

3-6-8  
4/6/86  
L-85

RECEIVED

MAR 7 1986

Pennsylvania Public Utility Commission

SECRETARY'S OFFICE  
Public Utility Commission

v.

Philadelphia Electric Company.

Docket No. R-850152

Rebuttal Testimony of Warren H. Smith

DOCKETED  
MAR 11 1986

DOCUMENT  
FOLDER

February, 1986

1 Q. Are you the same Warren H. Smith who has previously offered  
2 direct testimony on the subject of accounting for Utility Plant  
3 in Service?

4 A. Yes.

5 Q. What is the purpose of your rebuttal testimony?

6 A. The purpose of this testimony is to address two recommended  
7 changes in accounting, proposed by Trial Staff witness Prego as  
8 they relate to a recently completed audit of Utility Plant in  
9 Service.

10 Q. Mr. Prego who supervised the audit, proposes in Adjusting Entry  
11 No. 9 to reclassify certain costs incurred during 1979 and 1980  
12 for the Peach Bottom and Salem Plants. Are the two changes  
13 referred to above included in this proposed entry?

14 A. Yes. Adjusting Entry No. 9 is a compound entry which proposes  
15 to 1) reclassify NRC mandated work performed at Peach Bottom  
16 and Salem from capital to expense and deferred debit accounts  
17 and 2) to reclassify from capital to expense the cost incurred  
18 for performing Induction Heat Stress Improvement on the  
19 recirculation residual heat return shutdown cooling pipe  
20 systems at Peach Bottom.

21 Q. Do you agree with the changes in accounting as proposed in  
22 Entry No. 9?

23 A. No I do not. One of the two issues addressed in this entry is  
24 NRC mandated work at the Peach Bottom and Salem plants. In  
25 1979, the NRC issued Bulletins 79-02, 79-07 and 79-14. These  
26 Bulletins required licensees to reevaluate, inspect, and  
27 replace or modify as necessary anchor bolts, anchor plates and

1 pipe supports for all safety related piping systems.  
2 Initially, it appeared that a minimal amount of physical  
3 modifications would be required and the projects were  
4 classified as maintenance (in 1979). As work on the projects  
5 progressed, it became apparent that the scope of the work had  
6 increased and significant costs would be incurred in analysis,  
7 redesign of and modifications to the base plates and pipe  
8 supports of the affected systems. In late 1979, it was decided  
9 these projects should be accounted for as capital, not expense,  
10 due to the increased scope. Our review of the projects and  
11 decision to capitalize the cost were based on the following  
12 criteria:

- 13 1. The cost of the studies and physical work performed to  
14 meet new criteria established by the NRC had none of the  
15 typical characteristics of maintenance as defined by the  
16 Uniform Systems of Accounts.
  - 17 2. The studies and resulting modifications were mandated by  
18 the NRC, had to be performed to maintain the operating  
19 license and therefore, had a life equivalent to the  
20 remaining life of the license.
  - 21 3. The projects were related to the safety related piping  
22 systems, resulted in additions to the base plates and pipe  
23 supports of the piping systems and, since the cost was  
24 substantial, qualified as an addition to capital as  
25 defined in Electric Plant Instruction 10C(1) (See  
26 Attachment No. 1).
- 27 The analysis and testing required by the NRC Bulletins verified

1 the original analyses, the cost of which was capitalized when  
2 the plants were constructed. The physical modifications  
3 consisted of additions to the base plates and pipe supports  
4 which did not previously exist. The total cost of the projects  
5 at Peach Bottom and Salem was significant, totalling \$26.6  
6 million (PECO share \$11.3 million). The last FERC audit  
7 covered the period 1979-81 and although reviewed by the  
8 auditors, no exception or reservation on the Peach Bottom  
9 projects were taken. In my opinion, accounting for these costs  
10 as capital, was and still is proper and should not be changed  
11 as proposed.

12 Q. Also in Adjusting Entry No. 9, Mr. Prego asserts that  
13 \$4,032,937 associated with a project to mitigate Intergranular  
14 Stress Corrosion Cracking (ISCC) which you have identified as  
15 the second issue in Entry No. 9 should also be reclassified as  
16 maintenance expense. Do you agree with this proposed  
17 adjustment?

18 A. No I do not. From its inception, we considered this a capital  
19 project. General Electric Company identified the problem  
20 (ISCC) and developed a process called Induction Heat Stress  
21 Improvement (IHSI) whereby the granular structure of the  
22 stainless steel pipe was compressed in areas affected by the  
23 heat from welding, which prevented oxygenated water from  
24 penetrating the pipe and causing further cracks. The procedure  
25 was used on Unit 3 at Peach Bottom for 91 sections of pipe and  
26 was successful. It was also used on 16 areas of pipe on Unit 2  
27 but was discontinued when cracks were found in large pipe,

1 elbows and areas difficult to access. The pipe for Unit 2 has  
2 been replaced and the costs for the process used on Unit 2  
3 which was capitalized will soon be retired.

4 When the decision was made to capitalize the cost of the  
5 process, it was based on the fact that a quality was added to  
6 the pipe which did not previously exist. The cost was  
7 substantial, and capital accounting was proper as defined in  
8 Electric Plant Instruction 10C(1). It is important to note  
9 that the process did not fix existing cracks.

10 Additionally, by capitalizing the cost of the process, the  
11 recovery through rates is accomplished over the period of time  
12 the original pipes remain in service, not all in one time  
13 period which is what would happen if the costs had been charged  
14 to maintenance as suggested.

15 Q. Do you have any additional comments on Mr. Prego's testimony?

16 A. Yes I do. Nowhere in the audit or in Mr. Prego's testimony is  
17 the prudence of costs incurred for the projects in Entry No. 9  
18 questioned. The only issue is proper accounting. These costs  
19 were prudently incurred and should be recovered in rates either  
20 as a capital expenditure or as an operating expense. The  
21 Company has been recovering these costs in rate base since  
22 1980. If Witness Prego's accounting adjustment is adopted and  
23 these items are removed from rate base, then an expense  
24 amortization allowance should be approved to recover these  
25 costs. However, since this would increase current rates, the  
26 Company believes that capital treatment of these items is  
27 preferable.

1           Mr. Prego's statement that the costs were recovered as an  
2           expense through existing rates in effect at the time the costs  
3           were incurred is totally incorrect. When the costs associated  
4           with the NRC mandated work were incurred (1979 and 1980),  
5           future test year data was employed for rate filings. In order  
6           to be recovered through rates, the estimated costs would have  
7           to have been budgeted as maintenance items. Since the NRC  
8           Bulletins were released in 1979, no amounts could have been  
9           budgeted for 1979, since the 1979 budgets were prepared and  
10          approved in late 1978. In addition, investigation by us  
11          disclosed no amounts were budgeted for 1980 as maintenance for  
12          either the Salem or Peach Bottom Project. The IHSI project was  
13          always a capital project.

14           The Company believes its accounting for these projects was  
15          proper and in accordance with regulations in effect at that  
16          time. They have been included in rate base since 1980 and  
17          depreciated for both book and tax purposes, and the investment  
18          tax credits were claimed.

19           It is important to note that the projects are not  
20          recurring type maintenance projects and should not be accounted  
21          for as such. Second, although initially charged to maintenance  
22          as stated above, these costs were reversed and charged to  
23          capital and thus were never reflected in actual maintenance  
24          costs for any test year. Third and most important, they were  
25          not budgeted as maintenance items and included as such in any  
26          test year data on which rates were set by the Commission and  
27          therefore were not recovered in rates.

1           It is my opinion that the project costs referred to in  
2 Proposed Adjusting Entry No. 9 amounting to \$15,371,373 were  
3 accounted for properly and should not be reclassified.  
4 However, if we were to reclassify the costs to maintenance,  
5 that adjustment would necessitate a request for increased  
6 revenue requirements, which is what Public Service Electric and  
7 Gas Company has done for the amounts included in Account 182 as  
8 identified by Mr. Prago. I feel that such a reclassification  
9 is improper and not in the interest of present customers who  
10 would be burdened by paying now for costs which are related to  
11 the remaining life of the plants.

12           In my view, capitalization of the costs is correct, has  
13 been adopted in every rate case since 1980, and reduces revenue  
14 requirements. I urge the Commission to continue its prior  
15 practice and permit rate base treatment of these items.

16 Q. Have there been any recent orders issued which would affect  
17 accounting for NRC mandated studies?

18 A. Yes. FERC Order No. 390, issued August 3, 1984, created a new  
19 account, Unrecovered Plant and Regulatory Study Costs (182.2)  
20 to collect mandated study costs which resulted in no  
21 construction and allows amortization of these costs to income  
22 as established in a rate proceeding. Since the cost of these  
23 projects were prudently incurred and not recovered through  
24 rates as maintenance, for us to follow this accounting as  
25 suggested would only increase revenue requirements in this  
26 proceeding as stated above by replacing depreciation accruals  
27 with a shorter amortization period.

1           However, as stated in the order, ratemaking treatment  
2           afforded these study costs can override the requirements of  
3           this new account (see Attachment No. 2, page 2). The  
4           regulation therefore allows these costs to remain in capital if  
5           this Commission decides capital accounting is proper for rate  
6           recovery.

7 Q. Mr. Prego has commented on proposed Adjusting Entries 4 and  
8     13. Do you wish to comment on these?

9 A. No. Mr. T. P. Hill will address these entries in his testimony.

10 Q. During cross examination on December 10, 1985, you stated that  
11     the Company did agree to 11 of the 14 proposed Adjusting  
12     Entries. Is that correct?

13 A. Yes.

14 Q. Have these entries been recorded by Philadelphia Electric?

15 A. Yes.

16 Q. Have they been reflected in the test year data included in this  
17     rate proceeding?

18 A. It is my understanding that all effects the recorded entries  
19     may have on test year data will be incorporated in the  
20     Company's final accounting exhibit as discussed in Mr. Hill's  
21     rebuttal testimony.

22 Q. Mr. Smith, does this conclude your rebuttal testimony at this  
23     time?

24 A. Yes.

25

26

27

PECO

STATEMENT NO. 25B

R-850152

3-6-86

MS  
SM

PENNSYLVANIA PUBLIC UTILITY COMMISSION

v.

RECEIVED

PHILADELPHIA ELECTRIC COMPANY

MAR 7 1986

SECRET  
Public Utility Commission

DOCKET NO. R-850152

SUR-SURREBUTTAL TESTIMONY OF WARREN H. SMITH

SECRETED  
MAR 11 1986

MARCH 1986

DOCUMENT  
FOLDER

1 Q. Are you the same Warren H. Smith who has previously offered  
2 Direct and Rebuttal Testimony on the subject of plant  
3 accounting continuing property records?

4 A. Yes.

5 Q. What is the purpose of your sur-surrebuttal testimony?

6 A. The purpose of this testimony is to respond to Mr. Prego's  
7 interpretation of the Uniform System of Accounts operating  
8 expense instruction 1A, Items 2, 3 and 8 and also electric  
9 plant instruction 10C(1) as support for his contention that  
10 certain capital items be reclassified as expense.

11 Q. Do you agree with Mr. Prego's interpretation of these sections  
12 in the Uniform System of Accounts?

13 A. No, I do not.

14 Q. Please explain the reasons for your disagreement.

15 A. The proposed adjusting entry No. 9 pertains to two items: 1)  
16 NRC mandated work performed at Peach Bottom and Salem, and 2)  
17 induction heat stress improvement on the recirculation residual  
18 heat return shutdown cooling pipe systems at Peach Bottom.  
19 With regard to the NRC mandated work Mr. Prego first cites  
20 operating expense instruction 1A, Items 2 and 3 which read as  
21 follows:

22 "2. inspecting, testing and reporting on condition of plant  
23 specifically to determine the need for repairs,  
24 replacements, rearrangements and changes and inspecting  
25 and testing the adequacy of repairs which have been  
26 made."

27 "3. work performed specifically for the purpose of

1 preventing failure, restoring service ability or  
2 maintaining life of plant."

3 Having cited these items he concludes,

4 "in my opinion, Item 2 above specifically provides that  
5 the cost of inspections and reevaluations are properly  
6 accounted for as maintenance. In addition, Item 3  
7 requires similar classification of costs incurred to  
8 maintain the license necessary for continued operation  
9 of the plants, which is one of Mr. Smith's assertions."

10 As I stated in my Rebuttal Testimony, the basis for my decision  
11 to capitalize these expenses was that the physical  
12 modifications consisted of additions to the base plates and  
13 pipe supports which did not previously exist. It is important  
14 to note that the word "addition" does not appear in Items 2 or  
15 3. Moreover, it should be noted that the NRC mandated work  
16 required the Company to test and analyze all piping systems  
17 associated with reactor plant equipment and was not part of the  
18 Company's ongoing maintenance or preventive maintenance  
19 programs.

20 Mr. Prego next cites Item 8 which refers to Electric Plant  
21 Instruction 10C(1) which states as follows:

22 "when a minor item of property which did not previously  
23 exist is added to plant, the cost thereof shall be  
24 accounted for in the same manner as for the additions of  
25 a retirement unit, as set forth in paragraph B(1),  
26 above, if a substantial addition results, otherwise the  
27 change shall be to the appropriate maintenance expense

1 account."

2 His conclusion,

3 "in my opinion, a substantial addition did not result  
4 because the total cost for all work operations actually  
5 accomplished at Peach Bottom to satisfy the NRC  
6 requirements represented less than five percent of  
7 December 31, 1983 balance of the plant account to which  
8 they were charged".

9 As Mr. Prego should be aware, the retirement unit referenced in  
10 Adjusting Entry #9 is the piping systems associated with  
11 reactor plant equipment; it is not the entire plant account.  
12 When one corrects Mr. Prego's testimony for this error, the  
13 actual additions made at Peach Bottom to satisfy the NRC  
14 requirements represent in excess of 10% of the existing  
15 retirement unit balance. In my view, this certainly qualifies  
16 as a substantial addition.

17 Q. Please address the second item of the proposed adjusting entry  
18 No. 9 discussed by Mr. Prego.

19 A. With regard to the induction heat stress improvement (IHSI) on  
20 the recirculation residual heat return shutdown cooling pipe  
21 system at Peach Bottom, Mr. Prego states,

22 "a piping system designed, constructed and functional as  
23 a conduit for fluids does not possess an added quality,  
24 when, after application of a process, the only function  
25 the piping serves is to convey fluids."

26 As I have previously stated, General Electric developed a  
27 process called IHSI whereby the granular structure of the

1 stainless steel pipe was compressed in areas affected by the  
2 heat from welding, which prevented oxygenated water from  
3 penetrating the pipe and causing further cracks. The fact that  
4 the pipe once treated with this process was not subject to  
5 further cracks indicates that a quality had been added to the  
6 pipe that did not previously exist. With regard to this item  
7 qualifying as a substantial addition, Mr. Prego once again  
8 utilizes the entire plant account balance instead of the  
9 appropriate retirement unit balance. Correcting for this  
10 error, the IHSI treatment expenditure amounts to a substantial  
11 8% of the retirement unit balance.

12 Q. Do you have any comments on Mr. Prego's statements concerning  
13 the FERC audit covering the period 1979-81.

14 A. Yes. The referenced FERC audit was conducted on a full time  
15 basis over a six month period by a team of three FERC  
16 auditors. While it is true that the audit reviewed other areas  
17 in addition to our continuing property records, the scope of  
18 the audit has no bearing on the quality of the results. FERC  
19 has developed an auditing procedure which they feel provides  
20 adequate review of the firms they regulate. Certainly, their  
21 concern for proper accounting practices is no less than that of  
22 any other regulatory body.

23 Mr. Prego represented the Commission at the FERC Audit Exit  
24 Conference on October 29, 1982 and received a copy of their  
25 audit report and all subsequent correspondence. The accounting  
26 as capital for the NRC mandated work at Salem was reserved in  
27 that audit, pending the issuance of future regulations on the

1 issue (Order 390, issued August 3, 1984). Since the Commission  
2 did not object to our accounting for the project at that time  
3 and since no objections have been raised in any rate proceeding  
4 until now, we had assumed our accounting for the NRC mandated  
5 work at Peach Bottom and Salem was acceptable.

6 Q. Do you have any other comments on Mr. Prego's testimony.

7 A. Yes. Mr. Prego is placing considerable emphasis on the fact  
8 that the physical work performed constituted the addition of a  
9 minor item of property. I agree that technically the addition  
10 in fact is part of a retirement unit and is a minor item of  
11 property.

12 I feel it is important to examine why the Uniform System of  
13 Accounts adopted the retirement unit concept and should it be  
14 adopted literally in this instance.

15 Electric Plant Instruction 10.A. requires the retirement  
16 unit concept to be used "For the purpose of avoiding undue  
17 refinement in accounting for additions to and retirements and  
18 replacements of electric plant, ..." (emphasis added).

19 For these two projects, I concluded refined accounting was  
20 necessary -- the criteria of a substantial addition was met and  
21 capitalization of the costs was proper and provided the  
22 appropriate recovery of costs through annual depreciation  
23 accruals.

24 Also, Mr. Prego has addressed his comments to accounting  
25 issues only. He has never questioned the prudence of the costs  
26 which are the subject of adjusting entry No. 9. However, in  
27 spite of his acceptance of prudence, he continues to suggest

1 that if the Commission accepts his proposal, there is no need  
2 to permit the Company to recover these costs.

3 Although the Commission does not guarantee a level of  
4 return, the Commission has historically endeavored to establish  
5 rates which will provide the Company the opportunity to recover  
6 all prudently incurred costs. With regard to the costs which  
7 are the subject of adjusting entry No. 9, the Commission has  
8 itself previously recognized the prudence of these costs by  
9 permitting their inclusion in rate base. While the Company  
10 continues to believe that these costs should properly be  
11 accounted for as capital, in the event that the Commission  
12 should decide that expense treatment is more appropriate, an  
13 accounting change should not deprive the Company of recovering  
14 these prudently incurred costs.

15 Q. Does this conclude your sur-surrebuttal testimony?

16 A. Yes.

17

18

19

20

21

22

23

24

25

26

27

PUC Statement No. 23A

50  
3-6-86  
1649

R-85015

RECEIVED

MAR 7 1986

SECRETARY'S OFFICE  
Public Utility Commission

Pennsylvania Public Utility Commission

V.

Philadelphia Electric Company

Docket No. R-850152

Rebuttal Testimony of

Guy A. Sileo

LOCKED  
MAR 11 1986

DOCUMENT  
FOLDER

February 1986

Rebuttal Testimony of Guy A. Sileo

1 Q. Please state your name and address.

2 A. My name is Guy A. Sileo and my business address is 2301  
3 Market Street, Philadelphia, PA 19101

4 Q. Have you previously testified in this proceeding?

5 A. Yes. I have testified on the principles used by the  
6 Company in accounting for taxes.

7 Q. What is the purpose of your rebuttal testimony?

8 A. The purpose of this rebuttal testimony is to address the  
9 adjustments in the tax area made by Mr. Heverling, Mr.  
10 Hosler, Mr. Knudsen, and Mr. Bleiweis.

11 Q. Please summarize the issues that you will address in  
12 this rebuttal testimony.

13 A. I will address the following topics with respect to the  
14 proposed tax adjustments:

15 A. Flow-through of current deferred state and  
16 federal income taxes associated with  
17 capitalized pensions, taxes, and employee  
18 benefits.

19 B. Flow-through of previously deferred state  
20 and federal income taxes associated with  
21 capitalized pensions, taxes, and employee  
22 benefits, and the flow-through of previously  
23 deferred state taxes associated with  
24 liberalized depreciation.

25 C. Ratemaking treatment of consolidated tax

1 savings.

2 D. Adjustments of lag days associated with taxes  
3 in cash working capital.

4 E. Calculation of investment tax credit  
5 amortization.

6 Q. Mr. Sileo, have you reviewed witness Heverling's  
7 proposed adjustment for the flow-through of current  
8 deferred state and federal income taxes associated with  
9 capitalized pensions, taxes, and employee benefits?

10 A. Yes, I have. Mr. Heverling proposes to deny the  
11 Company's current claim for deferred state and federal  
12 income taxes associated with capitalized pensions and  
13 taxes in the amount of \$6,012,000 and employee benefits  
14 in the amount of \$3,566,000.

15 Q. Do you agree with his position?

16 A. No, I do not. First, the tax benefits on these  
17 capitalized overheads are associated with plant not in  
18 service (CWIP). Current ratepayers do not pay a return  
19 on investment or depreciation expenses on property not  
20 in service, and therefore, should not be entitled to the  
21 tax benefits arising from these expenses. Consequently,  
22 it is inequitable to flow-through tax benefits to  
23 current ratepayers who do not bear the cost which  
24 generated such tax deductions. In contrast, tax  
25 benefits on liberalized depreciation is associated with

1 plant in service, and current ratepayers do pay a return  
2 on investment and depreciation expense. Second, flowing  
3 through the tax benefits associated with capitalized  
4 pensions, taxes, and employee benefits results in cross  
5 subsidization between current and future ratepayers.  
6 When the property associated with these capitalized  
7 overheads does go into service, future ratepayers will  
8 pay depreciation expense, but not receive the tax  
9 benefits associated with this depreciation. The tax  
10 benefits will have already been given to prior  
11 ratepayers!

12 Q. Mr. Sileo, in support of his position, Mr. Heverling  
13 states that his recommendation is consistent with the  
14 adjustment the Commission accepted in Pa. P.U.C. v.  
15 Philadelphia Suburban Water Company, Docket No.  
16 R-842592. Do you have any comments regarding his  
17 statement?

18 A. Yes, I do. In that decision, the Commission denied  
19 Philadelphia Suburban Water Company the normalization of  
20 deferred federal and state income taxes associated with  
21 capitalized overheads since the Company failed to  
22 establish a need for improved cash flow stating:

23 "In light of the Company's financial condition and  
24 its failure to establish a need for improved cash  
25 flow, we conclude that PSWC has not sustained its

1           burden of proof with regard to its claim for  
2           normalization of capitalized overheads. Therefore,  
3           the proposed adjustment of the OCA and Trial Staff  
4           is adopted." (emphasis added.)

5           This is clearly not PECO's situation in light of the  
6           cash needs for the company's continuing construction  
7           program. Consequently, contrary to Mr. Heverling's  
8           position, the Commission's decision supports our need  
9           for the deferred taxes associated with capitalized  
10          pensions, taxes, and employee benefits.

11 Q. Mr. Sileo, have you reviewed witness Heverling's  
12       proposed adjustment for the flow-through of previously  
13       deferred state and federal income taxes associated with  
14       capitalized pensions, taxes, and employee benefits, and  
15       the deferred state income taxes associated with  
16       liberalized depreciation?

17 A. Yes, I have. Mr. Heverling proposes to amortize over  
18       five years previously deferred state and federal income  
19       taxes on capitalized pensions, taxes, and employee  
20       benefits in the amount of \$6,630,000, and state deferred  
21       income taxes associated with liberalized depreciation in  
22       the amount of \$4,229,000.

23 Q. Do you agree with his position?

24 A. No, I do not. The amortization of these deferred tax  
25       balances over a period of time shorter than over the

1 associated life of the property is contrary to past  
2 decisions of the Commission and is clearly retroactive  
3 ratemaking. In past Commission decisions which  
4 established these balances, normalization was  
5 specifically ordered. Implicit in the normalization  
6 methodology of setting rates is the flow back of the  
7 deferred taxes over the life of the associated  
8 property.

9 Q. Mr. Sileo, Mr. Heverling states in his testimony that  
10 the Pennsylvania Supreme Court's recent decision in  
11 Barasch v. Pa. P.U.C., 491 A.2d 94 (1985), directed that  
12 in all cases, normalization of state income taxes was  
13 prohibited. Do you have any comment regarding his  
14 position?

15 A. Yes, I do. I do not believe that Mr. Heverling's  
16 interpretation of the decision is correct. What the  
17 Supreme Court actually said was "On the record before  
18 us, normalization of this utility's state taxes violates  
19 the actual taxes paid doctrine in all instances and  
20 offers no offsetting advantage to ratepayers. This  
21 decision to permit normalization of state taxes is  
22 therefore reversed." 491 A.2d at 96. Mr. Heverling, in  
23 his statement, changed the word instances to cases. The  
24 word "instances" refers to different types of deferrals  
25 in three different time periods as follows:

- 1 a) Category I (1971-1979 property) ADR with DDB  
2 over longer book lives with DDB  
3 b) Category II (1980 property) DDB over  
4 Straight-line Depreciation  
5 c) Category III (1981 property) ACRS over  
6 Straight-line Depreciation

7 The Barasch opinion did not address previously deferred  
8 taxes, only currently deferred taxes. Consequently, to  
9 imply that Barasch addressed previously deferred taxes  
10 is incorrect.

11 Q. Mr. Sileo, Mr. Bleiweis is recommending a consolidated  
12 tax savings adjustment in this proceeding. Do you agree  
13 with his position?

14 A. No, I do not.

15 First, as a matter of principle, it is inappropriate for  
16 PECO ratepayers to receive the benefits of tax losses  
17 which were generated by expenses which ratepayers did  
18 not incur or support. The losses incurred by  
19 non-regulated subsidiaries are borne by the investors in  
20 these companies, and they also should be entitled to the  
21 tax deductions produced by these losses. The  
22 consolidated tax savings adjustment proposed by Mr.  
23 Bleiweis ignores this point and should be rejected.

24 Second, Mr. Bleiweis in this case develops consolidated  
25 tax savings applicable to PECO in the amount of

1 \$396,547, with the electric division's share being  
2 \$341,776. His recommended adjustment is basically the  
3 result of the tax losses sustained by Eastern  
4 Pennsylvania Exploration Company (EPEC). EPEC is a  
5 wholly owned subsidiary of PECO which is engaged in  
6 natural gas exploration and drilling, and consequently,  
7 has no impact on the Company's electric operations.

8 Third, the Company is presently flowing through \$432,272  
9 of consolidated tax savings in its gas rates. At  
10 R-832410, Mr. Bleiweis recommended the adjustment, and  
11 it was accepted by the Commission. However, at this  
12 point in time, Mr. Bleiweis states that the total  
13 consolidated tax savings applicable to PECO is  
14 \$396,547. Since we are presently flowing through  
15 \$432,272 in our gas rates, which is \$35,725 more than he  
16 calculates for the total Company, it would be  
17 inappropriate to flow through \$341,776 more to the  
18 electric customers.

19 Finally, Mr. Bleiweis' calculation of his adjustment is  
20 patently inconsistent. He calculates the average  
21 taxable loss over a two-year period, 1983-84, but then  
22 allocates these losses to positive tax companies based  
23 solely on 1984 data. Had Mr. Bleiweis consistently  
24 employed two-year data in his testimony, there would  
25 have been no adjustment in this case.

1 Q. Do you agree with Mr. Bleiweis's and Mr. Hosler's  
2 proposal that the lag days associated with federal  
3 income taxes should be developed using the statutory  
4 payment schedule?

5 A. No, I do not. The statutory requirement to pay 90% of  
6 the actual tax liability in four equal installments of  
7 22.5% each should not be the basis for a cash working  
8 capital study and is not the method utilized by the  
9 Company in making its tax payments. No company can  
10 foresee with total accuracy the actual tax liability for  
11 the year at the time the quarterly payments are due.  
12 Therefore, the only practical way to avoid a tax penalty  
13 is to pay more than 22.5% for the first three quarterly  
14 payments. The Company's payment schedule used in its  
15 tax lag study of 25%, 25%, 25%, and 15% reflects the  
16 prudent use of cash to avoid the tax penalty.

17 Q. Has the Pennsylvania Public Utility Commission addressed  
18 this issue in the past?

19 A. Yes, in PECO's electric cases filed at Dockets R-811626  
20 and R-80061225, the Commission specifically addressed  
21 this issue and fully endorsed the Company's payment  
22 schedule, as follows (R-811626):

23 "The Company selects its payment schedule to avoid  
24 late payment penalties, set at the prime rate,  
25 under the estimated tax provisions of the Internal

1 Revenue Code. Late penalties will result from any  
2 under estimation of these payments due to  
3 fluctuations of weather or economic conditions. We  
4 consider the Company's schedule of payments to be  
5 prudent and in the best interest of the  
6 ratepayers. Therefore, we will not second guess  
7 the Company's decision to take the safer course in  
8 order to avoid the possibility of having to pay  
9 these penalties, which would most definitely be an  
10 inappropriate use of funds."

11 Q. Could you comment on Mr. Bleiweis's reference (page 20  
12 of his direct testimony) to your statement made under  
13 cross examination indicating that the quarterly federal  
14 income tax payments made by the Company would be in the  
15 amount of 22.5% of the total tax liability?

16 A. Yes, my response under cross-examination (TR262) was in  
17 reference to the IRS requirement to pay 90% of the total  
18 tax liability in equal installments of 22.5% each.  
19 However, for reasons stated above, the Company uses a  
20 safer payment schedule in order to avoid tax penalties.

21 Q. What payment schedule did the Company actually utilize  
22 in making its tax payments for the latest federal tax  
23 return filed?

24 A. For the 1984 tax year the Company paid \$4 million on a  
25 consolidated basis for each of its first three quarterly

1 payments for a total of \$12 million. No fourth  
2 quarterly payment was necessary under the facts and  
3 circumstances that existed at year end 1984.

4 Q. Mr. Bleiweis characterizes the Company's federal income  
5 tax payment schedule as fictitious and states that on an  
6 actual basis the Company pays little, if any, taxes to  
7 the federal government. Would you comment on his  
8 position?

9 A. In its Order at Docket R-811626, the Commission  
10 addressed a similar argument by the OCA and rejected it  
11 for the following reason:

12 "The Company agrees with the OCA's prediction that  
13 it will not incur the tax liability projected on a  
14 proforma basis. PECO considers it all too likely  
15 that massive attrition of earnings due to inflation  
16 and regulatory lag will continue. Lower earnings  
17 mean lower taxable income and lower tax liability."

18 Q. Do you agree with Mr. Hosler's adjustment to the Ad  
19 Valorum tax lag day calculation?

20 A. No, I do not. The Staff's adjustment is an attempt to  
21 recognize that the prepayments for capital stock tax and  
22 public utility realty tax are not based on current year  
23 estimates, but rather on the tax liability from a prior  
24 year. Consequently, he compares the historic tax  
25 expense at 6/30/83 with the expense for the period ended

1 6/30/86 and develops an annual compound growth factor.  
2 However, in the case of capital stock tax, one must  
3 adjust the historic data to reflect the change in the  
4 law to a new method in calculating the tax. The  
5 historic tax expense must also be adjusted to remove any  
6 effects of prior year's tax accruals that are reflected  
7 in the historic period but that are not applicable to  
8 the period. These adjustments, which are contained in  
9 Richard Wright's rebuttal testimony, Statement No. 20A,  
10 are necessary in order to compare the historic with the  
11 future tax expense for the purpose of developing a  
12 growth factor.

13 In a similar manner, there must be an adjustment to the  
14 public utility realty tax in the 6/30/86 test period to  
15 remove the effect of an extraordinary payment made in  
16 1984 that was expensed and recovered over a 24-month  
17 period, part of which is contained in the test period.  
18 This adjustment is also contained in Statement No. 20A  
19 and has the effect of placing historic and future tax  
20 expenses on comparable levels for the purpose of  
21 developing a growth adjustment.

22 Q. Mr. Sileo, would you review the purpose of the Company's  
23 Investment Tax Credit (ITC) amortization adjustment  
24 shown on page D-20 of TPH-2?

25 A. In accordance with the methodology adopted in PECO's

1 last electric rate case at Docket R-842590, the  
2 adjustment is necessary to reflect a full year's  
3 amortization of ITC on qualified plant, assuming  
4 proforma proposed rates were in effect during the  
5 period. As stated on page D-20, this ITC annualization  
6 adjustment could change if the full rate increase were  
7 not granted, thereby causing less ITC to be utilized in  
8 a tax calculation made under proforma proposed rate  
9 conditions.

10 Q. How much of the requested rate increase would have to be  
11 granted in order for the Company to utilize all of its  
12 amortizable ITC under proforma conditions.

13 A. The Company would need a rate increase of at least  
14 \$423,196,000 (Attachment 1), before fuel savings, in  
15 order to support the entire ITC amortization shown on  
16 page D-20 of TPH-2.

17 Q. In view of Mr. Knudsen's proposed Limerick I  
18 adjustments, do you agree with his adjustment to the  
19 Limerick ITC amortization?

20 A. I agree that, in the event a portion of Limerick is  
21 disallowed from rate base, a like portion of Limerick  
22 ITC amortization should also be removed from the cost of  
23 service computation. However, Mr. Knudsen's calculation  
24 on Schedule TEK-7, OCA Statement No. 7, is in error  
25 since it only addresses a portion of Limerick ITC

1 amortization. Specifically, the adjustment developed on  
2 Schedule TEK-7 applies a Limerick disallowance factor of  
3 40.39% to \$1,387,000 of ITC amortization shown on  
4 Company's exhibit TPH-2, D-20. However, this factor  
5 should also be applied to \$3,610,000 of Limerick ITC  
6 amortization also shown on page D-20, since the total  
7 amount of Limerick ITC amortization in this case is  
8 \$4,997,000 (1,387,000, plus 3,610,000).

9 Q. Does this conclude your testimony at this time?

10 A. Yes, it does.

11

12

13

14

15

16

17

18

19

20

21

22

23

24

25

PECo - Electric Operations  
 Rate Increase Necessary to  
 Amortize all Eligible ITC  
 \$1,000's

<u>ITC Utilization Necessary to Amortize All Eligible ITC</u>		
ITC utilized @ 6/30/86 per budget (B-15, TPH-2)		\$17,6
Total ITC carryover (D-20, TPH-2)	187,323	
Less: CWIP portion that will not effect amortization	<u>16,231</u>	<u>171,0</u>
Total ITC utilization necessary to support ITC Amortization provided for in this rate case		<u>\$188,7</u>
<u>Development of ITC Limitation for \$423,196 Rate Increase Under Proforma Conditions</u>		
Federal tax base under proforma PECO proposed rate conditions (Attachment IR-Staff-TXC-1(a))		910,8
Less: Effect of PECO proposed rate increase on federal base		<u>814,0</u>
Federal tax base under proforma present rates		96,8
Rate increase necessary to utilize all amortizable ITC under proforma conditions	423,196	
Less: 2% Gross Receipts Tax	<u>8,464</u>	
Less: 6.977% CNI Tax	<u>414,732</u>	
Effect on federal tax base	<u>28,936</u>	
Federal tax base under proforma rate conditions		385,7
Federal tax before ITC		<u>482,6</u>
Calculation of ITC limitation:		x .
		<u>222,0</u>
		-
		<u>221,9</u>
		x .
		<u>188,6</u>
		+
ITC limitation assuming \$423,196 rate increase		<u>\$188,7</u>
(a) Base rate increase		\$ 681,
Less: 2% Gross Receipts Tax		13,
effect on fuel expense		<u>(206,</u>
Preliminary tax base		875,
Less: 6.977% CNI Tax		<u>61,</u>
Effect on federal tax base		\$ 814,

PSCo Statement No. 23B

SM  
3-6-86  
llag  
R-8501

RECEIVED

MAR 7 1986

SECRETARY'S OFFICE  
Public Utility Commission

Pennsylvania Public Utility Commission

v.

Philadelphia Electric Company

Docket No. R-850152

Sur-surrebuttal Testimony of

Guy A. Sileo

DOCKETED  
MAR 11 1986

DOCUMENT  
FOLDE?

March 1986

1 Q. Please state your name and address.

2 A. My name is Guy A. Sileo and my business address is 2301  
3 Market Street, Philadelphia, PA 19101

4 Q. Have you previously submitted testimony in this  
5 proceeding?

6 A. Yes. I have submitted statements 23 and 23A in support  
7 of the Company's claim for taxes.

8 Q. What is the purpose of your sur-surrebuttal testimony?

9 A. The purpose of this sur-surrebuttal testimony is to  
10 address the adjustments in the tax area made by Mr.  
11 Bleiweis, Mr. Hosler, and Mr. Heverling.

12 Q. Mr. Sileo, Mr. Bleiweis in his surrebuttal testimony  
13 states that your rebuttal testimony "reflects a basic  
14 misunderstanding between adjustments made for accounting  
15 purposes and adjustments made for ratemaking purposes".  
16 Do you have any comments regarding this statement?

17 A. Yes, I do. There is no misunderstanding on my part  
18 between adjustments made for accounting purposes and  
19 those made for ratemaking purposes. My rebuttal  
20 testimony addressed ratemaking adjustments proposed by  
21 various parties in this proceeding and sets forth the  
22 reasons I believe that the proposed adjustments are  
23 inappropriate for ratemaking purposes. My rebuttal  
24 testimony does not address accounting issues.

25 Q. Mr. Sileo, Mr. Bleiweis in his surrebuttal testimony,

1 indicates that your rebuttal testimony appears to be  
2 arguing that, since his consolidated tax adjustment in  
3 this case is less than that accepted by the Commission  
4 for the Gas Division alone in a prior case, somehow his  
5 adjustment is improper. Do you have any comments  
6 regarding the statement?

7 A. Yes. There are no appearances about it, that is exactly  
8 what I am saying. As I stated in my direct testimony,  
9 Mr. Bleiweis is saying at this point in time that the  
10 total consolidated tax savings applied to PECO is  
11 \$396,547 and that the portion applicable to the Electric  
12 Division is \$341,776. However, we are presently flowing  
13 through \$432,262 of consolidated tax in our gas rates.  
14 Consequently, it is obvious that the Company is flowing  
15 more through in rates than it should be and that any  
16 additional adjustment is unreasonable.

17 Q. Mr. Bleiweis in his surrebuttal testimony explains why  
18 he uses a two-year period to develop his consolidated  
19 tax savings and then allocates the savings only over one  
20 year. Do you have any comments regarding his  
21 explanation?

22 A. Yes. His explanation indicates that in order to develop  
23 a consolidated tax savings he had to be inconsistent.  
24 He further states, that to check the accuracy of his  
25 proposed adjustment, he compared his result with other

1 adjustments he proposed previously for PECO and found  
2 his result to be reasonable. It appears as if he used a  
3 reverse allocation procedure, first determining the  
4 desired result, and then finding an allocation procedure  
5 to fit the result. Had Mr. Bleiweis used a consistent  
6 allocation procedure, there would have been no  
7 adjustment in this case.

8 Q. Would you address the surrebuttal testimony of Mr.  
9 Bleiweis and Mr. Hosler with respect to the proper  
10 methodology to be used to develop lag days associated  
11 with the payment of federal income taxes?

12 A. Yes, both the OCA and the Staff's position is that the  
13 statutory requirements should be used to develop federal  
14 income tax lag days used in the Company's cash working  
15 capital claim. However, to use this methodology for the  
16 payment of federal tax liability would subject the  
17 Company to substantial risk of underpayment penalties,  
18 which the Commission has previously addressed as an  
19 "inappropriate use of funds". The Commission's full  
20 endorsement of the Company's methodology is addressed  
21 beginning on page 8, line 17 of my rebuttal testimony  
22 (Statement No. 23A). To be specific, the Company would  
23 currently be subject to a 10% interest penalty on any  
24 payment that fell short of the statutory percentage of  
25 total tax liability as indicated on the federal tax

1 return. In other words, the Company would have to be  
2 100% accurate in its budgeting process to avoid the risk  
3 of penalty. Furthermore, since the 10% interest penalty  
4 is not deductible in calculating income tax liability, a  
5 20% effective cost of money results on the amount of  
6 underpayment. I do not believe that it is appropriate  
7 to utilize a tax lag methodology that would subject the  
8 Company to substantial penalties that could not possibly  
9 be justified as appropriate use of funds.

10 Q. Would you comment on Mr. Bleiweis's reference to the  
11 actual payments made for the 1984 federal tax liability  
12 as it relates to lag study methodology?

13 A. Yes. Apparently, Mr. Bleiweis uses the fact that the  
14 1984 liability was paid in three installments in the  
15 amount of \$4 million each to conclude that actual  
16 experience should not be the criterion used for a lag  
17 study, but rather the statutory requirements should be  
18 employed. To the contrary, I used this example of how  
19 1984 taxes were actually paid to demonstrate how little  
20 relevance the statutory payment schedule has in paying  
21 federal income taxes. For 1984, the Company employed  
22 its methodology of paying the first three tax install-  
23 ments based on 25% of the total tax liability as was  
24 estimated at the time of each payment; however, year end  
25 information indicated that no additional payment was

1 required. I would point out that the Company has not  
2 based its federal tax claim on the actual payment of  
3 1984 taxes, but rather on the methodology that is  
4 actually employed to minimize its risk of penalties.  
5 While Mr. Bleiweis labels the Company's payment schedule  
6 "fictitious", it is, in reality, the statutory payment  
7 schedule that is the fiction.

8 Q. Mr. Sileo, regarding the Company's current claim for  
9 deferred taxes associated with capitalized pensions and  
10 taxes Mr. Heverling states "This Commission must decide  
11 whether or not denial of the category of deferred taxes  
12 will have a more than diminimus [sic] effect upon the  
13 cash resources of the Company." Do you have any  
14 comments regarding his statement?

15 A. Yes, I do. The Company's current claim for deferred  
16 taxes associated with capitalized pensions and taxes  
17 amounts to \$9,578,000, which converts to approximately  
18 \$20,000,000 on a revenue basis. I do not think that  
19 \$20,000,000 can be considered de minimis in light of the  
20 cash needs for the Company's continuing construction  
21 program.

22 Q. Does this conclude your testimony at this time?

23 A. Yes, it does.

24

25

*Sm*  
*R-850152*  
*Hbg*  
*3-6-86*

PENNSYLVANIA PUBLIC UTILITY COMMISSION V.

PHILADELPHIA ELECTRIC COMPANY,

DOCKET NO. R-850152

REBUTTAL TESTIMONY

OF

RICHARD Wm. WRIGHT

ON

NON-LIMERICK REVENUE,

EXPENSES AND RATE BASE ISSUES

**RECEIVED**

**MAR 7 1986**

**SECRET**  
**Public Utility Commission**

**DOCKETED**  
**MAR 11 1986**

FEBRUARY, 1986

**DOCUMENT**  
**FOLDER**

1 Q. Are you the same Richard Wm. Wright who previously filed  
2 testimony in this proceeding?

3 A. Yes, I am.

4 Q. What is the purpose of this rebuttal testimony?

5 A. The purpose of my rebuttal testimony is to respond to  
6 certain adjustments proposed by Witnesses Hosler, Mayer  
7 and Prowell of the Trial Staff and Witness Bleiweis of the  
8 Office of Consumer Advocate.

9 Q. Trial Staff Witness Mayer has proposed four separate  
10 adjustments to the PECO claim for nuclear decommissioning  
11 expenses. The first adjustment concerns the period over  
12 which funds for nuclear decommissioning should be  
13 accrued. Will you please comment on this proposal?

14 A. I disagree with Witness Mayer's recommendation to extend  
15 the period of time over which decommissioning costs are  
16 recovered. The Nuclear Regulatory Commission recently  
17 published a proposed rulemaking on Decommissioning  
18 Criteria for Nuclear Facilities (Federal Register, Volume  
19 50, No. 28, pp 5600-5625). Under these regulations, it is  
20 the expiration of a nuclear facility's operating license,  
21 not the end of a facility's economic depreciation period,  
22 which triggers the funding criteria.

23 Nuclear power operations cease with the expiration of  
24 a unit's operating license. Thus, extending the  
25 decommissioning funding period beyond the expiration of a  
26 unit's operating license will result in the accrual of an  
27 insufficient decommissioning reserve when that unit ceases

1 commercial operation. More importantly, however, such an  
2 extension in the funding period will violate the proposed  
3 NRC regulations which mandate that "the funds plus  
4 accumulated interest...be sufficient to pay for  
5 decommissioning costs at the time termination of operation  
6 is anticipated" (Federal Register, p. 5607).

7 The Commission has repeatedly approved the expiration  
8 of the operating license as the basis of the Company's  
9 decommissioning claim. The Company is seeking in this  
10 proceeding exactly the same treatment as has been approved  
11 at Dockets R-811626, R-822291 and R-842590.

12 Q. Witness Mayer's second proposal recommends that the prior  
13 accrual correction to nuclear decommissioning expense  
14 should be amortized over remaining plant life rather than  
15 over five years as proposed by the Company. Do you agree  
16 with this recommendation?

17 A. No. Prior accrual correction is a procedure recognized  
18 and approved by the Commission at Dockets R-811626,  
19 R-822291 and R-842590. In these previous cases, the  
20 methodology requested and approved provided for the  
21 correction of the previous undercollection over a one year  
22 period. Correction for deficiencies in prior accruals over  
23 a one year period is in accordance with the Company's  
24 Commission-approved goal of maintaining the  
25 decommissioning reserve in a fully funded current dollar  
26 state. Maintaining a fully funded decommissioning reserve  
27 necessitates the immediate collection of prior accrual

1 deficiencies. Delaying the correction in prior accrual  
2 deficiencies, as Witness Mayer proposes, is inconsistent  
3 with the goal of maintaining a fully funded current dollar  
4 decommissioning reserve and unfairly assigns increasing  
5 levels of cost responsibility to future generations of  
6 ratepayers.

7 Q. Why then are you proposing to amortize the current  
8 adjustment over five years?

9 A. The development of the Company's first site specific  
10 decommissioning cost study has indicated that  
11 decommissioning costs are substantially higher than we  
12 estimated through the comparative analysis techniques  
13 utilized as the basis for previous claims. As a result,  
14 the magnitude of the prior accrual correction in this  
15 proceeding is unusually large. Additionally, the  
16 inclusion of Limerick Unit No. 1 in the decommissioning  
17 claim has considerably increased the magnitude of the  
18 total claim. In recognition of these facts, we  
19 recommended in this particular case that the  
20 undercollection be corrected over five years instead of  
21 the one year correction which has been claimed and  
22 approved in each of the last three rate cases.

23 Q. What benefit does the Company receive in the collection of  
24 decommissioning costs?

25 A. The Company receives no benefit as a result of the  
26 collection of decommissioning costs. The fund is held by  
27 an escrow agent for use as required at the end of plant

1 life. It is to the benefit of all generations of  
2 ratepayers for each generation to bear, as nearly as  
3 possible, its proportionate share of decommissioning  
4 costs. No purpose is served by Witness Mayer's new prior  
5 accrual amortization methodology. While continually  
6 amortizing increasing costs over total remaining plant  
7 life will, in fact, marginally reduce the current  
8 ratepayer's contribution to the decommissioning fund, the  
9 cost of this current reduction is a distortion of future  
10 decommissioning cost accruals.

11 Q. Have you made any study of the effects of Witness Mayer's  
12 methodology on future decommissioning cost accruals?

13 A. Yes. Company Schedule RWW-1 presents analyses of future  
14 decommissioning accruals using the Company's method as  
15 compared to the method advanced by Witness Mayer. The  
16 analyses examine future decommissioning accruals for  
17 Limerick Unit No. 1 with the following assumptions:

- 18 1) Single unit analysis - Limerick Unit No. 1
- 19 2) June 30, 1986 rate effectiveness
- 20 3) Rate cases every two years
- 21 4) 8% non-taxable earnings rate
- 22 5) 6% decommissioning inflation rate
- 23 6) June 30, 2024 decommissioning date

24 The above assumptions are hypothetical and are included  
25 only for purposes of evaluating decommissioning funding  
26 methodologies.

27 Schedule RWW-1a depicts the total estimated

1 decommissioning cost by year and the total of accruals  
2 using both the Company and Staff methods. Both methods  
3 accrue sufficient funds to meet the estimated  
4 decommissioning cost by the year 2024. However, the Staff  
5 method results in significant distortions in the accrual  
6 stream.

7 Schedule RWW-1b demonstrates that, under the Staff  
8 method, accruals rise rapidly beyond those contained in  
9 the Company's method and eventually overcollect, actually  
10 requiring refunds to customers of as much as \$23,600,000  
11 annually. Under the Company's method, however, the  
12 decommissioning accruals increase constantly and evenly  
13 through time in the manner previously approved by the  
14 Commission.

15 In conclusion, the Company's constant dollar accrual  
16 methodology most accurately reflects decommissioning cost  
17 responsibility and most equitably distributes that cost  
18 responsibility to customers over the life of a nuclear  
19 facility.

20 Q. What comments do you have regarding the third adjustment  
21 proposed in the testimony of Witness Mayer?

22 A. The Company agrees that inasmuch as the output of the  
23 Salem Unit No. 2 was sold to Jersey Central Power & Light  
24 (JCPL) during the period October 13, 1981 through December  
25 31, 1984, the unit was not useful to Pennsylvania  
26 jurisdictional ratepayers for this period of time.  
27 However, we disagree that the 31/35 ratio proposed by

1 Witness Mayer represents the correct allocation of costs  
2 to Pennsylvania jurisdictional ratepayers.

3 First, as I have previously discussed, it is not  
4 appropriate to lengthen the decommissioning accrual period  
5 beyond the expiration of the operating license. Hence,  
6 the accrual period should remain 27 years. Second, the  
7 term of the JCPL agreement was 3.22 years. Therefore, the  
8 proportional liability of Pennsylvania ratepayers is  
9  $(27-3.22)/27$  years or 88.1% of the decommissioning cost.  
10 Our final accounting exhibit will therefore include 88.1%  
11 of the decommissioning reserve fund as the responsibility  
12 of Pennsylvania ratepayers.

13 Q. Mr. Wright, how does the change you have indicated above  
14 affect the Company's decommissioning cost claim?

15 A. Reapportioning the Salem Unit No. 2 decommissioning cost  
16 will reduce the Company's decommissioning cost claim from  
17 \$12,891,000 to \$12,216,000. This will be reflected in the  
18 Company's final accounting exhibit.

19 Q. Witness Mayer has proposed that ratepayers should not have  
20 to pay for the costs of decommissioning Peach Bottom Unit  
21 No. 1. Do you agree with this proposal?

22 A. No, I do not agree with Witness Mayer's analysis of this  
23 issue. While it is true that Unit No. 1 was retired  
24 several years ago, it was not until publication of the  
25 Nuclear Regulatory Commission proposed rulemaking on  
26 Decommissioning Criteria for Nuclear Facilities that the  
27 Company was given definitive direction on decommissioning

1 requirements. The financial assurance requirements  
2 contained within the proposed rulemaking mandate that  
3 electric utility licensees determine reserve fund  
4 requirements by utilizing a facility-specific cost  
5 estimate submitted as part of a decommissioning funding  
6 plan. If a facility-specific study is not available, the  
7 reserve funding requirement is prescribed as \$100 million  
8 (1984 dollars) adjusted for inflation. When this proposed  
9 rulemaking becomes final, these requirements will be  
10 applicable to Peach Bottom Unit No. 1 as well as to our  
11 operating nuclear units. In order to avoid the \$100  
12 million default funding requirement, the Company included  
13 Peach Bottom Unit No. 1 in the Peach Bottom Station site  
14 specific decommissioning cost study.

15 Peach Bottom Unit No. 1 is currently in a safe  
16 storage ("SAFSTOR") condition. Final decommissioning of  
17 this unit cannot be completed while Peach Bottom Units No.  
18 2 and No. 3 remain in operation since certain facilities  
19 at Peach Bottom Unit No. 1 are critical to the operation  
20 of the Peach Bottom station as a whole. Therefore, the  
21 Company is proposing that the decommissioning reserve fund  
22 for Peach Bottom Unit No. 1 be accrued over the remaining  
23 life of Peach Bottom Units No. 2 and No. 3.

24 Q. Why should the ratepayers pay for these costs?

25 A. As the ratepayers received the benefits of the output of  
26 Peach Bottom Unit No. 1 during its service life, it is  
27 appropriate that the ratepayers pay for the

1 decommissioning costs associated with this unit.

2 Q. Is the decommissioning expense associated with Peach  
3 Bottom Unit No. 1 the responsibility of any other parties  
4 besides PECO and its ratepayers?

5 A. No. Peach Bottom Unit No. 1 was built through the efforts  
6 of a consortium including PECO and 52 other companies,  
7 collectively called High Temperature Reactor Development  
8 Associates, Inc. (HTRDA). Each member of HTRDA  
9 contributed funds toward the design and construction of  
10 Peach Bottom Unit No. 1. The objective of the  
11 participating companies was to obtain technical knowledge,  
12 information, experience and training in the design,  
13 construction, maintenance and operation of a nuclear power  
14 plant.

15 While PECO ratepayers received the full benefit of  
16 the output of Peach Bottom Unit No. 1, they were required  
17 to pay only a small portion of the total capital cost of  
18 the facility. The Company's ratepayers in effect received  
19 a bargain in the operation of Peach Bottom Unit No. 1, and  
20 this fact should not be used to avoid the decommissioning  
21 requirement.

22 Q. Should the members of the consortium be obligated to pay  
23 decommissioning expense associated with Peach Bottom Unit  
24 No. 1?

25 A. The agreement between the members of HTRDA made no mention  
26 of nor provision for decommissioning costs. This omission  
27 was not peculiar to this contract. At the time the HTRDA

1 agreement was signed, there were no NRC (or Atomic Energy  
2 Commission) requirements for decommissioning and neither  
3 the costs nor level of effort associated with  
4 decommissioning could have been anticipated. It is  
5 neither practical nor contractually possible to require  
6 that the members of HTRDA contribute to the  
7 decommissioning cost of Peach Bottom Unit No. 1.

8 Q. Trial Staff Witness Prowell has recommended a reduction of  
9 28% to the Company's future test year claim for Limerick  
10 Materials and Supplies. Do you agree with this proposal?

11 A. No, I do not.

12 Q. Are you familiar with the audit report which Witness  
13 Prowell uses as the basis of his proposal?

14 A. I have reviewed the January 29, 1985 PECO Inventory Audit  
15 of Materials and Supplies at the Limerick Generating  
16 Station, Storeroom #348, (Exhibit TVP-1B), in particular  
17 the paragraph cited in Mr. Prowell's testimony. My review  
18 led me to the conclusion that Mr. Prowell misunderstood  
19 the contents of the quoted paragraph. I consulted with  
20 the PECO auditor who prepared the report to verify my  
21 conclusions.

22 Q. In what way did Mr. Prowell misinterpret this audit report?

23 A. From the contents of the audit report, Mr. Prowell drew  
24 the conclusion that "anything purchased by Bechtel had a  
25 28% surcharge added to it," (p6, line 4) i.e., that the  
26 direct cost of the material as well as the labor changes  
27 associated with procurement were both inflated by 28%. In

1 fact, the 28% surcharge is applicable only to the cost of  
2 labor associated with the procurement activities. The  
3 surcharge is not added to the direct cost of material.

4 Further, not only is Witness Prowell's methodology in  
5 error, but his classification of the Bechtel labor mark-up  
6 on these purchases as an extraordinary item is also  
7 incorrect. The procurement of operational spare parts is  
8 an activity that continues over the life of the plant. It  
9 is not correct to conclude that this activity is abnormal  
10 or a one-time proposition. When spare parts are procured,  
11 the costs associated with the procurement (regardless of  
12 who performs the activity) represent legitimate charges to  
13 be paid by the ratepayer.

14 As stated in the audit report, the labor cost to have  
15 Bechtel perform procurement duties for Limerick was  
16 approximately \$66 (including the surcharge) per order.  
17 The cost for PECO to perform this same function was  
18 approximately \$70 per order. Hence, utilizing Bechtel  
19 labor for this particular function was actually a net  
20 marginal benefit to the customer through reduced  
21 procurement costs.

22 Finally, it should be noted the 28% surcharge is not  
23 additional profit to Bechtel. Rather, the bulk of it  
24 represents payroll taxes, unemployment compensation  
25 insurance, and employee benefits, which are a reasonable  
26 and normal part of the cost of doing business.

27 Q. Mr. Wright, Staff Witness Hosler has made a number of

1 adjustments to the Company's cash working capital claim.

2 What comments do you have on these proposed adjustments?

3 A. Witness Hosler makes two minor mathematical refinements to  
4 the Company's cash working claim: 1) the use of a 365 day  
5 year for purposes of calculating lag days for interest and  
6 preferred dividends, and 2) the use of single decimal  
7 place accuracy in all lead and lag day calculations. The  
8 Company does not object to these adjustments and will  
9 incorporate them into the final accounting exhibit.  
10 However, two points should be noted in this regard.

11 First, the interest and dividend lag calculation  
12 advanced in this proceeding is not supported by the  
13 Company. As explained in my direct testimony, the Company  
14 remains philosophically opposed to the adjustment and has  
15 included it in this proceeding only to avoid controversy  
16 and to simplify Commission investigation in this case.

17 Second, it should be noted that, while Witness Hosler  
18 testified that "all lead/lag days used in the Company's  
19 calculations should be carried out to the tenth of a day"  
20 (p. 8, line 12-13), he nevertheless uses whole numbers  
21 for expense lag days in his calculations on Exhibit DPH-1,  
22 Schedule 4, Page 4 of 12. The Company's final accounting  
23 exhibit will correct this inconsistency.

24 Q. Witness Hosler recommends removing uncollectible accounts  
25 expense from the Company's revenue lag calculation.  
26 Witness Hosler states that uncollectible accounts expense  
27 does not create an additional need for funds by the

1 Company. Is this correct?

2 A. No, uncollectible accounts expense does create an  
3 additional need for funds for the Company. The Company  
4 books revenue at the time a bill is sent to the customer.  
5 The revenue lag adjustment compensates the Company for  
6 carrying the revenue on the books until payment from the  
7 customer is received. In the case of uncollectibles, the  
8 Company never receives payment from the customer.  
9 Instead, the Company charges off the uncollectible amount  
10 against expense Account 904 - Uncollectible Accounts. As  
11 I stated at transcript pages 184-185, it takes the Company  
12 approximately 231 days to declare an account  
13 uncollectible, only after which time the amount is charged  
14 to Account 904.

15 In the case of an uncollectible account, the Company  
16 provides service to a customer and is subjected to a 231  
17 day period in which no revenue is collected. When the  
18 revenue is finally written off (after 231 days), the  
19 Company is entitled to a recovery of the cost to carry  
20 that uncollectible revenue as well as a recovery of the  
21 uncollectible revenue itself.

22 Q. Staff Witness Hosler also states that the Company  
23 contemporaneously records a monthly accrual accounting  
24 entry for projected cancelled accounts expense in the  
25 month it records the revenue. Is this true?

26 A. No. The Company does not maintain a reserve account for  
27 uncollectible customer revenue. The reserve account that

1 Mr. Hosler refers to, Account 144 - Accumulated Provision  
2 for Uncollectible Accounts, is not associated with  
3 customer accounts expense. Account 144 is, in fact, the  
4 reserve account related to receivable Account 143 - Other  
5 Accounts Receivable. Account 142 - Customer Accounts  
6 Receivable does not have a reserve account. When a bill  
7 is declared uncollectible, the Company charges the net  
8 uncollectible amount against Account 904 - Uncollectible  
9 Accounts and credits Account 142, but only after incurring  
10 a 231 day lag.

11 Q. Witness Hosler recommends a reduction in the Company's  
12 claimed revenue lag. Do you agree with his adjustment?

13 A. No, I do not. Witness Hosler states that "a double  
14 benefit occurs to the Company" (p. 10, line 18) in the  
15 recovery of a cash working capital requirement for revenue  
16 lag. Witness Hosler feels that, since the Company applies  
17 a late payment charge to delinquent accounts, this is an  
18 offset to the Company's cash working capital revenue  
19 requirement. Witness Hosler has misunderstood the  
20 accounting associated with the late payment charges, and  
21 therefore has proposed an erroneous adjustment.

22 Late payment charges are of no "benefit" to the  
23 Company. Late payment charges are booked to Account 450 -  
24 Forfeited Discounts and are included as part of the Other  
25 Operating Revenue heading on the Company's income  
26 statement. For the future test year, Account 450 amounts  
27 to \$9,420,000. This revenue flows directly back to the

1 Company's customers and can therefore hardly be termed  
2 "beneficial" to the Company.

3 Witness Hosler's revenue lag calculation method denies  
4 the Company a recovery of its cash working capital  
5 requirement for all revenue to which is applied a late  
6 payment penalty. (Witness Hosler calculates this period  
7 to be 42.3 days.) Moreover, since late payment penalty  
8 revenue flows directly back to the customer as Other  
9 Operating Revenue, Witness Hosler's method therefore  
10 denies the Company any cash working capital requirement  
11 recovery for revenue which lags for more than 42.3 days.  
12 This is clearly in error and violates Witness Hosler's  
13 own position that the Company should be compensated for  
14 this revenue lag.

15 In order for Witness Hosler's revenue lag adjustment  
16 to be adopted, it would first be necessary for the Company  
17 to actually get a "benefit" from the late payment  
18 penalty. Witness Hosler's reduction of the Company's  
19 revenue lag period would result in a reduction in revenue  
20 of approximately \$3,327,000. However, giving the Company  
21 the "benefit" of the late payment charges would increase  
22 revenue by \$9,420,000 (Exhibit TPH-2, page B-9). The  
23 Company would certainly agree to such a finding by the  
24 Commission, but seriously doubts that it would be adopted.

25 Q. Witness Hosler has proposed adjustments to three of the  
26 four groups of taxes used to calculate the Company's  
27 overall tax lag. Do you agree with his adjustments?

1 A. No, I do not.

2 Q. Mr. Wright, please address each of Witness Hosler's  
3 proposed adjustments to the Company's tax lag calculation.

4 A. Witness Hosler adjusts the Company's tax lag calculation  
5 to reflect the statutory payment schedule required for  
6 federal income taxes. The Commission has repeatedly  
7 rejected this exact adjustment, approving instead the  
8 Company's claim which seeks to avoid heavy tax delinquency  
9 penalties through a slight acceleration in the payment  
10 schedule for federal income taxes. As explained by Mr.  
11 Sileo, the Company has again in this proceeding reflected  
12 this safe course tax payment pattern in the calculation of  
13 the cash working capital revenue requirement for taxes.  
14 The small reduction in cash working capital requirement  
15 resulting from paying federal taxes in accordance with the  
16 statutory schedule would be far overshadowed by the  
17 penalties associated with an underpayment of federal taxes.

18 Q. On cross examination, Company Witness Sileo was questioned  
19 about the Company's federal income tax payment schedule.  
20 Is it true that Mr. Sileo testified that the Company pays  
21 its federal tax obligation, according to the statutory  
22 schedule, in four equal 22.5% payments and one final 10%  
23 payment?

24 A. No, it is not. I understand that Mr. Sileo will clarify  
25 his testimony in this regard since it is not true that the  
26 statutory payment pattern is used. The payment schedule  
27 utilized is as detailed in the Company's cash

1 working capital claim: three payments of 25%, one payment  
2 of 15% and a final payment of 10%.

3 Q. Do you agree with Witness Hosler's proposal to utilize a  
4 compound growth factor in the development of weighted lag  
5 days for payment of the gross receipts tax?

6 A. No. There is no sound conceptual basis for utilizing a  
7 growth factor in the development of lag days associated  
8 with payment of the gross receipts tax. In the  
9 development of his growth rate factor, Witness Hosler  
10 takes the gross receipts tax expense for the twelve months  
11 ending June 1983 and determines the rate of growth which  
12 would increase this figure to the obligation for the  
13 period ending June 30, 1986. By its nature, this  
14 calculation assumes a continuous, ongoing growth process  
15 over time; similar to the growth of funds invested in a  
16 savings account. The calculation ignores the many real  
17 world, discrete accounting events, such as the  
18 implementation of rate increases or changes in tax rates,  
19 all of which may have an impact on the gross receipts  
20 tax.

21 Q. Ignoring for the moment the inappropriateness of Witness  
22 Hosler's approach, do you nevertheless agree with his  
23 compound growth factor calculation?

24 A. No, I do not agree with Witness Hosler's methodology.  
25 Even assuming that one employs his theoretical growth  
26 factor, the methodology presented by Witness Hosler is in  
27 error. Schedule RWW-2a calculates a theoretical compound

1 growth rate for Gross Receipts Tax which incorporates  
2 known and necessary adjustments. The correct theoretical  
3 growth rate is 3.05%.

4 Schedule RWW-2b recalculates the lag days for Other  
5 Taxes, reflecting the adjustments shown on Schedule  
6 RWW-2a. A lag of 24.8 days results from these adjustments.

7 Q. Do you agree with Witness Hosler's proposed adjustments to  
8 the Ad Valorem Taxes lag day calculation.

9 A. No, Witness Hosler has proposed the use of a compound  
10 growth factor for the calculation of lag days for the  
11 capital stock tax and public utility realty tax. Again,  
12 we do not believe this factor is meaningful, nor do we  
13 agree with the Witness Hosler's methodology. Schedules  
14 RWW-2c, RWW-2d and RWW-2e detail calculations which  
15 determine a compound growth rates for the capital stock  
16 tax and public utility realty tax. These calculations  
17 indicate a compound growth rate of 9.65% for the capital  
18 stock tax and 6.5% for the public utility realty tax.

19 Q. Based on these adjustments, what would be the cash working  
20 capital associated with the payment of taxes?

21 A. Schedule RWW-2f presents this data. Based on the above  
22 detailed adjustments, the cash working capital associated  
23 with the payment of taxes would be \$25,103,000 - an  
24 increase of \$31,330,000 from Witness Hosler's unadjusted  
25 methodology.

26 Q. Mr. Wright, do you now support a Cash Working Capital  
27 claim for tax expense of \$25,103,000?

1 A. No, I do not. The Company's original claim for  
2 \$35,028,000 is correct and consistent with the methodology  
3 previously accepted by this Commission. The purpose of my  
4 revisions to Witness Hosler's calculations was to  
5 demonstrate that his methodology not only erred in concept  
6 but was equally flawed in application.

7 Q. Mr. Wright, Office of Consumer Advocate Witness Bleiweis  
8 has proposed a number of adjustments to Company claims  
9 sponsored by you. What comments do you have on these  
10 proposals?

11 A. Witness Bleiweis has made two proposed adjustments which  
12 were previously addressed in my rebuttal to the testimony  
13 of Staff Witnesses Hosler and Mayer. These are: 1)  
14 revising the Company's cash working capital tax lag  
15 calculation to reflect the statutory payment schedule,  
16 (Hosler) and 2) elimination of the costs associated with  
17 Peach Bottom Unit No. 1 from the decommissioning claim  
18 (Mayer).

19 Q. Mr. Wright, Witness Bleiweis has proposed that \$167,000 of  
20 Salem station fire protection projects and \$1,422,000 for  
21 Peach Bottom spent fuel pool re-racking be removed from  
22 the Company's non-revenue producing construction work in  
23 progress claim. Do you agree with this proposed  
24 adjustment?

25 A. No, I do not. Witness Bleiweis has categorized the Salem  
26 station fire protection projects as "expense reducing";  
27 this is not true. By undertaking these projects the

1 Company seeks only to maintain expenses at exactly the  
2 level they are presently. No reduction in expense will  
3 result.

4 The Commission has historically excluded projects  
5 which are either revenue-producing or expense-reducing  
6 from non-revenue-producing construction work in progress  
7 claims in order to avoid unbalancing revenues and costs.  
8 Clearly, it is Witness Bleiweis' position which would  
9 result in such an unbalancing in this case. The Company  
10 seeks CWIP treatment of the Salem fire protection projects  
11 not to reduce expense, but instead, to maintain expenses  
12 at their current levels.

13 Witness Bleiweis also proposes a disallowance of the  
14 Company's expense for re-racking of spent fuel pools at  
15 Peach Bottom Station. This proposal should also be  
16 rejected. As Witness Bleiweis states in his direct  
17 testimony, this expense "is required in order to keep the  
18 plant operating in accordance with safety standards" (p.  
19 10, lines 19-22). Thus, since this expense is a safety  
20 related requirement, it is properly included in the  
21 Company's claim for non-revenue producing construction  
22 work in progress.

23 Q. Witness Bleiweis has recommended the disallowance of the  
24 Company's entire land held for future use claim. What  
25 comments do you have on this proposal.

26 A. As Witness Bleiweis states, "The Commission's present  
27 policy regarding land held for future use is that there

1 should be a specific plan for such land parcels and that  
2 they be in service within a ten-year period" (p. 12, lines  
3 12-14). All of the parcels included in the Company's land  
4 held for future use claim meet these Commission criteria  
5 and should therefore be approved in this proceeding.  
6 Further, six of the seven land held for future use parcels  
7 claimed in this proceeding (amounting to over 95% of the  
8 value of this claim) were previously approved by the  
9 Commission in the last electric rate proceeding at Docket  
10 R-842590.

11 Q. Mr. Wright, Witness Bleiweis specifically identifies the  
12 Bradshaw project for disallowance in light of the  
13 initiation of construction at the site. Do you agree?

14 A. No, I do not. FERC Order 420 (effective January 1, 1971)  
15 would preclude AFC accrual on the Bradshaw land parcel if  
16 it were excluded from the Company's land held for future  
17 use claim. Hence, were Witness Bleiweis' proposal  
18 adopted, the Company would not only be precluded from  
19 earning a return on the parcel as a future use item, but  
20 also would be prohibited from accruing AFC on it. In  
21 short, during the period of construction, the Company  
22 would be left not only with no current return, but also  
23 with no possibility of a future return on the parcel.  
24 Clearly, this proposal is inequitable on its face.

25 In a similar fashion, Witness Bleiweis' proposal to  
26 treat this parcel as common plant and exclude half from  
27 the land held for future use claim would leave the Company

1 with neither a current return nor the possibility of a  
2 future return on half of the parcel. This proposal is  
3 inequitable and should also be rejected.

4 Q. The Department of Energy (DOE) has recently revised the  
5 basis of the spent fuel disposal charge applicable to  
6 nuclear generating facilities to reflect net rather than  
7 gross electrical output. Will you include this change in  
8 the Company's final accounting exhibit?

9 A. Company Witness Carroll will address both Witness  
10 Bleiweis' proposed revision to the Company's spent nuclear  
11 fuel claim as well as the DOE spent fuel charge revision.  
12 Further, the DOE revision will be fully reflected in the  
13 Company's final accounting exhibit.

14 Q. Mr. Wright, does this conclude your rebuttal testimony at  
15 this time?

16 A. Yes, it does.

17

18

19

20

21

22

23

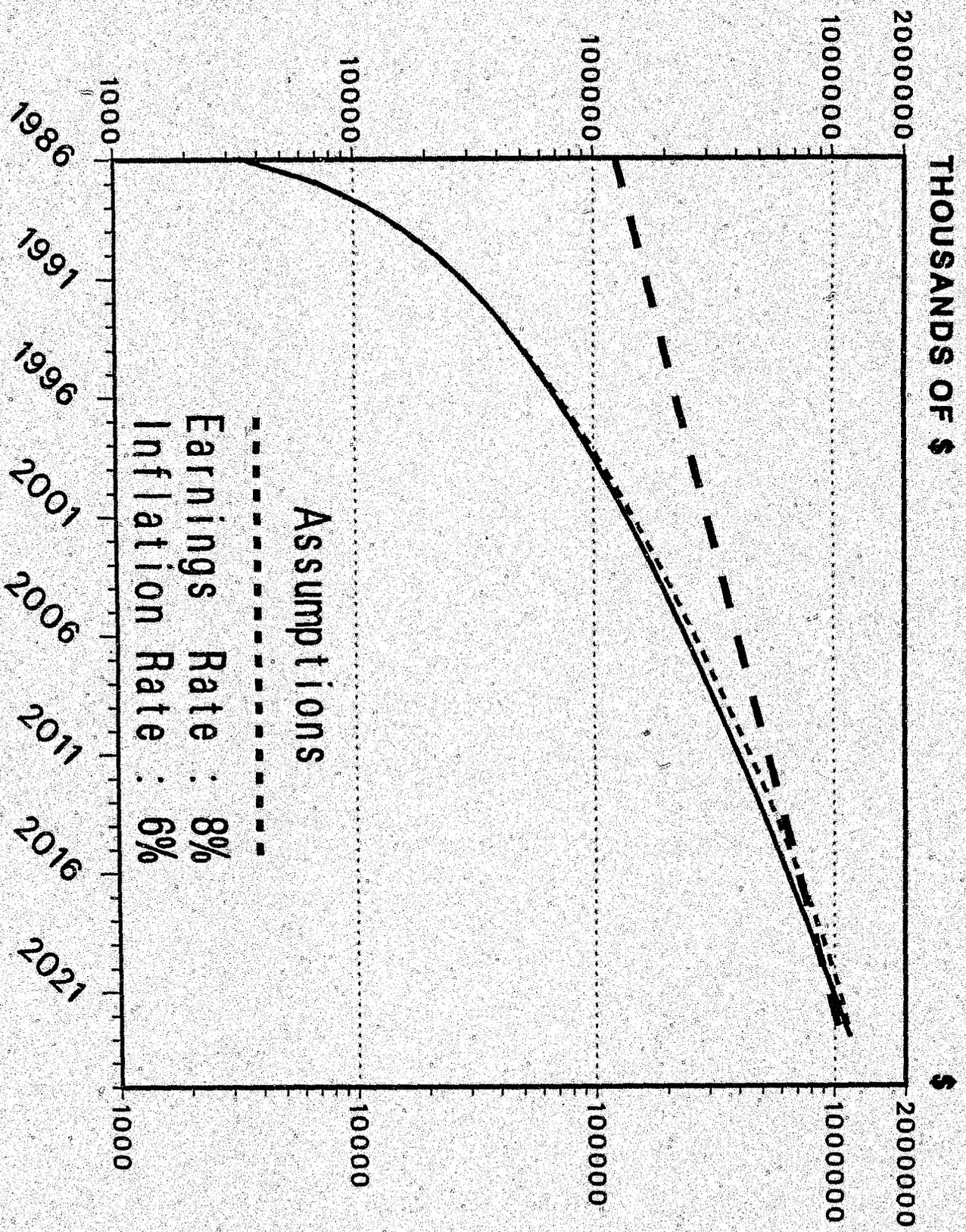
24

25

26

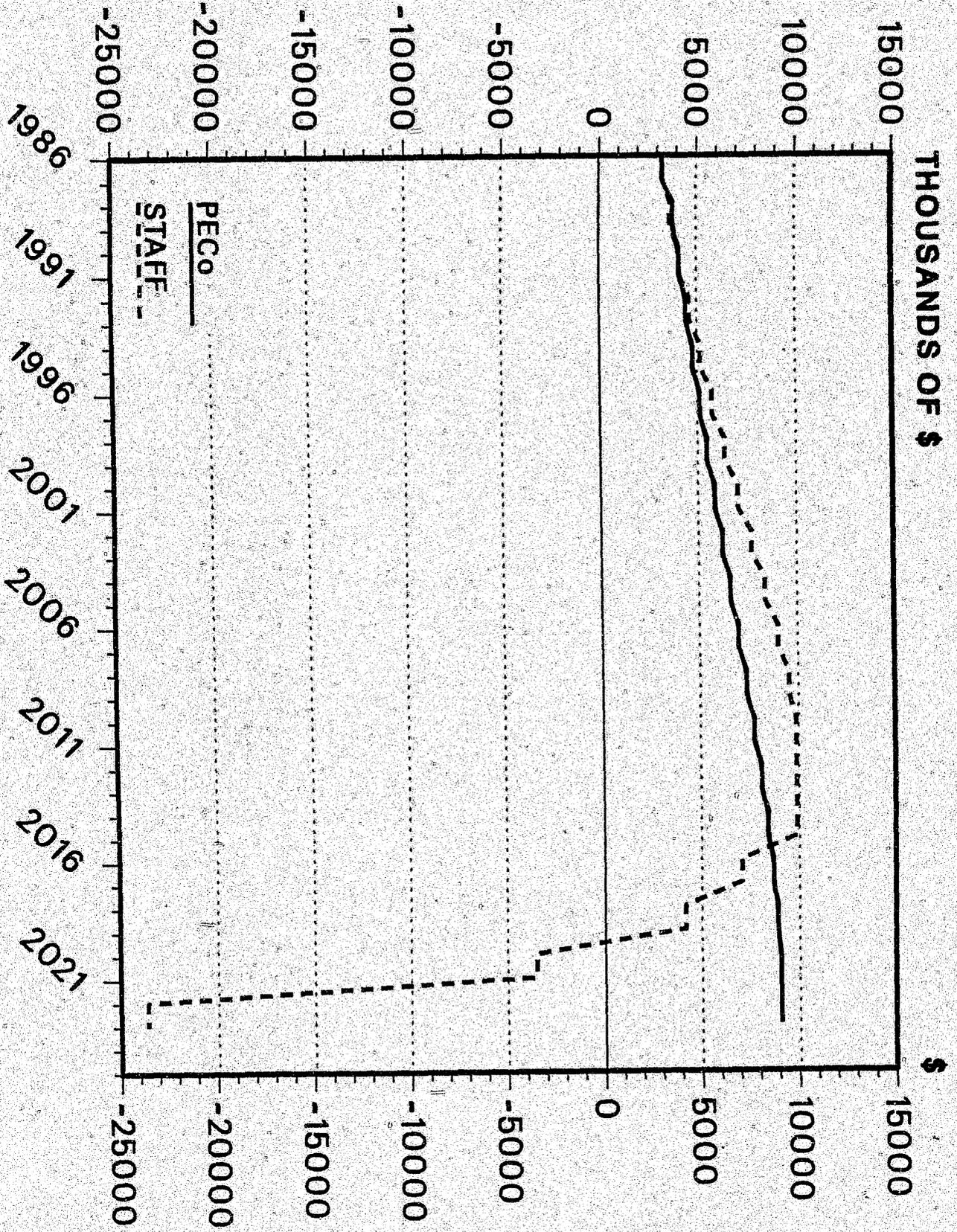
27

# Inflated Decommissioning Cost & Total Escrow Balances



**DECOM COST**  
 PECo  
 STAFF

# Decommissioning: Annual Accruals PECo Method vs Staff Method



Philadelphia Electric Company  
Development of Compound Growth Rate  
Gross Receipts Tax  
(\$1,000's)

Gross Receipts Tax	
12 Months Ended 6/30/83	\$87,728
Adjustment for 11/23/83 Rate Increase	5,919
Adjustment for 1/25/85 Rate Increase	<u>6,908</u>
Adjusted Gross Receipts Tax - Base Year	\$100,555
Gross Receipts Tax - 6/30/86 - Per Books	\$110,055
Compound Growth Rate	3.05%

Philadelphia Electric Company  
Docket No. R-850152

Correction to  
Staff Revised Development of  
Other Taxes Lag Days

	<u>\$</u>
Gross Receipts Tax as adjusted @ 6/30/86	141,537
Compound Growth Rate	<u>1.035</u>
Adjust Prior Year Tax	136,751
April 15 Prepayment Percent	<u>x .90</u>
Estimated Payment 4/15/85	123,076
Adjust GRT @ 6/30/86	141,537
90% Payment	<u>123,076</u>
<u>Remaining GRT</u>	18,461

	<u>\$</u>	<u>%</u>	<u>Lag</u>	<u>Wtd. Lag</u>
90% Payment	123,076	75.88	(76)	(57.7)
Remaining GRT	18,461	11.38	289	32.9
Other	<u>20,658</u>	<u>12.74</u>	0	<u>0</u>
Totals	162,195	100.00		(24.8) days

Philadelphia Electric Company  
 Pa. Capital Stock Tax - 6/30/83  
 \$1,000's

	<u>Actual</u>	<u>Proforma Adjustments</u>	<u>6/30/83 Pa. Capital Stock Under Proforma Conditions</u>
Pa. Capital Stock Tax - 6/30/83			
Current Liability	17,643	1,929 (a)	19,572
Adjustment for 1980	<u>(1,492)</u>	<u>1,492 (b)</u>	<u>      -</u>
Total	16,151	3,421	19,572
	<u>Estimate</u>		
Pa. Capital Stock Tax - 6/30/86	25,793		
Growth Factor	9.64%		

- 
- (a) Reflects increase due to change in Capital Stock Tax Law  
 (b) Elimination of prior period adjustment

Philadelphia Electric Company  
PURTA  
(\$1,000's)

PURTA reflected on B-14, TPH-2	42,432
Less: Prior Period Adjustment	<u>8,750 (a)</u>
PURTA: 12 Months Ended 6/30/86	33,682
PURTA: 12 Months Ended 6/30/83	27,864
Growth Factor	6.5%

(a) Portion attributable to 1984 "double payment" made in 1984 but expensed over a 24 month period.

Philadelphia Electric Company  
 Docket No. R-850152

Corrections to  
 Development of Lag Days in Payment of Taxes  
 Based on Calendar Year 1985

	Total Tax	Payment Date	Period Covered From	To	Lag Days	1,000's Dollars	Weight \$	Compound Growth Rate %	\$ of Total Dollars	Lag Days	Weighted Lag Days
Ad Valorem	85	4/15/85	4/15/85	7/1/85	(76)	17,400			70.70	(53.73)	
	<u>15</u>	4/15/85	7/1/85	4/15/86	289	7,211		29.30	84.67		
	100%					24,611	43.35	16.887	100.00%	30.94	13.41
Public Utility Realty	22.5	4/15/85	4/15/85	7/1/85	(76)	6,795			21.127	(16.06)	
	22.5	6/15/85	7/1/85	7/1/85	(15)	6,795			21.127	(3.17)	
	22.5	9/15/85	7/1/85	9/15/85	77	6,795			21.127	16.27	
	22.5	12/15/85	7/1/85	12/15/85	168	6,795			21.127	35.49	
	<u>10.0</u>	4/15/85	7/1/85	4/15/85	289	4,982	56.65	15.049	15.492	44.77	
100.0%					32,162	100.00		100.00%	77.30	43.79	
					56,775					57.20	

Philadelphia Electric Company  
Docket No. R-850152

Corrections to Staff Adjusted  
Cash Working Capital Required for  
Payment of Taxes  
June 30, 1986  
(\$1,000)

Average Lag in Receipt of Revenue	46.0
Average Lag in Payment of Taxes	33.1
Average Lag in Days Between the Receipt of Revenue and Payment of Taxes	12.9
Pro Forma Test Year Taxes	710,342
Average Daily Taxes	1,946
Increase in Working Capital Requirement	25,103

	<u>Actual</u> \$	<u>Pro Forma</u> <u>Adjustments</u> \$	<u>Pro Forma</u> <u>Taxes</u> \$	<u>Lag</u> <u>Days</u>	<u>Lag</u> <u>Dollars</u> \$
Ad Valorum	69,124		69,124	57.2	3,953,893
Other Taxes Other Than Income	130,713	34,013	164,726	24.8	(4,085,205)
State Income Taxes	26,900	48,201	75,101	63.6	4,776,422
Federal Income Taxes	<u>105,773</u>	<u>295,618</u>	<u>401,391</u>	47.0	<u>18,865,377</u>
Total Taxes	332,510	377,832	710,342		23,510,487
Average Lag in Payment of Taxes				33.1	

sgm 3-6-86

nbq

R-850152

PENNSYLVANIA PUBLIC UTILITY COMMISSION V.

PHILADELPHIA ELECTRIC COMPANY,

DOCKET NO. R-850152

SUR-SURREBUTTAL TESTIMONY

OF

RICHARD Wm. WRIGHT

ON

NON-LIMERICK REVENUE,  
EXPENSES AND RATE BASE ISSUES

RECEIVED

MAR 7 1986

SECRET  
Public Utility Comm.

INDEXED  
MAR 11 1986

MARCH 1986

DOCUMENT  
FOLDER

1 Q. Are you the same Richard W. Wright who previously filed  
2 testimony in this proceeding?

3 A. Yes, I am.

4 Q. What is the purpose of this sur-surrebuttal testimony?

5 A. The purpose of this testimony is to respond to certain  
6 contentions raised on surrebuttal by Witnesses Mayer and  
7 Hosler of the Trial Staff and to make a correction to page  
8 D-15 of Exhibit TPH-2A.

9 Q. Staff Witness Mayer criticizes the Company's citation of a  
10 proposed Nuclear Regulatory Commission (NRC) rulemaking on  
11 Decommissioning Criteria for Nuclear Facilities as support  
12 for the claimed decommissioning funding period. What  
13 comments do you have in this regard?

14 A. The claim for nuclear decommissioning funding is based on  
15 the remaining operating life of the Company's nuclear  
16 units. It is the Company's objective that the  
17 decommissioning funding process be complete when a unit  
18 reaches the end of its operating life. Since the  
19 expiration of a unit's operating license defines the end of  
20 its operating life, it follows that decommissioning funding  
21 should be completed coincident with that expiration.  
22 Artificially extending the decommissioning funding period  
23 beyond the expiration of the operating license will  
24 obviously result in an insufficient decommissioning accrual.

25 The Commission has repeatedly approved the expiration  
26 of the operating license as the basis of the Company's  
27 decommissioning claim. The Company is seeking in this

1 proceeding exactly the same treatment as has been approved  
2 in the Company's last three rate proceedings at Docket Nos.  
3 R-811626, R-822291 and R-842590.

4 The proposed NRC decommissioning rulemaking serves to  
5 re-affirm this Commission-approved methodology. Under this  
6 proposed rulemaking, it is the expiration of a nuclear  
7 facility's operating license which triggers the funding  
8 criteria. Clearly, a decommissioning funding rulemaking  
9 will become law in the near future. The current form of  
10 the rulemaking substantiates and, in fact, mandates the  
11 Company's Commission-approved decommissioning funding  
12 period.

13 Q. Witness Mayer describes your analysis of future  
14 decommissioning accruals as "irrelevant and erroneous."  
15 What comments do you have in this regard?

16 A. Witness Mayer has reached this inaccurate conclusion due to  
17 methodological errors in his own analyses and an incorrect  
18 interpretation of Company provided data.

19 Q. Mr. Wright, please explain the errors and  
20 misinterpretations to which you refer?

21 A. Witness Mayer refers to the Limerick Unit No. 1 analyses  
22 presented in Schedules RWW-1A and RWW-1B as "irrelevant"  
23 since he "proposed no adjustment for this unit." Limerick  
24 Unit No. 1 was, in fact, selected for that very reason.  
25 That is, since a decommissioning claim for Limerick Unit  
26 No. 1 was made for the first time in this proceeding, there  
27 are therefore neither prior accruals nor prior accrual

1 adjustments to complicate the analysis. Selection of  
2 Limerick Unit No. 1 for analysis allows a clear examination  
3 of the effects of a decommissioning funding methodology  
4 without the added complexity of the special one-time,  
5 five-year amortization associated with this proceeding.  
6 Further, the analysis is a highly relevant examination of  
7 the impact of Witness Mayer's decommissioning funding  
8 methodology since it will impact Limerick Unit No. 1 in the  
9 future. In fact, the analysis is all the more relevant in  
10 light of the Company's 100% ownership of Limerick Unit No.  
11 1, as compared to its 42.5% ownership portions of the Peach  
12 Bottom and Salem units.

13 Q. Mr. Wright, you have referred to methodological errors in  
14 the analyses presented by Witness Mayer. Will you please  
15 describe these errors?

16 A. Witness Mayer's methodology (as presented in his Schedules  
17 1 through 4) errs in two specific ways. First, he does not  
18 account for the deferred tax portion of the Salem Unit No.  
19 1 decommissioning reserve. Witness Mayer's Schedule 3  
20 lists an opening escrow balance for Salem Unit No. 1 of  
21 \$4,944,000. This is incorrect. As is evident from an  
22 examination of DR-Staff-RED-6b page 1 of 2, the \$4,944,000  
23 figure includes a deferred tax balance of \$1,309,000. This  
24 deferred tax balance is not a part of the escrow balance  
25 and thus accrues no interest. This error is corrected in  
26 Schedule RWW-3d.

27 Witness Mayer's second error involves his assumption

1 that all future prior accrual deficiencies will be  
2 recovered over a five-year period. This is incorrect.  
3 As I stated in rebuttal on page 3, lines 19 to 22, "in  
4 this particular case...the undercollection (will) be  
5 corrected over five years instead of the one-year  
6 correction which has been claimed and approved in each of  
7 the last three rate cases," (underline added). As I  
8 stated on page 3, lines 9 to 18, it was the simultaneous  
9 introduction of site specific decommissioning cost  
10 estimates and Limerick Unit No. 1 to the decommissioning  
11 claim which led the Company to offer the five-year prior  
12 accrual amortization in this particular case. The  
13 Company has not offered, nor does it see as appropriate,  
14 such amortizations in future cases.

15 Witness Mayer's surrebuttal schedules, in fact,  
16 aptly point out the problems associated with such a  
17 continuing five-year prior accrual correction  
18 methodology. The effect is to overcollect; necessitating  
19 the eventual refund of excess collections. In fact, the  
20 very same overcollections which result from the  
21 application of Witness Mayer's full-life prior accrual  
22 collection methodology will result, but to a lesser  
23 degree, from a five-year prior accrual collection  
24 methodology. Thus, Witness Mayer's analysis demonstrates  
25 the inappropriate nature of his own methodology.

26 Presented as Schedules RWW-3a through RWW-3d are  
27 corrected analyses of Salem Unit No. 1 decommissioning

1 funding using the Company's Commission-approved method and  
2 Witness Mayer's method. Again, it is as obvious in the  
3 case of Salem Unit No. 1 as it was in the case of Limerick  
4 Unit No. 1 that under Witness Mayer's methodology, accruals  
5 rise rapidly beyond those resulting from application of the  
6 Company's methodology and eventually overcollect, actually  
7 requiring refunds to customers of \$1,900,000. Under the  
8 Company's method, however, the decommissioning accruals  
9 increase in a more constant and even manner as previously  
10 approved by the Commission.

11 Witness Mayer's protracted prior accrual correction  
12 methodology will always result in mid to late life yearly  
13 decommissioning accruals which exceed those resulting from  
14 the Company's Commission approved constant accrual  
15 methodology. As a result, Witness Mayer's methodology  
16 overcollects and requires refunds.

17 Q. Witness Mayer terms as "ridiculous" your rebuttal statement  
18 at page 6, lines 24 to 27 in which you say that "it was not  
19 until publication of the Nuclear Regulatory Commission  
20 proposed rulemaking on Decommissioning Criteria for Nuclear  
21 Facilities that the Company was given definitive direction  
22 on decommissioning requirements." Will you please comment  
23 in this regard?

24 A. Peach Bottom Unit No. 1 was partially decommissioned and  
25 placed in a Safe Storage condition upon its retirement.  
26 Final decommissioning disposition was not determined until  
27 publication of the NRC proposed rulemaking. As Dr. McLeod

1 testified (Statement 27, page 6, lines 22-34) "The Nuclear  
2 Regulatory Commission (NRC), which has licensing  
3 jurisdiction over a nuclear plant until all radioactivity  
4 is removed, has indicated that it will not accept  
5 Entombment for large power reactors. Prompt  
6 Decommissioning is the NRC's preferred approach and Delayed  
7 Decommissioning of up to 30 or 50 years would be acceptable  
8 if significant benefits could be demonstrated."  
9 Additionally, the proposed rulemaking specifies that if a  
10 facility-specific decommissioning study is not available,  
11 the reserve funding requirement is prescribed as \$100  
12 million (1984 dollars).

13 In light of these facts, the Company has now  
14 determined that the entombment option is not a viable  
15 alternative for Peach Bottom Unit No. 1. Additionally, it  
16 is now known that a site specific decommissioning cost  
17 analysis will be required if the default funding  
18 requirement of \$100 million (1984 dollars) is to be  
19 avoided. With this new direction from the NRC, the Company  
20 has determined to decommission Peach Bottom Unit No. 1 and  
21 that this decommissioning will take place at the time that  
22 Peach Bottom Units Nos. 2 and 3 are decommissioned.

23 Q. Do you have any corrections to make to Exhibit TPH-2A, page  
24 D-15, Revised 2/14/86, which was submitted as part of the  
25 Company's Final Accounting Exhibit?

26 A. Page D-15 which was submitted as part of the Company's  
27 Final Accounting Exhibit contains one minor error. A new

1 page D-15, Revised 2/27/86 is attached.

2 Q. Will you explain why page D-15, contained within the  
3 Company's Final Accounting Exhibit was incorrect?

4 A. In my rebuttal testimony, we agreed to recalculate the  
5 Company's decommissioning claim to reflect the fact that  
6 Salem Unit No. 2 was unavailable to Pennsylvania  
7 jurisdictional ratepayers for the first 3.22 years of its  
8 life. In making this adjustment, the benefit to the  
9 ratepayer was inadvertently doubled. Page D-15 of the  
10 Final Accounting Exhibit used 27 years as the amortization  
11 period for Salem 2 decommissioning costs. The correct  
12 amortization period is, however, 23.78 years,  
13 (27-3.22=23.78).

14 Q. Will you explain why 23.78 years is the correct  
15 amortization period?

16 A. Yes. The best way to illustrate this point is with a  
17 numerical example. Schedule RWW-4 calculates the  
18 decommissioning accrual for Salem Unit 2 under two  
19 scenarios: a 27 year amortization period and a 23.78 year  
20 amortization period. Pennsylvania jurisdictional  
21 decommissioning expense for Salem Unit No. 2 is shown as  
22 \$33,779,000. This figure represents (27-3.22)/27 or 88.1%  
23 of the total cost to decommissioning this unit.

24 Q. Please explain how the reserve requirement at June 30, 1986  
25 is calculated?

26 A. In recognition of the fact that Pennsylvania ratepayers did  
27 not receive the benefit of this unit during the period of

1       October 1981 to December 1984, the reserve requirement from  
2       Pennsylvania ratepayers at June 1986 is based on 1.5 years  
3       of accruals.

4   Q.   How is the remainder of the decommissioning cost collected?

5   A.   The remainder of the decommissioning expense must be  
6       collected over the remaining life of the unit (22.28  
7       years). Therefore, the total collection period is 23.78  
8       years.

9   Q.   How does this affect the total decommissioning fund?

10  A.   As shown on Schedule RWW-4, Case 1, calculating the yearly  
11       amortization based on an accrual period of 27 years, but  
12       collecting this yearly amortization for a period of only  
13       23.78 years results in a shortfall of \$4,019,000. Using  
14       this methodology, Pennsylvania ratepayers would fund only  
15       77.6% (88.1% x 88.1%) of the decommissioning liability for  
16       Salem Unit No. 2.

17       Case 2 demonstrates that the correct amortization  
18       period for Salem Unit No. 2 decommissioning costs is 23.78  
19       years. This figure correctly reflects the period of time  
20       over which Pennsylvania ratepayers will contribute to the  
21       Salem Unit No. 2 decommissioning fund. With this  
22       methodology, Pennsylvania ratepayers will fund 88.1% of the  
23       total cost to decommission Salem Unit No. 2. Exhibit D-15,  
24       Revised 2/27/86, correctly states the company's  
25       decommissioning claim.

26  Q.   Staff Witness Hosler argues that a growth factor should be  
27       used in the development of lag days associated with the

1 payment of gross receipts taxes. Further, Witness Hosler  
2 objects to the Company's corrected growth factor calculated  
3 as shown on Schedule RWW-2a of Exhibit 20A which normalizes  
4 rate levels. Why should rate levels be normalized?

5 A. The effect of Witness Hosler's methodology is to infer that  
6 historic rate increases can in some way be used to predict  
7 future rate increases. The fact is that rate increases are  
8 far from certain in either level or timing. The purpose of  
9 the Company's rate claim is to set normalized rates based  
10 on known levels of cost. It is not appropriate to adjust  
11 costs for hypothetically increased levels of rates which  
12 may or may not occur.

13 Q. Witness Hosler accepts your adjustment to his growth factor  
14 for the Ad Valorem tax lag day calculation. Do you now  
15 adopt his "growth factor" methodology?

16 A. No, I do not. The structure of the Company's Ad Valorem  
17 tax lag claim in the proceeding is identical to the claim  
18 approved by the Commission in the last proceeding. I do  
19 not agree with Witness Hosler's theoretical growth factor  
20 approach.

21 Q. Mr. Wright, does this conclude your sur-surrebuttal  
22 testimony at this time?

23 A. Yes, it does.

24

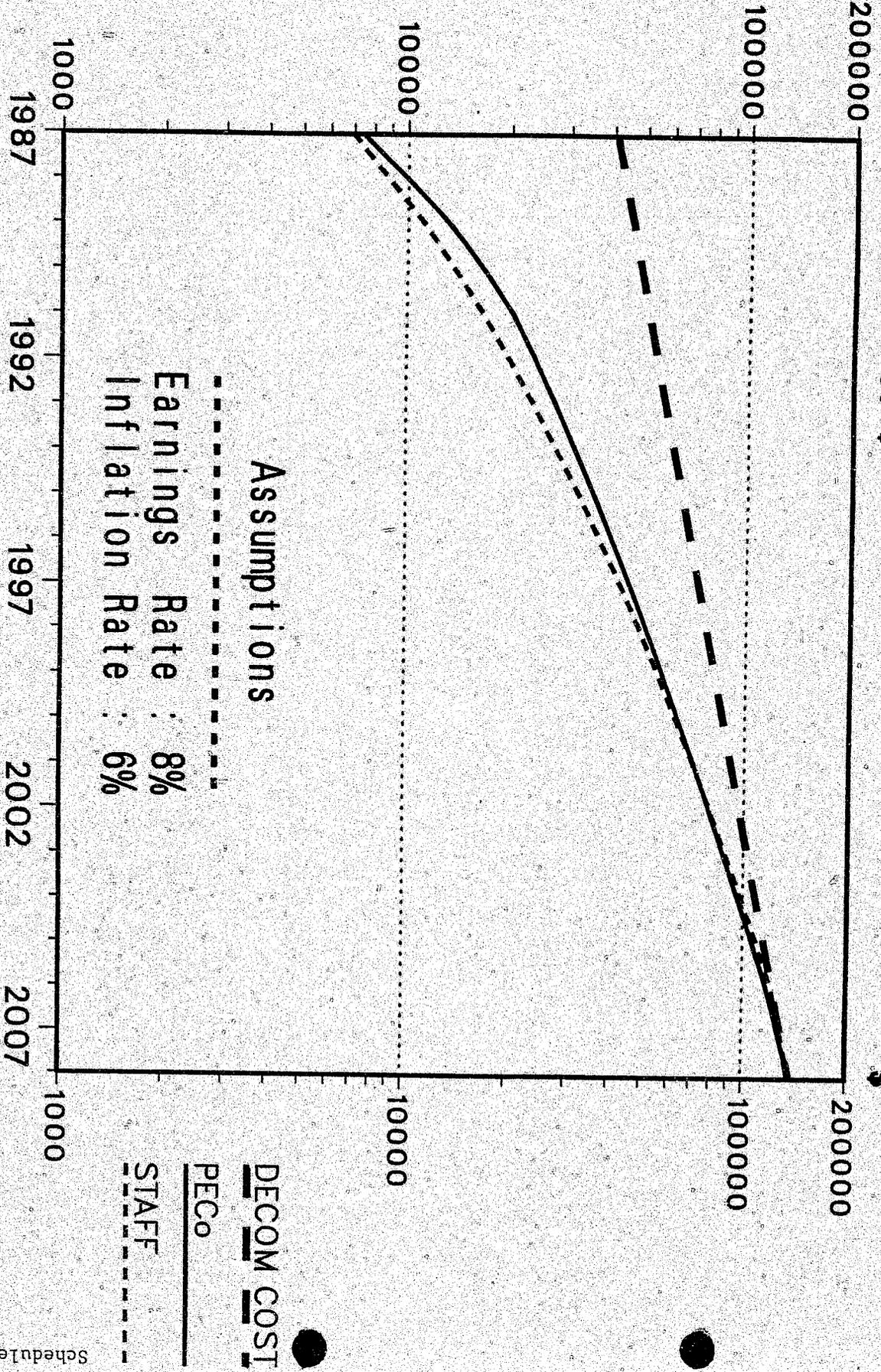
25

26

27

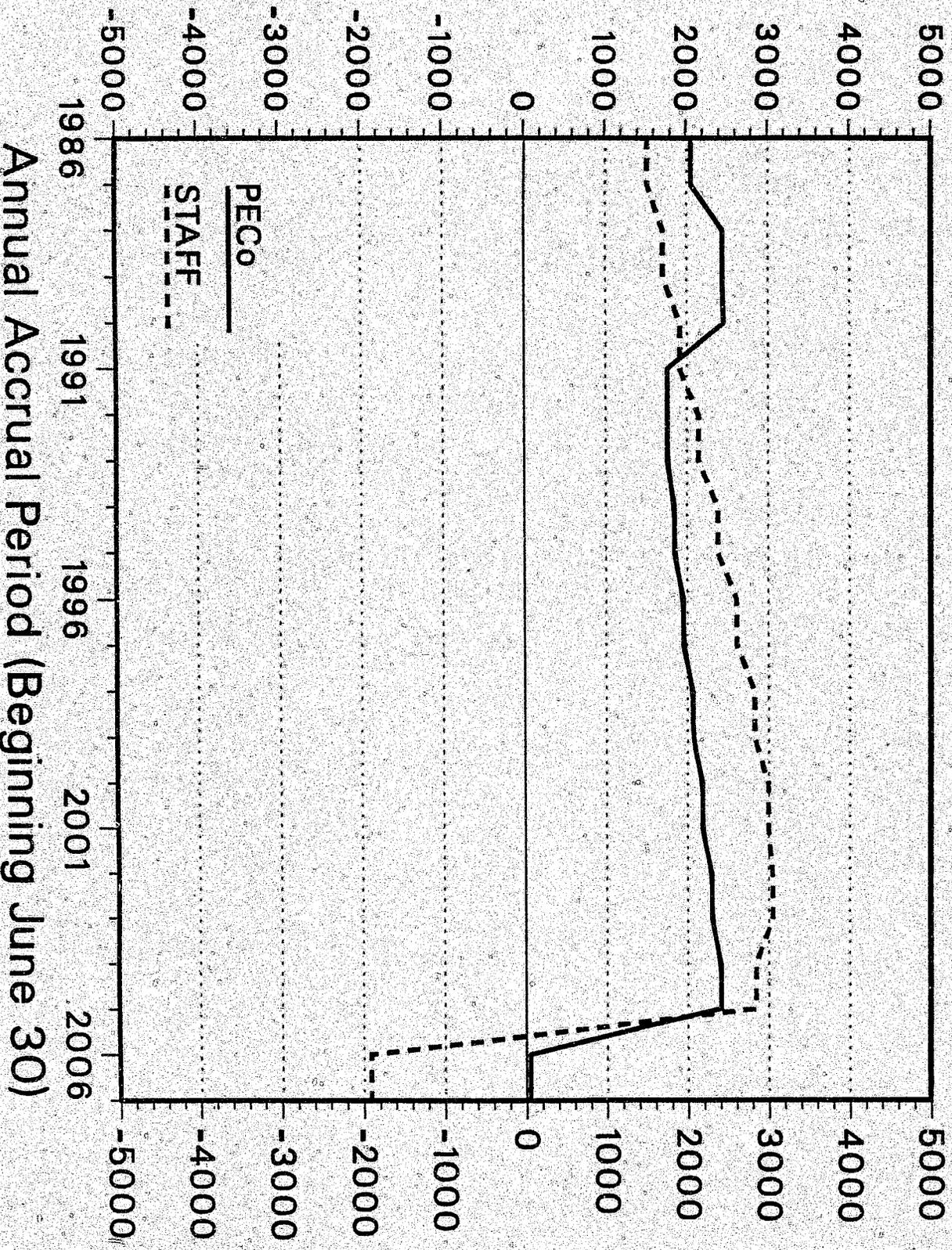
# Inflated Decommissioning Cost & Total Escrow Balances PECo Method vs Staff Method - Salem I

THOUSANDS OF \$



# Yearly Accruals

Decommissioning: Annual Accruals  
 PECO Method vs Staff Method - Salem I  
 THOUSANDS OF \$



Annual Accrual Period (Beginning June 30)

PERIOD	SALES I	02/28/86	14:13:19			
STRT YEAR	PREVIOUSLY COLLECTED	ANNUAL ACCRUAL	EARNINGS	TOTAL ACCRUAL	END OF PERIOD COLLECTION	INFLATED COST
1986 *	4995.	2062.	373.	2435.	7380.	30342.
1987	7380.	2062.	568.	2630.	10010.	40642.
1988 *	10010.	2450.	794.	3284.	13253.	43081.
1989	13653.	2450.	1054.	3503.	16757.	45666.
1990 *	16757.	2461.	1334.	3798.	20552.	48406.
1991	20552.	1767.	1610.	3379.	23932.	51310.
1992 *	23932.	1767.	1881.	3668.	27560.	54389.
1993	27580.	1767.	2172.	3940.	31519.	57652.
1994 *	31519.	1853.	2491.	4364.	35053.	61111.
1995	35863.	1853.	2838.	4692.	40555.	64777.
1996 *	40555.	1964.	3218.	5183.	45736.	68664.
1997	45736.	1964.	3633.	5597.	51336.	72784.
1998 *	51336.	2079.	4085.	6164.	57500.	77151.
1999	57500.	2079.	4578.	6657.	64157.	81780.
2000 *	64157.	2194.	5116.	7309.	71466.	86636.
2001	71466.	2194.	5700.	7894.	79360.	91888.
2002 *	79360.	2307.	6336.	8643.	88003.	97401.
2003	88003.	2307.	7028.	9334.	97337.	103245.
2004 *	97337.	2416.	7779.	10195.	107532.	109439.
2005	107532.	2416.	8594.	11010.	118543.	116005.
2006 *	118543.	53.	9381.	9433.	127976.	122966.
2007	127976.	53.	10135.	10186.	138164.	130343.
2008	138164.					138164.

ALL FIGURES IN THOUSANDS OF \$

\* = RATECASE

INFLATED COST = INITIAL COST \* (1.0615)<sup>ANN</sup>

ANNUAL ACCRUAL = (INFLATED COST / 28 YEARS) + (NEED / 2.0)

EARNINGS = (EOP COLLECTION-PRIOR YEAR + .50\*ACCRUAL) \* 8.0%

TOTAL ACCRUAL = ANNUAL ACCRUAL + EARNINGS

END OF PERIOD COLLECTION = PRIOR YEAR COLLECTION + TOTAL ACCRUAL

REAL TOTAL ACCRUAL = ANNUAL ACCRUAL \* (ORIGINAL COST / INFLATED COST)

NOTES: 1) PREVIOUSLY COLLECTED BALANCE INCLUDES A DEFERRED TAX BALANCE OF \$1309

2) FIRST FIVE YEARS RESULTS REFLECT RECOVERY OF 1986 PRIOR ACCRUAL DEFICIENCY.

STAFF	SALEM I	02/28/86	14:16:58
STRT YEAR	PREVIOUSLY COLLECTED	ANNUAL ACCRUAL	EARNINGS
1986 *	4945.	1520.	352.
1987	6817.	1520.	501.
1988 *	6038.	1714.	671.
1989	11223.	1714.	662.
1990 *	13799.	1925.	1076.
1991	16800.	1925.	1316.
1992 *	20042.	2151.	1585.
1993	23777.	2151.	1683.
1994 *	27811.	2386.	2216.
1995	32412.	2386.	2584.
1996 *	37382.	2621.	2991.
1997	42994.	2621.	3440.
1998 *	49055.	2840.	3933.
1999	55868.	3008.	4475.
2000 *	63143.	3008.	5067.
2001	71218.	3061.	5713.
2002 *	79939.	3061.	6413.
2003	89413.	3061.	7171.
2004 *	99645.	2850.	7981.
2005	110475.	2850.	8847.
2006 *	122173.	-1900.	9593.
2007	129865.	-1900.	10208.
2008	138174.		
TOTAL ACCRUAL	END OF PRD COLLECTION	INFLATED COST	
1872.	6817.	38342.	
2021.	8838.	40642.	
2385.	11223.	43081.	
2576.	13799.	45666.	
3001.	16800.	48406.	
3241.	20042.	51310.	
3735.	23777.	54389.	
4034.	27811.	57652.	
4601.	32412.	61111.	
4970.	37382.	64777.	
5612.	42994.	68664.	
6061.	49055.	72784.	
6773.	55868.	77151.	
7315.	63143.	81780.	
8075.	71218.	86686.	
8721.	79939.	91888.	
9474.	89413.	97401.	
10232.	99645.	103345.	
10831.	110475.	109439.	
11697.	122173.	116005.	
7693.	129865.	122866.	
8308.	138174.	130343.	

ALL FIGURES IN THOUSANDS OF \$  
\* = RATECASE

INFLATED COST = INITIAL COST \* (1.061%<sup>N</sup>)  
 ANNUAL ACCRUAL = (INFLATED COST / 28 YEARS) + (NEED / REMAINING LIFE)  
 EARNINGS = (EOP COLLECTION - PRIOR YEAR \* .50 \* ACCRUAL) \* 8.0%  
 TOTAL ACCRUAL = ANNUAL ACCRUAL + EARNINGS  
 END OF PERIOD COLLECTION = PRIOR YEAR COLLECTION + TOTAL ACCRUAL  
 REAL TOTAL ACCRUAL = ANNUAL ACCRUAL \* (ORIGINAL COST / INFLATED COST)

NOTES: 1) PREVIOUSLY COLLECTED COLUMN INCLUDES A DEFERRED TAX BALANCE OF \$1309.

SALEM UNIT NO. 2 DECOMMISSIONING EXPENSE

	<u>(1000 \$)</u>	
Total Salem Unit No. 2 Decommissioning Cost -----		\$38,342
Cost to be borne by Pennsylvania Ratepayers 38,342 X .881 = -----		33,779
	<u>Case 1 (1000 \$)</u> 27-Year Amortization Period (as filed)	<u>Case 2 (1000 \$)</u> 23.78-Year Amortization Period (as corrected)
Yearly Claim -----	\$ 1,251	\$ 1,420
Reserve Requirement at 6/86 (Jan '85 to Jun '86 = 1.5 years) -----	1,877	2,130
Accrual 7/86 to 2008 (22.28 years) -----	27,872	31,638
Total Funds Collected -----	\$29,749	\$33,768

2859K

SALEM UNIT NO. 2 DECOMMISSIONING EXPENSE

(1000 \$)

Total Salem Unit No. 2 Decommissioning Cost -----	\$38,342
Cost to be borne by Pennsylvania Ratepayers 38,342 X .881 = -----	33,779

	<u>Case 1 (1000 \$)</u> 27-Year Amortization Period (as filed)	<u>Case 2 (1000 \$)</u> 23.78-Year Amortization Period (as corrected)
Yearly Claim -----	\$ 1,251	\$ 1,420
Reserve Requirement at 6/86 (Jan '85 to Jun '86 = 1.5 years) -----	1,877	2,130
Accrual 7/86 to 2008 (22.28 years) -----	27,872	31,638
Total Funds Collected -----	\$29,749	\$33,768

2859K

Philadelphia Electric Company - Electric Operations  
 DECOMMISSIONING COST ADJUSTMENT FOR  
 PEACH BOTTOM NO. 1, 2 & 3, SALEM NO. 1 & 2 AND LIMERICK NO. 1  
 12 Months Ended June 30, 1986  
 (\$1,000's)

In its order at R-842590, the Commission permitted the Company an annual accrual for decommissioning expense of four nuclear units - Peach Bottom Units No. 2 and No. 3 and Salem Units No. 1 and No. 2. Subsequent to this order the Company performed a new decommissioning cost study for all our nuclear units. This adjustment utilizes the new study to (1) include Peach Bottom Unit No. 1 and Limerick Unit No. 1 in the estimate (2) reflect the increase in the total estimated cost of decommissioning (3) provide recovery of the reserve deficiency over a five year period for historic accruals for Peach Bottom Units No. 2 and No. 3 and Salem Units No. 1 and No. 2 and (4) recover future accruals through the year 2008 for the Peach Bottom and Salem Units and through the year 2024 for Limerick Unit No. 1. The Direct Testimony of N. B. McLeod provides a discussion of the decommissioning study performed for all of the Company's nuclear units. The Direct and Rebuttal Testimonies of R. W. Wright provides a description of the Company's expense accounting.

Development of Future Annual Accrual for Decommissioning

PECO share of estimated total cost of decommissioning: (6/30/86)

- Peach Bottom Units No.1;No.2,No.3	\$107,257	
- Salem Units No.1, No.2	72,112	
- Limerick Unit No.1	<u>123,629</u>	
	<u>\$302,998</u>	
Annual decommissioning expense		
- Peach Bottom Units No.1, No.2, No.3		\$3,979
- Salem Units No.1; No.2		2,789
- Limerick Unit No. 1		<u>3,253</u>
		<u>\$10,021</u>

Expense to Correct Prior Accruals

Reserve requirement at 6/30/86 for Peach Bottom Units No. 2 and 3 and Salem Units No. 1 and No. 2	\$30,724	
Estimated actual reserve through 6/30/86 including interest	18,650	
Increase in Decommissioning expense necessary to correct prior accruals	12,074	
5 yr amortization of incr. in decommissioning expense to correct prior accruals		<u>2,415</u>
Total expense associated with decommissioning		\$12,436
Decommissioning Included in Budget (B-13)		<u>4,190</u>
Increase in Decommissioning Expense		\$8,246
Decrease in Income Taxes @ 49.768%		4,104
Decrease in Income for Return		\$4,142

SJM 3-6-86

Hbg

R-850152

RECEIVED

MAR 7 1986

PENNSYLVANIA PUBLIC UTILITY COMMISSION  
VS  
PHILADELPHIA ELECTRIC COMPANY

SECRET  
Public Utility Comm

DOCKET NO. R-850152

REBUTTAL TESTIMONY  
OF  
JOHN J. CARROLL

INFLATION COMPONENT OF POWER PRODUCTION EXPENSES  
SPENT FUEL EXPENSE CLAIM, COAL INVENTORY REQUIREMENTS  
SALEM MANAGEMENT EVALUATION PROGRAM  
AMORTIZATION OF TRANSITION TUBE REPLACEMENT

DOCKETED  
MAR 11 1986

FEBRUARY 1986

DOCUMENT  
FOLDER

1 Q. Please state your name and business address.

2 A. John J. Carroll, 2301 Market Street,  
3 Philadelphia, PA.

4 Q. Has your education and work experience been  
5 described earlier in this proceeding?

6 A. Yes, at PECO Statement No. 22.

7 Q. What is the purpose of your rebuttal  
8 testimony?

9 A. My rebuttal testimony will address several  
10 of the adjustments proposed by the opposing  
11 parties in their testimony submitted on  
12 February 9, 1986. Specifically, I will  
13 address the areas of the amount of inflation  
14 contained in the Company's claim for power  
15 production expenses; the capacity factor  
16 used by the Company in its spent fuel  
17 expense claim; the amount of Philadelphia  
18 Area coal inventory required by the Company;  
19 the amount of normalized outage expenses  
20 required for both the fossil and nuclear  
21 plants; the Salem Management Evaluation  
22 Program; and the length of time for  
23 amortizing the transition tube replacement  
24 on Eddystone No. 1 Unit.

1  
2 Q. Why does the Company contend that the  
3 inflation adjustment presented by the  
4 opposition is incorrect?

5 A. The Company opposes these adjustments for  
6 three reasons. First, the opposing party  
7 witnesses have assumed that PECO developed  
8 its future test year claim for production  
9 plant O&M expense by increasing all of its  
10 production plant O&M expenses by applying a  
11 5.8% inflation factor to actual historic  
12 test year expense levels. This assumption  
13 is simply not true as set forth in PECO's  
14 response to interrogatories IR-GSA-1-46 and  
15 IR-GSA-3-1, as well as in my cross-  
16 examination as shown on Transcript pages  
17 394-96. With but limited exceptions  
18 described below, the 5.8% inflation rate was  
19 used solely in providing a general  
20 explanation of major variances between  
21 historic and future test year expense  
22 levels. It was not used in developing the  
23 1985-1986 Budget or in developing the  
24 Company's rate-making claim for production  
25 plant O&M expense.

2 Commission filing requirement II-D-1  
3 requires utilities to provide an explanation  
4 of major variances by FERC account between  
5 historic test year and future test year  
6 -operating expenses. The Electric Production  
7 Department prepares this variance  
8 explanation for production plant O&M  
9 expenses, i.e., FERC accounts 500 to 557.

10 In any comparison of costs incurred for two  
11 different time periods, it is necessary to  
12 recognize the added cost that will be  
13 incurred to perform a specific function as a  
14 result of increased cost of labor, material  
15 and supplies over time. Since the Electric  
16 Production Department's budget, as expressed  
17 by major FERC accounts, represents over  
18 4,500 unique items of input from 26 separate  
19 Responsible Areas, it would be an extremely  
20 time consuming and manpower intensive  
21 process to attempt to isolate each of these  
22 unique items of input and determine the  
23 specific component of each that reflects the  
24 inflation component for each FERC account.  
25 Therefore, in order to simplify the  
26 explanation, the variation explanations

2 contained in II-D-1b contain an amount  
3 attributed to inflation for all costs;  
4 including labor, contracts for labor,  
5 material and services, as well as material  
6 and supplies. However, this does not and  
7 was never intended to represent the way in  
8 which the Company prepared its budget or its  
9 rate-making claim in this case. The  
10 contrary assumption made by opposing parties  
11 is simply incorrect and should not be  
12 adopted.

13 Second, the opposing parties appear to  
14 erroneously assume that the budget figures  
15 for June 30, 1986 constitute the Company's  
16 claim in this case. Again, this is simply  
17 not true. The major components of budgeted  
18 production plant O&M expense, as shown on  
19 TPH-2 pages B-10 and B-11, have been  
20 specifically adjusted in the D Section of  
21 TPH-2 to establish a normalized, annualized  
22 expense level. For example, the adjustments  
23 shown on D-5 (Company Wages Adjustment), D-  
24 10d (Adjustment due to outages), D-11  
25 (Adjustments due to retirements) and the  
26 fuel expenses contained in the budget all

1  
2 affect the level of claimed production plant  
3 O&M expense. To adopt an adjustment based  
4 solely on an analysis of budgeted figures  
5 when these figures were not the basis for  
6 the Company claim is clearly in error and  
7 should be rejected, as it would result in an  
8 improper double adjustment in many cases.

9 Third, application of the GNP-IPD is meant  
10 to be a general overall factor to recognize  
11 the time value of money which includes all  
12 aspects of the national economy. It should  
13 not be used when specific components of an  
14 overall difference between time periods are  
15 known.

16 Q. How was the 5.8% inflation rate employed in  
17 developing the Company's claim for  
18 production plant O&M?

19 A. With respect to the 1985 and 1986 Budgets,  
20 it should be emphasized that the 5.8% figure  
21 was not employed at all in developing the  
22 Company's Budget. The Company's Budget is  
23 developed on a calendar year basis. The  
24 inflation assumption for the 1985 Budget was  
25 5.25%, and the inflation assumption for the

1  
2 1986 Budget was 6.4%. The 5.8% figure is  
3 simply the average of these two inflation  
4 factors and was not used in the preparation  
5 of the Budget. Moreover, the 5.25% and  
6 6.4% figures were used only where actual  
7 increases were not known.

8 Q. Given this limited use of the general  
9 inflation factor, what would be the maximum  
10 adjustment in this case should the  
11 Commission accept the lower inflation rates  
12 proposed by opposing parties?

13 A. In determining a maximum adjustment to  
14 PECO's claim for Production Expenses, I  
15 would like to address the testimony of  
16 Charles T. Weakley, III as contained in  
17 Staff Statement No. CTW-1. Specifically,  
18 Mr. Weakley does not consider any of the  
19 Company's adjustments shown in TPH-2 for  
20 labor, outage changes or retirements. In  
21 addition, he did not recognize those areas  
22 of Production Expenses that did not include  
23 an application of the 5.8% inflation as  
24 explained in response to interrogatory  
25 questions IR-GSA-1-46 and IR-GSA-3-1. Also,  
26 Mr. Weakley ignored those items of Budgeted

1

2 Expenses which are fixed by contract, as  
3 well as the items included in the Budget  
4 which are a function of labor and are not  
5 properly represented by using the GNP-IPD.

6 Schedule I of this testimony removes from  
7 the budgeted values shown on pages B-10 and  
8 B-11 all components that are contained in  
9 other sections of TPH-2 as a starting point.  
10 It then adjusts the remainder for outside  
11 labor and fixed contracts. The remainder is  
12 the only portion that should have an  
13 adjustment due to a lower inflation than  
14 projected in Electric Production's 5.8%  
15 factor. Therefore, the maximum inflation  
16 adjustment for all the Production Expenses,  
17 Accounts 500 to 556, is \$1,579,000.

18 Q. How did you arrive at the value of 3.36%  
19 inflation used on page 2 of your Schedule 1.

20 A. The opposing parties have suggested several  
21 different projected GNP-IPD in their  
22 adjustment recommendations, showing the  
23 uncertainty associated with this aspect of  
24 projecting future expenses. I took the  
25 three different rates proposed in their

1  
2 testimony and arrived at an average for use  
3 in this rebuttal testimony. The values used  
4 were:

5	Staff - Dr. Nellis	= 3.28%
6	GSA - Mr. Kelly	= 3.3%
7	OCA - Mr. Bleiweis	= 3.5%
8		-----
9	Average	3.36%

10 Q. In proposing a maximum adjustment to the  
11 Power Production Expenses shown on page B-10  
12 and B-11 of TPH-2 of \$1,579,000, are you of  
13 the opinion that PECO has overstated these  
14 expenses by that amount?

15 A. No, I do not believe that the Power  
16 Production Expenses have been overstated by  
17 \$1,579,000. PECO does recognize that  
18 projecting future expenses does contain some  
19 uncertainty associated with the factor used  
20 for projecting inflations. PECO also  
21 recognizes that there are several components  
22 that should be examined when attempting to  
23 project future expenses. PECO attempts to  
24 include these factors in its development of  
25 escalation rates for the future. Schedule 1

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25  
26

of this testimony has removed only those items of our projected Future Power Production Expenses which are specifically itemized in our budget process as known expenses for PECO labor, contracts or labor charges for non-PECO employees. There are many items of expenses that will include non-PECO labor charges included in the \$68,459,000 shown on page 2 of 3 of Schedule 1 and identified as Material, Supplies and Non-identified labor. Since this portion of the \$68.5 million is not a function of the GNP-IPD, and since most of these expenses are for mechanical trade personnel, it is appropriate to recognize that the entire \$68.5 million is not subject to a GNP-IPD adjustment. A very conservative estimate of the non GNP-IPD items contained in this \$68.5 million value is 40%. Using this 40% value to determine a more realistic inflation adjustment would mean that PECO has overstated its power production expenses by only \$947,000, assuming that the general inflation assumptions of the opposing parties are correct.

1

2

3

4

5

6

7

8

9

10

11

12

13

14

15

16

17

18

19

20

21

22

23

24

25

26

of this testimony has removed only those items of our projected Future Power Production Expenses which are specifically itemized in our budget process as known expenses for PECO labor, contracts or labor charges for non-PECO employees. There are many items of expenses that will include non-PECO labor charges included in the \$68,459,000 shown on page 2 of 3 of Schedule 1 and identified as Material, Supplies and Non-identified labor. Since this portion of the \$68.5 million is not a function of the GNP-IPD, and since most of these expenses are for mechanical trade personnel, it is appropriate to recognize that the entire \$68.5 million is not subject to a GNP-IPD adjustment. A very conservative estimate of the non GNP-IPD items contained in this \$68.5 million value is 40%. Using this 40% value to determine a more realistic inflation adjustment would mean that PECO has overstated its power production expenses by only \$947,000, assuming that the general inflation assumptions of the opposing parties are correct.

1

2

3

4

5

6

7

8

9

Incidentally, if all of this 40% is attributed to non-identified labor expenses, then the labor expense as a percent of the total power production expenses, as shown on Schedule 1, page 3 of 3, would be 75.9%. This is a very reasonable value for the labor intensive power production expenses of an electric utility.

10 Q.

11

12

13

14

15

16

17

Mr. Bleiweis has recommended that the capacity factor for the spent fuel expenses should be 60% for all units. He then testified that Limerick Unit No. 1 should be raised to 65% in line with Mr. Komanoff's recommendation for a guaranteed output for that unit. Do you have any comments on these values?

18 A.

19

20

21

22

23

24

25

26

Mr. Bleiweis has used the capacity factors from Schedule 9a of his testimony for the period ending 12/10/85. He has incorrectly attributed these to the year 1984. More importantly, he attempts to show by these statistics that three of the units did not achieve a 65% capacity factor in 1985. This is an inappropriate comparison. In accordance with well-established rate-making

1  
2 principles, the capacity factors used for  
3 developing the spent fuel claim are  
4 normalized values. Actual capacity for any  
5 particular 12-month period may be above or  
6 below the normalized value for a variety of  
7 reasons, including the presence or absence  
8 of refueling and extended maintenance  
9 outage. For example, the Salem Station  
10 achieved a 73.3% capacity factor in 1985 and  
11 is expected to exceed the 65% value during  
12 the entire Future Test Year. Peach Bottom  
13 Station, however, will fall short of the 65%  
14 value due to the intergranular stress  
15 corrosion cracking problems experienced and  
16 the expected pipe replacement outage not  
17 fully reflected in PECO's original claim.

18 One alternate approach would be to utilize  
19 the weighted average capacity factors  
20 projected by the Company for its nuclear  
21 units for the next three years, as shown in  
22 Exhibit JJC-1. The weighted average  
23 capacity factor is 61.7%. The use of this  
24 figure would reduce the Company's claim by  
25 \$867,000.

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25  
26

Also, it should be noted that the spent fuel expense claim has been revised to reflect expected Net Generation of the Nuclear Units, not the Gross Generation as has been the past practice. This is the result of a recent change made by the Department of Energy in response to the ruling made by the U.S. Court of Appeals for the District of Columbia Circuit. Therefore, the total reduction to the Company's claim is \$1,557,000.

Finally, it should be emphasized that the use by the Company of a value less than 65% for the spent fuel claim in this proceeding does not represent a change in the Company's overall philosophy that nuclear units will achieve a remaining lifetime capacity factor of 65%. It is a recognition, for these proceedings, of the reduction in output expected in the immediate future as the result of the unique IGSCC problems.

Q. Mr. Prowell in his testimony has stated that PECO does not need 60 days of inventory because the Philadelphia Area coal capacity only represents 10% of PECO's installed

1  
2 capacity after Limerick Unit No. 1 is  
3 included in PECO's total installed capacity.  
4 Do you agree with this statement?

5 A. No, I do not. PECO has fully recognized the  
6 reduced importance that Philadelphia Area  
7 coal would play in supplying economical  
8 generation to its customers in determining  
9 its request for 204,000 tons of inventory.  
10 Let us examine some of the facts about the  
11 Philadelphia Area coal stations. First,  
12 these three units (Eddystone No. 1 and No. 2  
13 and Cromby No. 1) burn 6,650 tons per day at  
14 their nominal full output level. This means  
15 that the requested tons of inventory would  
16 only supply an average of less than 31 days  
17 of nominal full output. Even if the  
18 probability of forced outages were  
19 considered in these calculations, the daily  
20 burn would be reduced to 5,000 tons per day  
21 and the inventory would represent an average  
22 of less than 41 days of burn.

23 Third, PECO's requested inventory represents  
24 an average daily burn of 3,400 tons. This  
25 lower value is because PECO has already  
26 factored into its calculation of inventory

1

2

3

4

5

6

7

8

9

10

11

12

13

needs the contribution of these units to the customers for supplying economical generation. These needs were determined after considering not only forced outages but also planned outages and system economics, including the addition of Limerick Unit No. 1. Therefore, PECO has already fully dealt with the issue of the amount of installed capacity represented by the Philadelphia Area coal units in the requested level of inventory for this type of generation.

14 Q.

15

16

17

18

19

20

21

22

Mr. Prowell is also suggesting that PECO's inventory claim be reduced to 50 days because the Commission has reduced the days of inventory for two other Pennsylvania companies to 45 days. He further states that the additional 5 days recommended for PECO is due to the distance of PECO plants from the coal fields. Would you also comment on this recommendation?

23 A.

24

25

26

It should be emphasized that the total tons of coal inventory are dependent on two factors: (1) the number of days of inventory and (2) the daily burn rate of the

1  
2 unit. As stated above, PECO's inventory  
3 claim only represents an average daily burn  
4 of 3,400 tons. This was established using a  
5 60-day inventory and a burn rate based on  
6 actual expected coal burns during the two  
7 years after Limerick was included in base  
8 rates. This is not the procedure used by  
9 Pennsylvania Power and Light Company, which  
10 bases its burn rate on the two highest  
11 months during the most recent two years of  
12 history. If PECO had used the procedure of  
13 looking at the historic burns and employed a  
14 50 day inventory requirement, as was  
15 recommended by Mr. Prowell, PECO's inventory  
16 claim would increase to 237,000 tons. This  
17 is 33,000 tons more than PECO's claim.  
18 Penelec also relies on history in developing  
19 its inventory claim. PECO, in developing  
20 its level of inventory claim, has attempted  
21 to reduce the inventory claim to as low a  
22 level as reasonable, consistent with good  
23 operating practices and submits that the  
24 204,000 tons represents this level.

25 Q. Would you also respond to Mr. Prowell's  
26 comment on including in the inventory claim

1  
2 the potential for labor disruptions on the  
3 coal supply?

4 A. PECO believes, as does Mr. Prowell, that the  
5 inventory claim should be based on  
6 normalized conditions. Because of this  
7 belief, PECO has never developed an  
8 inventory claim that included a build-up to  
9 as many as 100 days of inventory for a  
10 specific anticipated labor disruption. PECO  
11 does submit that these build-ups are  
12 required on a regular basis and some  
13 consideration for this normal, but not  
14 yearly, requirement should be considered in  
15 developing the number of days of total  
16 inventory required over the long range. For  
17 this reason, PECO submits that some weight  
18 must be given to these regular build-ups in  
19 developing the overall days of inventory  
20 permitted for rate-making considerations.  
21 For that reason, PECO is of the opinion that  
22 60 days of inventory is the correct amount  
23 that should be used for normalized rate-  
24 making purposes. This is particularly  
25 important in this case where the current UMW  
26 contract expires in February, 1988. This

1

2

3

4

5

6

7

8

will require PECO to build up its coal inventory in the fall of 1987 whether or not there is a strike. PECO's claim, therefore, is conservative, and in all likelihood understates the actual level of inventory which will be required during the period rates are in effect.

9 Q.

10

11

12

13

Both Mr. Hosler and Mr. Bleiweis have proposed adjustments to the normalized outage expenses for fossil and nuclear plants. Would you comment on these adjustments?

14 A.

15

16

17

18

19

20

21

22

23

24

25

26

Let me first say that these adjustments are as stated for normalized outage expenses and, as the name implies, are to recover a level of expenses necessary to perform the major inspections, preventive maintenance and refueling expenses at the various stations. The Commission has approved this concept for PECO's level of expenses in the last several rate proceedings. Mr. Hosler's proposed adjustment is in error for several reasons. First, Mr. Hosler's analysis failed to include the expenses of the major overhauls at the fossil units, which have

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25  
26

been previously approved by the Commission in prior rate proceedings. He then compounded the problem and used what he termed as a good statistical averaging procedure by removing the high and low years. The net result was that he used only three years of statistics to represent a six year program without any knowledge of how typical the three years were. He also used inflation factors based on the problems previously addressed in this testimony.

For the nuclear units, Mr. Hosler again did not take into account the cost of outages. Rather, he utilized the cost expensed or budgeted in specific time periods without regard to the number of outages occurring during that period. He also used historical expenses which, he admits on page 3 of his testimony, were not a normal period. Also, as was the case with the fossil outage costs, his use of the GNP-IPD is not correct. For these reasons, the adjustments made by Mr. Hosler should not be used in developing any adjustment to normalized outage expenses in this proceeding.

1  
2 Mr. Bleiweis' adjustments do take into  
3 account the historical level of expenses  
4 required to perform the major overhaul,  
5 preventive maintenance and refueling  
6 expenses associated with normalization of  
7 outage expenses and are in accordance with  
8 prior rulings by the Commission on this  
9 subject. However, these adjustments fail to  
10 recognize that all costs associated with  
11 performing maintenance in the future are not  
12 a function of the GNP-IPD. Schedule 3  
13 presents PECO's recommendation for adjusting  
14 the normalized level of outage expenses to  
15 reflect a revised escalation for the Future  
16 Test Year.

17 Q. Mr. Hosler has proposed a \$3,484,000  
18 reduction in the amount of annual  
19 amortization allowed for the Salem Station  
20 Management Evaluation Program. Would you  
21 please comment on his adjustment?

22 A. On page 6 of Staff Statement DPH-1, Mr.  
23 Hosler states that:

24 a) PECO only supplied that portion of the  
25 cost for the Management Evaluation

1  
2 Program incurred to purchase MAC's  
3 services.

4 b) The remaining costs have not been  
5 specifically identified.

6 c) The exact nature of the expenditures  
7 are unknown, i.e., are they capital  
8 items, expense items, or monthly  
9 operating and maintenance expenses?

10 I will address these items separately as  
11 follows:

12 1) PECO supplied the information requested  
13 in the interrogatory questions.

14 2) At no time was PECO requested to supply  
15 a detailed breakdown of the charges  
16 which constituted PECO's claim of  
17 \$7,283,000. However, in cross-  
18 examination, this witness did state  
19 that the expenses were incurred for the  
20 consultant, PSE&G employees not on the  
21 Salem Station payroll, outside  
22 technical people and others active in  
23 developing the action plan.

1  
2 3) PECO previously stated that the cost  
3 for MAC services were \$473,442.

4 4) Of the remaining expenses incurred for  
5 implementing the action plan,  
6 approximately \$6.5 million were  
7 incurred to purchase the technical and  
8 clerical forces and services required  
9 to augment PSE&G's Nuclear Department  
10 staff, specifically for the purposes of  
11 finalizing the action plan. These  
12 expenses were incurred to purchase both  
13 engineering and technical assistance  
14 from General Physics Corp., Stone &  
15 Webster Engineering Corp., Interfacts  
16 Inc., a company specializing in  
17 supplying procedure and technical  
18 specification writers, and the clerical  
19 and typing support needed to complement  
20 the technical forces. Also included in  
21 this total are the cost of supplies,  
22 duplicating and office space necessary  
23 to support this major undertaking. In  
24 addition, approximately \$272,000 was  
25 charged to this expense by PSE&G's non-  
26 Salem Station employees.

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25  
26

- 5) Since these expenditures were costs incurred to supply Supervision and Engineering for Salem Station, these costs were all expense items, not capital.
- 6) These expenses were billed to the joint owners monthly since this is the only vehicle available to the operating Company to collect the joint owners' share of the expenses as incurred. It does not imply that all charges are normal monthly operating and maintenance expenses. This same procedure is used to reimburse the cost of an end-of-cycle outage on an ongoing basis, and these are not considered as normal monthly operating and maintenance expenses.
- 7) Since these were extraordinary expenses incurred prior to the start of the future test year and since PECO's current level of nuclear O&M expenses reflected in its current rates were established on a level of expenses finalized in the early fall of 1983,

1  
2 these expenses could not have been  
3 included in the rates in effect at the  
4 time the expenses were incurred.

5 PECO, therefore, submits that the full  
6 \$7,283,000 should be amortized over two  
7 years as was originally requested.

8 Q. Mr. Weakley has proposed that the  
9 replacement of the transition tubes in the  
10 Eddystone No. 1 boiler be amortized over a  
11 ten-year period. Would you please comment  
12 on this proposed adjustment?

13 A. The replacement of these transition tubes is  
14 being undertaken to preserve the  
15 availability of the unit, as previously  
16 stated for the record. The Commission has  
17 previously accepted the practice of  
18 permitting the Company to recover  
19 maintenance expenditures for availability  
20 considerations on an as-spent basis. This  
21 is evident in PECO's Restoration Program for  
22 the Eddystone coal fired units and was  
23 further confirmed in R-842590 when the  
24 Commission approved the recovery of the  
25 additional expense for early completion of

1

2

the Eddystone Unit No. 1 Restoration Program

3

over 3 years, the period that the completion

4

would have taken if it had not been

5

accelerated. The replacement of the

6

transition tubes is the same type of project

7

and should be recovered on an as-spent

8

basis, which is over a two-year period.

9

Therefore, PECO submits that the original

10

claim should not be revised.

11 Q.

Does this conclude your testimony at this

12

time?

13 A.

Yes it does.

Schedule 1

PECO Power Production Expense Analysis

\$1,000

	TPH-2 P. B-10 & B-11	Adjustments in TPH-2	Fuel	Revised Base
Area of Expense				
Steam Power Generation	\$ 417,329	(\$23,263) (A)	(230,314)	163,752
Nuclear Power Generation	\$ 264,775	( 45) (B)	(136,823)	127,907
Hydraulic Power Generation	\$ 6,874	0	0	6,874
Other Power Generation	\$ 22,352	( 3,043) (C)	( 10,192)	9,117
Other Power Supplies	\$ 427,494		(421,443)	6,051
	\$1,138,824	(\$26,351)	(798,772)	313,701

Notes

A = Page D-10c	Item 1 = (\$10,425)	B = Page D-10c	Item 3 = (7,754)
	Item 2 = ( 1,147)		Item 4 = 7,709
	Item 5 = ( 700)		Total = ( 45)
	Item 6 = ( 1,878)	C = Page D-11	
	Item 7 = ( 1,600)	CT's =	(3,043)
Page D-11	Richmond = ( 2,166)		
	Southwark = ( 5,347)		
	Total ( 23,263)		

Schedule 1

Components of Power Production Expenses

\$1,000

Area of Expense	Revised Base	Contracts	Labor				Material Supplies & Non-Identified Labor
			PE Direct	Other PECO	Identified Other		
Steam Power Generation	\$163,752	\$ 55,644	36,983	21,567	4,036	45,522	
Nuclear Power Generation	\$127,907	80,916	2,993	16,574	12,745	14,679	
Hydraulic Power Generation	\$ 6,874	12	1,304	1,019		4,539	
Other Power Generation	\$ 9,117	2,516	3,058	625		2,918	
Other Power Supplies	\$ 6,051	2,153	2,844	255		799	
	\$313,701	\$141,241	47,182	40,040	16,781	68,457	

68,457  
 -----  
 X 1.0336 = 66,878  
 1.058

Max. Adjustment = 68,457 - 66,878 = \$1,579

Schedule 1

Determination of Identified Labor as Percent of PECO Budget Items

\$1,000

Basic Inputs to Equation

= All Identified Labor Charges  
PECO Budget Items

Total Power Production Expenses

= \$47,182 + \$40,040 + \$16,781  
-----  
\$313,701 - \$140,610  
60.18

Steam Power Generation

= \$36,983 + \$21,567 + \$4,036  
-----  
\$163,752 - \$55,644  
57.98

Nuclear Power Generation

= \$2,993 + \$16,574 + \$12,745  
-----  
\$127,907 - \$80,916  
68.88

Schedule 2

Projected Net Generation for Spent Fuel Expense

<u>Unit</u>	<u>Net Capacity</u>
Peach Bottom No. 2	447 MW
Peach Bottom No. 3	439 MW
Limerick No. 1	1055 MW
Salem No. 1	459 MW
Salem No. 2	471 MW
Total/Wt. Average	2871 MW

Projected Annual Net Generation

<u>MW</u>		<u>Period Hrs.</u>		<u>Cap. Factor</u>		
2871 MW	x	8760 hrs/yr	x	.617	=	15,517,525

				\$1,000		
15,517,525 MWH	x	\$1/MWH	=	\$15,518		
Amount in Budget				\$11,715		
Adjustment to Expense				\$ 3,803		

Schedule 3  
Normalized Outage Expenses

Fossil Plant

Corrected Value (1984\$)	\$20,924	
1985 Inflation	x 1.0474	
Inflation to 6/30/86	x 1.0227	
	-----	
Normalized Expense		\$22,413
Budget Expense		\$18,700
Corrected per Schedule 1		-----
Change in O&M Expense		\$ 3,713

Nuclear Plant

<u>Station</u>	<u>Outage Expense</u>	<u>1985</u>	<u>6/30/86</u>	<u>Revised Claim</u>
-----	-----	-----	-----	-----
Peach Bottom	11,726	1.05	1.0238	\$12,605
Salem	10,368	1.05	1.0238	\$11,145
Limerick #1 ('85)	12,900		1.0388	\$13,401
				-----
				\$37,151
<u>Budget Expenses</u>				
Peach Bottom				\$ 8,849
Salem				\$ 8,005
Limerick #1				0
				-----
				\$16,854
 Change in O&M Expenses				 \$20,297

## Schedule 3

Inflation Factors

<u>1985</u>	PECO Labor	GNP-IPD
	-----	-----
Jan.-July	6.0%	3.36%
Aug.-Dec.	5.4% ✓	3.36%
	-----	-----
Year	5.75%	3.36%
<u>1986</u>		
Jan.-June	5.4%	3.36%
	-----	-----
6 Mo.	= 2.7%	1.68%

Fossil %

$$\begin{aligned}
 1985 &= (5.75 \times .579) + (3.36 \times .421) = 4.74\% \\
 1986 \text{ (6 mo.)} &= (2.7 \times .579) + (1.68 \times .421) = 2.27\% \\
 \text{Test Year} &= (0.5 \times 4.74\%) \times 2.27\% \\
 &= 1.0237 \times 1.0227 = 4.69\%
 \end{aligned}$$

Nuclear %

$$\begin{aligned}
 1985 &= (5.75 \times .688) + (3.36 \times .312) = 5.00\% \\
 1986 \text{ (6 mo.)} &= (2.7 \times .688) + (1.68 \times .312) = 2.38\% \\
 \text{Test Year} &= (0.5 \times 5.0\%) \times 2.38\% \\
 &= 1.025 \times 1.0238 = 4.94\%
 \end{aligned}$$

Limerick

$$1986 \text{ (6 mo.)} = 2.38 + (0.5 \times 3.0) = 3.88\%$$