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BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION MAR 6 1986

SECRETARY'S OFFICE
Public Utility Commission

PENNSYLVANIA PUBLIC UTILITY
COMMISSION :
:
:
v. :
:
:
PHILADELPHIA ELECTRIC :
COMPANY :

Docket No.
R-850152

ANSWER OF JOSEPH FARRELL, DIRECTOR,
BUREAU OF CONSUMER SERVICES,
PENNSYLVANIA PUBLIC UTILITY COMMISSION
TO MOTION TO STRIKE HIS BRIEF FILED IN
RESPONSE TO CEPA et al.'s PETITION
FOR COMMISSION REVIEW AND ANSWER
TO A MATERIAL QUESTION

AND NOW, this 6th day of March 1986, comes JOSEPH FARRELL, DIRECTOR, BUREAU OF CONSUMER SERVICES, PENNSYLVANIA PUBLIC UTILITY COMMISSION, by his counsel and answers CEPA et al.'s Petition for Commission Review and Answer to a Material Question. Joseph Farrell, by his counsel, respectively answers the Motion to Strike as follows:

1. Admitted.
2. Admitted.
3. Admitted.
4. Admitted.
5. Admitted.

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6. Denied. CEPA, et al has a duty to serve all participants to the instant proceeding. Mr. Shields' appearance and oral argument on behalf of Mr. Farrell at the

hearing held on January 30, 1986 before ALJ Matuschak, in direct response to CEPA et al.'s subpoena request, granted participant status to Mr. Farrell for service purposes. CEPA et al.'s assertion that only parties to the proceeding need be served is erroneous because Section 1.54 of the Commission's Rules of Practice and Procedure requires service on all participants. At the hearing on January 30, 1986, Mr. Shields stated definitely that his appearance was made solely on behalf of Mr. Farrell and that he had no involvement with Commission Trial Staff's participation in the proceeding. (See Attachment A - Transcript of Hearing). Clearly, CEPA et al. had notice of Mr. Shields' participation on behalf of Mr. Farrell and inasmuch as the subsequent Petition of Interlocutory Review filed by CEPA et al. (See Attachment B - Petition) directly concerned Mr. Farrell, CEPA was required to serve Mr. Farrell or his counsel. In fact, Mr. Shields, as counsel for Mr. Farrell, was only informally notified of the existence of the Petition after the normal response period had expired.

7. Denied. CEPA et al has a duty to serve all active participants to the proceeding and Mr. Farrell or his counsel was an active participant entitled to service.

8. Denied. Mr. Shields was not a member of the Commission Trial Staff serving in a prosecutorial function in the instant proceeding and therefore service of any document on Trial Staff should not be deemed to be service on Mr. Shields.

9. Denied. Mr. Shields was not a member of the Commission Prosecutorial Trial Staff.

10. Denied. Mr. Shields appearance on behalf of Mr. Farrell was a direct result of CEPA et al.'s request for a subpoena of Mr. Farrell. The fact that Mr. Farrell chose to contest the issuance of a subpoena compelling his appearance and the production of documents does not render his counsel's appearance "prosecutorial" in nature.

11. Admitted in part and denied in part. Admitted that Mr. Shields informally obtained CEPA et al.'s Brief in Support of Commission Review which reflected a February 11, 1986 filing date. Denied that Mr. Farrell or Mr. Shields received official service of said Brief.

12. Admitted in part. Admitted that Mr. Shields telephoned counsel for CEPA et al. as a courtesy to state that he intended to file a Brief in Opposition to CEPA et al.'s Petition for Commission Review. By way of further response, it is asserted that Mr. Shields cannot state definitively as to his recollection of the exact date of the telephone conversation.

13. Admitted. It is interesting to note that counsel for CEPA et al. uses the word "participant."

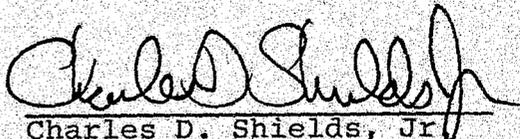
14. Admitted in part and denied in part. Admitted that all participants actually served with the Petition were required to file response briefs by February 14, 1986. Denied that Mr. Farrell or Mr. Shields received proper

service to begin the tolling of the seven-day response period.

15. Denied. Since neither Mr. Farrell (or his counsel) ever received actual service of the Petition, the time period for response has not begun as to him.

For the reasons stated, Joseph Farrell, Director, Bureau of Consumer Services, Pennsylvania Public Utility Commission, prays that the Commission deny CEPA et al.'s Motion to Strike his Brief filed in response to CEPA et al.'s Petition for Allowance of Interlocutory Appeal.

Respectfully submitted,



Charles D. Shields, Jr.
Assistant Counsel

Charles F. Hoffman
Chief Counsel

Joseph Farrell, Director
Bureau of Consumer Services

Room G-28
North Office Building
Harrisburg, PA 17120
(717) 783-3190

* DATED: March 6, 1986

P R O C E E D I N G S

1
2 ADMINISTRATIVE LAW JUDGE JOSEPH MATUSCHAK: Is counsel
3 ready to proceed?

4 MR. MacGREGOR: Yes, Your Honor.

5 MR. RUBIN: Your Honor, the Office of Consumer Advocate
6 would call as its next witness Michael A. Bleiweis.

7 MS. SMITH: Excuse me, Your Honor. Before we proceed,
8 there is a preliminary matter you may wish to address. At
9 present in the courtroom is Mr. Shields from the Office of
10 Counsel at the Law Bureau. You indicated you would like to
11 have a response from the Commission on the subpoena.

12 JUDGE MATUSCHAK: Yes. We have some requests for
13 subpoenas. Do you have a copy of those requests?

14 MS. SMITH: I have a copy, Your Honor, of the applica-
15 for a subpoena of Joseph Farrell or his designee that was
16 served by CEPA. This is an extra copy.

17 (Document handed to Judge Matuschak by Counsel Smith.)

18 JUDGE MATUSCHAK: Yes.

19 MS. SMITH: Mr. Shields is available to directly
20 respond to any questions you may have or make a statement.

21 JUDGE MATUSCHAK: We want to hear from you. Does
22 the Commission have any objections?

23 MR. SHIELDS: Again, for the record, my name is
24 Charles Shields. I am an attorney with the Commission's
25 Law Bureau. I am here today in an advisory capacity on behalf

2
1 of the Commission.

2 I would state also for the record that I have had no
3 involvement with Trial Staff's participation as prosecutorial
4 counsel here. I am here on behalf of Mr. Farrell objecting
5 to the issuance of the subpoena.

6 Essentially, the Commission's attitude and the Law
7 Bureau's attitude is that we want to discourage issuances
8 of subpoenas across the board in any proceedings, the reason
9 being that we feel that it is a burden upon the Commission
10 to have what in essence are public servants, employees of
11 the Commission, in an advisory or adjudicatory responsibility
12 being called on behalf of parties, whether they be public
13 interest groups or utilities.

14 Specifically, the Commission's rules and regulations
15 of practice and procedure demonstrate the Commission's
16 position. I refer you specifically to Section 5.321 of those
17 Rules of Practice and Procedure, which, in fact --

18 JUDGE MATUSCHAK: What rule is that?

19 MR. SHIELDS: It is Section 5.321 of the Rules of
20 Practice and Procedure. They, in essence, exempt Commission
21 advisory and adjudicatory staff from the provisions for
22 discovery under those rules.

23 Again, we find that same exemption under 5.349, again
24 making reference to advisory or adjudicatory Commission staff
25 members, who again I assert here today is Mr. Farrell in his

1 responsibilities regarding his Bureau of Consumer Services
2 listing and filing and responding to any complaints con-
3 cerning PECO's service under the provisions of Chapter 56 of
4 the Commission's rules and regulations located at 52 Pa. Code.

5 Again, we find some legislative intent to limit the
6 types of circumstances where Commission advisory and
7 adjudicatory employees are to be called upon in proceedings
8 at 66 Pa. CSA of the Public Utility Code, Section 333(d)
9 entitled "Interrogatories," where near the end of the
10 section the legislature puts the criteria for interrogatories
11 directed to the Commission and, of course, Commission
12 employees, where it says, "Interrogatories directed to the
13 Commission shall be allowed only upon an order of the
14 Commission based upon a specific finding that the interrogat-
15 ing party is seeking significant, unprivileged information
16 not discoverable by alternative means."

17 Going to the application itself or the issuance of
18 a subpoena, which CEPA has requested, I assert to you that
19 the application at least procedurally and structurally
20 is deficient in that it doesn't allege that the information
21 requested in the testimony of Mr. Farrell or his designee
22 is, in fact, unprivileged.

23 I also assert that the Commission has in prior
24 proceedings attempted to bifurcate the issue of service as
25 opposed to rates. As I understand these proceedings before

Your Honor, it is a rate request filed by the utility; and as I say, the Commission has in the past attempted to limit the introduction of testimony and evidence regarding service.

I suggest that the proper method, if CEPA or any interested party is concerned about the providing of services by PECO, that they do so through the complaint procedure, which, of course, then they would be able to avail themselves of any of the discovery rules under the Commission's Rules of Practice and Procedure as a party.

The issue certainly in that case then would be the service that is being provided by PECO.

I do notice an intent by counsel for CEPA to attempt to assert on pages 2 and 3, numbers 1, 2, 3 and 4, that there is some correlation between PECO's adherence to Chapter 56 of Pa. Code 52. I'm not necessarily convinced and the Commission isn't convinced that those assertions in 1, 2, 3 and 4 do, in fact, disclose that the requested documents and testimony is relevant to a rate proceeding.

That is essentially it, Your Honor. I would say again that for practical -- in citing applicable rules and regulations, it is the Commission's intention to discourage and also legislative intent to ensure that Commission staff employees are not testifying in any and all proceedings on behalf of any interested party.

1 JUDGE MATUSCHAK: It is my recollection that there
2 may be some provisions relating to the subpoenaing of
3 Commission advisory personnel. We will rule -- well, we
4 may as well rule on that today.

5 On the application for subpoena of Joseph Farrell or
6 his designee to attend the rebuttal phase of the hearings in
7 the above case -- that is in this case at R-850152 --
8 submitted to us by John Hanger, Attorney for CEPA, AASC,
9 ACORN, PCIA and Mr. Bradshaw, Mr. Hanger representing
10 Community Legal Services, the petition for subpoena is
11 denied.

12 MR. SHIELDS: Your Honor, with your permission, I
13 will retire.

14 JUDGE MATUSCHAK: Very well.

15 MR. RUBIN: Your Honor, I would like to have marked
16 for identification as OCA Statement No. 4 a multi-page
17 document which has previously been served on all of the
18 parties and which is so marked in the upper right-hand
19 corner.

20 JUDGE MATUSCHAK: Very well. The motion is granted.

21 (Whereupon, the document was
22 marked as OCA Statement No. 4
for identification.)

23 MR. RUBIN: Thank you, Your Honor.
24
25

BEFORE THE PENNSYLVANIA
PUBLIC UTILITY COMMISSION

PENNSYLVANIA PUBLIC UTILITY
COMMISSION

v.

PHILADELPHIA ELECTRIC COMPANY

DOCKET NO. R-850152

MOTION TO STRIKE PUBLIC UTILITY COMMISSION
LAW BUREAU'S BRIEF FOR BEING FILED LATE

NOW COME CONSUMERS EDUCATION AND PROTECTIVE ASSOCIATION, et al (CEPA) to strike the Public Utility Commission Law Bureau's brief filed in response to CEPA, et al's Petition for Interlocutory Review. In support of the foregoing motion, CEPA, et al offer the following:

1. On January 23, 1986, CEPA, et al mailed to all parties in the proceeding, including the Trial Staff of the Public Utility Commission, an Application for Subpoena of Joseph Farrell, Director, Bureau of Consumer Services.
2. On January 30, 1986, ALJ Matuschak denied CEPA et al's Application for Subpoena, after hearing the arguments of Mr. Shields for the Public Utility Commission.
3. On February 7, 1986, CEPA et al filed a Petition for Commission Review and Answer of a Material Question and served this Petition on all parties, including the Trial Staff of the Public

Utility Commission (these were the same parties that were served with CEPA's Application for Subpoena of Joseph Farrell to which Mr. Shields replied for the Commission).

4. CEPA, et al served its Application for Subpoena, Petition for Commission Review, and its Brief in Support of Commission Review on every formal party in this proceeding at Docket No. R-850152.

5. CEPA, et al sent its Petition for Review (and all other documents to Marlane R. Chestnut, Veronica A. Smith and Daniel Delaney, all of whom are members of the Trial Staff in this proceeding.

6. CEPA, et al had no duty to serve non-parties to this proceeding with either its Application for Subpoena of Joseph Farrell, its Petition for Commission Review, or its Brief in Support of Commission Review.

7. If Mr. Shields is not a member of the Trial Staff, CEPA, et al have no duty to serve on him personally its filings in this proceeding including its Petition for Review, as he is not a party to this Docket.

8. If Mr. Shields is a member of the Trial Staff, Mr. Shields' was served, since CEPA, et al served its Petition for Review on the designated representatives of Trial Staff.

9. Given that Mr. Shields appeared at the January 30, 1986 hearing in this proceeding and successfully argued against CEPA, et al's Application for Subpoena of Joseph Farrell, Mr.

Shields should be designated as "prosecutory" in this proceeding and be considered a part of the Trial Staff.

10. Certainly, Mr. Shields has acted in a "prosecutorial" or adversarial manner toward CEPA, et al in this proceeding.

11. On February 11, 1986, CEPA, et al filed its Brief in Support of Commission Review.

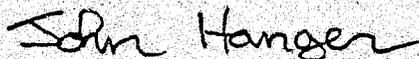
12. On February 18, 1986, Mr. Shields informed counsel for CEPA, et al that he intended to file a Brief in Opposition to CEPA, et al's Petition for Commission Review.

13. Pursuant to 5.302(b), participants have 7 days to respond to Petition for Commission Review.

14. Consequently, since CEPA, et al filed its Petition for Commission Review on February 7, 1986, all responsive briefs were due by February 14, 1986.

15. Any Brief in Opposition to CEPA, et al's Petition for Commission Review filed after February 14, 1986, including a brief filed by Mr. Shields or other representatives of the Law Bureau, should be deemed to be late and struck.

Respectfully submitted,



JOHN HANGER
Attorney for
Consumer Education and Protective Association
Action Alliance of Senior Citizens,
Association of Community Organizations
for Reform Now,
Philadelphia Citizens In Action, and
Mr. Bradshaw

CERTIFICATE OF SERVICE

I, hereby, certify that I am serving the attached Motion to Strike for late filing on all parties to this proceeding:

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John Hanger
JOHN HANGER

DATED: February 21, 1986

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I, hereby certify that I am this 6th day of March, 1986, serving by first class mail the attached Answer of Joseph Farrell to CEPA et al.'s Motion to Strike His Brief upon the following:

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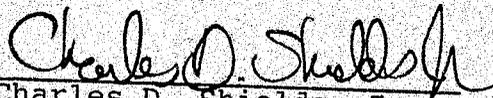
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Charles D. Shields, Jr.
Assistant Counsel

DATED: March 6, 1986

APPEARANCE SHEET

ALJ HEARING REPORT

DOCKET NO. R-850152

CHECK THOSE BLOCKS WHICH APPLY:

CASE NAME PUG, et al. vs. Philadelphia

Hearing held YES NO

Electric Company

Testimony taken YES NO

Hearing concluded YES NO

HEARING LOCATION Harrisburg, PA.

Further hearing needed: YES NO

HEARING DATE March 6 & 7 1986

Estimated add'l days _____

ALJ Matuschak

RECORD CLOSED YES NO

Briefs to be filed YES NO

BENCH DECISION YES NO

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MAR 06 1986

Office of A. L. J.
Public Utility Commission

MAR 13 1986

REMARKS:

Cancel hearing
for March 5 & 7

NAMES, ADDRESSES AND TELEPHONE NUMBERS OF PARTIES OR COUNSEL OF RECORD

PLEASE PRINT CLEARLY

INCOMPLETE INFORMATION MAY RESULT IN DELAY OF PROCESS

FOLDER

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CHECK THIS BOX IF ADDITIONAL PARTIES OR COUNSEL OF RECORD APPEAR ON BACK.

Reporter

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March 5, 1986

MAR 7 1986

Honorable Joseph H. Matuschak
97 East Main Street
Uniontown, PA 15401

SECRETARY'S OFFICE
Public Utility Commission

Re: Pa. P.U.C. v. Philadelphia Electric Co.
Docket No. R-850152

Dear Judge Matuschak:

Enclosed please find the original and two copies of the Errata of General Services Administration Updated and Surrebuttal Testimony of Philip R. Winter (GSA Statement No. 1A), in the above-captioned proceeding. Copies of the corrected testimony page and schedule with the designated corrections are also attached.

GSA witness Winter's Statement No. 1A, along with other parties' cost of capital surrebuttal testimony, was admitted into the record at hearings on February 26, 1986, by stipulation of the parties, avoiding the appearance of witnesses. GSA offers the attached three corrections to perfect the record.

If you have any questions respecting this filing, please contact Michael J. Ettner at (202) 566-1156.

Sincerely,

R. Colette McKenna
for R. COLETTE MCKENNA
Acting Assistant General Counsel

Enclosures

cc: Service List

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1 would increase the average forecast for dividends from 1.0%
2 (see Schedule 12 direct testimony) to 1.25%
3 $((7*1.0+3.0=10)/8=1.25)$. The average of this dividend
4 growth figure with the .8% earnings growth figure from my
5 Schedule 12 indicates a 1.025% growth forecast
6 $((1.25+.8)/2=1.025)$. The 1.025% figure is not significantly
7 different from the 1.0% near-term growth rate figure I have
8 used to obtain my DCF results. Furthermore, the 1.0% figure
9 may prove excessive in light of PECO's historical,
10 concomitant, dividend and stock price growth rates. As
11 shown in Schedule 9 of my direct testimony, only twice
12 during the period 1961 to 1985 did both PECO's stock price
13 and dividend grow at a rate in excess of 0.0%. **RECEIVED**

MAR 7 1986

15 Q: IS YOUR UPDATED DCF RANGE SUPPORTED BY HISTORICAL RISK
16 PREMIUMS BETWEEN UTILITY STOCKS AND LONG-TERM GOVERNMENT
17 BONDS? **SECRETARY'S OFFICE**
GOVERNMENT
Public Utility Commission

18
19 A: Yes. My updated DCF range indicates risk premiums of 380 to
20 550 basis points over the average yield on long-term
21 government bonds during the 16-week period October 25, 1985
22 to February 7, 1986. The average yield on long-term
23 government bonds was 9.9% during this period. Historically,
24 the premium between utility stocks and government bonds has
25 ranged from 182 to 359 basis points (see my direct
26 testimony, p. 42).

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MAR 7 1986

PECO's Composite Cost of Long-Term
Debt as of June 30, 1986 (Actual and Estimated)

First Mortgage Bonds:	Amount Outstg. (\$000)	% of Total	Effec- tive Cost	SECRETARY'S OFFICE Public Utility Commission Weighted Cost
4.375% Series, due 1986	\$50,000	1.62	4.43	0.07
4.625% Series, due 1987	\$40,000	1.29	4.69	0.06
3.750% Series, due 1988	\$40,000	1.29	3.82	0.05
5.000% Series, due 1989	\$50,000	1.62	5.00	0.08
6.500% Series, due 1993	\$60,000	1.94	6.57	0.13
4.500% Series, due 1994	\$50,000	1.62	4.50	0.07
9.000% Series, due 1995	\$59,452	1.92	8.49	0.16
8.250% Series, due 1996	\$80,000	2.58	8.31	0.21
6.125% Series, due 1997	\$75,000	2.42	6.16	0.15
7.500% Series, due 1998	\$100,000	3.23	7.51	0.24
7.500% Series, due 1999	\$100,000	3.23	7.54	0.24
7.750% Series, due 2000	\$60,800	1.96	7.43	0.15
7.375% Series, due 2001	\$80,000	2.58	7.38	0.19
8.500% Series, due 2004	\$125,000	4.04	8.51	0.34
11.625% Series, due 2000	\$65,000	2.10	11.73	0.25
11.000% Series, due 2000	\$55,938	1.81	10.72	0.19
9.125% Series, due 2006	\$100,000	3.23	9.23	0.30
9.625% Series, due 2002	\$100,000	3.23	9.74	0.31
6.000% Series, due 2007	\$23,500	0.76	6.21	0.05
8.625% Series, due 2007	\$75,000	2.42	8.72	0.21
8.625% Series, due 2003	\$75,000	2.42	8.70	0.21
9.125% Series, due 2008	\$100,000	3.23	9.13	0.29
12.500% Series, due 2005	\$100,000	3.23	12.64	0.41
13.750% Series, due 1992	\$125,000	4.04	13.90	0.56
15.250% Series, due 1996	\$52,500	1.70	15.40	0.26
15.000% Series, due 1996	\$21,000	0.68	15.17	0.10
18.750% Series, due 2009	\$48,869	1.58	18.96	0.30
18.000% Series, due 2012	\$37,379	1.21	18.39	0.22
15.375% Series, due 2010	\$100,000	3.23	15.53	0.50
13.375% Series, due 2013	\$125,000	4.04	13.67	0.55
13.050% Series, due 1994	\$20,000	0.64	13.19	0.08
14.000% Series, due 1994	\$80,000	2.58	14.10	0.36
11.750% Series, due 2014	\$250,000	8.08	12.05	0.97
10.875% Series, due 1995	\$150,000	4.85	11.27	0.55
11.750% Proposed Series	\$100,000	3.23	11.87	0.38

CERTIFICATE OF SERVICE

I hereby certify that I have caused copies of the Errata of General Services Administration Updated and Surrebuttal Testimony of Philip R. Winter (GSA Statement No. 1A), to be served by first class mail on March 5, 1986, on active parties to Docket No. R-850152.

Honorable Joseph P. Matuschak
Administrative Law Judge
Pennsylvania Public Utility
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March 7, 1986

RECEIVED

MAR 10 1986

SECRETARY'S OFFICE
Public Utility Commission

Jerry Rich, Secretary
Pennsylvania Public Utility
Commission
P. O. Box 3265
Harrisburg, PA 17120

Re: Pennsylvania Public Utility Commission
v.
Philadelphia Electric Company, Docket
No. R-850152

Dear Secretary Rich:

By Tentative Amended Order, entered February 18, 1986 in Keystone Alliance, et al. v. Philadelphia Electric Company, Docket No. C-78080459, the Commission directed Philadelphia Electric Company to file in its current rate proceeding above-referenced certain information as set forth in ordering paragraph 16 of the Tentative Amended Order.

Please find enclosed three (3) copies of the Additional Supplemental Direct Testimony of Thomas P. Hill, Jr. (PECO Statement No. 18I) which represents the Company's response to the Tentative Amended Order.

As the attached Certificate of Service indicates, copies of PECO Statement No. 18I have been served on all parties of record to the proceeding at Docket No. R-850152.

Sincerely,

David B. MacGregor
David B. MacGregor

DOCUMENT
FOLDER

/paa
Encl.

cc: The Honorable Joseph P. Matuschak
All Parties of Record

CERTIFICATE OF SERVICE

I hereby certify that I am this day serving copies of the Additional Supplemental Direct Testimony of Thomas P. Hill, Jr. (PECO Statement No. 18I) on all parties to the aforementioned proceeding.

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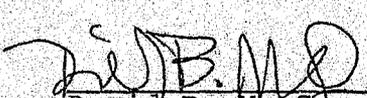
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David B. MacGregor
Counsel for Philadelphia
Electric Company

DATED: March 7, 1986

PECO Statement No. 181

RECEIVED

MAR 10 1986

SECRETARY'S OFFICE
Public Utility Commission

PENNSYLVANIA PUBLIC UTILITY COMMISSION

vs.

PHILADELPHIA ELECTRIC COMPANY

DOCKET NO. R-850152

ADDITIONAL SUPPLEMENTAL DIRECT TESTIMONY OF THOMAS P. HILL, JR.

Re: COMMISSION TENTATIVE AMENDED ORDER AT DOCKET C-78080459

DOCUMENT
FOLDER

DOCKETED
MAR 11 1986

MARCH 1986

ADDITIONAL SUPPLEMENTAL DIRECT TESTIMONY OF THOMAS P. HILL, JR.

1 Q. Are you the same Mr. Hill who has previously filed direct,
2 rebuttal and sur-surrebuttal testimony in this proceeding?

3 A. Yes. I have previously submitted direct testimonies
4 identified as PECO Statement Nos. 18, 18A and 18B. I have
5 submitted rebuttal testimony identified as PECO Statement
6 Nos. 18C, 18D, 18E and 18F and I have submitted
7 sur-surrebuttal testimony identified as PECO Statement Nos.
8 18G and 18H.

9 Q. What is the purpose of this additional supplemental direct
10 testimony?

11 A. On February 18, 1986, the Commission entered a Tentative
12 Amended Order at Docket No. C-78080459 amending a previous
13 Order of September 4, 1985. The Tentative Amended Order
14 directs that the Company file certain data and information
15 in the current rate Docket No. R-850152 as outlined in
16 Ordering Paragraphs 1 through 13 of the Tentative Order
17 within twenty days of the entry of this Order. This
18 statement responds to that Commission Order.

19 Q. Have you prepared a tabulation of the Corporate
20 Communications and other expenses per the Commission's
21 directive for the current proceeding and the two previous
22 proceedings?

23 A. Yes. The requested information contained in the
24 Commission's Tentative Amended Order (Order attached as
25 Schedule 1) is provided in tabular form as Schedule 2 to
26 this testimony.

27 Q. Would you please discuss the information contained on

1 Schedule 2?

2 A. Yes. The data requested by the Commission in response to
3 Ordering Paragraphs 1 through 13 for each of the three rate
4 proceedings has already been submitted by the Company in
5 the current rate proceeding either in response to the
6 Commission's initial Order of September 4, 1985 or through
7 Interrogatory response to the Office of Consumer Advocate.
8 Schedule 2 consolidates the information contained in PECO
9 Statement 18A, the Supplemental Direct Testimony of Thomas
10 P. Hill, Jr. and the information submitted in response to
11 Interrogatory designated IR-OCA-13-13. Relevant portions
12 of these documents are attached as Schedules 3 and 4 to
13 this testimony.

14 The dollars of expenditures for Ordering Paragraphs 1
15 through 5 represent the Company's claims, as well as the
16 Commission allowances, for these expenditures in each of
17 the three rate proceedings. Recovery of these expenses was
18 approved by the Commission in the prior two cases.

19 Ordering Paragraph 6 provides the expenditures by
20 Philadelphia Electric Company associated with the
21 contribution for TMI clean-up. As the table indicates,
22 there were no dollars included in the test year at Docket
23 No. R-822291. The Company claimed at Docket No. R-842590
24 \$1 million associated with the TMI clean-up contribution.
25 This amount was specifically allowed by the Administrative
26 Law Judge and the Commission in that proceeding with the
27 Commission finding that:

1 "We agree with the ALJ and the Company that lessons
2 learned in the TMI clean-up benefit PECO in the
3 operation of its nuclear generating stations, and
4 ultimately benefit PECO's ratepayers. The OCA's
5 exception is denied." (Page 78 of the Commission's
6 Opinion and Order entered January 25, 1985 at
7 Docket No. R-842590).

8 Likewise, in the current rate proceeding at Docket No.
9 R-850152, the Company has claimed \$755,830 as a further
10 contribution to the TMI clean-up. Since the Commission has
11 specifically allowed this expenditure in a prior rate
12 proceeding as being a reasonable expense recoverable from
13 ratepayers, I believe the current claim should also be
14 recoverable based on the reasoning established by the
15 Commission in the prior case. For this reason, I believe
16 the Commission's Tentative Amended Order is in conflict
17 with the Commission's last PECO electric rate order.

18 Ordering Paragraphs 7 through 9 are also
19 self-explanatory and contain the expenditures claimed and
20 allowed by this Commission in prior proceedings as well as
21 the claim in the current proceeding at Docket No. R-850152.

22 Ordering Paragraph 10 seeks to disallow those
23 expenditures for Corporate Communications, exclusive of
24 those items reflected in other Ordering Paragraphs, in
25 excess of the Company's 1978 level for Corporate
26 Communications expense. My Supplemental Direct Testimony,
27 PECO Statement No. 18A, attached as Schedule 3, provides a

1 quantification of these expenditures for the current test
2 year. As that testimony indicates, adjustment of the 1978
3 Corporate Communications expense to reflect general wage
4 increases granted by the Company and approved for inclusion
5 for ratemaking, indicates that no adjustment is appropriate
6 or required under Ordering Paragraph No. 10. I might add,
7 that the Office of Consumer Advocate through the testimony
8 of Michael Bleiweis, submitted on January 9, 1986, accepts
9 the Company's quantification for these Ordering Paragraph
10 expenditures in the prior two rate proceedings as well as
11 the current rate case proceeding.

12 Ordering Paragraph 11 seeks to quantify those
13 expenditures associated with hours spent by PECO employees
14 in lobbying which I have responded to in PECO Statement No.
15 18A. As this response indicates, lobbying activities on
16 behalf of PECO are charged below the line to lobbying
17 expense in FERC Account No. 426 and therefore the Company's
18 test year claim, as well as prior test year claims, contain
19 no lobbying expenses to be borne by the ratepayers of
20 Philadelphia Electric Company.

21 Ordering Paragraph 12 disallows all litigation costs
22 incurred by PECO at Docket No. C-78080459. As Schedule 2
23 indicates, no expense for this proceeding was claimed or
24 allowed by the Commission in the prior two rate proceedings
25 or the current rate proceeding.

26 The tabulation of Ordering Paragraphs 1 through 12
27 indicate a total claim for disallowance by the Commission

1 of \$1,011,084 at Docket No. R-822291, \$1,873,208 at Docket
2 No. R-842590 and \$1,496,842 at Docket No. R-850152.
3 Exclusion of the TMI clean-up claims and allowances reduces
4 the totals for Docket No. R-842590 to \$873,208 and for
5 Docket No. R-850152 to \$741,012.

6 In response to Ordering Paragraph 13, the Company has
7 submitted this data through PECO Statement No. 18A
8 (Schedule 3 attached to this testimony).

9 Q. Mr. Hill, Ordering Paragraph 15 refers to a revenue impact
10 of expense disallowance of \$4,723,000 on an annual basis
11 for current rates established at Docket No. R-842590.
12 Would you please discuss why this figure is an
13 inappropriate quantification of Ordering Paragraphs 1
14 through 12 in the Tentative Amended Order?

15 A. Yes. There are several reasons why this quantification is
16 inappropriate. First, this information represents an
17 expense quantification for Ordering Paragraphs 1 through 13
18 of Judge Kranzel's opinion at Docket C-78080459 and not the
19 quantification of Ordering Paragraphs 1 through 12 as
20 specified by the Tentative Amended Order. Paragraph 13 of
21 the Tentative Amended Order does not disallow recovery of
22 industry association payments; it merely requires the
23 Company to submit data on these payments in future rate
24 proceedings. To include these payments in an adjustment at
25 Docket No. R-842590 therefore would be in error and clearly
26 inconsistent with paragraph 13 of the Commission's Order.

27 Second, this adjustment reflects a total disallowance

1 of all Corporate Communications expenses above the actual
2 level in 1978 and does not reflect salary changes for
3 existing personnel and the actual level of personnel in
4 this department which I have explained and quantified in my
5 Supplemental Direct Testimony (PECo Statement No. 18A). As
6 I have indicated, when these adjustments for employment and
7 allowed general wage increases are reflected, there is no
8 adjustment for excess expenditures required in response to
9 Ordering Paragraph 10.

10 Third, my review of the data utilized by the Office of
11 Consumer Advocate in that prior proceeding, which was
12 supplied by the Company, contained certain errors which I
13 have corrected in response to an Interrogatory in this
14 proceeding, IR-OCA-13-13 (see Schedule 4). These errors
15 include an incorrect number for unadjusted Corporate
16 Communications expense for the 1984 budget used in the
17 development of an Interrogatory response in Docket No.
18 R-842590 and a duplication of expenses associated with
19 Speakers' Bureau Activities in the same Interrogatory
20 response.

21 The expenditures tabulated in Schedule 2 of this
22 testimony are a correct representation of the expenditures
23 allowed for ratemaking purposes at Docket No. R-842590.
24 Again, I might add, the Office of Consumer Advocate in the
25 current rate proceeding has utilized my corrected numbers
26 as the basis of a proposed adjustment in this current rate
27 proceeding.

1 Q. Mr. Hill, if it is the intent of this Commission to make an
2 adjustment to rates on a prospective basis to refund
3 dollars to customers for these expenses recovered from
4 customers for rates established at Docket No. R-822291 and
5 Docket No. R-842590, what adjustment to revenue is
6 appropriate for proper accounting purposes?

7 A. Given that I believe no retroactive adjustment to rates is
8 appropriate since the Company has not achieved the
9 Commission allowed rate of return deemed to be just and
10 reasonable during the period that these rates were in
11 effect, but accepting the calculation for accounting
12 purposes only, the proper refund of expenses for accounting
13 purposes reflecting Ordering Paragraphs 1 through 12
14 exclusive of the TMI clean-up expense is \$2,416,643. Since
15 the Company expects that there will be no new base rate
16 filing prior to September 1987, based upon the testimony of
17 Mr. Paquette, and, therefore, new base rates would be in
18 effect for a two-year period, I believe a two-year
19 amortization of these expenses through the refund process
20 would be the appropriate adjustment. This would equate to
21 an annual refund of \$1,208,322.

22 Q. Finally, on the same basis and assumptions that you have
23 described in your prior answer, what would be the
24 appropriate adjustment to operating expenses in the
25 Company's current rate proceeding?

26 A. On the same basis, the adjustment to operating expense
27 would be \$741,012.

1 Q. Does that conclude your Additional Supplemental Direct
2 Testimony?

3 A. Yes.

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PENNSYLVANIA
PUBLIC UTILITY COMMISSION
Harrisburg, PA 17120

Public Meeting held February 13, 1986

Commissioners Present:

Linda C. Taliaferro, Chairman, Abstaining
Frank Fischl
Bill Shane

Keystone Alliance, et al.

v.
Philadelphia Electric Company

C-78080459

TENTATIVE AMENDED ORDER

BY THE COMMISSION:

On September 4, 1985, the Commission issued an Order in the above-proceeding which adopted, in its entirety, the Initial Decision of Administrative Law Judge (ALJ) Isador Kranzel dated August 31, 1983. All exceptions to ALJ Kranzel's Initial Decision were denied.

In view of the time elapsed (approximately two years) between the date of ALJ Kranzel's Initial Decision and the issuance of the Commission's Order, we find that it is necessary to make certain modifications to that Order for the purpose of clarifying the Commission's intent and to establish a procedure which will enable us to implement the directives contained therein.

The fundamental inconsistency of our September 4, 1985 Order is that it directed numerous unquantified adjustments to be made to the Philadelphia Electric Company (PECO or Company) expense allowance at the conclusion of the Company's rate case at Docket No. R-822291. However, that rate proceeding ended with a Commission Order entered on November 22, 1983. The PECO rates which resulted from the investigation at Docket No. R-822291 went into effect on November 23, 1983 or more than 21 months before the issuance of our Order in this complaint proceeding.

A further complication arose when PECO filed a general rate increase request on April 27, 1984. A Commission investigation of that request was held at Docket No. R-842590 and concluded with our Order adopted on January 24, 1985. No adjustment was made to the Company's expense allowance to comply with ALJ Kranzel's determinations at Docket No. C-78080459 since, as of January 24, 1985, the

Commission had not taken final action in this complaint proceeding. The Company's current base rates, which were established as a result of the investigation at Docket No. R-842590, became effective on January 25, 1985.

In summary, we find it appropriate to amend the Commission Order issued on September 4, 1985 at Docket No. C-78080459 which directed the adjustment, without quantification, of PECO base rates which became effective on November 23, 1983. Furthermore, we must take into account the Company's current base rates which have not been adjusted to accommodate the directives contained in our September 4, 1985 Order in this complaint proceeding. Finally, we must provide for the future and insure that the expenses which we have disallowed here are not incorporated in PECO's prospective rates.

We wish to make it clear that our ultimate goal is to order refunds to PECO customers of those expenses which we have disallowed here, but which have been recovered by the Company through base rates since November 23, 1983, and to make provision for the prospective disallowance of those expenses.

For the period November 23, 1983 to January 24, 1985, that interval of time when the base rates established in Docket No. R-822291 were in effect, we will direct PECO to submit to the Commission a calculation of the annual expenses disallowed here based upon the test year ended October 31, 1983, which was the future test year in Docket No. R-822291. We find that there is insufficient information on the record in this complaint proceeding to determine, with any degree of accuracy, the magnitude of an appropriate adjustment. Moreover, since we will be ordering refunds associated with rates put in effect at the close of the proceeding at Docket No. R-822291, we deem it appropriate to base the adjustment on future test year claims made in that rate proceeding. We expect the Company's data to be essentially the same in form and detail as that which it supplied in response to information requested by the Office of Consumer Advocate (OCA) in its subsequent rate proceeding at Docket No. R-842590.

The PECO base rates currently in effect were established at the conclusion of the Company's last general rate case at Docket No. R-842590 and have been in effect since January 25, 1985. In that rate proceeding, the OCA requested that PECO quantify the items in its 1984 budget which were disallowed by ALJ Kranzel in this complaint proceeding at Docket No. C-78080459. It is important to note that the year ended December 31, 1984 was the future test year in the rate case at Docket No. R-842590. The Company provided information showing that its 1984 budget

included \$4,723,000 for the accounts in question (OCA Exh. 59). There is no apparent dispute regarding the accuracy of the Company's calculation. Accordingly, we find that, on an annual basis, the amount of \$4,723,000 is the correct expense disallowance to be refunded to PECO customers relative to the base rates currently in effect.

On September 27, 1985 PECO filed a general rate increase request which has been suspended by the Commission and is currently under investigation at Docket No. R-850152. The suspension period ends on June 27, 1986. We noted earlier that we intend to ensure that the various expense items disallowed in this proceeding will not be recovered prospectively by the Company. To accomplish this objective we will direct PECO to submit, for the record in its current rate case at Docket No. R-850152, a quantification of the expense items which we disallowed in this proceeding based upon the future test year in the current rate proceeding.

There are approximately five months remaining to the end of the Company's current rate investigation. In consideration of this, and the fact that we are here directing PECO to submit further information to the Commission and for the record in the current rate case, we will postpone implementation of the rate impact of this complaint proceeding to coincide with our final determination in the rate investigation at Docket No. R-850152.

Except as amended by the foregoing discussion, we affirm the September 4, 1985 Order which adopted the Initial Decision of ALJ Isador Kranzel dated August 31, 1983, and we incorporate herein, the findings, conclusions, and directives contained in the Initial Decision; THEREFORE,

IT IS ORDERED:

1. That all expenditures by PECO on behalf of its Energy Education Advisory Council programs, including program materials, payments to consultants and salaries of PECO employees engaged in EEAC-related activities, shall henceforth be classified as a contribution, with such expenditures being disallowed as an expenditure to be borne by the ratepayers in the PECO rate proceeding at Docket No. R-822291.
2. That the salary, including fringe benefits, of Ms. Mollie McCormick of PECO's Law Department shall henceforth be classified entirely as lobbying and, therefore, disallowed as an expense charged to the ratepayers in the PECO rate proceeding at Docket No. R-822291.
3. That all payments to Reverend Cecil D. Gallup, a consultant to the Corporate Communications Department, shall be classified entirely as lobbying and,

therefore, disallowed as an expense charged to the ratepayers in the PECO rate proceeding at Docket No. R-822291.

4. That the salaries, including fringe benefits, of all PECO employees engaged in Speakers Bureau activities shall be reported to the PUC and a calculation shall be made in order to determine that proportion of each employee's time spent on Speakers Bureau activities, so that in future rate cases an appropriate disallowance shall be made for the amount of time spent by PECO employees which is of no direct benefit to the ratepayers.

5. That expenditures by PECO on behalf of the Utility Nuclear Waste Management Group (UNWVG) shall be classified as a contribution and, therefore, shall not be chargeable to the ratepayers in the rate proceeding at Docket No. R-822291.

6. That expenditures by PECO on behalf of Edison Electric Institute's TMI-related projects shall be classified as a contribution and, therefore, shall not be chargeable to the ratepayers in the rate proceeding at Docket No. R-822291.

7. That expenditures by PECO on behalf of Life Jobs shall be classified as a contribution and, therefore, shall not be chargeable to the ratepayers in the rate proceeding at Docket No. R-822291.

8. That expenditures by PECO on behalf of the American Nuclear Society shall be classified as a contribution and, therefore, shall not be chargeable to the ratepayers in the rate proceeding at Docket No. R-822291.

9. That expenditures by PECO on behalf of Americans for Energy Independence shall be classified as a contribution and therefore, shall not be chargeable to the ratepayers in the rate proceeding at Docket No. R-822291.

10. That expenditures by the Corporate Communications Department in the amount of \$2,829,970, less already disallowed expenditures related to the Energy Education Advisory Council, the Utility Nuclear Waste Management Group, Life Jobs, the American Nuclear Society, the Edison Electric Institute-TMI, and the Americans for Energy Independence, are to be disallowed as expenses to be borne by the ratepayers in the PECO rate investigation at Docket No. R-822291.

11. That in all future rate proceedings, PECO is required to specify hours spent by PECO employees in lobbying and to notify the PUC as to the same, so that such expenditures will no longer be borne by the ratepayers.

12. That all litigation costs incurred by PECO in the instant case (Keystone Alliance v. Philadelphia Electric Company, Docket No. C-78080459) shall be disallowed as an expense to be borne by the ratepayers in the PECO rate proceeding at Docket No. R-822291 and any future rate proceedings where allowances for such costs are requested.

13. That in all future rate proceedings PECO is required to specify any payments to industry associations such as the Atomic Industrial Forum, the Edison Electric Institute, the Pennsylvania Electric Association and any other industry association to which PECO pays monies, either on behalf of PECO or its employees, in order to determine whether any such expenditures are of a direct benefit to the ratepayers.

14. That PECO is directed to quantify the annual revenue impact of the disallowances contained in paragraph Nos. 1, 2, 3, 5, 6, 7, 8, 9, 10 and 12 above, on base rates put in effect on November 29, 1983 at the close of our investigation at Docket No. R-822291, and to serve its analysis on the Commission and the parties to this proceeding within twenty (20) days of the entry of this Order.

15. That the revenue impact of the expense disallowance made here upon PECO's current base rates which have been in effect since January 25, 1985, is \$4,723,000 on an annual basis.

16. That PECO is directed to quantify the annual revenue impact of the disallowances contained in paragraph Nos. 1 through 13 above for the record in its current base rate investigation at Docket No. R-850152; to base this analysis on future test year data in that proceeding and place it on the record in Docket No. R-850152 within twenty (20) days of the entry of this Order.

17. That a copy of this Order be served upon the parties to this proceeding at Docket No. C-78080459 and all parties to PECO's current rate investigation at Docket No. R-850152.

18. That any party to this proceeding may file comments or exceptions to this Order no later than twenty (20) days from the date that it is entered.

19. That if no comments or exceptions are received by the Commission within twenty (20) days of the entry of this Order it will be deemed a Final Amended Order.

BY THE COMMISSION,

Jerry Rich
Secretary

(SEAL)

ORDER ADOPTED: February 13, 1986

ORDER ENTERED: February 18, 1986

PENNSYLVANIA PUBLIC UTILITY COMMISSION

v.

PHILADELPHIA ELECTRIC COMPANY

DOCKET No. R-850152

SUPPLEMENTAL TESTIMONY

OF

THOMAS P. HILL, JR.

ANALYSIS OF THE COMMISSION ORDER
AT DOCKET R-78080459;
EXPLANATION OF CHANGES IN CERTAIN
RATE BASE AND EXPENSE CLAIMS

NOVEMBER, 1985

1 Q. Mr. Hill, have you previously filed Direct Testimony in
2 this case?

3 A. Yes, I have. My Direct Testimony was submitted with the
4 Company's initial filing, on September 27, 1985, as
5 Statement No. 18.

6 Q. What is the purpose of your supplemental testimony?

7 A. The purpose of my supplemental testimony is three-fold: 1)
8 to respond to the Commission's recent Order in the Keystone
9 Alliance Case at Docket No. C-78080459; 2) to present
10 several additions and corrections to the Company's claim as
11 filed to reflect new information and events which have come
12 to the Company's attention after the filing, and 3) to
13 provide the actual results of operations for the first
14 three months of the future test year.

15 Q. Mr. Hill, please describe the results of the Company's
16 review of the Commission's Order at Docket No. C-78080459.

17 A. On September 4, 1985, the Commission entered its final
18 Order in the Keystone Alliance case at Docket No.
19 C-78080459. The Commission's Order finds that certain
20 expenses incurred by the Company should not be recovered
21 from ratepayers, and that the Company should provide
22 information on certain other expenses in future rate
23 proceedings. A copy of the Commission's Order is provided
24 as Schedule 1. The Company believes that the Commission's
25 Order is in error and has appealed the Order to the
26 Commonwealth Court. Therefore, in the Company's view, any
27 adjustment in the current rate proceeding would be

1 premature. However, in order to provide a complete record
2 in this proceeding, the Company has reviewed each of the 13
3 paragraphs in the Commission's Order to determine the
4 amount of expense included in the Company's test year claim
5 in this proceeding for each of the programs and items
6 referenced in the Commission's Order, as follows:

7 Paragraph 1. The total amount of expenditures associated
8 with Energy Education Advisory Council (EEAC) related
9 activities included in the test year is \$631,412. These
10 expenses are recorded in FERC Accounts 909, 920, 921.

11 Paragraph 2. Ms. Mollie McCormick is no longer in PECO's
12 Law Department. She is currently employed in Corporate
13 Communications Department's Public Affairs Section. Ms.
14 McCormick's salary is charged below the operating income
15 line to FERC Account 426, along with other lobbying
16 expenses, and therefore is not included in the Company's
17 test year expense claim. The \$6,600 in fringe benefits for
18 Ms. McCormick are charged to FERC Account 926 and are
19 included in the test year claim.

20 Paragraph 3. The Company's test year expense claim
21 includes \$11,000 as a payment to Reverend Cecil D. Gallup
22 as a consultant to PECO's Corporate Communications
23 Department. This expense is recorded in FERC Account 921.

24 Paragraph 4. The portion of employee salaries and fringe
25 benefits related to Speaker's Bureau activities cannot be
26 directly determined since the Company's payroll system is
27 not designed to provide such an allocation. While the

1 exact costs are not specifically determinable, I have
2 prepared an estimate of these costs. As set forth in
3 Schedule 2, assuming three hours of employee time per
4 program and assuming that all engagements are on Company
5 time, an estimated \$54,000 in electric operations employee
6 wages and benefits are attributable to the Speaker's Bureau
7 program. The development of this estimate is shown on
8 Schedule 2. In the Company's view all of the speaking
9 engagements provide important information to ratepayers and
10 therefore are of direct benefit to ratepayers and should be
11 reflected in rates. Moreover, it is the Company's
12 understanding that Judge Kranzel's Recommended Decision was
13 concerned only about speaking engagements on nuclear or
14 nuclear related topics. As shown on Schedule 2,
15 approximately 30% of the speaking engagements deal with
16 nuclear-related topics and the estimated expenses
17 associated with these engagements would be \$16,000.
18 However, I should note that this \$16,000 estimate is
19 significantly overstated since many of the speaking
20 engagements are on the employees personal time at no cost
21 in salary or fringe benefits to the Company.

22 Paragraph 5. The Company's test year claim contains
23 \$28,400 in contributions on behalf of the Utility Nuclear
24 Waste Management Group. This expense is recorded in FERC
25 Account 930.2.

26 Paragraph 6. The Company's test year claim includes
27 \$755,830 in expenses for PECO's contribution on behalf of

1 Edison Electric Institute TMI-Projects. This expense is
2 recorded in FERC Account 930.2.

3 Paragraph 7. The Company's test year claim includes \$5,600
4 in expenditures on behalf of Life Jobs. This expense is
5 recorded in FERC Account 930.2.

6 Paragraph 8. The Company's test year claim contains
7 \$42,000 in expenditures on behalf of the American Nuclear
8 Society. This expense is recorded in FERC Account 930.2.

9 Paragraph 9. The Company's test year claim includes no
10 contributions to or expenditures on behalf of Americans For
11 Energy Independence.

12 Paragraph 10. Budgeted expenditures by Corporate
13 Communications in the current test year, excluding Muddy
14 Run, and less expenditures disallowed in the Commission's
15 Order, exceed the absolute level of 1978's expense by
16 \$3,748,432. As shown in Schedule 3 after the application
17 of a wage adjustment to 1978 ~~expenses~~ expenses to account for
18 general wage increases granted by the Company and allowed
19 by this Commission in prior rate orders, the difference is
20 reduced to \$1,240,786. Moreover, since 1978 the size and
21 scope of the Corporate Communications Department have grown
22 significantly. The public currently requires significantly
23 more information about Company operations, conservation,
24 safety and rates. As a result of the increase in the
25 public demand for information, Corporate Communications
26 staff has increased from 76 to 95 or 25% since 1978. This
27 increase in staff necessitated by customer and media

1 requirements for information is the primary cause of the
2 \$1,240,786 adjusted increase over 1978's level of
3 expenditures. The Company does not believe it was the
4 intent of the Commission's Order to ignore wage inflation
5 and necessary staff increases since 1978, and that the
6 Corporate Communications expense claimed by the Company is
7 just and reasonable when properly compared to 1978 levels.

8 Paragraph 11. Lobbying activities on behalf of PECO are
9 conducted by the Public Affairs Section of the Corporate
10 Communications Department. The Public Affairs Section has
11 five employees, of which four are registered lobbyists.
12 Eighty percent of the Public Affairs Section expenses are
13 charged below the line to lobbying expense in FERC Account
14 426. The remaining 20% of expenses are charged to Electric
15 (Accounts 920 and 921), Gas and Steam Operations. Since
16 all lobbying expenses are booked to Account 426, the
17 Company's test year expense claim contains no lobbying
18 expenses.

19 Paragraph 12. There are no expenses in the test year
20 associated with the litigation of Docket Number C-78080459.

21 Paragraph 13. Schedule 4 provides a list of industry
22 associations to which the Company pays money for itself or
23 its employees. The total amount paid to these associations
24 included in the test year is approximately \$1.1 million.
25 This expense is recorded in Account 930.2. Provided below
26 is a description of each association and the benefits to
27 ratepayers of Company membership.

1 The Edison Electric Institute (EEI) is a nationwide
2 industry organization to which the Company belongs. The
3 organization's programs cover numerous areas ranging from
4 Load Research and Rate Design to Depreciation Methods and
5 Accounting Policies to Industry Safety. These committees
6 enable members of the association to keep abreast of
7 current changes or advances in the different areas of the
8 industry. Current information in these areas is necessary
9 to operate a utility properly and therefore benefits the
10 ratepayer through improved operations.

11 The Pennsylvania Electric Association (PEA) is a
12 statewide industry organization to which the Company
13 belongs. This association helps the Company keep abreast
14 of the changing regulatory environment through analyzing
15 new and proposed regulations. Current knowledge on the
16 impact of new and proposed legislation is necessary for the
17 Company to properly operate its system and therefore is a
18 proper cost of doing business which directly benefits the
19 ratepayer.

20 The Electrical Association of Philadelphia is an
21 association of electrical contractors. The Company serves
22 as the coordinator of the association. The Association's
23 goal is to assure that all associated contractors maintain
24 proper safety standards and are up to date in industry
25 standards, i.e. ASHRAE Standards. The Company considers it
26 of utmost importance to itself and its ratepayers to have
27 contractors that the ratepayers know will do a safe job and

1 conform to the most recent standards.

2 The Atomic Industrial Forum is a trade association for
3 the nuclear power industry. AIF analyzes new and proposed
4 regulations regarding nuclear power, and monitors new
5 technologies in the industry. Such information, especially
6 regarding the ever-changing technology and regulation of
7 the nuclear industry is of great benefit to companies such
8 as PECO with a large investment in nuclear power. For
9 example, up-to-date knowledge in areas such as spent fuel
10 disposal and safer plant operations provides for safer and,
11 in some cases, improved operations, and clearly benefits
12 ratepayers.

13 The American Nuclear Energy Council monitors current
14 legislation regarding nuclear power. Knowledge of pending
15 changes can be beneficial to the Company for planning
16 purposes. Better planning provides for more efficient
17 operation and thus benefits ratepayers.

18 Q. Mr. Hill, please summarize the additions and corrections to
19 the Company's expense and rate base claim in this
20 proceeding.

21 A. Several additions and corrections have been made to reflect
22 new information, subsequent events and minor errors
23 discovered after filing. These changes consist of: 1) a
24 revision to the insurance claim for Limerick, 2) the
25 addition of a storm damage claim, 3) a revision to local
26 real estate tax expense, 4) a claim to recover the
27 Company's investments in the Sequoyah Uranium Project and

PENNSYLVANIA
PUBLIC UTILITY COMMISSION
Harrisburg, PA 17120

Schedule 1

Public Meeting held August 28, 1985

Commissioners Present:

Linda C. Taliaferro, Chairman, dissenting
James H. Cawley
Frank Fischl
Bill Shane

Keystone Alliance
v.
Philadelphia Electric Company

C-78080459

O R D E R

BY THE COMMISSION:

We adopt as our action the Initial Decision of Administrative Law Judge Isador Kranzel dated August 31, 1983, and that Exceptions be denied; THEREFORE,

IT IS ORDERED:

1. All expenditures by PECO on behalf of its Energy Education Advisory Council programs, including program materials, payments to consultants and salaries of PECO employees engaged in EEAC-related activities, shall henceforth be classified as a contribution, with such expenditures being disallowed as an expenditure to be borne by the ratepayers in the current PECO rate proceeding at R-822291.
2. The salary, including fringe benefits, of Ms. Mollie McCormick of PECO's Law Department shall henceforth be classified entirely as lobbying and, therefore, disallowed as an expense charged to the ratepayers in the current PECO rate proceeding at R-822291.
3. All payments to Reverend Cecil D. Gallup, a consultant to the Corporate Communications Department, shall be classified entirely as lobbying and, therefore, disallowed as an expense charged to the ratepayers in the current PECO rate proceeding at R-822291.
4. Salaries, including fringe benefits, of all PECO employees engaged in Speakers Bureau activities shall be reported to the PUC and a calculation shall be made in order to determine that proportion of each employee's time spent on Speakers Bureau activities, so that in future rate cases an appropriate disallowance shall be made for the amount of time spent by PECO employees which is of no direct benefit to the ratepayers.

5. Expenditures by PECO on behalf of the Utility Nuclear Waste Management Group (UNWGM) shall be classified as a contribution and, therefore, shall not be chargeable to the ratepayers in the current rate proceeding at R-822291.

6. Expenditures by PECO on behalf of Edison Electric Institute's TMI-related projects shall be classified as a contribution and, therefore, shall not be chargeable to the ratepayers in the current rate proceeding at R-822291.

7. Expenditures by PECO on behalf of Life Jobs shall be classified as a contribution and, therefore, shall not be chargeable to the ratepayers in the current rate proceeding at R-822291.

8. Expenditures by PECO on behalf of the American Nuclear Society shall be classified as a contribution and, therefore, shall not be chargeable to the ratepayers in the current rate proceeding at R-822291.

9. Expenditures by PECO on behalf of Americans for Energy Independence shall be classified as a contribution and, therefore, shall not be chargeable to the ratepayers in the current rate proceeding at R-822291.

10. Expenditures by the Corporate Communications Department in the amount of \$2,829,970, less already disallowed expenditures related to the Energy Education Advisory Council, the Utility Waste Management Group, Life Jobs, the American Nuclear Society, the Edison Electric Institute-TMI, and the Americans for Energy Independence, are to be disallowed as expenses to be borne by the ratepayers in the current PECO rate investigation at R-822291.

11. In all future rate proceedings, PECO is required to specify hours spent by PECO employees in lobbying and to notify the PUC as to the same, so that such expenditures will no longer be borne by the ratepayers.

12. All litigation costs incurred by PECO in the instant case (Keystone Alliance v. Philadelphia Electric Company, Docket Number C-78080459) shall be disallowed as an expense to be borne by the ratepayers in the current PECO rate proceeding at R-822291 and any future rate proceedings where allowances for such costs are requested.

13. In all future rate proceedings PECO is required to specify any payments to industry associations such as the Atomic Industrial Forum, the Edison Electric Institute, the Pennsylvania Electric Association and any other industry association to which PECO pays monies, either on behalf of PECO or its employees, in order to determine whether any such expenditures are of a direct benefit to the ratepayers.

BY THE COMMISSION,

(SEAL)

Jerry Rich
Secretary

ORDER ADOPTED: August 28, 1985

ORDER ENTERED: SEP 4 1985

Philadelphia Electric Company
ESTIMATED SPEAKERS BUREAU COSTS

1984 Speaking Engagement Breakdown

	<u>Total Engagements</u>	<u>% of Total</u>	<u>Nuclear or Quasi-Nuclear Related</u>
Conservation Rates	252	27.5%	
Nuclear Power	180	19.7	
Energy Alternatives	144	15.7	15.7%
Safety	133	14.5	14.5
Community Programs	104	11.3	
	<u>916</u>	<u>100.0%</u>	<u>30.2%</u>

Assumptions

- 916 is a normal number of engagements
- Three hours per engagement (includes travel time)
- Assume 90% of hours allocated to Electric Operations
- Assume all engagements on Company time.

Calculation of Cost

Total Payroll (Regular Time)	=	\$424,256,000	(D-5a, TPH-2)
Total Pensions & Benefits	=	<u>93,420,000</u>	(55,118(C-12a, TPH-2)) 459 (D-5, TPH-2)
Total Labor Related Expenses	=	\$517,676,000	
Employees @ 6/30/86	=	11,286	
Average Per Employee	=	\$45,869	
Employees Allocated to Electric (a)	=	1.19	
Cost Allocated to Electric Nuclear Related	=	\$54,370	
Total	=	\$16,418	(from above)

(a)	916	Engagements
	x 3	Hours
	<u>2,748</u>	Hours
	x .9	Allocated to Electric
	<u>2,473</u>	Hours
	<u>/ 2080</u>	Hours/Person-Year
	= 1.19	Person-Years

Philadelphia Electric Company
CORPORATE COMMUNICATIONS EXPENSE

1978 Corporate Communications Expense (Excluding Muddy Run) = \$3,482,841

Wage Increases

1978 = 2.9% (7.0% x 5/12)	1982 = 8.8%
1979 = 7.2	1983 = 6.75%
1980 = 9.5	1984 = 6.0%
1981 = 9.75	1985 = 5.4%

Cumulative Wage Adjustment Factor =
(1.029)(1.072)(1.095)(1.0975)(1.099)(1.0675)(1.06)(1.054)
= 1.72

Inflation Adjusted 1978 Corporate
Communications Expense = \$3,482,841 x 1.72 = \$5,990,487

Employees in 1978 = 76
Current Level = 95
Increase = 25%

	<u>W/O Inflation</u>	<u>W/Inflation</u>
June 30, 1986 Test Year Corporate Communications =	\$8,694,515	\$8,694,515
Less: 1978 Corporate Communicatons =	<u>3,482,841</u>	<u>5,990,487</u>
Excess of Test Year Expenses Over the 1978 Level =	\$5,211,674	\$2,704,028
Less: TMI-Cleanup	755,810	755,810
EEAC Expenses	631,412	631,412
Utility Nuclear Waste Management Group	631,412	631,412
Life Jobs	28,400	28,400
American Nuclear Society	5,600	5,600
	<u>42,000</u>	<u>42,000</u>
Expenses in Excess of 1978 Level	\$3,748,432	\$1,240,786
Adjustment to Reflect Increase in Staff	<u>870,710 (a)</u>	<u>1,497,672 (a)</u>
Expenses in Excess of the 1978 Level Adjusted for Wage Inflation and Required Staffing Increases	\$2,877,222	(\$256,886)

(a) Adjustment for 25% increase in staff.

	<u>W/O Inflation</u>	<u>W/Inflation</u>
1978 Expense	\$3,482,841	\$5,990,487
Adjustment		1,497,672
@ 25%	870,710	<u>1,397,622</u>

Philadelphia Electric Company

ASSOCIATION DUES
12 MONTHS ENDING JUNE 30, 1986

American Nuclear Energy Council	\$20,625
Atomic Industrial Forum	62,400
Edison Electric Institute	627,000
Electrical Association of Philadelphia	114,800
Pennsylvania Electric Association	313,937
Other	<u>8,650</u>
Total	\$1,147,412

Q. IR-OCA-13-13. Re: Statement 18A; Keystone Alliance discussion. Please provide a comparable breakdown for the Company's future test year claims in the following base rate proceedings: R-822291 and R-842590.

A. IR-OCA-13-13. The following data provides an estimate of the requested data for R-822291 and R-842590 comparable to Company Statement 18A.

	12 Months Ending	
	Dec. '84 R-842590	Oct. '83 R-822291
Paragraph 1	\$767,600	\$960,650
Paragraph 2	6,300	5,800
Paragraph 3	9,900	7,200
Paragraph 4	Note 1	Note 1
Paragraph 5	20,400	17,800
Paragraph 6	1,000,000	-
Paragraph 7	53,000	5,000
Paragraph 8	-	-
Paragraph 9	-	-
Paragraph 10	Note 2	Note 2
Paragraph 11	-	-
Paragraph 12	-	-
Paragraph 13	Note 3	Note 3

Note 1 - Attachment IR-OCA-13-13a provides the requested information.

Note 2 - Attachment IR-OCA-13-13b provides the requested information.

Note 3 - Attachment IR-OCA-13-13c provides the requested information.

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

Estimated Speaker's Bureau Expenses

	R-842590 12 Months Ended <u>Dec. 1984</u>	R-822291 12 Months Ended <u>Oct. 1983</u>
Payroll	\$404,759,000	\$361,224,000
Pensions & Benefits	92,002,000	78,230,000
Disallowance	<u>(15,801,000)</u>	<u>(6,553,000)</u>
Total Allowed Labor Expense	\$480,960,000	\$432,901,000
 Budget Employees	 10,798	 10,631
 Avg./Employee	 44,542	 40,721
Factor	<u>1.19</u>	<u>1.19</u>
Cost to Electric	\$53,005	\$48,458
Nuclear Related	<u>30.2%</u>	<u>30.2%</u>
Total	\$16,008	\$14,634

Philadelphia Electric Company
ESTIMATED CORPORATE COMMUNICATIONS EXPENSE
12 Months Ending December 1984
R-842590

1978 Corporate Communications Expense (Excluding Muddy Run) = \$3,482,841

Wage Increases

1978 = 2.9% (7.0% x 5/12)	1982 = 8.8%
1979 = 7.2%	1983 = 6.75%
1980 = 9.5%	1984 = 6.0%
1981 = 9.75%	

Cumulative Wage Adjustment Factor =

(1.029)(1.072)(1.095)(1.0975)(1.088)(1.0675)(1.06)=1.63

Inflation Adjusted 1978 Corporate Communications Expense =
\$3,482,841 x 1.63 = \$5,677,031

	<u>W/O Inflation</u>	<u>W/Inflation</u>
Dec. 31, 1984 Test Year Corporate Communications =	\$7,416,786	\$7,416,786
Less: 1978 Corporate Communications =	<u>3,482,841</u>	<u>5,677,031</u>
Excess of Test Year Expenses Over the 1978 Level =	\$3,933,945	\$1,739,755
Less: TMI Cleanup	1,000,000	1,000,000
EEAC Expenses	767,600	767,600
Utility Nuclear Waste Management Group	20,400	20,400
Life Jobs	53,000	53,000
American Nuclear Society	<u>-</u>	<u>-</u>
Expenses in Excess of 1978 Level	\$2,092,945	(\$101,245)
Adjustment to Reflect Increase in Staff	870,710 (a)	1,419,258 (a)
Expenses in Excess of the 1978 Level Adjusted for wage inflation and required staffing increases	\$1,222,235	(\$1,520,503)

(a) Adjustment for 25% increase in staff.

	<u>W/O Inflation</u>	<u>W/Inflation</u>
1978 Expense	\$3,482,841	\$5,677,031
Adjustment @ 25%	870,710	1,419,258

Philadelphia Electric Company
ESTIMATED CORPORATE COMMUNICATIONS EXPENSE
12 Months Ending October 1983
R-822291

1978 Corporate Communications Expense (Excluding Muddy Run) = \$3,482,841

Wage Increases

1978 = 2.9% (7.0% x 5/12) 1981 = 9.75%
1979 = 7.2% 1982 = 8.8%
1980 = 9.5% 1983 = 5.63% (10/12 x 6.75%)

Cumulative Wage Adjustment Factor =
(1.029)(1.072)(1.095)(1.0975)(1.088)(1.0563)=1.52

Inflation Adjusted 1978 Corporate Communications Expense =
\$3,482,841 x 1.52 = \$5,293,918

	<u>W/O Inflation</u>	<u>W/Inflation</u>
Oct. 31, 1983 Test Year Corporate Communications =	\$5,302,548	\$5,302,548
Less: 1978 Corporate Communications =	<u>3,482,841</u>	<u>5,293,918</u>
Excess of Test Year Expenses Over the 1978 Level =	\$1,819,707	\$8,630
Less: TMI Cleanup	-	-
EEAC Expenses	960,650	960,650
Utility Nuclear Waste Management Group	17,800	17,800
Life Jobs	5,000	5,000
American Nuclear Society	-	-
Expenses in Excess of 1978 Level	<u>\$836,257</u>	<u>(\$974,820)</u>
Adjustment to Reflect Increase in Staff	870,710 (a)	1,323,480 (a)
Expenses in Excess of the 1978 Level Adjusted for wage inflation and required staffing increases	(\$34,453)	(\$2,298,300)

(a) Adjustment for 25% increase in staff.

	<u>W/O Inflation</u>	<u>W/Inflation</u>
1978 Expense	\$3,482,841	\$5,293,918
Adjustment @ 25%	870,710	1,323,480

Philadelphia Electric Company

ESTIMATED ASSOCIATION DUES

	R-842590 12 Months Ending <u>Dec. 1984</u>	R-822291 12 Months Ending <u>Oct. 1983</u>
American Nuclear Energy Council	20,250	20,250
Atomic Industrial Forum	53,000	61,200
Edison Electric Institute	530,000	512,000
Electrical Association of Philadelphia	106,480	101,600
Pennsylvania Electric Association	<u>300,000</u>	<u>250,000</u>
Total	\$1,009,730	\$945,050

ORIGINAL

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

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**SECRETARYS OFFICE
Public Utility Commission**

Docket No. R-850152

Pennsylvania Public Utility
Commission)

v.)

Philadelphia Electric
Company)

SURREBUTTAL TESTIMONY

OF

DR. JOHN W. WILSON

March 1986

**DOCUMENT
FOLDED**

**DOCKETED
MAR 11 1986**

GEC Statement No. 1E

J. W. WILSON & ASSOCIATES, INC.

ECONOMIC COUNSEL
THIRD FLOOR • WATERGATE OFFICE BUILDING
2600 VIRGINIA AVENUE, N.W. • WASHINGTON, D.C. 20037

1
2 BEFORE THE
3 PENNSYLVANIA PUBLIC UTILITY COMMISSION
4

5 Pennsylvania Public Utility)
6 Commission)

7 v.)

8 Philadelphia Electric)
9 Company)

Docket No. R-850152

10
11 Surrebuttal Testimony

12 of

13 Dr. John W. Wilson

14
15 Q. STATE YOUR NAME AND ADDRESS?

16
17 A. My name is John W. Wilson. My address is 2600 Virginia
18 Avenue, N.W., Washington, D.C. 20037.

19
20 Q. HAVE YOU SUBMITTED TESTIMONY PREVIOUSLY IN THIS PRO-
21 CEEDING ON BEHALF OF THE GOVERNOR'S ENERGY COUNCIL?

22
23 A. Yes, I have.
24
25

1 Q. WERE YOUR QUALIFICATIONS SET FORTH IN GEC STATEMENT NO.
2 1A?

3
4 A. Yes, they were.

5
6 Q. WHAT IS THE PURPOSE OF THIS SURREBUTTAL TESTIMONY?

7
8 A. The purpose of this surrebuttal testimony is to respond
9 to several arguments concerning ECR matters that were
10 raised in the rebuttal testimony of PECO witnesses Hill
11 and Carroll.

12
13 Q. AT PAGE 14 OF HIS REBUTTAL TESTIMONY, PECO WITNESS HILL
14 ARGUES THAT THE NECESSITY FOR A FUEL ADJUSTMENT CLAUSE
15 IS AS GREAT TODAY AS IT WAS IN THE 1970s. DO YOU AGREE
16 WITH HIS ARGUMENT?

17
18 A. No. I stated the basic reasons why his argument is
19 wrong in my direct testimony. Between the early 1970s
20 and the early 1980s, the price of petroleum fuels in-
21 creased by more than 10 times, nuclear fuel prices
22 tripled and coal prices moved up dramatically as rail
23 carriers exploited the wide margin that developed be-
24 tween oil and coal costs. Today's petroleum and nu-
25 clear fuel prices are substantially below the inflated

1 levels that were reached during the past decade and
2 coal prices have also stabilized. While some price
3 movement should always be expected in the future, even
4 in view of the recent dramatic oil price reductions
5 there is no basis for anticipating the same magnitude
6 of fuel price volatility during the next decade that
7 was experienced between the early 1970s and the early
8 1980s.

9
10 Q. AT THE BOTTOM OF PAGE 14 OF HIS REBUTTAL TESTIMONY, MR.
11 HILL STATES THAT THE ECR DISADVANTAGES WHICH YOU OUT-
12 LINED IN YOUR DIRECT TESTIMONY, HAVE NOT MATERIALIZED
13 IN THE REAL WORLD AND THAT THERE IS NO PRACTICAL SUP-
14 PORT FOR THE CONCLUSION THAT FUEL AND OTHER COSTS MAY,
15 AT TIMES, MOVE IN OPPOSITE DIRECTIONS SO AS TO CREATING
16 OFFSETS TO EACH OTHER. IS HE CORRECT?

17
18 A. No. The oil price reductions that have been expe-
19 rienced in recent months are a case in point. While
20 inflationary forces in other sectors have not been
21 large by some past standards, reductions in oil costs
22 have produced a direct offset to other cost increases.
23 As for the disadvantages of ECR procedures more gene-
24 rally, Mr. Hill presents no evidence to support his as-
25 sertion. While Mr. Hill's unsupported opinion on this

1 matter may be viewed as valuable by the Commission be-
2 cause of his operating experience, the fact that util-
3 ity capital and operating costs have increased dramati-
4 cally over the past decade, during which perverse
5 incentives were present in most automatic fuel adjust-
6 ment clauses, is empirical evidence that should not be
7 overlooked. Moreover, even though management has no
8 control over general inflationary factors, there is no
9 doubt that system planning and operating decisions do
10 influence cost levels.

11
12 Q AT THE TOP OF PAGE 15 OF HIS REBUTTAL TESTIMONY, MR.
13 HILL POINTS OUT THAT OVER THE LAST 16 YEARS PECO HAS
14 HAD A NUMBER OF DIFFERENT ECR PROCEDURES AND THIS HAS
15 NOT IN ANY WAY AFFECTED THE PJM ECONOMIC DISPATCH.
16 DOES THIS OBSERVATION SUPPORT MR. HILL'S CONTENTION
17 THAT ECR CLAUSES HAVE NO EFFECT ON A UTILITY'S EFFI-
18 CIENCY?

19
20 A. No. Economic dispatch of available generating units is
21 not the point. In fact, I agree with Mr. Hill that
22 there is no reason to believe that economic dispatch
23 will be significantly influenced by the choice of ECR
24 procedures. What can be influenced by the choice of
25 ECR procedures, however, is a utility's generation

1 maintenance and construction program and its other
2 operating policies which determine the plants that will
3 be available for dispatch.
4

5 Q. AT THE BOTTOM OF PAGE 15, MR. HILL SUGGESTS THAT YOUR
6 TESTIMONY HAS LED HIM TO BELIEVE THAT YOU ARE SAYING A
7 UTILITY HAS A FINANCIAL INCENTIVE TO USE MORE FUEL OR
8 MORE EXPENSIVE FUEL. IS HIS INTERPRETATION CORRECT?
9

10 A. No. Mr. Hill deserves some clarification on this
11 point. Utilities will always have some incentive to
12 hold costs down, merely because of price elasticity
13 affects. That is, the higher their prices (for what-
14 ever reason) the less power and energy they will be
15 able to market. Thus, it is not that ECRs totally eli-
16minate financial incentives to economize on cost, but
17 that they distort the priorities that a utility will
18 follow in the pursuit of cost containment. With an ECR
19 a utility will have relatively less concern about
20 generation mix changes that cause fuel costs to rise
21 than would exist in the absence of an ECR. In short,
22 it is the distortion of incentives rather than total
23 incentive elimination that is the issue here.
24
25

1 Q. IS MR. HILL CORRECT IN STATING AT PAGE 16 THAT YOUR
2 TESTIMONY SUGGESTS THAT SOME SUB-OPTIMAL LEVEL OF PER-
3 FORMANCE IS ACHIEVED IF A UTILITY IS ALLOWED TO REFLECT
4 CHANGES IN ITS GENERATION MIX THROUGH A FUEL ADJUSTMENT
5 CLAUSE?

6
7 A. Where high cost replacement fuel or high purchased
8 power costs that are attributable to excessive nuclear
9 outages can be automatically passed through to custo-
10 mers through an ECR, a utility will have less incentive
11 to improve nuclear performance than it would absent
12 this ability to automatically charge customers for the
13 effects of such outages.

14
15 Q. AT THE TOP OF PAGE 17 MR. HILL HAS STATED THAT YOU
16 ASSUMED THAT ALL UNSCHEDULED OUTAGES ARE WITHIN THE
17 CONTROL OF MANAGEMENT. IS THAT CORRECT?

18
19 A. While it is true that management should always be held
20 accountable for the operation of its facilities, my
21 recommendation of a 65 percent nuclear capacity factor
22 certainly does not imply that management or stock-
23 holders should be penalized for all unscheduled out-
24 ages. If only planned outages for refueling and sche-
25 duled maintenance were to be accommodated, capacity

1 factors in the 80 to 90 percent range could easily be
2 established. It is precisely because of the need to
3 accommodate a certain amount of unscheduled outages
4 that a capacity factor as low as 65 percent may be
5 viewed as a reasonable target at this time. Hopefully,
6 as recent design and operational problems are ironed
7 out, capacity factor targets (including unscheduled
8 outages) can ultimately be increased to the 70 to 80
9 percent range. All of the empirical data, upon which
10 the 60 to 70 percent range which I have proposed in
11 this case is based, include substantial amounts of
12 unscheduled outages. Therefore, the standards which I
13 am suggesting here do not in any way penalize
14 management for a "reasonable" amount of unscheduled
15 outages.

16
17 It is, of course, recognized that in the short-run out-
18 ages may occur over which management has no immediate
19 control. That does not always mean, however, that such
20 unscheduled outages are entirely beyond the bounds of
21 management influence or responsibility. Planning deci-
22 sions as to what type of plant to build, specific plant
23 design characteristics, and provisions for adequate
24 water supply are all, at their inception, matters for
25 which management is responsible. For management to

1 make such decisions and, at some subsequent date after
2 the investment of billions of dollars of capital, claim
3 that the failure of an adequate water supply to
4 materialize is a matter beyond management's control is
5 hardly a "responsible" managerial attitude.
6

7 Q. ALSO AT PAGE 17 OF HIS REBUTTAL TESTIMONY, MR. HILL
8 SAYS THAT YOUR PROPOSAL WOULD FORCE A UTILITY TO
9 "FIGHT" ONLY TO BREAK EVEN. IS THAT CORRECT?
10

11 A. In our economy, either in the regulated or competitive
12 sector, all business enterprises should be required to
13 give their best effort in order to receive a fair pro-
14 fit. Traditionally, the fair rate of return which
15 Commissions establish in routine rate cases is based on
16 the presumption that the utility will perform at an
17 optimal level so as to be worthy of earning that
18 return. Mr. Hill's suggestion that PECO is entitled to
19 rewards for less is inconsistent with traditional
20 regulatory principles, and it is also out of step with
21 the way the rest of the economy works.
22

23 Q. AT PAGE 18 OF HIS REBUTTAL TESTIMONY, MR. HILL STATES
24 THAT YOUR NUCLEAR INCENTIVE PROPOSAL DOES NOT WORK IN
25

1 CONCERT WITH THE COMMISSION'S 80%/20% MECHANISM. IS
2 THAT CORRECT?

3
4 A. No. I have explained fully in GEC Statement No. 1C,
5 precisely how the nuclear performance incentive which I
6 have proposed and the 80%/20% mechanism can be inte-
7 grated. The essence of Mr. Hill's contention seems to
8 be that with a 60 to 70 percent nuclear performance
9 band, there should be no 80%/20% split within the band.
10 I disagree with that conclusion. The Commission's
11 80%/20% mechanism does not contemplate a neutral zone
12 as a general component of the mechanism. The fact that
13 I have incorporated such a zone for purposes of
14 designing a nuclear plant performance standard in no
15 way conflicts with or undermines the Commission's
16 approach, nor should the band which I have proposed for
17 nuclear performance be used as a device to undermine
18 the Commission's general 80%/20% mechanism.

19
20 Q. AT PAGE 19 OF HIS REBUTTAL TESTIMONY, MR. HILL STATES
21 THAT YOU HAVE NOT PROPOSED "A DOUBLE BENEFIT TO STOCK-
22 HOLDERS UNDER FAVORABLE OPERATING PERFORMANCE". IS HE
23 CORRECT?

1 A. No. Under favorable operating performance PECO would
2 earn both its allowed rate of return and, in addition,
3 a further profit increment attributable to the favor-
4 able performance level.

5

6 Q. MR. HILL CONTENDS THAT THE 90-DAY MINIMUM WHICH YOU
7 HAVE RECOMMENDED FOR ECR IMPLEMENTATION IS UNNECESSARY
8 AND WOULD NECESSITATE LONGER TERM PROJECTIONS. WOULD
9 YOU COMMENT ON THAT CONTENTION?

10

11 A. Mr. Hill makes reference to review by the Commission's
12 Bureau of Audits and suggests that with such a review
13 the existing 30-day period is adequate. While the time
14 requirements in this regard are surely a matter that is
15 within the Commission's discretion, I am unpersuaded by
16 Mr. Hill's argument that the 30 days is an adequate
17 period for all interested parties to have an adequate
18 opportunity for meaningful participation. As to the
19 contention that longer term projections would be re-
20 quired, that is not necessarily the case. Rather, pro-
21 jections could be done on the same basis as they are
22 presently, and the implementation of cost recovery
23 (i.e., an increased recovery lag) could be adopted to
24 accommodate essential time requirements.

25

1 Q. MR. HILL OPPOSES YOUR PROPOSAL TO EXEMPT "UNIT" SALES
2 RATHER THAN "FIRM" SALES FROM THE COST RECOVERY COM-
3 PUTATION. DO YOU AGREE WITH HIS REASONING?
4

5 A. No. I have explained in GEC Statement No. 1C the
6 affirmative reasons for adopting the "unit" sales
7 terminology. Mr. Hill, on the other hand, has not set
8 forth any reasons for retaining the "firm" classifica-
9 tion. He merely states that given the way in which
10 PECO "currently" implements the "current" energy cost
11 rate, the computations have been done properly -- that
12 is on the same basis as they would be done under a
13 "unit" sales approach. Since Mr. Hill appears to be in
14 essential agreement with the approach, and the dispute
15 appears to focus on choice of language, it would seem a
16 prudent regulatory move to adopt the technically
17 correct terminology so that there is no ambiguity in
18 the future.
19

20 Q. AT PAGES 11 AND 12 OF HIS REBUTTAL TESTIMONY, MR.
21 CARROLL ARGUES THAT YOUR 65 PERCENT NUCLEAR CAPACITY
22 FACTOR PROPOSAL IS INAPPROPRIATE IN VIEW OF PECO'S 61
23 PERCENT FORECAST FOR THE YEAR ENDING 6/30/87. DO YOU
24 AGREE WITH HIS CONTENTION?
25

1 A. No. The essence of Mr. Carroll's argument is that the
2 appropriate nuclear performance standard should be
3 whatever the Company may project in advance. That
4 approach, of course, would totally defeat the purpose
5 of an incentive standard. The Company's projections
6 are determined in accordance with the assumptions that
7 PECO selects in its ProdCost runs. Under such an
8 arrangement, the Company would have very strong
9 incentives to establish conservatively low operating
10 levels so that there would be little danger of perfor-
11 mance penalties and maximum opportunity for extra re-
12 wards. The determination of an appropriate performance
13 level should be independent of the Company's poten-
14 tially self-serving forecasts. The fact that the man-
15 agement of a particular company anticipates that its
16 performance will be relatively low is scarcely a valid
17 reason for requiring customers to shoulder the exces-
18 sive cost burden that would result if that anticipation
19 materializes.

20
21 Q. AT PAGES 13 AND 14 OF HIS REBUTTAL TESTIMONY, MR.
22 CARRROLL CONTENDS THAT YOU HAVE NOT PROPOSED ANY METHOD
23 FOR DETERMINING THE VALUE OF NUCLEAR GENERATION DEVI-
24 TIONS AROUND YOUR PROPOSED OPERATING STANDARD. IS THAT
25 A VALID CRITICISM?

1 A. No. There are a number of ways in which implementation
2 can be achieved which may be specified by the Commis-
3 sion if it elects to implement the approach that I have
4 described and recommended. One approach would be to
5 run a production cost model with the actual level of
6 nuclear performance in one run and the specified stan-
7 dard in a comparable run. The cost difference between
8 the two runs would be a measure of the extent to which
9 actual nuclear performance produced costs which varied
10 with those that would have been achievable had the per-
11 formance standard been attained.

12
13 Of course, runs of this type would have to be reviewed
14 for reasonableness by the Commission Staff and inte-
15 rested parties. In particular, the run which includes
16 nuclear performance at the specified standard level
17 should be examined closely to assure that the nuclear
18 outages incorporated on the hypothetical dispatch are
19 reasonably distributed as well as being at the appro-
20 priate levels. Reasonableness in this regard should be
21 assured at the implementation stage since it may be
22 impractical to anticipate and specify all possible con-
23 ditions in advance.

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Q. DOES THIS CONCLUDE YOUR SURREBUTTAL TESTIMONY?

A. Yes, it does.