance of structures (nuclear)	45,041	
530	Maintenance of reactor plant equipment	77,939	
321	Structures and improvements (nuclear)		$ 45,537
322	Reactor plant equipment		78,984

To reclassify from utility plant in service to maintenance expense, Peach Bottom Atomic Power Station improperly capitalized projects to install minor items of property that did not result in a substantial addition and to reverse AFUDC accrued thereon.

PHILADELPHIA ELECTRIC COMPANY
PA PUC Audit Adjusting Entries to Construction Work in Progress
And Preliminary Survey And Investigation Accounts
at December 31, 1983

Account		Debit	Credit
	(12)		
419.1	Allowance for other funds used during construction	$ 190,472	
107	Construction work in process		$ 190,472
	To reverse AFUDC incorrectly charged after the underground line to Callowhille Substation was placed in service.		
	(13)		
580	Distribution expense operation supervision and engineering	$ 121,381	
107	Construction work in process		$ 121,381
	To expense engineering charges capitalized associated with the design of the Callowhill transmission line aerial which was redesigned and constructed as an underground facility.		
	(14)		
568	Maintenance supervision of engineering expense	$ 702,233	
183	Preliminary survey & investigation charges		$ 702,233
	To write off preliminary engineering deferred charges associated with the abandonment of the Heaton-Byberry 230 KV line.		

tices Should be Improved.

PECO's procurement procedures generally provide for the acquisition of needed equipment, material and services through its centralized Purchasing Department. User requisitions are filled by Purchasing Department buyers from various suppliers. These suppliers are selected from listings of qualified vendors maintained by the Purchasing and Stores Department buyers. According to the Company, approximately 31,800 purchase orders and change orders for purchases costing about $802 million were issued during 1983.

While vendor selections for these purchases may have been based on competitively evaluated prices, PECO's procurement procedures provide for the acquisition of numerous items and services under circumstances where this is not a primary consideration. These include purchases of compatible equipment for expansion of existing systems and repair parts available only from original manufacturers, equipment, materials and services needed in emergency situations, professional and specialized services and certain open annual orders for minor items and localized services required on short notice. The Company could not provide details as to what percentage of its total 1983 purchases were acquired under these circumstances.

While we recognize that the above exceptions may preclude some of the Company's purchases from a competitive environment, we also noted other general practices and procedures which could result in procurement at other than the lowest reasonable cost. Among these were a lack of public advertising of proposed purchases and the Company's frequent reliance on informally evaluated price quotations and vendor proposals from existing suppliers. Improvements and documentation in these policies and practices would effectuate competition among all potentially qualified suppliers and enhance the integrity of the procurement function.

Recommendation

We recommend that PECO's Purchasing Department more aggressively pursue open competition in its procurement practices. The use of public offerings and/or expanded qualified supplier listings, formalized bid requests requiring sealed responses for formal openings with contract awards competitively based on formally documented evaluations, would enhance procurement of equipment, materials and services at the lowest reasonable cost.

Finding No. 2 - Philadelphia Electric Company (PECO) Did Not Adequately Safeguard Reuseable And Salvagable Assets Removed From Service.

Company procedures provided that, at the time plant assets were physically retired from service, construction personnel were responsible for reporting if the assets were abandoned in place or returned to stores department for reuse or scrap. The Stores Department, however, was not required to verify that the proper assets were returned. Control over these assets depended entirely upon Plant Accounting's analyses of salvage, which were generally done years later.

During our examination of PECO's construction work orders, we noted that many assets removed from service, including copper and aluminum wire and cable, were retired without salvage. Plant Accounting contended that these assets were salvaged under a separate standard work order, but that detailed records did not exist comparing the assets removed from service with amounts salvaged. Without an audit trail of this nature, we were unable to reasonably satisfy ourselves that revenues were not lost through waste, misuse or theft. Amounts realized and reported by the Company for salvaged scrap sales for the five years ended December 31, 1983 were:

1979	$4,657,110
1980	5,183,555
1981	5,010,128
1982	3,676,422
1983	3,548,426

This problem was also similarly addressed in the Company's management audit referred to in the preceding finding. Specific applicable issues are presented in the following excerpt from that report:

"The Control of Salvageable Materials Taken Out Of Service Could Be Further Improved

The Company is not making appropriate use of existing information to ensure that salvageable materials are returned from the field for disposition by the Stores Division.

- Estimates of salvageable materials from major projects are not analyzed over a period of time against actual scrap obtained, either to identify sources and patterns of shortages or to improve estimation techniques.

- Comparisons of scrap estimates from individual jobs against actual, as performed by the Plant Accounting Division of Finance and Accounting, can identify only major shortfalls, and therefore are not an effective control tool.

- For a sample of major transmission, substation and distribution projects, estimated scrap values varied from actual by more than 20 per cent in nearly all cases.

- Certain control functions are not being utilized effectively.

  - Scrap accounting is not integrated with the distribution construction management system (DCMS) to automate the analysis of scrap on small, repetitive construction jobs.

  - There is no provision for allowing managers of major projects to monitor scrap received against estimates prior to the completion of a project.

- Inadequate controls and information on scrap have limited management's ability to control potential losses and to obtain maximum values for salvageable materials".

While the findings were not contested by the Company, PECO accpeted the related recommendations with the following qualification:

> "Although the consultants found no evidence of misappropriation of materials, heightened control will discourage resource misdirection. The procedures necessary to tighten controls will be implemented only where they can be shown to be cost effective".

However, a new corporate procedure was issued concerning this issue. This procedure, <u>Handling and Accounting for Distribution Materials Removed from Service</u>, was issued effective May 21, 1981. Our examination of the latest revision of the procedure, dated June 14, 1984, revealed that it did not provide adequate accounting control. It did not assure that assets removed from service would be properly returned to Stores, and did not require an inventory accounting of the scrap items handled by the Stores Department.

<u>Recommendation</u>

We recommend that the Company improve its accounting controls over assets removed from service by implementing the corrective actions recommended in the management audit report. These include the following:

• "Actual scrap returned from all jobs which are estimated should be aggregated and monitored against the estimates.

  - These data should be analyzed by type of job and by operating unit, to identify problem areas and other opportunities for improvement

• "Improvement measures which PECO management is currently studying should be implemented, including:

  - Revision of procedures to provide feedback from Plant Accounting to operating managers, when the scrap value on major jobs does not equal the original estimates

  - Provision for sampling audits of scrap early in the progress of jobs

  - Estension of the practice estimating scrap to all jobs where it is cost-justified

  - Integration of scrap accounting with DCMS on smaller, repetitive distribution projects

• "The improvements in control procedures outlined above , which the Company has agreed to implement where possible, should have the dual benefit of increasing scrap revenues and also signaling strong interest in cost control, both to employees and to others".

Finding No. 3 - Certain Allowance For Funds Used During Construction Calculation Procedures Should be Corrected.

During our examination of Allowance for Funds Used During Construction (AFUDC) calculations for two years, ended December 31, 1980 and 1983, we noted 37 instances where AFUDC continued to accrue although there had not been a meaningful construction expenditure for at least three months. We also noted 68 instances of AFUDC charges for periods after the related construction projects were in service or ready for service. PECO agreed that most of these AFUDC charges, which inflated its plant in service, should not have been accrued and agreed to implement appropriate corrective procedures. However, since the dollar amounts of the miscalculations were relatively minor and affected numerous plant accounts, detailed correcting adjustments were not considered by the auditors as cost effective and, therefore not recommended.

In addition, we also noted that the Company's procedures permit retroactive accrual of AFUDC on capitalized preliminary engineering studies. Although our examination revealed that this procedure was not actually followed, we believe the procedure is incorrect and should be revised to preclude such accruals. According to the Company's practice, with which we concur, AFUDC should not commence until the date of the first actual construction charge.

Recommendation

We recommend that PECO strictly adhere to the corrective procedures implemented to prevent AFUDC charges to projects where construction has stopped for longer than three months or has been completed and placed in service or is ready for service. We also recommend that Company formally revise its procedure that allows retroactive AFUDC accruals on preliminary engineering studies.

Since PECO does not agree with the latter recommendation, we further recommend that the Commission, through regulation or future rate proceedings with this Company, address AFUDC accruals on preliminary engineering study costs.

We wish to express our appreciation for the cooperation and assistance given us during the course of our examination by the officers and staff of Philadelphia Electric Company. The audit was conducted by John Dukes, CPA, assisted by Donald Fink, William Pierce, and supervised by John P. Prego, CPA.

PHILADELPHIA ELECTRIC COMPANY
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BUREAU OF AUDITS
Public Utility Commission

JOSEPH F. PAQUETTE, JR., VICE PRESIDENT
FINANCE AND ACCOUNTING DEPARTMENT

November 6, 1985

Mr. John L. Dial, CPA
Director, Bureau of Audits
Commonwealth of Pennsylvania
Pennsylvania Public Utility Commission
P.O. Box 3265
Harrisburg, PA 17120

Dear Mr. Dial:

On October 23, 1985 we received the Audit Report for Electric Plant in Service covering the period 1979 through 1983.

Fourteen adjusting entries were proposed and the Company accepts and will record all but Entries No. 4, 9, and 13. The Company believes these three entries are not appropriate and that the Company's accounting employed was proper and in accordance with regulations in effect at the time the costs were incurred. Details supporting our position on each of the three entries is attached.

It was requested that we record the adjusting entries accepted by the Company within ten working days. Since most of these entries involve the retirement of utility plant, a detailed retirement authorization must be prepared and circulated for management approvals. When this is accomplished, the retirement of plant costs from the detailed continuing property records and the general ledger of the Company can be made. The adjusting entries accepted cannot be recorded within ten days as suggested, but will be recorded according to procedures by December, 1985.

Finally, the report contained three findings related to corporate procedures. Responses to these findings also are attached.

Should you have any questions related to our responses or require additional information, please contact Warren Smith. His telephone number is 215-841-5975.

Sincerely,

J F Paquette

Attachment

cc: S. I. Hart
D. P. Scott
W. H. Smith
R. C. Williams

Adjusting Entry No. 4

Eliminate from Plant in Service Certain SAMAC Costs

In this adjustment, staff contends that a delay penalty and additional engineering and testing costs incurred during the design and installation of the System Automatic Monitoring and Control System were avoidable and therefore should be eliminated from plant in service.

A delay penalty of $125,000 was paid to North American Rockwell, the computer vendor which was in accordance with a contractual clause that allowed the contract price to be increased if PECO could not accept delivery when the computers were ready.

The SAMAC project was started in 1969 and placed in service in 1973. During this period, the Main Office complex, where the system is located, was being constructed and completion was delayed, primarily due to building trade strikes. This resulted in a delay in completion of the computer room for SAMAC and accepting delivery. The delay charge of $125,000 therefore, had to be made, but was caused by factors beyond the control of the Company.

The additional engineering and testing charges incurred ($801,000) was due to a longer than expected installation time, failure of electronic circuits and additional documentation of the system for future maintenance purposes. The Company considered legal action against the suppliers of the equipment that failed which was part of the $801,000, but it was decided not to do so because it was a multiple sub-contract and the expected legal fees could not be justified.

In the Company's opinion, the additional costs incurred were unavoidable and the proposed adjustment should not be made. The $801,000 in question was incurred on this project and was properly accounted for as a component of cost. The issue of prudency should not be an issue in an audit where proper accounting for costs incurred is addressed, but rather in a rate proceeding where recovery of prudently incurred costs is the issue.

Proposed Adjusting Entry 9

The $250,843 debit to Account 108 represents a reclassification of $213,899 from capital to cost of removal, plus retirements of $36,944 associated with several small work orders where cable was rerouted (replaced). The Company accepts this adjustment.

The debit to Account 182.2 of $6,305,768 represents costs incurred on the Salem Plant ($5,238,793) and the Peach Bottom Plant ($1,066,975) to satisfy NRC Bulletin 79-02, 79-14 and 80-11. These bulletins required the review, testing, replacement and modifications if necessary of pipe supports and anchors bolts in safety related piping systems. The work was begun in 1979 and completed in 1980.

Prior to commencing work, the scope of the projects were reviewed and it was decided to capitalize the costs for the following reasons:

1. That the studies and the work performed had none of the characteristics of maintenance as described in the Uniform System of Accounts.

2. Performing the studies and the addition of stiffners and base plates to the piping systems were required in order to retain the operating license and the costs therefore had a life equal to the remaining years of the license.

3. That the high cost of the projects represented a substantial addition to the piping system of which the supports, bolts and base plates are a part.

The Company believes the capitalization of these projects is proper and provides the appropriate recovery, through rates (depreciation) over the remaining life of the plant.

On the basis of FERC Order 390, issued August 3, 1984, Audit Staff is proposing to reverse the costs capitalized, charging them to maintenance and a new account, 182.2 "Unrecovered Plant and Regulatory Study Costs". The Company feels to do so would be improper because it is a retroactive application of a new accounting rule which was issued four years after completion of the projects and could result in retroactive ratemaking by accelerating the recovery of these costs to a short amortization period. An additional important point to consider is that Order 390 states "The Commission notes that this rule does not preclude a regulated company from accounting for unrecovered plant and regulatory study costs in accordance with rate proceedings". All rate orders issued by the Pennsylvania Commission since 1980 therefore have allowed rate treatment of these costs as capitalized utility plant.

The Company position is that its accounting for these projects was proper at the time incurred and should not be changed. Any new projects of this nature incurred in the future, however, would be accounted for in accordance with Order 390.

The proposed debit [illegible] 530 Account ($8,441,614) is composed of two projects:

1. $4,611,963 represents the remainder of the cost of work performed only at Peach Bottom to satisfy NRC bulletins 79-02 and 79-14.

   As noted above, the costs incurred at the Salem Plant to perform identically the same work, staff has proposed to place in Account 182.2 and to seek future rate recovery. For Peach Bottom however, staff has taken the position the costs incurred were maintenance in nature and should be written off to Account 530.

   From an accounting standpoint, which is all the audit addressed, staff's inconsistent position to account for identical costs incurred at two stations in different ways is confusing.

   For the reasons stated on the previous page the Company position is that these costs ($4,611,963)are properly includable in utility plant.

2. $3,829,651 represents the cost of performing Induction Heat Stress Improvement (IHSI) on the recirculation and residual heat return shutdown cooling pipe systems on Peach Bottom Units 2 and 3.

   The IHSI process rapidly heats the outside of the pipe while the inside is kept cool changes the design condition of pipe stresses to a different configuration, by compressing the granular structure in affected weld areas (more dense in weld areas).

   At the Peach Bottom plant, in the piping systems noted above oxygenated water was penetrating the interior walls of the pipe and when it combined with the carbon in the pipe, Intergranular Stress Corrosion Cracking (IGSCC) occurred in certain welded areas and the pipes began to leak.

   As stated above, the IHSI process compresses the granular structures of the pipe and in doing so, prevents the oxygenated water from penetrating the pipe and mitigates cracking. It is important to note the IHSI process does not fix existing cracks, it prevents further cracking from occurring.

   By changing the molecular structure of the pipe, we did not perform maintenance, but added a quality to the pipe that did not previously exist. The cost of the IHSI which modified the tensile stress of the pipe was therefore considered a minor additions to an existing retirement unit in accordance with Electric Plant Instruction 10.c.(1), and was capitalized.

   The process has proven to be successful in preventing future cracks and is being used at other nuclear plants. It has since been discovered that the cracks in the piping at Peach Bottom required the replacement of the pipe for both units. The cost of the IHSI process will therefore be retired as the pipe is replaced.

It is the Company's position the accounting employed was proper and the adjusting entry as proposed is not proper.

The other items cited in the proposed entry ($14,148 and $90,689) are related to the NRC studies and should not be made. The AFUDC of $507,263 is related to both the NRC studies and the IHSI project and the proposed reversal is also improper.

Adjusting Entry No. 13

Expense Engineering Charges Capitalized on Callowhill Substation

Capital Authorization 216301 was initially approved to construct a two mile 138 kv line from Callowhill to Delaware Substations. Initially the line was to be underground, but before any design was started, a feasibility study indicated a combined aerial/underground line would be significantly less costly to construct.

City of Philadelphia approval to construct an aerial/underground line was obtained and actual design of the line was started and completed. Just prior to ordering the steel transmission poles, community opposition to the aerial portion of the line developed and in June, 1982, the City Planning Commission reversed its earlier decision and stated the line should be all underground.

The Company therefore redesigned the line as underground which was completed and placed in service in 1983. The engineering cost to survey and design the aerial portion of the line amounted to $121,381, was prudently incurred, was unavoidable and beyond the control of the Company. Since it was incurred solely by the construction of the transmission line, it is a proper component of the capital cost of the line and was accounted for in that manner.

Finding No. 1

Philadelphia Electric Company's Procurement Practices Should be Improved

Generally, it is the Company's opinion that staff's review of 30 of 500 annual purchase orders and no review of the 31,290 regular purchase orders for the year 1983 did not provide a sufficient basis for the criticism of procurement policies in this finding.

The Company has accomplished the recommendations in the finding by implementing programs and increasing its procurement staff to obtain goods and services at the lowest possible cost. In March, 1985 an office automation and computerized record-keeping system became operational. This system will provide the capability to expand the list of qualified supplier listings, maintains a history file of awards to suppliers by commodity and/or service, maintains the current status of all open orders and includes a quantifiable analysis program used in evaluating bids.

The staff of the Purchasing Department has been increased from 30 in 1981 to 50 in 1985 (clerical and technical).

In March, 1985 a sealed bid system for procurements over $250,000 was developed and is being utilized on a pilot basis. Once the pilot project is evaluated, it or another system will be fully implemented.

The Company strongly objects to the serious criticisms of its procurement practices and procedures. They are very general in nature and certainly cannot be supported by an audit that used a sample of 30 out of 31,800 purchase orders or only .094% of the whole as a basis for arriving at the conclusions reached.

It is the Company's opinion that its procurement policies and procedures are sound and do result in procuring goods and services at the lowest cost available. It is the objective of the Company to monitor and improve its procurement policy and procedures on an ongoing basis which it has as described above.

The Company strongly requests this finding be withdrawn.

Finding No. 2

Philadelphia Electric Company (PECO) Did Not Adequately Safeguard Reuseable And Salvageable Assets Removed From Service

Staff's primary concern was that salvage realized on electric distribution work orders was being accounted for through an annual blanket authorization and could not be identified with the work orders on which the retirement was made. We agree that if the salvage realized cannot be traced to the work order that retired the cable or wire, the audit trail is lost and verification that salvage proceeds were received is difficult.

The Company will reexamine its procedures, accounting and its control over salvageable materials and will respond to each of the Staff recommendations when the study is completed.

Finding No. 3

Certain Allowance For Funds Used During Construction Calculation Procedures Should Be Corrected

Procedural changes have been implemented in the Plant Accounting Division to assure that AFUDC is halted if a project is suspended for reasons beyond the control of the Company and that AFUDC does not accrue after a project is placed in service or is ready for service. These changes were made shortly after the audit was completed.

Although it is not normal practice by the Company to accrue AFUDC on preliminary engineering studies retroactively we feel it would be proper to do so. Construction projects, especially large ones, go through many stages, such as feasibility, design, ordering equipment, actual construction and testing. All of the costs incurred are legitimate components of the cost of the project and are capitalized.

Additionally, the practice of retroactive accrual of AFUDC on projects described above is recognized by the Federal Energy Regulatory Commission if the Company can demonstrate it is reasonable.

Since CWIP cannot be included in rate base, the cost of financing the project prior to inclusion in rate base is included in the overall project cost as AFUDC. To limit the accrual of AFUDC to the date where "the first actual construction charge" is incurred would force a utility's shareholders to finance the project during the feasibility, design and equipment ordering stages. Such an approach is unreasonable, theoretically incorrect and punitive.

The Company respectfully requests this portion of the finding be deleted.

Staff Statement KIL-1 + Exs. KIL-1-A KIL-1-B
Witness: Keith I. Laudenslager
Date: 1-29-86

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Public Utility Commission

PENNSYLVANIA PUBLIC UTILITY COMMISSION

v.

PHILADELPHIA ELECTRIC COMPANY

DOCKET NO. R-850152

DOCUMENT
FOLDER

Direct Testimony

of

Keith I. Laudenslager

Concerning:

Operation and Maintenance Expense Adjustments

PHILADELPHIA ELECTRIC COMPANY

R-850152

SUMMARY OF TESTIMONY

A downward adjustment of expenses claimed for the Company associated with:

Edison Electric Institute (EEI) Membership Dues	$87,000
Edison Electric Institute (EEI) Media Communication Program	272,000
Customer Accounts Expense	21,596,000
Total	$21,955,000

Q. Please state your full name and address.

A. My name is Keith I. Laudenslager. I am presently employed by the Pennsylvania Public Utility Commission, P. O. Box 3265, Harrisburg, Pennsylvania 17120.

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

A. I am a Fixed Utility Financial Analyst in the Revenue & Expense Section, Electric Division of the Bureau of Rates.

Q. What is your educational and professional background?

A. I graduated from Pennsylvania State University with a Bachelor of Science Degree in Business Administration with a Major in Accounting. My experience and education is more fully detailed in the attached Appendix A.

Q. Mr. Laudenslager, can you summarize the items which you will be addressing through your prepared testimony?

A. Yes. Briefly, I propose to reduce the Company claim by $21,955,000. This represents adjustments in the following areas:

Edison Electric Institute Membership Dues	$87,000
Edison Electric Institute Media Communication Program	272,000
Customer Accounts Expense	21,596,000

Q. Mr. Laudenslager, please address your first adjustment regarding the Edison Electric Institute (EEI) dues program.

A. Yes, in accordance with Staff's Interrogatory, DR-STAFF-REE-2, the Company has budgeted a total of $348,000 for EEI membership dues.

Q. Do you agree with the requested amount?

A. No, I do not.

Q. What adjustment are you proposing?

A. I am recommending a disallowance of $87,000 which represents twenty-five percent of the total budgeted expenditures of $348,000.

Q. On what basis are you proposing the adjustment?

A. I am basing my adjustment primarily on a subcommittee preliminary report of the National Association of Regulatory Utility Commissions (NARUC) of October 12, 1983. The report asserts that EEI engages in many activities of benefit to ratepayers, but that it also engages in political and lobbying activities. The report suggests a disallowance of 25% to 33% of the dues for ratemaking purposes.

Q. Mr. Laudenslager, please address your adjustment regarding the Edison Electric Institute (EEI) Media Program. Can you explain your adjustment regarding this matter?

A. Yes, in response to Interrogatories, DR-STAFF-REE-1, and IR-OCA-1-20, the Company answered that it had budgeted $272,000 for advertising through EEI for the future test period.

Q. What adjustment do you propose?

A. I propose a complete disallowance of the Company's claim for media advertising in the amount of $272,000.

Q. On what basis are you proposing your adjustment?

A. Although the Company, upon request of Staff has submitted copies of various advertising materials, I feel the Company has failed to produce evidence that the costs associated with this advertising directly benefits its customers. I am also basing my adjustment on the same previously mentioned subcommittee preliminary report of the National Association of Regulatory Utility Commission (NARUC), in which they recommend a disallowance of all contributions to the Media Communications Program.

Q. Mr. Laudenslager, can you explain your adjustment regarding Customer Accounts Expense?

A. Yes, however, I would like to provide a brief overview of the components of the Customer Accounts Expense, which is comprised of five (5) accounts, series 901 through 905. Included in the series of accounts is Account 904, Uncollectible Accounts. For purposes of my analysis, the charges to this account are deleted from my computations. Account 904 represents a charge against a balance sheet account, based upon past experience ratios, which could be arbitrary based on differing Company policies.

Q. What procedures were employed in your analysis?

A. The first step of my analysis was to examine the aggregate level of customer accounting expenses on a per customer basis for the year ending

December 31, 1984, as provided from Federal Energy Regulatory Commission (FERC), Form 1 for five metropolitan areas, which include the cities of Chicago, Baltimore, Detroit, Boston and New York City. I selected these cities because of their physical location in approximately the northern quadrant of the Nation and a large urban populace.

Schedule 2, page 1 of 3 was prepared showing the analysis of the Customer Accounts Expense, Accts. 901 through 905, exclusive of uncollectible, Acct. 904, for the five (5) major metropolitan areas identified above.

On Schedule 2, page 2 of 3 these 1984 costs were inflated to June 1986 levels, and an average cost per customer was derived. The average cost per customer of $31.76 was then applied to the Company's projected average number of customer level of 1,343,513 resulting in a June 30, 1986 level for Customer Accounts Expense, excluding uncollectibles, of $42,670,000.

Q. How does this level compare to the Company claim?

A. The Company has claimed a related expense level of $64,266,000 which represents an increased cost in excess of 13% over 1985 levels. The difference between my calculation of a reasonable expense level and the Company's claim in this rate case is $21,596,000 ($64,266,000 - $42,670,000). See Schedule 2, page 3 of 3 for a breakdown of the Company's Customer Accounts Expense.

Q. Have you conducted any other comparisons or analysis regarding the Customer Expense Accounts?

A. Yes, I have. While the comparison of the aforementioned major metropolitan areas to that of the Company's claim was appropriate, I felt that a similar analysis should be prepared comparing PECO's costs to other major electric utilities who are regulated by Pennsylvania jurisdiction.

Schedule 3 is comprised of the six (6) major electric utilities in Pennsylvania. Using the same procedure as was applied on Schedule 2, resulted in a lower cost per customer and therefore a larger adjustment of $29,737,000 ($64,266,000 - $34,529,000).

Q. Which adjustment are you recommending and for what reason?

A. I am recommending the lesser adjustment of $21,596,000, which represents the comparison to the major metropolitan areas. It is felt that they would experience more of the collection problems and other problems associated with large urban areas and therefore would be more reflective of the incurred costs.

Q. Does this conclude your testimony?

A. Yes, it does.

Staff Statement KIL-1
Witness: Keith I. Laudenslager
Date:

PENNSYLVANIA PUBLIC UTILITY COMMISSION

v.

PHILADELPHIA ELECTRIC COMPANY

DOCKET NO. R-850152

APPENDIX A

to

Direct Testimony

of

Keith I. Laudenslager

Concerning:

Operation and Maintenance Expense Adjustments

Witness: Keith I. Laudenslager
Appendix A

Educational and Professional Background

Education: B.S. in Business Administration

Pennsylvania State University 1970

Employment: Prior to accepting my current position of Fixed Utility Rate Analyst with the Bureau of Rates in March, 1984, I was a Revenue Auditor with the Pennsylvania Department of Revenue since 1972, my main areas of concentration being with the Sales and Use Tax Division and the Liquid Fuels Division. Prior to that I was employed in the Public Accounting profession for a period in excess of $1\frac{1}{2}$ years.

Professional Licenses:

Certified Public Accountant

Testimony: Before the Pennsylvania Public Utility Commission

R-842583 Duquesne Light Company

R-842651 Pennsylvania Power & Light Company

R-842632 West Penn Power Company

R-842770 Metropolitan Edison Company

Staff Exhibit KIL-1A
Witness: Keith I. Laudenslager
Date:

PENNSYLVANIA PUBLIC UTILITY COMMISSION

v.

PHILADELPHIA ELECTRIC CO.

DOCKET NO. R-850152

Exhibit to Accompany the

Direct Testimony

of

Keith I. Laudenslager

Concerning :

Operation and Maintenance Expense Adjustments

Staff Exhibit KIL-1
Schedule No. 1

PHILADELPHIA ELECTRIC COMPANY
DOCKET NO. R-850152

Summary of Testimony

A downward adjustment of $21,955,000 to the Company's claim for operating and maintenance expense is proposed as follows:

a.	Edison Electric Institute (EEI) Membership Dues	$87,000
b.	Edison Electric Institute (EEI) Media Communications Program	272,000
c.	Customer Accounts Expense	21,596,000

PHILADELPHIA ELECTRIC COMPANY
DOCKET NO. R-850152

Staff Development of Reduction of Customer Accounts Expense
Based Upon Major Metropolitan Areas - Cost per Customer
for the Year Ended June 30, 1986
($000)

Company's Proposed Position	Recommended Position	Recommended Adjustment
$64,266	$42,670	$21,596

Company	Service Area	1984 Costs $	Inflation Factor 1.052	Average No. of Customers	Cost per Customers $
Commonwealth Edison	Chicago & vicinity	77,744	81,787	3,001,826	27.25
Baltimore Gas & Elec.	Baltimore & vicinity	23,426	24,644	884,905	27.85
Detroit Edison	Detroit & vicinity	46,980	49,423	1,763,792	28.05
Boston Edison	Boston & vicinity	17,160	18,052	632,446	28.54
Con Edison of N.Y.	New York City	125,396	131,917	2,783,593	47.11
					158.78

Inflation Adjusted Average Cost per Customer
$158.78 ÷ 5 = $31.76

Philadelphia Electric Company Statistics

1986 Costs	Number of Customers	Cost per Customer
$64,266	1,343,513	$47.83

Number of PECO Customers		Average Cost per Customer	Recommended Position
1,343,513	x	$31.76	$42,670

Tr[illegible] Staff Exhibit No. 1
Schedule 2
Page 1 of 3

PHILADELPHIA ELECTRIC COMPANY
DOCKET NO. R-850152

Customer Accounts Expense for Year Ended December 31, 1984
($000)

FERC Acct. No.	Description	Commonwealth Edison	Baltimore Gas & Electric	Detroit Edison	Boston Edison	Con Edison N.Y.
		$	$ 743	$	$	$
901	Supervision	874	743	2,610	1,227	3,354
902	Meter Reading Expense	17,711 59159	5,483	10,397	5,151	22,835
903	Customer Records & Collection	59,159	17,200	32,493	10,782	91,415
905	Mis. Customer Accts. Exp.	0	0	1,480	0	7,792
		77,744	23,426	46,980	17,160	125,396

Source: Federal Energy Regulatory Commission (FERC), Form 1 for Year Ended December 31, 1984.

PHILADELPHIA ELECTRIC COMPANY
DOCKET NO. R-850152

Customer Accounts Expense for the
Year Ended June 30, 1986
($000)

FERC Acct. No.	Description	Electric Company $
901	Supervision	2,540
902	Meter Reading Expense	14,215
903	Customer Records & Collection	46,975
905	Misc. Customer Accts. Expense	536
		64,266

Source: Philadelphia Electric Company Exhibit TPH-2, B-13.

PHILADELPHIA ELECTRIC COMPANY
DOCKET NO. R-850152

Staff Development of Customer Accounts Expense,
based upon Major Pennsylvania Utilities-Cost per Customer
for the Year Ended June 30, 1986
($000)

Company's Proposed Position	Recommended Position	Recommended Adjustment
$64,266	$34,529	$29,737

Customer Accounts Expense for Major Pennsylvania Electric Utilities
for the Year Ended December 31, 1984

ERC Acct. No.	Description	West Penn Power $	Pennsylvania Power & Light $	Met. Ed. $	Penelec $	Penn Power $	Duquesne $
901	Supervision	590	569	287	928	232	620
902	Meter Reading Exp.	3,053	6,210	2,415	3,303	876	3,136
903	Customer Records & Collection	6,043	13,743	6,959	7,970	2,532	11,642
905	Misc. Customer Accts. Exp.	337	893	279	336	123	622
		10,023	21,415	9,940	12,537	3,763	16,020

	1984 Costs $	Inflation Factor 1.052 $	Av. # of Customers	Cost per Customers $
West Penn	10,023	10,544	588,331	17.92
PP&L	21,415	22,529	1,031,200	21.85
Met Ed	9,940	10,457	374,476	27.92
Penelec	12,537	13,189	523,963	25.17
Penn Power	3,763	3,959	127,013	31.17
Duquesne	16,020	16,853	559,088	30.14
				154.17

Inflation Adjusted Average Cost per Customer
$154.17 ÷ 6 = $25.70

Philadelphia Electric Company Statistics

1986 Costs	Average Number of Customers	Cost per Customer
$64,266	1,343,513	$47.83

Average Number of PECO Customers		Average Cost per Customer		Recommended Position
1,343,513	x	$25.70	=	$34,529

Source: Company Exhibit TPH-2, B-13 and FERC Form 1

Staff Exhibit KIL-1B
Witness: Keith I. Laudenslager
Date

PENNSYLVANIA PUBLIC UTILITY COMMISSION

V.

PHILADELPHIA ELECTRIC COMPANY

DOCKET NO. R-850152

Exhibit to Accompany the

Direct Testimony

of

Keith I. Laudenslager

Concerning:

Operation and Maintenance Expense Adjustments

Q. IR-OCA-1-20. Provide the amount of EEI dues budgeted to be paid in the future test year for media communication.

A. IR-OCA-1-20. EEI media communication expense for the future test year is composed of the items listed below:

a. General Advertising expense budgeted by Corporate Communications Department and clearing to Account 930-1.	$192,000
b. Power of choice program budgeted by Commercial Operations Department and clearing to accounts 909 & 913.	80,000
Total EEI Communication Expense	$272,000

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

Q.DR-Staff-REE-1. Provide the amount of Edison Electric Institute (EEI) dues paid by the Company in the future test year that were used for Media Communication. Also, please submit various examples of this type of advertising.

A.DR-Staff-REE-1. IR-OCA-1-20 provides the monies paid by the Company that were used for Media Communication. Attachment DR-Staff-REE-1 provides examples of this type of advertising.

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

Q.DR-Staff-REE-2. Please provide a breakdown of the total amount of monies expended for EEI membership dues.

A.DR-Staff-REE-2. The total dollars budgeted for EEI membership dues during the future test year ended June 30, 1986 was $348,000.

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