PECo Exhibit TPH-4
SJM 3-6-86
Nb1
R-850152

Philadelphia Electric Company
Electric Operations
R-850152

Actual Experience in the Future Test Year
3 Months Ended December 31, 1985

January 1986

Ended December 31, 1985

(Thousand $)

		Budget	Actual	Over/Under Budget
OPERATING REVENUE				
	Sales of Electricity:			
440	Residential	$217,825	$215,465	($2,3
442	Small Commercial and Industrial	83,789	90,356	6,5
	Large Commercial and Industrial	272,598	262,423	(10,1
444	Public Street and Highway Lighting	10,014	9,651	(3
445	Other Sales to Public Authorities	-	-	
446	Sales to Railroads and Railways	14,047	13,960	(8
447	Sales for Resale	6,050	5,839	(2
448	Interdepartmental Sales	982	1,007	2
	Total Sales of Electricity	$605,305	$598,701	($6,6
	Other Operating Revenues:			
450	Forfeited Discounts	$2,202	$2,037	($16
451	Miscellaneous Service Revenues	562	625	6
453	Sale of Water and Water Power	-	-	
454	Rent from Electric Property	2,596	2,588	(
455	Interdepartmental Rents	1,449	1,395	(5
456	Other Electric Revenues	2,749	3,906	1,15
	Total Other Operating Revenues	$9,558	$10,551	$99
	Total Electric Operating Revenues	$614,863	$609,252	($5,61
OPERATING EXPENSES				
401	Operation and Maintenance Expense:			
	Power Production	$289,618	$297,104	$7,48
	Transmission	5,803	5,703	(10
	Distribution	25,170	27,106	1,93
	Customer Accounts	20,570	21,727	1,15
	Customer Service & Information	2,669	2,641	(2
	Sales	189	215	2
	Administrative and General Expense	35,709	38,127	2,41
	Total Operation and Maintenance Expense	$379,728	$392,623	$12,89
403	Depreciation Expense	$41,064	$43,280	$2,21
405	Amortization of Other Electric Plant	(160)	(162)	(
407	Amortization of Property Losses	420	108	(31
	Taxes			
408.1	Taxes Other Than Income Taxes	$50,275	$56,782	$6,50
409.1	Income Taxes	34,433	(3,001)	(37,43
410.1	Provisions for Deferred Income Taxes	53,903	143,911	90,00
411.1	Inc. Taxes Deferred in Prior Yrs-Credit	(33,093)	(30,316)	2,77
411.4	Investment Tax Credit Adjustments	(9,870)	(78,943)	(69,07
	Total Taxes	$95,648	$88,433	($7,21
411.6&7	Gain or Loss from Disposition of Utility Plant	-	(138)	(138
	Total Operating Expenses	$516,700	$524,144	7,44
	Operating Income	$98,163	$85,108	($13,05

December 31, 198
(Thousand $)

		Budget	Actual	Over/Unde Budget
I. POWER PRODUCTION EXPENSES				
STEAM POWER GENERATION				
OPERATION				
500	Operation Supervision	$3,830	$3,697	($1
501	Fuel	51,374	54,478	3,1
502	Steam Expenses	9,457	7,942	(1,5
504	Steam Transferred - Credit	(10,435)	(10,844)	(4
505	Electric Expenses	1,946	1,673	(2
506	Miscellaneous Steam Power Expenses	3,454	3,733	2
507	Rents	3,765	3,771	
	Total Operation	$63,391	$64,450	$1,0
MAINTENANCE				
510	Maintenance Supervision and Engineering	$2,424	$2,594	$17
511	Maintenance of Structures	1,496	2,759	1,26
512	Maintenance of Boiler Plant	20,138	17,355	(2,78
513	Maintenance of Electric Plant	6,254	5,292	(96
514	Maintenance of Miscellaneous Steam Plant	852	1,596	74
	Total Maintenance	$31,164	$29,596	($1,56
	Total Power Production Expenses-Steam Power	$94,555	$94,046	($50
NUCLEAR POWER GENERATION				
OPERATION				
517	Operation Supervision and Engineering	$3,179	$3,005	($17
518	Fuel	30,014 (a)	22,499 (b)	(7,51
519	Coolants and Water	276	143	(13
520	Steam Expenses	3,611	4,880	1,26
523	Electric Expenses	431	388	(4
524	Miscellaneous Nuclear Power Expenses	9,600	12,591	2,99
525	Rents	22	17	(
	Total Operation	$47,133	$43,523	($3,61
MAINTENANCE				
528	Maintenance Supervision and Engineering	$4,070	$3,323	($74
529	Maintenance of Structures	747	993	24
530	Maintenance of Reactor Plant Equipment	2,674	8,778	6,10
531	Maintenance of Electric Plant	1,895	1,834	(6
532	Maintenance of Miscellaneous Nuclear Plant	1,195	1,835	64
	Total Maintenance	$10,581	$16,763	$6,18
	Total Power Production Expenses-Nuclear Power	$57,714	$60,286	$2,57

(a) Includes $3,271 associated with spent nuclear fuel disposal expense.
(b) Includes $2,246 associated with spent nuclear fuel disposal expense.

Months Ended December 31, 198

(Thousand $)

		Budget	Actual	Over/Unde Budget
	HYDRAULIC POWER GENERATION			
OPERATION				
535	Operation Supervision and Engineering	$99	$94	(
536	Water and Power	-	-	
537	Hydraulic Expenses	265	206	(
538	Electric Expenses	56	58	
539	Misc. Hydraulic Power Generation Expenses	101	84	(
	Total Operation	$521	$442	($
MAINTENANCE				
541	Maintenance Supervision and Engineering	$136	$137	
542	Maintenance of Structures	32	24	
543	Maintenance of Reservoirs, Dams & Waterways	23	10	(
544	Maintenance of Electric Plant	1,185	538	(64
545	Maintenance of Miscellaneous Hydraulic Plant	34	26	
	Total Maintenance	$1,410	$735	($6
	Total Power Production Expenses-Hydraulic Power	$1,931	$1,177	($75
	OTHER POWER GENERATION			
OPERATION				
546	Operation Supervision and Engineering	$254	$258	
547	Fuel	1,744	2,491	74
548	Generation Expenses	341	299	(4
549	Miscellaneous Other Power Generation Expenses	460	551	9
550	Rents	-	1,140	1,14
	Total Operation	$2,799	$4,739	$1,94
MAINTENANCE				
551	Maintenance Supervision and Engineering	$158	$157	(9
552	Maintenance of Structures	54	251	19
553	Maintenance of Generating and Electric Plant	1,437	2,477	1,04
554	Maintenance of Miscellaneous Other Power	25	38	1
	Total Maintenance	$1,674	$2,923	$1,24
	Total Power Production Expenses - Other Power	$4,473	$7,662	$3,18
	OTHER POWER SUPPLY EXPENSES			
555	Purchased Power	$27,820	$58,603	$30,78
556	System Control and Load Dispatching	1,455	1,312	(14
557	Other Expenses	101,670	74,018	(27,65
	Total Other Power Supply Expenses	$130,945	$133,933	$2,98
	Total Power Production Expenses	$289,618	$297,104	$7,48

OPERATING EXPENSES
3 Months Ended December 31, 1985
(Thousand $)

		Budget	Actual	Over/Under Budget
	TRANSMISSION EXPENSES			
OPERATION				
560	Operation Supervision and Engineering	$548	$602	$54
561	Load Dispatching	402	356	(46
562	Station Expenses	440	417	(23
563	Overhead Line Expenses	57	137	80
564	Underground Line Expenses	61	167	106
566	Miscellaneous Transmission Expenses	369	486	117
567	Rents	1,644	1,808	164
	Total Operation	$3,521	$3,973	$452
MAINTENANCE				
568	Maintenance Supervision and Engineering	$221	$231	$10
569	Maintenance of Structures	69	57	(12
570	Maintenance of Station Equipment	1,287	801	(486
571	Maintenance of Overhead Lines	554	438	(116
572	Maintenance of Underground Lines	151	183	32
573	Maintenance of Miscellaneous Transmission Plant	-	20	20
	Total Maintenance	$2,282	$1,730	($552
	Total Transmission Expenses	$5,803	$5,703	($100)
	DISTRIBUTION EXPENSES			
OPERATION				
580	Operation Supervision and Engineering	$1,954	$2,131	$177
581	Load Dispatching	457	407	(50)
582	Station Expenses	1,349	1,367	18
583	Overhead Line Expenses	1,556	2,304	748
584	Underground Line Expenses	739	922	183
585	Street Lighting and Signal System Expenses	170	179	9
586	Meter Expenses	1,132	1,156	24
587	Customer Installation Expenses	1,211	1,160	(51)
588	Miscellaneous Distribution Expenses	2,830	2,924	94
589	Rents	990	1,025	35
	Total Operation	$12,388	$13,575	$1,187
MAINTENANCE				
590	Maintenance Supervision and Engineering	$967	$1,051	$84
591	Maintenance of Structures	236	220	(16)
592	Maintenance of Station Equipment	1,868	1,840	(28)
593	Maintenance of Overhead Lines	5,863	6,015	152
594	Maintenance of Underground Lines	2,463	2,377	(86)
595	Maintenance of Line Transformers	423	606	183
596	Maintenance of Street Lighting and Signal System	274	324	50
597	Maintenance of Meters	396	609	213
598	Maintenance of Miscellaneous Distribution Plant	292	489	197
	Total Maintenance	$12,782	$13,531	$749
	Total Distribution Expenses	$25,170	$27,106	$1,936

(Thousand $)

3 Months Ended December 31, 1985

		Budget	Actual	Over/Under Budget
	IV CUSTOMER ACCOUNTS EXPENSES			
OPERATION				
901	Supervision	$649	$738	$89
902	Meter Reading Expenses	3,519	3,265	(254)
903	Customer Records and Collection	11,726	11,792	66
904	Uncollectible Accounts	4,540	5,793	1,253
905	Miscellaneous Customer Accounts Expenses	136	139	3
	Total Customer Accounts Expenses	$20,570	$21,727	$1,157
	V CUSTOMER SERVICE & INFORMATIONAL EXPENSES			
OPERATION				
907	Supervision	$266	$276	$10
908	Customer Assistance Expenses	1,649	1,555	(94)
909	Informational & Instructional Advertising Exp.	670	742	72
910	Misc. Cust. Serv. & Information Expenses	84	68	(16)
	Total Cust. Serv. & Information Expenses	$2,669	$2,641	($28)
	VI SALES EXPENSES			
OPERATION				
911	Supervision	$31	$35	$4
912	Demonstrating and Selling Expenses	90	85	(5)
913	Advertising Expenses	68	95	27
916	Miscellaneous Sales Expenses	-	-	-
	Total Sales Expenses	$189	$215	$26
	VII ADMINISTRATIVE AND GENERAL EXPENSES			
OPERATION				
920	Administrative and General Salaries	$9,468	$8,590	($878)
921	Office Supplies and Expenses	3,823	4,242	419
923	Outside Services Employed	1,182	1,427	245
924	Property Insurance	2,366	2,625	259
925	Injuries and Damages	2,054	3,211	1,157
926	Employee Pensions and Benefits	11,663	11,589	(74)
928	Regulatory Commission Expenses	1,084	2,267	1,183
929	Duplicate Charges - Credit	(500)	(609)	(109)
930	General Advertising and Miscellaneous	4,183	4,323	140
	Total Operation	$35,323	$37,665	$2,342
MAINTENANCE				
935	Maintenance of General Plant	386	462	76
	Total Administrative and General Expenses	$35,709	$38,127	$2,418
	VIII TOTAL OPERATION & MAINTENANCE EXP. (B-9)	$379,728	$392,623	$12,895
	IX DEPRECIATION AND AMORTIZATION			
940	Depreciation (B-9)	$41,064 (a)	$43,280 (b)	$2,216
943	Amortization of Other Electric Plant	(160)	(162)	(2)
944	Amortization of Property Losses	420	108	(312)
	Total Depreciation and Amortization	$41,324	$43,226	$1,902

(a) Includes $1,047 of nuclear decommissioning accruals.
(b) Includes $1,047 of nuclear decommissioning accruals.

(Thousand $)

X TAXES	Budget	Actual	Over/Unde Budget
TAXES OTHER THAN INCOME TAXES			
State and Local			
Capital Stock - Pennsylvania	$6,152	$7,691	$1,5
Capital Stock - New Jersey	31	9	(
Gross Receipts	26,706	26,361	(3
Real Estate - Local	201	361	1
Real Estate - State	11,864	17,269	5,4
State Unemployment Compensation	360	402	
Philadelphia Realty Occupancy	112	126	
Other State and Local	140	227	
Total State and Local	$45,566	$52,446	$6,8
Federal			
Telephone and Telegraph	$6	$42	$
Federal Unemployment Compensation	206	203	
Federal Old Age Benefits	4,445	4,044	(4
Other	52	47	
Total Federal	$4,709	$4,336	($3
Total Taxes Other Than Income	$50,275	$56,782	$6,5
INCOME TAXES			
State - Pennsylvania	$4,628	($13,992)	($18,6
State - Maryland	17	(68)	(
State - New Jersey	155	(679)	(8
Federal	29,633	11,738	17,8
Total Income Taxes	$34,433	($3,001)	($37,4
Provisions for Deferred Income Taxes	$53,903	$143,911	$90,0
Income Taxes in Prior Years - Credit	(33,093)	(30,316)	2,7
Investment Tax Credit Adjustments	(9,870)(a)	(78,943)(b)	(69,0
TOTAL ALL TAXES	$95,648	$88,433	($7,2
XI GAIN OR LOSS FROM DISPOSITION OF UTILITY PLANT	-	(138)	(1
XII TOTAL OPERATING EXPENSES (B-9)	$516,700	$524,144	$7,4

(a) Investment tax credit of ($7,307) less amortization of $2,563
(b) Investment tax credit of ($78,836) less amortization of $107

Philadelphia Electric Company
June 1985 to December 1985
(Thousand $)

Electric Plant in Service	June 1985 Filing	6 Months Net Budget Additions	Budget As of Dec.31,1985	June 1985 Actual Filing	6 Months Actual Additions	Actual As of Dec.31,1985	Over(Under) Budget
Intangible Plant	$163	-	$163	$163	-	$163	-
Steam Production Plant	$1,116,749	($75,505)	$1,041,244	$1,116,749	($28,607)	$1,088,142	$46,898
Nuclear Production Plant	1,372,002	46,895	1,418,897	1,372,002	38,064	1,410,066	(8,831)
Hydraulic Production	83,866	620	84,486	83,866	(5)	83,861	(625)
Other Production Plant	133,955	(10,705)	123,250	133,955	(1,270)	132,685	9,435
Total Production Plant	$2,706,572	($38,695)	$2,667,877	$2,706,572	$8,182	$2,714,754	$46,877
Transmission Plant	$588,114	$12,530	$600,644	$588,114	$4,359	$592,473	($8,171)
Distribution Plant	1,425,028	41,955	1,466,983	1,425,028	49,679	1,474,707	7,724
General Plant	35,113	1,811	36,924	35,113	1,194	36,307	(617)
Total Electric Plant in Service	$4,754,990	$17,601	$4,772,591	$4,754,990	$63,414	$4,818,404	$45,813
Common Plant in Service							
Intangible Plant	$677	-	$677	$677	-	$677	-
General Plant	130,509	3,874	134,383	130,509	749	131,258	(3,125)
Total Common Plant	$131,186	$3,874	$135,060	$131,186	$749	$131,935	($3,125)

February 24, 1986

SIR
R-850152
3-6-

PENNSYLVANIA PUBLIC UTILITY COMMISSION

v.

PHILADELPHIA ELECTRIC COMPANY
Docket No. R-850152

Surrebuttal Testimony

of

John P. Prego, CPA

Concerning: Continuing Property Record Audit Adjustments

Q. Are you the same John P. Prego who has previously offered direct testimony concerning continuing property record audit adjustments with which Philadelphia Electric Company does not agree?

A. Yes.

Q. What is the purpose of your surrebuttal testimony?

A. The purpose of this testimony is to address and provide additional, more detailed information concerning the issues of Company disagreement with the reclassifications from plant in service included in the proposed audit Adjusting Entry No. 9. These were presented in PECO Statement No. 25A, Rebuttal Testimony of Warren H. Smith. Specifically, the entry includes reclassifications from plant in service to expense and deferred debit accounts for PECO's share of the costs incurred to:

- inspect, reevaluate and modify, reinforce and replace, where necessary safety related piping supports, clamps, anchor bolts and plates at Peach Bottom and Salem nuclear generating stations to satisfy NRC mandated requirements
- mitigate Intergranular Stress Corrosion Cracking in Peach Bottom's residual heat removal and recirculating piping systems

Q. Would you please explain your position concerning the assertions and contentions made by Mr. Smith in connection with these proposed audit adjustments?

A. Yes, Mr. Smith has made a number of assertions concerning the Company's decisions to account for these costs as capital rather than expense, which I believe to be more appropriate.

In connection with the inspections, reevaluations and physical work performed to satisfy NRC mandated requirements relating to safety related piping systems, Mr. Smith asserts that none of this work had typical characteristics of maintenance as prescribed by the Uniform System of Accounts, had to be performed to maintain the operating licenses of the plants and resulted in the addition of minor items of property which did not previously exist. In my opinion, the Uniform System of Accounts clearly, although circuitously, requires that the costs incurred for this work should have been accounted for as maintenance expense. Support for this position may be found in the Operating Expense Instruction 1A which states:

"Operating Expense Instructions

1. Maintenance.

A. The cost of maintenance chargeable to the various operating expense and clearing accounts includes labor, materials, overheads and other expenses incurred in maintenace work. <u>A list of work operations applicable generally to electric plant is included hereunder. Other work operations applicable to specific classes of plant are listed in functional maintenance expense accounts.</u>

* * *

Items

1. Direct field supervision of maintenance.

2. <u>Inspecting, testing, and reporting on condition of plant specifically to determine the need for repairs, replacements,</u>

rearrangements and changes and inspecting and testing the adequacy of repairs which have been made.

3. Work performed specifically for the purpose of preventing failure, restoring service ability or maintaining life of plant.

4. Rearranging and changing the location of plant not retired.

5. Repairing for reuse materials recovered from plant.

6. Testing for, locating and clearing trouble.

7. Net cost of installing, maintaining, and removing temporary facilities to prevent interruptions in service.

8. Replacing or adding minor items of plant which do not constitute a retirement unit. (See electric plant instruction 10)".

(emphasis added).

In my opinion, Item 2 above specifically provides that the cost of inspections and reevaluations are properly accounted for as maintenance. In addition, Item 3 requires similar classification of costs incurred to maintain the license necessary for continued operation of the plants, which is one of Mr. Smith's assertions. While Item 8 generally appears to require similar accounting for the replacement and addition of minor items of property, it also provides that the Plant Instructions be considered in these situations.

Electric Plant Instruction 10, referred to in the Operating Maintenance Expense Instructions, Section C, states:

"C. The addition and retirement of minor items of property shall be accounted for as follows:

(1) When a minor item or property which did not previously exist is added to plant, the cost thereof shall be

accounted for in the same manner as for the addition of a retirement unit, as set forth in paragraph B(1), above, if a substantial addition results, otherwise the charge shall be to the appropriate maintenance expense account.

(2) When a minor item of property is retired and not replaced, the book cost thereof shall be credited to the electric plant account in which it is included; and, in the event the minor item is a part of depreciable plant, the account for accumulated provision for depreciation shall be charged with the book cost and cost of removal and credited with the salvage. If, however, the book cost of the minor item retired and not replaced has been or will be accounted for by its inclusion in the retirement unit of which it is a part when such unit is retired, no separate credit to the property account is required when such minor item is retired.

(3) When a minor item of depreciable property is replaced independently of the retirement unit of which it is a part, the cost of replacement shall be charged to the maintenance account appropriate for the item, except that if the replacement effects a substantial betterment (the primary aim of which is to make the property affected more useful, more efficient, of greater durability, or of greater capacity), the excess cost of the replacement over the estimated cost at current prices

of replacing without betterment shall be charged to the appropriate electric plant account." (emphasis added).

I believe that PECO and I agree that only minor items of property were affected by the actual physical work performed to satisfy the applicable NRC requirements. However, Mr. Smith's contention that a substantial addition resulted from the additions of minor items of property, thereby satisfying the provisions of the above Electric Plant Instruction 10C(1) for capitalizing such costs, is not appropriate. A detailed review of the actual work performed indicated that all the following work operations concurrently were accomplished:

- additions of minor items of property
- repair and reinforcement of minor items of property
- replacements of minor items of property

As such, only costs for the first work operation would properly qualify for capitalization according to Electric Plant Instruction 10C(1) if, and only if, a substantial addition resulted. The cost to repairs and reinforce minor items of property clearly should be accounted for as maintenance expense. In addition, since the Company does not follow betterment accounting as provided according to the Electric Plant Instruction 10C(3), work operations of this type, the third work operation accomplished to satisfy the NRC requirements, should also be classified as maintenance. Since the cost, including respective, proportionate shares of the inspection and reevaluation cost, for two of the three work operations actually accomplished to satisfy the NRC requirements clearly should have been classified as maintenance according to the Uniform System of Accounts, the question as to whether the cost for the third work operation, the addition of minor items of property, resulted in a substantial addition remains. In my opinion, a substantial addition did not result because the total cost for all work operations actually accomplished at Peach Bottom to satisfy the NRC requirements represented less than five per cent of December 31, 1983 balance of the plant account to which they were charged.

Q. Are there any other Company assertions, pertaining to these projects, you would like to address?

A. Yes. Mr. Smith has stated that the original cost of analyses and testing required by the NRC were capitalized when the plants were originally constructed. Such treatment is in accordance with the Uniform System of Accounts, where virtually all costs associated with a plant under construction are capitalized. However, this treatment does not apply to plants in service, such as Peach Bottom and Salem, for which the Uniform System of Accounts prescribes proper classifications of the various associated costs incurred, including those discussed previously.

Mr. Smith also indicated that the cost of the projects for Peach Bottom were reviewed during the Company's last FERC audit covering the period 1979-81 without exception or reservation. These audits are generally broad in scope, covering many accounting and regulatory issues, and inherently reflect an emphasis and level of significance different than an audit conducted specifically on the continuing property records.

Q. Earlier you stated that audit Adjusting Entry 9 included two reclassifications from plant in service that were to be addressed. If you have completed your testimony concerning the first would you please explain your position on the other?

A. Yes. The second reclassification to expense from plant in service relates to the Company's share of costs incurred to mitigate intergranular stress corrosion cracking in piping welds at Peach Bottom. In my opinion, the process used was developed and applied to prevent plant failure and shutdown and should have been classified as maintenance according to Operating Expense Instruction 1A; Item 3 quoted previously. The undefined quality that Mr. Smith contends did not previously exist, but was added to the pipe and considered a minor item of property, capitalized according to Electric Plant Instruction 10C(1), quoted previously, in my opinion, did not exist. A piping system designed, constructed and functional as a conduit for fluids does not possess an added quality, when, after application of a process, the only function the piping serves is to convey fluids. Additionally, the cost incurred for this project was less than the total cost of the projects to satisfy the NRC requirements I discussed earlier, and as such, did not result in a substantial addition because these costs were generally charged to the same plant account as the NRC projects.

Q. Do you have any additional comments on Mr. Smith's rebuttal testimony?

A. Yes. Mr. Smith contends that the cost for both these reclassifications have been included in the Company's rate base since 1980. Since, the last continuing property record audit conducted by the Commission staff covered the period ended December 31, 1979, these projects were not previously addressed in this context. Mr. Smith also contends that a current reclassification to bring the Company's accounting records into conformity with the Uniform System of Accounts would require the approval of an expense amortization allowance to recover these costs because they were never included in any test year data on which the Company's rates were set. In my opinion, this position is contrary to the basic premise of ratemaking, which does not require a dollar for dollar matching of revenue collected and revenue requirements established and approved.

Q. Mr. Prego, does this conclude your surrebuttal testimony at this time?

A. Yes.

Staff Statement No. JMH-2
Witness: J. M. Heverling

3-6-86

R-85

PENNSYLVANIA PUBLIC UTILITY COMMISSION

v.

Philadelphia Electric Company - Electric Division

Docket No.: R-850152

RECEIVED

MAR 7 1986

SECRETARY'S OFFICE
Public Utility Commission

Surrebuttal Testimony

of

Jeffrey M. Heverling

DOCKETED

MAR 11 1986

Concerning:

Deferred Income Taxes

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. HAVE YOU TESTIFIED PREVIOUSLY IN THIS PROCEEDING?

A. Yes, I have presented testimony (Staff Statement JMH-1) and have appeared for cross examination.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY AT THIS TIME?

A. My testimony is offered as surrebuttal to the rebuttal testimony offered by Mr. Sileo (PECO Statement No. 23A) regarding proposed tax adjustments in this case.

Q. WHAT ISSUES WILL BE DISCUSSED IN YOUR SURREBUTTAL TESTIMONY?

A. My testimony will address the following issues:

(1) The refund to ratepayers (amortization) of previously accumulated deferred income taxes and,

(2) The flow through of deferrals for capitalized pensions and taxes.

Q. MR. SILEO HAS INDICATED THAT YOU HAVE INCORRECTLY INTERPRETED THE PROVISIONS OF THE <u>BARASCH</u> OPINION IN THIS PROCEEDING. DO YOU HAVE ANY COMMENTS REGARDING HIS POSITION?

A. Yes, I do. I believe that my application of the provisions of the <u>Barasch</u> opinion in this case, are misunderstood.

First, whether or not the Supreme Court used the word <u>instances</u> or <u>cases</u>, is immaterial. These words are synonyms. The fact of the matter is that the Supreme Court's opinion as pertains to state deferred income taxes can be summarized as follows:

1) There is no law which requires normalization for state taxes, or which provides for a penalty for failure to normalize state taxes.

2) Normalization of state taxes violates the actual taxes paid doctrine unless some penalty, such as that imposed by Congress on post 1980 assets, would cause ratepayers to be worse off had normalization not been permitted.

3) Rates which provide normalization of state income taxes are not just and reasonable, and are not lawful.

Secondly, regarding previously deferred state taxes, the <u>Barasch</u> opinion has not been cited as the authority for refunding the accumulated deferrals to ratepayers. As was indicated in direct testimony (Staff Statement No. JMH-1, Page 7), the Commission considered and <u>found appropriate</u>, a five-year refunding methodology for previously deferred taxes, based upon factors considered at Docket No. R-842779, <u>Pa. P.U.C. v. Bell Telephone Company</u>. It was not the <u>Barasch</u> opinion which addressed refunding of previously deferred taxes. Instead, the Commission acted <u>as a result of that opinion</u>.

Q. MR. SILEO TESTIFIES THAT A REFUNDING METHODOLOGY FOR PREVIOUSLY DEFERRED TAXES WHICH IS BASED UPON LESS THAN THE LIFE OF THE PROPERTY, IS CONTRARY TO THE PAST DECISIONS OF THE COMMISSION WHICH ALLOWED NORMALIZATION. HE BELIEVES THAT PREVIOUSLY DEFERRED TAXES SHOULD BE REFUNDED OVER THE LIFE OF THE PROPERTY THAT GENERATED IT. WHAT COMMENTS DO YOU HAVE REGARDING HIS POSITION?

A. First, as Mr. Sileo stated in his rebuttal testimony: "Implicit in the normalization methodology of setting rates is the flow back of the deferred taxes over the life of the associated property". Thus, if this Commission were to do nothing more than allow reversal of accumulated deferred taxes over the remaining asset life, I believe such would represent little departure from normalization.

Secondly, while Mr. Sileo states that a shortened reversal period would be contrary to previous Commission decisions, it must be observed that this Commission has found from time to time, more appropriate methodologies to be used in the ratemaking process. Accordingly, while this Commission's decisions may have given the appearance of inconsistency or contradiction, they cannot be viewed as such because the decisions were reached premised upon consideration of the facts presented. Obviously, there are new factors before the Commission now, as pertains to normalization. These factors are in addition to those previously considered when normalization was allowed. Thus, this Commission is free to adopt my recommendation of a five-year refunding methodology for previously deferred taxes, <u>without</u> contradicting prior decisions.

Q. MR. SILEO HAS TESTIFIED IN REBUTTAL THAT THE COMPANY SHOULD NOT BE DENIED ITS CLAIM FOR DEFERRED TAXES ON CAPITALIZED PENSIONS AND TAXES. WHY DO YOU DISAGREE WITH HIS POSITION?

A. Mr. Sileo's rationale for allowance of this category of deferred taxes, i.e., cross subsidization and construction related cash needs, must be weighed by this Commission in light of various other factors.

This Commission must decide whether or not denial of this category of deferred taxes will have a more than diminimus effect upon the cash resources of the Company. This Commission must also view this category of deferred taxes in light of the discussion of the actual taxes paid doctrine which underlies the <u>Barasch</u> opinion.

I believe that it is inappropriate to inflate the income tax claim beyond the level of actual taxes paid, except where there is a legal mandate, such as is imposed by the normalization provisions of the Internal Revenue Code. Ratepayers should not be required to provide additional capital to the utility under the guise of income taxes, where such capital can be acquired in the market place. Accordingly, since there is no legal mandate to provide normalization for this category of expenses, I recommend that the Commission find that it is appropriate to consider only actual tax expenses as proper expenses for ratemaking, thus denying normalization of capitalized pensions and taxes.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes it does.

Staff Statement KIL-2
Witness: Keith I. Laudenslager
Date: 3-6-86 HMY

SGD R-850

PENNSYLVANIA PUBLIC UTILITY COMMISSION

v.

PHILADELPHIA ELECTRIC COMPANY

DOCKET NO. R-850152

Surrebuttal Testimony

of

Keith I. Laudenslager

Concerning:

Operation and Maintenance Expense Adjustments

Q. What is your name and business address?
A. Keith I. Laudenslager. 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 Electric Division of the Bureau of Rates.

Q. Have you testified previously in this proceeding?
A. Yes, I submitted direct testimony, Staff Statement KIL-1 (my qualifications being attached thereto as Appendix "A"), and was cross examined on January 29, 1986.

Q. What is the purpose of your surrebuttal testimony?
A. The purpose of my surrebuttal testimony is to respond to the portion of Mr. Thomas P. Hill Jr's rebuttal testimony (PECO Statement No. 18C) regarding Edison Electric Institute Dues (EEI) and Customer Accounts Expense.

Q. Would you address the issue regarding Edison Electric Institute dues?
A. Mr. Hill, in his rebuttal testimony suggest that if the Commission seeks to make an adjustment, a disallowance of 2% or $12,500 be allowed rather than my proposed adjustment of 25% or $87,000.

Q. What is the basis for Mr. Hill's proposal?

A. For the calendar year 1984, EEI reported that in their purview, only 1.57% was associated with lobbying activities.

Q. Do you agree with Mr. Hill's proposal?

A. No, I do not. The percentages as stated by Mr. Hill and supplied by EEI represent a narrow definition of the lobbying activities, and does not include the costs associated with legislative advocacy.

Q. Do you have any other basis to refute Mr. Hill's rebuttal testimony?

A. Yes, I do. In an article appearing in the Washington Post, dated November 18, 1985 (See Attachment KIL-1A) a Ms. Mary Kenkel, a spokesman for EEI, stated that under a more expanded definition of lobbying, "about 20 percent of the dues it collects could be attributed to lobbying and 'legislative advocacy'." (See Schedule 1 of Trial Staff Exhibit 2A.)

Q. Will you address the issue pertaining to Customer Accounts Expense?

A. Yes, Mr. Hill attempts to rebut my testimony based on several premises I will address those matters on a point by point basis.

Q. What is the first issue taken by Mr. Hill?

A. In my direct testimony I state that Account No. 904, Uncollectible Accounts, was removed from my comparisons because this account represents a "Reserve Account" or in other words a contingency account, which is based on past experiences as it relates to the particular companies experiences on its ability to collect past due bills. There is absolutely no similarity in Account 904 to the other Accounts Nos. 901, 902, 903 and 905. These accounts are based on actual expenditures and in no way should the balances in these accounts be "arbitrary".

Q. Will you address the issue regarding termination policies of various utilities?

A. Yes. I have reviewed Pennsylvania Chapter 56 regulations that have been in effect since 1980, and nowhere do I see that a minimum of $500 on an unpaid bill be necessary to terminate service. As to the regulations regarding winter shutoff for Michigan it is my understanding that the system is not voluntary as Mr. Hill states and in fact, the Michigan Public Service Commission adopted a rule change in April 1984 that prohibits heating season shutoff for all households identified as containing a senior citizen, age 65 or older. The disparity among state guidelines could be due to the fact that some utilities are mandated by law rather than regulation. It could also be argued that the utilities not mentioned by Mr. Hill could be deemed to be under more stringent regulations than that of Pennsylvania utilities.

Q. Would you care to comment regarding Mr. Hill's discussion of PECO's service territory?

A. Mr. Hill compares the level of poor customers encompassed by PECO's service territory in relation to other Pennsylvania utilities as "unique" to other Pennsylvania utilities. My comparison for adjustment purposes is between PECO and other major metropolitan areas who experience the same problems. The fact that PECO has a high proportion of Public Assistance Recipients based upon total in the State is irrelevant. What is relevant and what Mr. Hill did not point out is that the total percentage of poor based upon PECO's Service Territory is comparable to other major cities used in my study.

Q. Did you make any comparisons of PECO's service territory population mix with that of the other utilities mentioned in your testimony?

A. Yes, a comparison was conducted based upon the population mix of children and elderly and also the Social Security Recipients and AFDC Recipients as a percentage of the population. It was found that the percentages of PECO's population mix was not substantially different from the other Metropolitan Areas listed, so in fact, PECO is not "unique". See Schedule 2 of Trial Staff Exhibit No. KIL-2A.

Q. Would you address the issue regarding meter reading expenses?

A. Yes. Mr. Hill erroneously stated that I did not recognize the meter reading practices utilized by the other Companies. In fact, under cross examination I stated that all companies listed were, in fact, on a monthly meter reading and billing with the exception of Boston, which is bi-monthly and the Bronx section of the five boroughs of New York City.

Q. What of Mr. Hill's testimony regarding utility costs exceeding the GNP Implicit Price Deflator?

A. On Schedule #4 of Mr. Hill's rebuttal testimony an analysis was shown listing the Customer Accounts Expense increases of the five utilities used in my comparison for the years 1983 and 1984 resulting in an average cost increase of 9.6% versus the change of the GNP Implicit Price Deflator of 3.8%. While I still feel that the GNP Implicit Price Deflator is an accurate measurement to be used for comparison purposes of cost containment, I have prepared Schedule 3 which addresses this issue.

Schedule 3 employs the same methodology as my original testimony; however, an inflation factor of 14.78% is used which is the 9.62% increase as set forth on Mr. Hill's Schedule #4. This 9.62% was increased to reflect a full 18-month period (December 1984 to June 30, 1986). The use of this inflation factor resulted in a $17,633,000 reduction instead of the proposed $21,596,000.

Q. Does this conclude your surrebuttal testimony?

A. Yes, it does.

Staff Statement DPH-2
Witness: D. P. Hosler
Date: 3-6-86

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PENNSYLVANIA PUBLIC UTILITY COMMISSION

v.

PHILADELPHIA ELECTRIC COMPANY

DOCKET NO. R-850152

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SECRETARY'S
Public Utility Commission

Surrebuttal Testimony

of

Dennis P. Hosler

DOCKETED

MAR 11 1986

Concerning:

Non-Limerick Revenue, Expenses and Rate Base Issues

Q. Are you the same Dennis P. Hosler who previously filed testimony in this proceeding?

A. Yes, I am.

Q. What is the purpose of this surrebuttal testimony?

A. The purpose of my surrebuttal testimony is to respond to certain rebuttal statements of PECO witnesses Carroll, Wright and Sileo.

Q. Company witness Carroll has stated in his rebuttal testimony that your proposed adjustment for fossil plant outages expenses failed to include the expense of major overheads that the Commission previously approved and that the historic cost averaging procedure you used fails to represent the cost of a six-year program. Do you agree with these comments?

A. No. My proposed adjustment was to establish on a normalized basis an appropriate rate making allowance for the fossil plant outage expenses. As Mr. Carroll stated, normalized outage expenses are to recover a level of expenses necessary to perform the major inspections, preventive maintenance and refueling expenses of the various stations. In the process of developing my adjustment I considered all the actual expenses at the fossil stations from July 1, 1980 through June 30, 1985 and the Company's budget for the year July 1, 1985 through June 30, 1986 (the future test year). During this time period PECO would have completed a full cycle of any five or six-year maintenance program. Thus I did, in fact, include the full expense of the maintenance programs and did not exclude the expense of any major overhaul previously approved by the Commission when determining my proposed rate making allowance.

I also chose to develop my recommended allowance by use of a statistical averaging method which excluded the high and low years from the five-year historical period. Mr. Carroll erroneously asserted that this was done without any knowledge of how typical the remaining three years were. In fact, I had chosen this method after also examining the straight averages for the five-year historical expenses ($18,530,000) and the six-year period which included the Company's budget for the future test year ($18,559,000). I chose my $18,831,000 recommended allowance from these alternatives because it was both the most conservative method and also did not include any budgeted (or estimated) information. This method of developing a rate making allowance fairly represents the normalized outage expenses PECO has actually been incurring.

Q. Regarding your proposed allowance for nuclear plant outage expenses, Mr. Carroll has asserted that you did not take into account the number of and cost of the outages. Please comment.

A. Although my method of normalizing the nuclear plant outages expenses does not explicitly account for the number or cost of the outages, that is the basis of my calculations. By using a $6\frac{1}{2}$-year period of time to compute the Salem and Peach Bottom stations normalized outage expenses, I have included a normal level of outages. For these two nuclear stations I have chosen to include a future or non-historic period of time which will include at least 2 refueling cycles of each unit. By including the 3 historic years I have also included actual expense levels incurred by the Company. The length of time I have chosen by its very nature includes a normalized amount of outages and expenses to be incurred by the Company. It should also be noted that my proposed allowance for these two nuclear stations in total is only $92,000 less than that proposed by Mr. Carroll in his rebuttal testimony.

	$000		
	Mr. Carrol	Staff	Difference
Peach Bottom	12,605	11,654	951
Salem	11,145	12,004	(859)
Totals	23,750	23,658	92

My proposed normalized outage expense for the Limerick unit is merely the Company budgeted amounts for the first two 18-month refueling cycles averaged over three years. My $12,250 allowance is exactly the expense level PECO has budgeted for the first three years of operation which includes two outages.

Q. Company witness Wright in his rebuttal testimony has stated that the uncollectible customer revenue adjustment to Cash Working Capital (CWC) which you proposed is inappropriate. Please address the contention that PECO is entitled to revenue lag for uncollectible revenue.

A. As I stated in my direct testimony uncollectible accounts do <u>not</u> create an additional need for funds by the Company. Included in the rate making allowance are the expenses to serve those customers which ultimately do not pay. The Company's revenue level is set to cover the cost of uncollectible accounts, thus all of the revenue which is collected includes some revenue for uncollectible accounts.

Mr. Wright states that the Company does not maintain a reserve for uncollectible customer revenue which is available as a sub-division of FERC Account 144 - Accumulated Provision for Uncollectible Accounts-Credit. The fact that PECO does not elect to utilize this accounting procedure does not create an additional need for funds by the Company from the uncollectible accounts expense. Uncollectible accounts expense is a non-cash expense and never creates a direct cash revenue. Uncollectible accounts are strictly an accounting entry and are a non-cash non-revenue item. Thus, a cash working capital allowance for uncollectible revenue is not appropriate for rate making purposes.

Q. Mr. Wright has opposed your recommended adjustments to the Company's Cash Working Capital (CWC) claim for tax lag day calculations. Please addre Mr. Wright's statement that the Company's federal income tax payment schedule reflects a safe course tax payment pattern and your proposed payment schedule would be overshadowed by underpayment penalties..

A. My tax payment patterns for each of the taxes I have adjusted reflect the minimum payment pattern required to avoid underpayment penalties. For federal income tax the Company must prepay 90% of the current year tax liability quarterly during the tax year. As Mr. Sileo, the Company's tax witness, testified during cross examination (Tr. 262, lines 4-18), this tax is paid in quarterly payments of 22.5% of the projected tax liability. This is exactly what my adjustment to the federal income tax lag days reflects.

Q. Does Mr. Sileo, the Company's tax witness, in his rebuttal testimony state whether or not PECO follows the statutory payment pattern for payment of federal income taxes?

A. No. Although Mr. Wright states that Mr. Sileo will clarify the payment schedule utilized by the Company, Mr. Sileo's only statement in the record on this topic is his response to cross examination (Tr. 262). However, I maintain that even if PECO elects not to follow the minimum payment requirement schedule, customers should not be expected to compensate the Company for any early tax payments. PECO, as other electric utilities in the state, should be able to pay its required tentative tax payments according to minimum statutory requirements without incurring late payment penalties. Thus, minimum statutory requirements should be reflected for CWC rate making purposes regardless of how PECO elects to make its actual federal income tax payments.

Q. Mr. Wright states that there was no sound conceptual basis for utilizing a growth factor in development of lag days associated with payment of gross receipts tax. Please explain your use of the growth rate.

A. I used the compound growth rate to more accurately reflect the actual CWC lag days for payment of PECO's taxes. This is necessary because the Company's method of computing lag days completely ignores the real world tentative tax payments. Gross receipts taxes are prepaid at 90% of the prior tax year's actual tax liability. The Company by choosing this prepayment option receives the benefit of knowing the actual level of tentative tax payment necessary to avoid payment penalties. Additionaly, during periods of rising tax liabilities, this results in less than 90% of the ultimate tax year liability being prepaid. Some of the items that are currently causing the gross receipt tax liability to grow from year to year are: increasing sales, increasing energy cost rate (ECR) billings, and general rate increases. The growth rate is used to reasonably incorporate the effects of increasing tax liabilities into the computation of the lag days.

Q. Mr. Wright has computed what he terms a correct theoretical growth rate for gross receipts tax of 3.05%. Are you willing to adopt his growth rate and lag days for other taxes which result from using your computation methodology?

A. No, I am not. Mr. Wright's rebuttal testimony, Schedule 2a, shows that he developed his growth rate by eliminating the effects of rate increases on the gross receipts tax liability. This, of course, reduces the growth rate in actual tax liability and also the difference between the prepayment amount and settlement tax payment amounts. In the real world, rate increases do affect the actual gross receipts tax liability and must be included to compute a reasonable growth rate.

Q. Mr. Wright and Mr. Sileo also assert that your proposed adjustment to Ad Valorum taxes lag day calculation is incorrect. Are you willing to adopt the Company's proposed corrections to growth rates for capital stock tax and public utility realty tax?

A. Yes, I will accept the Company's proposed changes to the growth rates for these taxes. Mr. Wright has adjusted the Capital Stock Tax growth rate to reflect a law change and to eliminate a prior period adjustment which I believe to be appropriate. The public utility reality tax was adjusted to remove the effects of the second year of the "double payment" made in 1984. I was aware of this double payment but believed this to be included, in total, in the year ended June 30, 1985 expense. This is a one-time only extra payment and should be removed from the growth rate.

I have recomputed the Ad Valorum tax lag days using the Company's compound growth rate of 9.637% for the capital stock tax and 6.525% for the public utility realty tax (Schedule 1). Ad Valorum tax lag days of 57.5 resulting from this calculation lower the average lag in payment of taxes to 43.3 days. The net effect is a $4,281,000 decrease to my recommended adjustment to Company's CWC request in my direct testimony.

Q. Does this adjustment to your direct testimony recommendation result in a final recommended allowance for CWC?

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 CWC or revenue number until such time as all adjustments have been made to the Company's claim.

Q. Does this conclude your surrebuttal testimony?

A. Yes, it does.

PHILADELPHIA ELECTRIC COMPANY
DOCKET NO. R-850152

Corrections to
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
alorum												
pital Stock	85	4/15/85	4/15/85	7/1/85	(76)	20,919			850	70.72	(53.74)	
	15	4/15/86	7/1/85	4/15/86	289	3,692			352	29.28	84.62	
	100%					24,611	43.35	9.637 (a)	1,202	100.00%	30.88	13.39
plic Utility Realty	22.5	4/15/85	4/15/85	7/1/85	(76)	7,236			225	21.13	(16.06)	
	22.5	6/15/85	6/15/85	7/1/85	(15)	7,236			225	21.13	(3.17)	
	22.5	9/15/85	7/1/85	9/15/85	77	7,236			225	21.13	16.27	
	22.5	12/15/85	7/1/85	12/15/85	168	7,236			225	21.12	35.48	
	10.0	4/15/86	7/1/85	4/15/86	289	3,218			165	15.49	44.77	
	100.0%					32,162	56.65	6.525 (b)	1,065	100.0%	77.29	43.78
						56,773	100.00%					57.17

From PECO Statement No. 20A, Schedule RWW-2c

From PECO Statement No. 20A, Schedule RWW-2d

Staff Statement MJM-2

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PENNSYLVANIA PUBLIC UTILITY COMMISSION

V.

Philadelphia Electric Company

R-850152

Surrebuttal Testimony

of

Martin J. Mayer

Concerning Decommissioning Expenses

Q. Are you the same Martin J. Mayer who previously filed testimony in this proceeding?

A. Yes, I am.

Q. What is the purpose of this surrebuttal testimony?

A. The purpose of my surrebuttal testimony is to respond to the comments of PECO witness Wright.

Q. Mr. Wright quotes proposed regulations of the United States Nuclear Regulatory Commission concerning decommissioning as supporting the company's position. Are these or any other regulations currently in effect?

A. No.

Q. Is it anticipated that there will be any regulations in effect before the end of the test year?

A. No.

Q. Is it anticipated that there will be any regulations in effect before the end of the year following the test year?

A. No.

Q. What about the regulations relied on by Mr. Wright?

A. These proposed regulations, which were initially published in February of 1985, are intended to serve as a stimulus in an effort to generate input from sources outside the N.R.C. They are clearly not final. According to Mr. Keith G. Steyer of the office of Nuclear Regulatory Research of the N.R.C. the earliest that <u>any</u> regulations are expected to be approved by the N.R.C. is October of 1987. It should be noted, that included in these proposed regulations is a suggested time period of 2 years in which the licensee must submit funding information. Given the fact that these regulations are merely proposed in nature, and that existing licensees will have until October of 1989 (at the earliest expected date) the foundation for Mr. Wright's comments is speculative.

Q. Concerning Mr. Wright's comments on your second adjustment. Have you analyzed the study performed by Mr. Wright?

A. Yes. Mr. Wright's study is both irrelevant and erroneous.

Q. How is Mr. Wright's study irrelevant?

A. Mr. Wright's study is based on Limerick Unit 1. I have proposed no adjustments for this unit.

Q. How is Mr Wright's study erroneous?

A. His study fails to show that the company's methodology results in an over-collection. This is the very reason that he criticizes staff's methodology.

Q. Have you performed any relevant studies?

A. Yes. Staff Exhibit MJM-2-A demonstrates the same comparisons attempted by Mr. Wright. For the purpose of simplicity, I have used the same hypothetical assumptions as Mr. Wright, with the exception that my study involves Salem 1. They are:

1) Single unit analysis - Salem Unit 1
2) June 30, 1986 rate effectiveness
3) Rate cases every two years
4) 8% non-taxable earnings rate
5) 6% decommissioning inflation rate
6) June 30, 2008 decommissioning date.

Please note that I used these assumptions for illustrative purposes only. I do not agree that they are reasonable.

Q. Please describe Exhibit MJM-2-A.

A. Schedule 1 shows the annual accruals under both the company's method and the staff's. As this graph effectively demonstrates, the company's method shows extreme distortion in the final year, and would result in an over collection of more than twice that of staff's proposed method. Schedule 2 shows the annual accrual in terms of constant 1986 dollars. Schedule 3 present the data points from which the graphs are generated. Schedule 4 shows the total inflated decommissioning costs together with the escrow balances under both methods.

Q. Do you agree with Mr. Wright's contention that the company's method more equitably distributes the cost responsibility to customers over the life of the facility?

A. No. As Schedule 2 demonstrates, staff's method maintains a more even accrual than does the company's.

Q. Do you agree with Mr. Wright's comments regarding Salem Unit 2?

A. Not entirely. I agree with the company's use of 3.22 years to represent the term of the sale to JCP&L, however I disagree with the length of the accrual period. I believe that the 35 year term I proposed is more realistic than the company's 27 years.

Q. Concerning Peach Bottom Unit 1. Do you agree with Mr. Wright's contention that it was not until the N.R.C.'s proposed rulemaking that the company was aware of the need for decommissioning fund accruals?

A. No. This contention is ridiculous. The company has been collecting funds for the other units for six years.

Q. Do you agree with Mr. Wright that because <u>some</u> customers of PECO at <u>some</u> time received <u>some</u> of the benefits of Peach Bottom Unit 1 that current ratepayers should pay <u>all</u> of the decommissioning costs?

A. No. Any claim for decommissioning should have been made at the time the unit was in operation, not twelve years after the unit was shut down.

Q. Does this conclude your surrebuttal testimony?

A. Yes, it does.

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R-8501[illegible]
3-6-[illegible]

IR-Staff-REO-22

Q.IR-Staff-REO-22

Reference TPH-2A, D-12a, Item 1. Rate Case Expense - Technical Consultants.

(a) Were individual technical consultants selected on a bid basis?

(b) Were bids or estimates submitted by consultants prior to retention by PECO or its representatives?

(c) List technical consultants approached by PECO for participation and those consultants finally selected.

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Public Utility Commission

(d) Provide the following:

(1) total amount of rate case expenses incurred to date on technical consultants;

(2) an estimate of the final technical consultant costs to be claimed by PECO in this case;

(3) the estimate of costs provided to PECO by each consultant prior to retention and any subsequent updates submitted by the consultant;

(4) the stated contract price for each technical consultant;

(5) total amount of rate case expenses (to date and estimated) associated with technical consultants on an individual consultant basis;

(6) an itemization of individual consultant fees on an hourly and on a functional basis (functional involves testimony, research, travel, etc.);

(7) itemized bills or invoices from technical consultants on individual consultant basis; and

(8) the number of hours spent on each task area by consultant.

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A.IR-Staff-REO-22

(a) No. Technical consultants used in this proceeding were not selected on a bid basis. As described in the response to (b) below, competitive bidding was not practical or necessary in order to assure that high quality consulting services were obtained at a reasonable cost.

(b) Bids or estimates were not submitted by technical consultants prior to their retention by the Company. The process of competitive bidding as a means for selecting consultants and controlling their costs could not be used because the scope of work to be performed by these consultants, i.e. technical analyses/ reviews and preparation of testimony, was determined to a large extent by the evolving needs of litigation and, therefore, could not be fully defined in advance.

Nevertheless, a thorough process was used to both select consultants and monitor the cost and quality of their work. Specifically, consultants were initially selected after interviews with principals from their organizations and reviews of examples of their work product. For certain consultants, such as Theodore Barry and Associates, Inc., the Company also relied upon its own experience in evaluating their ability to provide professional services in this proceeding. In addition, the Company reviewed fee schedules and hourly rates prior to major consultant retention, and compared these cost items with those employed by other consultants in the industry. Through this process, the Company was assured of obtaining highly qualified consultants who would perform at a reasonable cost level.

(c) The costs for technical consultants contained in the Company's rate case expense claim set forth in PECO Exhibit TPH-2A, p. D-12a, Item 1, relates solely to services provided by consultants who have appeared as witnesses in this proceeding. These consultants have already been identified on the record. The identities of other consultants approached by PECO are unrelated to these costs, and are therefore irrelevant and are not being provided. Moreover, it is well-established under both Pennsylvania and Federal rules of civil procedure that the identities of experts or consultants who were not expected to be used as witnesses are not discoverable. See, e.g., Pa. R.C.P. 4003.5(a)(3); Stine v. Maytag Co., 30 D.&C.3d 470 (1984); Claster v. Citizens General Hospital, 14 D.&C.3d 243 (1980); Philadelphia Electric Co. v. Nuclear Energy Liability - Property Ins. Ass'n., 10 D.&C.3d 340 (1979); Fed. R.C.P. 26(B)(4)(b); Guilloy v. Falmouth Hosp. Ass'n. Inc., 21 F.R. Serv.2d 1367 (D.Mass. 1976); Perry v. W. S. Darley & Co., 54 F.R.D. 278 (E.D. Wis. 1971). Accordingly, PECO objects to the making of any further response to this question.

(d) (1) The total amount of rate case expenses incurred as of February 28, 1986 for technical consultants is $3,182,400.

(2) The total amount of technical consultant expense claimed in this case is $3,099,000. This number is shown on Schedule 3 of Statement 18C, the Rebuttal Testimony of T. P. Hill, Jr., and is included on page D-12a of Exhibit TPH-2A, the Company's Final Accounting Exhibit.

(3) As stated in the response to (b) above, cost estimates, bids and/or contract prices were not provided prior to the retention of technical consultants in this proceeding. The only consultant which was able to submit cost estimates for its work after retention was Theodore Barry and Associates, Inc. ("TB&A"). Due to the complexity and continuous evolution of TB&A's role in this proceeding, its services could not be defined in total

and therefore progressed in phases. As the scope of work in each phase was identified, TB&A was required to submit "not to exceed" cost estimates for professional fees based upon company accepted fee schedules and hourly rates. These cost estimates were then used by the Company to monitor the progress and cost of TB&A activities. These estimates are considered as proprietary by TB&A.

The roles of consultants other than TB&A could not be sufficiently defined in advance and, therefore, cost estimates could not be developed. These consultants were compensated on an hourly basis pursuant to company accepted fee schedules and hourly rates. Periodic reviews of consultant work progress were made to assure that work was being cost effectively performed.

(4) The only stated contract prices for technical consultants are provided in response to (3) above.

(5) As shown in response (d)(1), the following is an itemization of the requested data:

Theodore Barry & Assoc.	$1,988,800
Putnum, Hayes & Bartlett	581,200
NERA	532,400
IEAL	71,000
Coopers & Lybrand	9,000
	$3,182,400

(6),(7),(8) Itemized invoices of all consultants are filed monthly in the Company's Accounts Payable Division. Invoices from technical consultants are not segregated in the files of Accounts Payable and as such are not easily retrievable. Access to these records will be permitted by Trial Staff personnel wishing to review invoices at Company Headquarters, 2301 Market Street, Philadelphia, PA. Certain of these invoices are considered proprietary by the consultants and thus review of information contained therein will not be permitted without the signing of an appropriate confidentiality agreement.

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

Q.IR-Staff-REO-24

Reference the Staff's Motion to Strike (filed January 3, 1986) and the Staff's amended Motion to Strike (filed January 15, 1986) filed in this proceeding in response to the ALJ's and the Commission's ruling on the Staff's Motion in Limine.

(a) For each Company statement identified in those motions:

(1) provide the amount contained, if any, in the current rate case expense claim attributable to that statement. This amount should include any witness fee paid to the sponsoring witness and any costs associated with production of the statement.

A.IR-Staff-REO-24

There are no dollars of Company employee witnesses expense contained in the rate case expense claim. Outside witness expense cannot be determined since both motions seek to strike only specific portions or lines of testimony.

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

NOVEMBER 18, 1985

The Washington Post

Washington Business

Ratepayers Said to Fuel Utility Lobby

State Rules Being Violated, Regulators' Group Charges

By Elizabeth Tucker
Washington Post Staff Writer

Electric utilities may be charging consumers more than $10 million a year for the Washington lobbying expenses of the industry's Edison Electric Institute, an official of the National Association of Regulatory Utility Commissioners has charged.

Michael Foley, the association's director of financial analysis, said that passing on such expenses to consumers violates the laws of most states.

Foley has been conducting an on-site investigation of Washington-based EEI's books on behalf of the association, which is composed of commissioners from state regulatory bodies. Its purpose: to determine how much of EEI's overall budget goes toward lobbying the federal government.

"It is clear to us, based on a rather probing analysis of their expenditures, that the principal thrust of the Edison Electric Institute's activities is that of attempting to influence the affairs of the federal government," he said. "The majority of the dues received from utilities are directed toward that goal."

EEI, an association of about 175 investor-owned utilities with a staff of about 290 people, does legislative and regulatory work for its members, researches and gathers statistical information, and helps electric companies generate and distribute electric energy at the lowest possible prices.

EEI collects dues from utilities that go toward running the association itself, said EEI spokeswoman Mary Kenkel. Last year, $26.3 million was collected, and most of that was passed on to member utilities' ratepayers.

Foley's preliminary estimate, after examining the EEI budget book, financial statements, tax returns and vouchers for the hiring of outside consulting firms, is that a "clear majority" of the dues the trade group collected last year has gone toward influencing the federal government.

"That ratepayers do not fund utility political advocacy expenditures is a statute in most state codes," he said.

The Edison Electric Institute has called the charges of using most dues for lobbying "not true" and "a clear mischaracterization." The debate has become more heated in recent months because of growing concern among state regulators that ratepayers not fund activities that are not directly in their interest.

Richard Braatz, vice president of finance

See EDISON, page 33

Ratepayers Said to Fuel Electric Utility Lobby

EDISON, from page 1

and regulation for EEI, said, "There are all kinds of red herrings these people drag out. If there is any indictment to be made, it is an indictment of misunderstanding and not of dishonesty or uncooperativeness."

Regulatory association members "have been in to audit the accounts. They have not completed their review—that statement is unsubstantiated and it is premature," said Braatz. "If the review in fact shows that, that is fine, but they are approaching this without an open mind."

The trade group has been involved in low-income assistance programs, hydroelectric plant relicensing and other projects that benefit consumers, said Kenkel. "We believe we work to support consumer interests," she said.

The trade group also collects money from utilities that want to contribute to a cleanup program for Three Mile Island, to other industry groups affiliated with EEI and to its media communications fund—used for advertising, promotion and other functions.

Last year, EEI collected $28 million for that purpose. The group also collected $265.2 million on behalf of the Electric Power Research Institute, a California industry research arm. (Starting in 1986, utilities will pay that institute directly.)

Benefit to Ratepayers Questioned

While stockholders may fund a portion of EEI's programs, ratepayers pay the majority of utility dues and also pay for some other EEI programs through charges passed on to them by the utilities, according to the National Association of State Utility Regulators.

Although the dues themselves may amount to only pennies in a ratepayer's bill, they give EEI a powerful industry voice that may not be in the best interests of ratepayers, regulators and consumer advocates say.

"EEI regularly . . . lobbies federal agencies such as the Federal Energy Regulatory Commission, the Department of Energy, the Environmental Protection Agency and the Nuclear Regulatory Commission for policies and rulings favorable to the utility industry," said Richard E. Morgan, an economist with the Environmental Action Foundation, a Washington advocacy group.

"EEI frequently takes positions which are detrimental to utility consumers, such as favoring higher utility rates and weaker environmental and safety regulations," he said.

PHOTO BY FRANK JOHNSTON—THE WASHINGTON POST

Foley says Edison Electric's thrust is to lobby.

Andrew Varley, who sits on a regulatory association committee overseeing the audit of EEI, said, "Their primary purpose is to represent the private utility industry, and I don't believe ratepayers should be required to pay those costs."

EEI members say the dues paid by utilities do directly benefit ratepayers.

"We feel there are a number of advantages to belonging to the Edison Electric Institute that benefit ratepayers," said Tom Welle, a spokesman for Potomac Electric Power Co. (Pepco).

Those benefits include "research results and the fact EEI can gather and analyze federal legislation that would cost us a considerable amount of money to do," he said. EEI also provides utilities information about data bases and about how to run themselves more efficiently, he said.

Critics of the system, however, feel that at the least, an accounting mechanism should be devised that state regulators can use to determine how much of the money local utilities pay justifiably can be passed on to ratepayers.

Braatz said the Edison Electric Institute, which was asked to provide information to the regulatory association two years ago about its budget, has been trying "desperately" to follow accounting methods the association itself prescribed. The new accounting method is meant to provide state regulators with a guide to use in deciding who should pay EEI expenses.

"We have done everything to meet the definitions. We've had Price Waterhouse audit our proceedings, we have let the National Association of Regulatory Utility Commissioners in, and that review has not been completed yet," he said.

EEI maintains that, under the Federal Regulation of Lobbying Act's definition of lobbying, only 2 percent of its overall budget goes toward lobbying activities.

In 1982, and again in 1984, in response to requests by the association, EEI expanded the definition to include more "legislative advocacy" activities, such as staff expenses and time spent in preparation of legislative positions and publications, grass-roots advocacy and costs of administration of the EEI political action committee, said Kenkel. Under the expanded definition, about 20 percent of the dues it collects could be attributed to lobbying and "legislative advocacy," she said.

However, state laws vary, and in many instances define the term lobbying more broadly, Foley said. The regulatory commissioners' association maintains EEI is "substantially underreporting the amount of money they devote to those types of activities."

The association is investigating not just what the dues are used for, but also the purpose served by other groups EEI funds—such as the Utility Air Regulatory Group, the Utility Nuclear Waste Management Group and the Utility Solid Waste Activity Group. Pepco, which contributes to some of the groups—and passed expenses on to ratepayers in 1984—said the groups "respond to federal legislation after it is passed."

Dispute Over Budget Ongoing

The dispute over EEI's budget has been going on for several years, say regulatory commissioners and officials. Regulators became interested in EEI after a series of ads they say did not put the group in the best light, and after confusion over Edison Electric Institute's financial relationship to a pro-nuclear group called the U.S. Committee for Energy Awareness, Foley said.

Initially, the association sent letters to EEI asking that it clarify its budget. While EEI says there has been some "bumpiness" in trying to figure out what information regulators want, the association contends EEI has been less than cooperative.

PHOTO BY RICH LIPSKI—THE WASHINGTON POST

Edison's Braatz denies ratepayers fund lobby.

"I don't think there was any question that EEI ever enthusiastically responded to this issue," said Susan Knowles, an Alaska public utilities commissioner and president of the regulators' association.

Next, the association set up a committee and drafted categories that it wanted EEI to follow in drawing up its budget. The result was not satisfactory, the association has said. A 1984 Price Waterhouse audit found that 19 percent of the group's expenses went toward different legislative, regulatory and advertising categories, and the rest fell into an "all other operating expenses" category.

Both EEI and the association are now working on devising new definitions that EEI could use in drawing up its 1985 budget.

"The regulatory association's "responsibility is to make sure that we are reporting our expenditures in a format that can be shown to various state commissions. We understand that," said EEI's Braatz.

Said the association's Foley: "The process takes time, but I am convinced justice will be administered in this matter." ■

Utilities Being Barred From Passing Buck to Consumers

By Elizabeth Tucker
Washington Post Staff Writer

For years, utility commissions have allowed electric utilities to pass on almost all Edison Electric Institute membership dues to ratepayers, according to the National Association of State Utility Regulators.

The money the trade group collects from utilities is used for three different purposes: dues; specific advertising, promotional and legislative activities; and on behalf of the Electric Power Research Institute in California.

Although dues have been passed on to ratepayers for years by most commissions, money collected separately for EEI's media communication fund and other affiliated groups may or may not be passed on to ratepayers depending on each state's commission, the association said. Money contributed to the Electric Power Research Institute is usually paid for entirely by ratepayers.

Recently, however, commissions around the country have started to rule that portions of EEI membership dues should not be paid for by ratepayers. Instead, they have said, a portion must be paid for by stockholders, in whose interest the money is used.

Idaho, Missouri, Washington, Maine, Oregon and Texas have said no EEI dues can be paid for by consumers. California, Colorado, Florida, Wisconsin, Pennsylvania, Massachusetts and New York have disallowed a substantial portion of the dues.

In the Washington area, the D.C. Public Service Commission decided last year it will no longer allow any portion of EEI dues to be paid for by ratepayers in future cases. "Membership dues are not considered proper to pass on to ratepayers," said Howard Davenport, the PSC's general counsel.

The PSC also has decided that only 25 percent of the money paid to EEI for the Electric Power Research Institute benefits ratepayers directly. The Potomac Electric Power Co. (Pepco) must prove the benefits to ratepayers to pass on 25 percent or more of the cost, the PSC said. The same rule applies to Washington Gas Light Co. and its contributions to the Gas Research Institute.

In Virginia, the corporation commission staff has proposed having ratepayers pay for only half the EEI membership dues. In Maryland, the PSC traditionally has passed virtually all dues on to ratepayers.

Last year, Pepco paid about $400,000 to the Edison Electric Institute in dues and for other EEI-funded activities, Virginia Power paid $500,000, and Baltimore Gas & Electric Co. paid $900,000. ■

Trial Staff Exhibit KIL-2A
Schedule 2

Selected Demographic and Socioeconomic Statistics*

	[1]Philadelphia SMSA**	Chicago SMSA	Baltimore SMSA	Detroit SMSA	Boston NECMA**	New York SMSA[2]
Population	3,682,709	7,103,624	1,582,118	4,353,413	3,662,832	7,071,639
- Children	26.5%	28.6%	27.0%	29.5%	25.7%	25.0%
- Elderly	12.4%	10.0%	10.1%	9.5%	12.2%	13.5%
Social Security Recipients As A Percent Of All Persons	16.4%	12.9%	19.1%	13.9%	15.2%	16.8%
Supplemental Security Recipients As A Percent Of All Persons	1.6%	1.1%	2.0%	1.3%	2.2%	3.2%
AFDC Recipients	323,400	509,400	159,400	359,200	213,200	762,200
- As A Percent of Population	8.8%	7.2%	10.1%	8.3%	5.8%	10.8%
- Children As A Percent Of All Recipients	68.6%	70.5%	68.1%	68.1%	65.0%	69.1%
AFDC Recipient Children As A Percent Of All Children	22.7%	17.7%	25.4%	19.0%	14.7%	29.8%

* Source: US Bureau of the Census, State and Metropolitan Area Data Book, 1982, U.S. Government Pritning Office, 1982.
** SMSA: Standard Metropolitan Statistical Area; NECMA: New England County Metropolitan Area
1 - Pennsylvania portions only: Philadelphia, Bucks, Chester, Delaware and Montgomery Counties
2 - New York City Counties only