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PENNSYLVANIA PUBLIC UTILITY COMMISSION

v.

PHILADELPHIA ELECTRIC COMPANY

DIRECT TESTIMONY

OF

MICHAEL A. BLEIWEIS

CONCERNING

RATE BASE, TAXES, REVENUES AND EXPENSES

ON BEHALF OF

PENNSYLVANIA OFFICE OF CONSUMER ADVOCATE

January, 1986

TABLE OF CONTENTS

List of Schedules

Schedule	
1	Cost of Capital
2	Electric Plant-in-Service
3	Non-Revenue Producing C.W.I.P.
4	Materials & Supplies
5	Accumulated Deferred State Income Taxes
6	Tax Depreciation & Tax Deferral
7	Salem Unit #2- Tax Benefit Transfer
8	Consolidated Tax Savings
8a	Hypothetical Consolidated Income Tax Savings
9	Spent Fuel Disposal Cost
9a	Capacity Factors
10	Amortizations
11	Revenue
12	Nuclear & Fossil Production O&M
12a	Nuclear Plant Outage Expense
12b	Fossil Plant Outage Expense
13	Keystone Alliance-Related Costs
14	Decommissioning Cost

I. STATEMENT OF QUALIFICATIONS

Q. Please state your name and business address.

A. My name is Michael A. Bleiweis and my business address is 733 Summer Street, Stamford, Connecticut.

Q. By whom are you employed?

A. I am employed by Woodside Associates, Inc., a financial and management consulting firm.

Q. What position do you hold with Woodside Associates and in what endeavor do you specialize?

A. I am a Partner specializing in public utility rate cases. Over the course of my career, my services have been utilized by public utilities and various consumer advocate and public interest groups.

Q. What is your educational background?

A. I am a graduate of Syracuse University with a Bachelor of Arts degree in Political Science and of New York University Graduate School of Business Administration with a Masters of Business Administration degree in Securities Analysis and Financial Analysis.

Q. What has been your business experience?

A. In 1973, I was employed as an economic research consultant with the firm of National Economic Research Associates (NERA) where I was involved in the preparation of rate of return exhibits that were based upon computer modeling for various utility companies. In 1974, I joined the firm of Citizens Utilities Company as a Revenue Requirements Analyst. My duties included the preparation of financial exhibits and testimony for various electric, water, gas and sewer company rate cases. In 1977, I joined American Water Works Service Company as Director of Rates and Revenue of the Eastern and New England Divisions of American Water Works Company, Inc. I was charged with the responsibility of preparing financial exhibits, supporting data and testimony for use in rate hearings for a total of thirteen water companies in New England, New York and New Jersey. I have been employed at Woodside Associates since 1979.

Q. Please describe further your experience in regulatory matters.

A. I have testified or participated in rate cases concerning the proper determination of a revenue requirement involving the following public utilities:

<u>IDAHO</u>

Idaho Electric Company) (Docket Nos. 100726,
) 100727,
Idaho Water Company) 100728)

<u>INDIANA</u>

Flowing Wells Water Company (Docket No. 34739)

<u>MASSACHUSETTS</u>

Hingham Water Company (Docket No. 19744)
American Water Company (Docket No. 19900)

<u>NEW JERSEY</u>

Commonwealth Water Company (Docket Nos. 784-274;
819-781;
842-100;
WR8503245)

Elizabethtown Water Company (Docket Nos. 802-76;
818-735)
WR8504330)

Mt. Holly Water Company (Docket Nos 805-314;
819-801)

Monmouth Consolidated Water Company (Docket Nos. 819-816;
828-733;
831-1113;
850-3267)

Public Service Electric and Gas Company (Docket No. 812-76)

Atlantic City Electric Company (Docket Nos. 7911-9511;
839-753 (LEAC)
8410-1079 (LEAC)
ER8504434)

Jersey Central Power and Light Company (Docket Nos. 811-25;
831-110;
8507698)

Rockland Electric Company (Docket No. 827-612)

Middlesex Water Company (Docket No. 829-707;
845-402)

New Jersey Natural Gas Company (Docket No. 831-46;
838-687 LPGA)

Hackensack Water Company (Docket No. 837-622;
847-698)

OHIO

American Utilities Company (Docket No. 80-999-AIR)

PENNSYLVANIA

Philadelphia Electric Company (Electric and Gas Divisions)

(Docket Nos. R-80061225;
R-811626;
R-811719;
R-822291;
R-832410;
R-842590)

Equitable Gas Company (Docket No. R-80041169)

Duquesne Light Company (Docket Nos. R-811470;
R-832337)

West Penn Power Company (Docket No. R-811836)

The Peoples Natural Gas Co. (Docket No. R-821906)

Pennsylvania Gas & Water Co. (Gas and Water Divisions)

(Docket Nos. R-821961;
R-822102)

Metropolitan Edison Company (Docket No. R-842770)

Pennsylvania Electric Co. (Docket No. R-842771)

RHODE ISLAND

Bristol County Water Company (Docket No. 1787)

NEW MEXICO

Gas Company of New Mexico (Case No. 1787)
Public Service Company of New Mexico (Case No. 1916)

I have also supervised or participated in the preparation of rate cases for companies in the states of Arizona, California and New York.

II. INTRODUCTION

Q. Please describe the scope of your testimony.

A. I have reviewed the company's claims for revenues, expenses, and measures of value as presented by witnesses Carroll, Hill, Sileo, Solecki, Wright, and Wroblewski. My testimony presents a critique of those witnesses' testimony and proposes adjustments to the company's claims. My testimony does not present any adjustments associated with the company's investment in Limerick unit 1.

Mr. Knudsen of my firm will be filing testimony which incorporates my adjustments and those of other OCA witnesses. Thus, any of my adjustments which depend upon the overall measure of value will be finalized in Mr. Knudsen's testimony. These adjustments may include cash working capital, depreciation reserve, depreciation expense, accumulated deferred income taxes, deferred taxes, and operating income. Mr. Knudsen will also present an adjustment to pro forma interest charges which will reflect the OCA's recommended rate base and capital structure. (That capital structure, as developed by Mr. Rothschild, is shown on Schedule 1.)

III. MEASURES OF VALUE

Plant-In-Service

Q. What adjustment are you proposing to the company's claimed balance for utility plant-in-service?

A. As in the prior three rate cases, I am proposing that the Commission adjust the company's future test year-end rate base to reflect "an observed general delay in completion of PECO's construction programs." (PUC Decision at Docket R-842590, page 8).

Q. What amount did the Commission allow as an adjustment to plant-in-service in the company's last rate case at Docket R-842590?

A. In the company's last rate case, an adjustment of $21.1 million was deemed to be proper.

Q. What adjustment to rate base are you proposing in the present proceeding?

A. I am proposing that the company's utility plant-in-service be reduced by $18.1 million.

Q. How was this amount determined?

A. OCA Exhibits 24 and 25 show a comparison of actual and budgeted plant-in-service as of the end of each quarter December 31, 1984 (the test year in the company's last rate case), March 31, 1985, June 30, 1985, and September 30, 1985. Exhibit 24 quantifies the variance between actual and budgeted plant and Exhibit 25 explains the quarter-end variances. A summary of these variances is presented below.

Date	Budget	Actual	Variance
12/31/84	$4,737,337	$4,649,202	$88,135
3/31/85	4,710,845	4,681,755	29,090
6/30/85	4,705,709	4,754,990	(49,282)
9/30/85	4,792,440	4,815,116	(22,676)

This table appears to show that for two quarters the company's budgeted plant was significantly below actual but that beginning in the second quarter of 1985, actual plant exceeded budgeted plant.

However, OCA Exhibit 25 shows that during the second quarter of 1985, the company had budgeted to retire Richmond Unit No. 9 at a cost of $40.808 million. However, that retirement did not occur during the second quarter; in fact, it actually occurred during the fourth quarter of 1985. When the Richmond 9 retirement is taken into account, the actual versus budgeted plant balances for the second and third quarter of 1985, would be as follows:

Date	Budget	Actual	Variance
6/30/85	4,746,516	4,754,990	(8,474)
9/30/85	4,833,248	4,815,116	18,132

Therefore, adjusting for the retirement of Richmond Unit 9 which did not take place as budgeted, budgeted plant at September 30, 1985, exceeded actual plant by $18.132 million.

Q. Why should Richmond 9 be excluded in comparing budgeted and actual plant balances?

A. The purpose of this adjustment is to reflect delays which occur in the company's construction program. The company's delay in retiring a certain piece of existing plant has no effect on its ability to complete its construction projects in a timely fashion. As shown in OCA Exhibit 25, with the exception of the second quarter of 1985, the Company's actual construction expenditures have lagged behind the amounts projected in its budget.

Consistent with this Commission's decisions in the company's last three rate cases, it is, therefore, appropriate to adjust the company's utility plant-in-service balance by $18.132 million as shown on Schedule 2. The related adjustments for depreciation reserve (a decrease of $626,000) and depreciation expense (a decrease of $626,000) are shown on Schedule 2. The related adjustments for tax depreciation (a decrease of $2,105,000) and tax deferral (a decrease of $754,000) are shown on Schedule 6.

Non-Revenue-Producing Construction Work In Progress

Q. What balance has the company claimed as an addition to rate base for non-revenue-producing construction work in progress?

A. As shown on TPH-2, C-8, the company is claiming a balance of $4.657 million.

Q. Do all of the company's claimed projects meet the Commission's criteria of being "non-revenue producing, non-expense reducing investments as may be reasonably shown to be necessary to improve environmental conditions at existing facilities or improve safety at existing facilities?"

A. No. In my opinion, the project labeled "Increase Spent Fuel Storage Capacity" and the two fire protection projects at the Salem station do not meet these stated criteria.

Q. Why doesn't the Spent Fuel project meet the Commission's criteria for CWIP?

A. On TPH-2, C-8, the company has classified this project as being for "safety" purposes. Capital authorization 408301 describes this project at the Peach Bottom station as being necessary to "perform final engineering and field installation work necessary to increase the spent fuel pool storage capacity by means of designing, fabricating, licensing and installing new high density spent fuel storage racks." The reason for the project, as given in that authorization by those at the company who requested that it be funded, is as follows:

"Re-racking our fuel pools will extend the loss of full-core discharge reserve from 1987/88 for units #2 and #3 to 1992/93, respectively. (Compaction of spent fuel into a 2:1 ratio will further extend the loss of full core discharge reserve from 1992/93 to 2004/05)."

Nowhere in this description or the reason for the project is there any mention of it being for safety-related purposes.

In Mr. Wright's direct testimony at page 5, the only mention of a safety-related purpose for this project is that it "will insure the continued safe storage of nuclear fuel at this plant."

It appears from the Company's description of this project that it is no different than any other nuclear-related project which is required to keep a nuclear plant operational. If the company failed to increase its spent fuel storage capacity, it does not appear that an unsafe condition would result; rather, the plant would be shut down. Thus, there is no risk of danger to the public. This is simply a project, like so many others at a nuclear plant, which is required in order to keep the plant operating in accordance with safety standards. I believe that it would be highly inappropriate for this project to be considered CWIP for ratemaking purposes and for the company to earn a return on its claimed balance at this time. I would, therefore, exclude CWIP related to this project, in the amount of $1,442,000, from rate base.

Q. Why don't the Salem station fire protection projects meet the Commission's criteria for CWIP?

A. Under cross-examination (Tr-201), Mr. Wright indicated that, if these projects were not undertaken, the Company's insurance premiums would increase by a significant amount. These projects, then, are expense-reducing and do not satisfy the Commission's criteria for inclusion in rate base as CWIP. Excluding these claims reduces the company's claim for CWIP in rate base by $167,000.

Q. What is the effect of these CWIP adjustments?

A. If my adjustments are accepted, the company will not be able to include these projects in rate base. Instead, the company will accrue AFUDC on these projects until they are placed in service.

Q. What other adjustment should be made to the company's claimed CWIP balance?

A. During cross-examination, the company stated that it would withdraw its claim for the installation of a water curtain spray system at the Keystone plant due to a delay for this project. Therefore, I have excluded this project, valued at $41,000, from the CWIP balance.

My proposed non-revenue producing CWIP balance of $3,007,000, which represents a $1,650,000 adjustment to the company's claim, is shown on Schedule 3.

Land Held For Future Use

Q. What balance has the company claimed for land held for future use as shown on TPH-2, C-9?

A. The company's claimed balance as shown on that exhibit is $8.651 million. However, during hearings the company stated that the Middletown substation has been completed and that the balance of $388,000 should be removed from its land held for future use claim.

Q. What is your position regarding the company's claim for land held for future use?

A. The Commission's present policy regarding land held for future use is that there should be a specific plan for such land parcels and that they be in service within a 10-year period. The Office of Consumer Advocate has consistently taken a position that all land which is not to be used in the test year is precluded from rate base recognition by Section 1315 of the Public Utility Code. OCA continues to take that position in this proceeding, pending the Pennsylvania Supreme Court's resolution of this issue.

Q. If the legal position of OCA is not accepted in this proceeeding, what adjustment should be made to the company's claim?

A. As shown on TPH-2, C-9, the company has included a balance of $2.515 million for the Bradshaw Reservoir and water rights-of-way. This project is now under construction and should be excluded from rate base recognition.

Q. What is the purpose of this land parcel?

A. As explained on OCA Exhibit 11 (IR-OCA-1-6):

> "Part of the system which will supply water from the Delaware River for supplementary cooling water for Limerick during periods of low flow on the Schuylkill River. This claim consists of land for a reservoir, pumping complex and pipeline."

Q. Except for the land, to what account are all expenditures for the Bradshaw Reservoir being booked?

A. All expenditures, except that for land, are being booked to the company's construction work-in-progress account.

Q. What is the impact of the company's continuing to keep the land for the Bradshaw Reservoir in the land held for the future use account, while all other expenditures are included in the CWIP account?

A. By following this procedure, the company can claim the land in the land held for future use account and thereby include it in rate base. Though the land for the Bradshaw Reservoir does not meet the Commission criteria for CWIP in rate base, the company has chosen a methodology that will enable it to earn upon the balance for the land parcel. While the accounting for this land in account 105 may not violate accounting standards, it does not follow that there should be a ratemaking distinction between this land and CWIP once the project is under construction.

Consistency, therefore, dictates that the land related to this project also be excluded from ratemaking recognition.

I would also point out that PECO witness Boyer indicates that the Bradshaw project is considered by the Company to be part of the Limerick common plant. Thus, if the Commission were to disagree with my adjustment, but were to include only 50 percent of Limerick's common facilities in rate base, only 50 percent of the Bradshaw claim should be allowed.

The rate base summary which will be presented in Mr. Knudsen's testimony will reflect a reduction of $8,651,000 to the company's rate base, as a result of the elimination of land held for future use.

Materials and Supplies - Fuel

Q. How has the company valued its rate base claim for fuel?

A. The company determined its fuel balances by applying an estimated inventory price of fuel at future test year-end, June 30, 1986, to design average inventory levels of fuel by type or station.

Q. From what source did the company obtain its projected fuel prices?

A. The company obtained its fuel prices from its fossil fuel price forecast.

Q. Does the company use a major consulting service to aid it in its fuel price forecasting process?

A. The company relies on the services of Data Resources, Inc. (DRI) to prepare quarterly forecasts for each type of fossil fuel used by the company in generating electricity, except for minemouth coal at Keystone and Conemaugh.

As shown on OCA Exhibit 14 (IR-OCA-1-11), the company's fossil fuel price forecast utilized data from DRI's May 1985 energy price forecast. The prices forecast on OCA Exhibit 14 for the second quarter of 1986 were brought forward to the company's Exhibit TPH-2, C-10.

Q. Were these prices later revised?

A. Yes. As shown on OCA Exhibit 15 (IR-OCA-1-11 Revised 11/25/85), DRI's oil forecast was revised downward in August 1985. The company revised its forecast for Philadelphia Area Coal but not for oil.

Q. What prices were forecast for coal?

A. The company's original forecast projected a price of $47.75/ton for Philadelphia Area Coal (Cromby and Eddystone), while the company's revised forecast showed a price of coal for the Philadelphia Area of $45.90.

Q. Why didn't the company revise its forecast oil prices from the original to the revised forecast?

A. At the time of preparation, the company apparently did not believe that such a revision was warranted, even though DRI's prices were lower by more than one dollar per barrel. However, under cross-examination, the company admitted that recent circumstances in the world oil markets may necessitate a need for such a revision (TR-311-315). To date, no such revision has been received by OCA.

Q. How did DRI's forecast of oil prices vary from its May to its August energy price forecast?

A. DRI's revisions to its second quarter 1986 projections are shown below.

Date of Forecast	No. 2 Fuel Oil $ Per Gallon	No. 6 1.0% S Oil $ Per Barrel	No. 6 0.5% S Oil $ Per Barrel
May	$0.76 ($31.92/bbl)	$25.30	$26.28
August	$0.73 ($30.66/bbl)	$24.21	$25.15

From the above, it can be seen that DRI reduced its forecast price of oil by more than $1 per barrel across the board.

Q. Did the company make any revisions to its projected prices for coal at Keystone and Conemaugh?

A. No, the company made no such revision.

Q. Do we have data by which to judge the company's forecasted price for coal at these stations?

A. Yes. The table below, which was derived from IR-OCA-1-8a, shows inventory prices at Keystone and Conemaugh coal monthly for 1985.

Inventory Prices

Month	Keystone	Conemaugh
1/85	$29.93	$37.69
2/85	$29.36	$38.28
3/85	$29.63	$38.66
4/85	$29.84	$38.65
5/85	$30.35	$39.02
6/85	$30.41	$37.85
7/85	$31.89	$37.77
8/85	$31.17	$37.13
9/85	$31.61	$35.06
10/85	$30.34	$34.76
11/85	$29.39	$36.10

From the above table, even taking into account the effects of seasonality, Keystone and Conemaugh coal prices appear to have been heading downward, or at the very most, appear to be leveling off. It appears doubtful that the inventory prices of $34.47/ton for Keystone forecast by the company for June, 1986 will be realized.

Q. Based on the above information, what prices should be utilized for ratemaking purposes for both coal and oil?

A. For Philadelphia Area Coal, I propose to use the inventory price forecast for June 30, 1986, by the company in its latest fossil fuel forecast as shown on OCA Exhibit 15, that is, $45.90 per ton.

Considering the above information for Keystone and Conemaugh coal, I would propose that a price of $32.00 be utilized for Keystone Coal and that the company's estimate of $37.34 be used for Conemaugh Coal. This reflects a slight upward trend to present inventory prices at each station.

For oil prices, I propose that the latest DRI forecast, as shown in OCA Exhibit 15, be utilized for ratemaking purposes; that is, $30.66 for No. 2 oil ($0.73 x 42), $24.21 for 1% No. 6 oil and $25.15 for .5% No. 6 oil. I believe that the company's forecast for the second quarter 1986 is unreliable. Since DRI's August forecast is the most current forecast available for the second quarter of 1986, I am using that forecast.

The result of utilizing the above prices is to reduce the company's coal inventory claim by $677,000 and its oil inventory claim by $1,175,000. These results are shown on Schedule 4.

Cash Working Capital

Q. Do you agree with the company's determination of the revenue lag utilized in the calculation of its cash working capital claim?

A. Yes. While I disagree with the Company's inclusion of uncollectible accounts expense in its revenue lag calculation, the exclusion of that expense would not change the revenue lag of 46 days.

Q. Why do you disagree with the inclusion of uncollectible accounts expense in the determination of the revenue lag?

A. Uncollectible accounts expense is a non-cash expense. As such, it does not belong in a cash working capital analysis. The Commission consistently has held that such non-cash expenses (including uncollectible accounts expense and depreciation expense) should not be included in cash working capital studies.

Q. Have you made any adjustments to the company's cash working capital determination?

A. I have recalculated the determination of the expense lag for federal income tax expense.

Q. Why have you made such a recalculation?

A. It is my understanding that the only legal requirement is that the company pay 90 percent of its tax liability by the end of the tax year. There is no reason why this amount cannot be paid in four equal installments of 22.5 percent each. The final payment would be the remaining 10 percent of the tax liability. The company has contended in the past that the reason it utilizes a payment schedule in the determination of the federal income tax lag of three payments of 25% followed by one payment each of 15% and 10% of the total tax liability is to avoid possible penalties. However, during cross-examination of Mr. Sileo, the witness indicated that the company paid 22.5% each quarter for its FIT payments according to the statutory schedule (TR-262).

Therefore, in my opinion, it is neither necessary nor proper for the Commission to utilize a fictitious payment schedule in the determination of the federal income tax expense lag. In addition, I would note that the company actually pays little, if any, taxes to the federal government. Ratepayers are required to pay certain deferred taxes to the company, but the fiction of tax deferrals should not be used to require the increased payment of cash working capital when tax payments are or could be made according to the statutory schedule. The cash working capital schedules in Mr. Knudsen's testimony will reflect a calculation of the federal income tax lag according to the statutory payment schedule. The result will be a lag of 59 days instead of 46.5 days, as shown by the company on Attachment II-B-4b, page 1 of 2.

Q. Have you made any other adjustments to the company's cash working capital claim?

A. Yes. On the reply to IR-OCA-8-6, the company noted that the Interstate Commerce Commission has recently changed its regulations to allow up to 15 days to pay freight bills as opposed to 120 hours (5 days). Therefore, my cash working capital adjustment will utilize a 15-day lag period as applied to coal freight bills.

My final cash working capital recommendation will depend on the OCA's recommended total rate base. Schedules reflecting my cash working capital adjustments will be included with Mr. Knudsen's testimony.

Salem #1 Rate Base Deduction

Q. Has the company deducted from rate base an amount to reflect inadequate management practices during the construction of the Salem #1 Nuclear Generating Station as ordered by the Commission in Docket No. R-822291?

A. The company has made no such deduction.

Q. Has such a deduction been allowed by the Commission in every base rate case filed by the company since R-822291?

A. Yes. The Commission has made this reduction because it found that a portion of the cost of Salem Unit 1 was not prudently incurred.

Q. If such a deduction were to be made in this rate case, what should the deduction be?

A. As shown on OCA Exhibit 26 (IR-OCA-1-52), the balance of the deduction is $4,379,899 at June 30, 1986. I recommend that this disallowance be made in this case. Such amount will be reflected as a deduction from rate base on Mr. Knudsen's summary schedule.

IV. TAXES

Accumulated Deferred State Income Taxes

Q. Does the company currently flow-through to customers the tax timing differences for state income taxes?

A. Yes. In the company's last rate case, the Commission ordered that the tax timing differences for state income taxes be flowed through to customers.

Q. In your opinion, therefore, is it necessary for the company to continue to maintain a balance for accumulated deferred state income taxes?

A. No. I believe that such a balance is no longer necessary.

Q. What is your recommendation regarding the balance of deferred state income taxes?

A. I recommend that the balance of deferred state income taxes be amortized over a five-year period, and that the unamortized balance be deducted from rate base, similar to the amortization and rate base deduction approved in the Bell of Pennsylvania case at Docket No. R-842779.

Q. Why are you making such a recommendation?

A. As currently structured, the accumulated deferred state income tax balance will be returned to ratepayers as the tax timing differences which gave rise to the deferrals are reversed, that is, as straight-line depreciation becomes greater than accelerated depreciation. However, such a process may take many years. My recommendation of amortizing the accumulated deferred state income tax balance over five years will benefit those ratepayers who previously paid for such tax timing differences in rates.

Therefore on Schedule 5 I show the five-year amortization of the company's accumulated deferred state income tax balance, its effect on income which is an upward adjustment of $3,055,000, and its effect on rate base which is an increase in rate base (over the company's claim) of $5,658,000.

Salem #2 Tax Benefit Transfer

Q. Has the company reflected as a deduction from rate base, and a corresponding increase to income, transactions resulting from the Salem Unit #2 tax benefit transfer?

A. No, it has not.

Q. Can you summarize this transaction?

A. Yes. As stated by Mr. Sileo on page 7 of Statement No. 23:

> "...in December, 1981, PECO entered into an agreement in which it sold certain tax benefits associated with Salem Unit #2 to Hercules Corporation for $129.7 million. $53.7 million of this amount was paid up front, the remainder over a 15-year period. This up front payment consisted of Investment Tax Credit, Deferred Income Tax, and a "make whole" payment of $6.9 million."

It is this $6.9 million which was at issue in the company's last rate proceeding. The OCA in that case argued that this $6.9 million represented non-investor-supplied funds. It would be improper for investors to receive a return on assets supported by funds which the company's investors did not supply.

In it's decision in R-842590, the Commission explicitly stated at page 103 that:

> "The $6.9 million received by PECO for what it described as a 'made whole' payment designed to compensate it for the lost time value of money associated with receipt of Salem Unit #2 tax benefits, was supplied by Hercules Corporation, not the investors in PECO. We therefore conclude that it is not only equitable, but also proper that ratepayers receive the benefit of these funds through the OCA's proposed amortization, particularly since Salem #2 has been included in rate base in this proceeding."

In my opinion, there has been no change in circumstances since the company's last rate proceeding to warrant the company's investors being the sole beneficiary of this $6.9 million payment. The Commission-ordered amortization should remain in effect.

Therefore, on Schedule 7, I have reflected the approximate unamortized balance of $6,098,000 as a reduction from rate base and a $114,000 addition to income for return.

Consolidated Tax Savings

Q. Does Philadelphia Electric Company file its federal income tax return on a separate, stand alone, basis?

A. No, PECO participates in the filing of a consolidated tax return along with its subsidiaries.

Q. What benefits accrue to PECO and the other subsidiaries by filing a consolidated return, rather than separate returns?

A. The major benefit is derived in the calculation of taxable income, whereby, the negative income of those subsidiaries having a taxable loss is added to the positive income of those subsidiaries having a taxable gain resulting in net taxable income that would be lower than if each company filed tax returns on an individual basis. When two or more companies participate in the filing of a consolidated tax return, they will pay no more tax than they would have paid if they filed separately. However, they may pay substantially less.

Q. Have you provided an example to illustrate this concept?

A. Yes. Schedule 8a provides an example of the calculation of the income tax liability of two related companies, A and B, both on a separate return and consolidated basis.

If the two companies were to file separately, Company B would not be able to utilize its tax loss in the present year and the total income tax liability would be only that generated by Company A, which is in a positive tax position.

If the two companies were to file a consolidated return, then Company B's taxable loss could be utilized in the present year and the tax liability of the consolidated entity would be $460,000 ($1,000,000 x 46%) less than if each company filed a separate return. This example illustrates the main advantage of filing a consolidated return.

Q. Is there another benefit derived from the filing of a consolidated tax return?

A. Yes. The second major benefit of filing a consolidated return is that the consolidated entity can use the tax losses of its subsidiaries in the current year rather than at some future time, as it would have to if each member filed independently and was required to carry forward its own losses. The principle here is one of present value, whereby, a dollar in hand today is worth more than a dollar in hand tomorrow. Similarly, a dollar of tax savings today is worth more than a dollar of tax savings tomorrow.

Q. Some of the subsidiaries are not regulated. Should tax savings generated by these subsidiaries be passed on to utility customers?

A. Yes. It is my position that utility rates should be based on as much actual data as possible, including a utility's actual income tax payments. If this policy is not followed, then the company and its stockholders would be given credit for the entire amount of an expense never, in fact, incurred.

If the utility receives tax benefits by filing a consolidated tax return, then a pro rata portion of the benefits should be considered for ratemaking purposes regardless of their source. The tax savings in the system should benefit the ultimate payers of taxes, that is, the ratepayers.

Q. Has PECO reflected in this rate case any tax savings resulting from the generation of tax losses from subsidiaries with which it participates in the filing of a consolidated tax return?

A. No, it has not.

Q. In your opinion, should such a tax savings be reflected?

A. Yes, it should.

Q. How have you calculated a federal income tax savings allocation that should be passed onto PECO's customers?

A. Schedule 8 details this calculation. The basic methodology is to, first, reflect two-year total taxable income or loss data for Philadelphia Electric Company and its subsidiaries (column 3). The two years utilized were 1983 and 1984 and the source of such data is the company's tax returns - Schedule M-1. A two-year period should give a representative picture of the taxable status of the subsidiaries.

Second, average taxable income or loss is calculated for each subsidiary (column 5). Columns 6 and 7 then develop an allocation factor to be utilized in allocating the taxable loss back to those subsidiaries in a positive taxable position over the two-year period. Column 6 shows a 89.19% allocation factor for PECO. Column 7 totals the average tax losses available from Adwin Equipment Co., Eastern Pennsylvania Development Co. and Eastern Pennsylvania Exploration Co.

After taking 46% of the adjusted total average tax losses, 89.19% of tax savings is allocated to PECO and 86.180% is further allocated to the Electric Division to be utilized as a tax savings applicable to the current portion of the company's federal tax liability for ratemaking purposes.

Q. Why did you utilize a two-year average for the determination of average taxable income or losses?

A. The use of a longer period of time would have distorted the average taxable losses of Eastern Pennsylvania Exploration Co., the principle source of taxable losses within PECO. Losses in years prior to 1983 were much higher than those in 1983 and 1984. Therefore, to be conservative, I utilized only those losses for the most recent two years.

Q. How did you allocate taxable losses back to those subsidiaries in a positive taxable position?

A. Column 6 develops an allocation factor based upon only those subsidiaries in an average positive taxable position during the

1983-1984 time period. Therefore, each subsidiary in a positive taxable position only receives a pro rata share of the total average taxable losses of those subsidiaries in a negative taxable position.

Q. Why is your proposed adjustment only applied to the current portion of the company's federal tax liability?

A. The company's total tax liability is composed of a current and deferred portion. My proposal only concerns itself with the current portion and, therefore, in my opinion, in no way interferes with the company's privilege of normalizing the difference between book and tax depreciation.

Q. For the most part, what is causing the tax savings to be allocated to PECO?

A. PECO's exploration subsidiary, Eastern Pennsylvania Exploration Co. (EPEC) has been in a taxable loss position at least since 1979. The losses basically result from the company being able to expense certain expenditures for tax purposes which it capitalizes for book purposes.

During cross-examination of Mr. Sileo, it was noted that the company stated in its last two cases that EPEC was budgeted to be profitable. However, to date, EPEC remains in a loss position. It is only fair that the P.U.C. recognize the facts as they stand - this subsidiary has been in a loss position for at least five years. Though losses have somewhat diminished, the hard facts are that, contrary to company budgets, the subsidiary remains unprofitable. Until the company can show that EPEC actually has made a profit, its continual losses should be recognized for ratemaking purposes.

Q. Why have you not recognized the $(50,925) average tax loss of Adwin Equipment Company?

A. This subsidiary has been in a tax loss position in only two of the past six years. Therefore, to be conservative, I have not reflected a two-year average tax loss for purposes of this computation.

Q. In some other utility rate cases in Pennsylvania, the Commission, though recognizing consolidated tax savings, has followed a methodology of first combining the profits and losses of non-utility subsidiaries to determine the tax loss to be allocated to the utility. In your opinion, is this methodology consistent with the basic theory of consolidated tax savings?

A. Emphatically not! Schedule 8a shows why this methodology is inappropriate.

Schedule 8a shows a third subsidiary, C, having $2 million of taxable income, which is now included in the consolidated tax return. This example exactly reflects an actual consolidated tax return. From Schedule 8a, it can be seen that even though Company C is in a profitable position, the actual tax savings is only dependent upon that subsidiary which has a taxable loss. No matter how many profitable subsidiaries there may be, utility or non-utility, the tax savings is still equal to 46% times the tax loss. Therefore, to add together the profits and losses of the subsidiaries and then apply any resultant loss as a tax savings, defeats the purpose and theory of the consolidated tax adjustment.

Q. Have you previously performed a computation similar to that shown on Schedule 8?

A. Yes, I have. In the Philadelphia Electric Company-Gas Division rate case (R-832410), I sponsored a consolidated tax savings allocation adjustment which was accepted by the Pennsylvania Public Utility Commission.

Q. What is the result of your tax allocation computation?

A. As shown on Schedule 8, I have calculated a tax savings adjustment of $341,776 to be applied to the company's pro forma current federal income tax liability.

V. REVENUES AND EXPENSES

Spent Fuel Disposal Costs

Q. What capacity factor has the company utilized to determine its claim for spent fuel disposal costs?

A. The company's claim for spent fuel disposal cost is predicated upon a 65% capacity factor at each of the five nuclear generating stations.

Q. Do you believe that utilization of a 65% capacity factor is correct for determination of spent fuel expense?

A. No. Schedule 9a shows the history of capacity factors for the company's nuclear stations. From this schedule it can be seen that in recent years these nuclear generating stations have rarely achieved a 65% capacity factor.

Q. What capacity factor did you recommend be utilized in the company's last rate case for purposes of determining spent fuel disposal costs?

A. In the company's last rate case, I recommended a capacity factor of 55%. However, the Commission chose to utilize the company's claim of 65%. However, Schedule 9a shows that only Salem #1 exceeded a 65% capacity factor in 1984. Of the other three units, only Salem #2 even approached a 55% capacity factor (55.5%) with Peach Bottom #2 at 26.7% and Peach Bottom #3 at 38.5%. The Commission must recognize the reality that the company's nuclear units have not attained an average 65% capacity factor as the company has claimed in past proceedings and, as a result, the company has consistently overcollected nuclear spent fuel expense.

Q. What capacity factor do you recommend be utilized in this proceeding?

A. I recommend that the Commission utilize a 60% capacity factor. This is the same factor accepted by the Administrative Law Judge in the recent Limerick #2 proceeding and was recommended by OCA witness Komanoff in that proceeding.

Q. Based upon a 60% capacity factor, what is your adjustment to the company's claim?

A. Schedule 9 shows a $1.313 million downward adjustment to the company's claimed spent fuel disposal expense and a $660,000 upward adjustment to income.

Amortizations

Q. Do you agree with all of the amortization adjustments claimed by the company on TPH-2, D-12?

A. No. I disagree with the amortization claims for the Limerick #2 show cause proceeding and the Heaton-Byberry 230kv line.

Q. Why should current ratepayers not fund the cost of the Limerick #2 show cause investigation?

A. It is difficult enough for ratepayers in this proceeding to have to fund the inclusion in rates of the Limerick #1 plant without also having to pay for an investigation proceeding to justify the construction of a second nuclear plant. The costs of the Limerick 2 proceeding should be included in the cost of Limerick unit 2.

Q. What alternative can the company follow for booking these expenditures?

A. The company should capitalize such costs over the life of Limerick Unit 2, similar to those capitalized for NRC licensing proceedings. (See DR-TPH9-OCA.) In this way, those who are supporting Limerick 2 in rates will pay all of the costs associated with that unit, including the costs of legal proceedings which were necessary to continue constructing the plant. If Limerick 2 is cancelled, the costs of the litigation should be amortized with other sunk costs to the extent that they are found to be prudent.

Q. Can you briefly describe the company's claim for amortization of abandoned engineering costs for the Heaton-Byberry line?

A. Yes. This line was a transmission project that accumulated $445,000 in engineering charges before it was subsequently determined that the project was not required. The company is requesting that such charges be amortized over a five-year period.

Q. When was the work on this project initially put on suspension?

A. According to Mr. Hill (TR-503), the project was initially suspended in 1976.

Q. In your opinion, should such an amortization be allowed for ratemaking purposes?

A. No. In my opinion, preliminary expenditures for a project that was never in service should not be funded by ratepayers, especially one for which there has been no expenditures since 1976. Ratepayers should not be required to reach back 10 years for recognition of expenditures for a project that never came to fruition. I am also advised that OCA contends that Section 1315 of the Public Utility Code prohibits the inclusion in rates of these costs. Therefore, on Schedule 10, I have disallowed the amortization for the engineering costs for this line.

The combined effect of these two adjustments is an upward adjustment to income of $642,000, as shown on Schedule 10.

Sequoyah and Lee Mines

Q. Have you accepted the company's claim to amortize certain costs associated with the uranium mining projects at Sequoyah and Lee Mine, as shown at TPH-2, D-24?

A. No, I have not. It is the position of the OCA that this portion of nuclear fuel in process never provided service to ratepayers and is not used and useful property. Ratepayers should not bear the cost of investing in projects of this nature.

I would also note, however, that these assets are the subject of a Commission Investigation at the present time. If, before the end of this base rate proceeding, the Commission's Investigation results in a determination concerning the ratemaking treatment to be given to these assets, I believe that the final Order in this case should reflect such determination.

The elimination of this uranium mining amortization claim will be reflected in the summary schedules which will accompany Mr. Knudsen's testimony.

Sales and Revenue

Q. On what level of sales has the company based its revenue claim for this rate case?

A. As shown on TPH-2, A-5, the company has budgeted the total electric sales (excluding other electric operations) of 27,653,130 mwh for the test year ended June 30, 1986. This amount excludes annualization adjustments for growth in usage of existing customers and annualization of new customer usage found on TPH-2, D-3a. Additional mwh for these two adjustments amount to approximately 490,000 mwh.

Q. During what time period is the company's budgeted sales prepared?

A. The company normally prepares a two-year budget in the fall of each year for final approval by its Board of Directors during approximately the following January. Therefore, budgeted 1985 and 1986 sales were prepared during the fall and winter of 1984. Current projections for 1986 and 1987 are under preparation and should be known before the end of this rate proceeding.

Q. How well did the company budget its sales for calendar year 1984, which was the test year in the company's last rate proceeding?

A. A comparison of weather-adjusted 1984 sales versus budgeted sales for the same period shows weather-adjusted sales to be over 1 million megawatt hours above the budget or approximately 4%. If one were to value just the effect on revenues of this large variance over budget, at an average revenue per kilowatt hour of 8.6 cents (as Mr. Hill did under cross-examination at TR-484) weather-adjusted revenues on the average exceeded the budget by $86 million.

Q. For the first five months of the current test year, that is, July through November of 1985, how has the company's budgeted sales compared to actual weather-adjusted sales.

A. As shown on Schedule 11, for the first five months of the future test year, actual weather adjusted sales have exceeded the budget by approximately 128,000 megawatt hours. Valuing this variance at the average revenue per kilowatt hour by revenue class results in additional weather-adjusted revenues of approximately $11.0 million.

Q. Looking at Schedule 11, what are the major causes of the variance in weather-adjusted versus budgeted sales?

A. Residential sales to date appear to be under budget. However, this variance is more than offset by increases in house heating, small commercial and industrial, and large commercial and industrial sales.

Q. Should the company's budgeted sales and revenues for the future test year be adjusted for ratemaking purposes?

A. Yes, they should. Pro forma revenues should be adjusted to reflect the current variance of actual versus budgeted sales. I am not suggesting at this time that the current variance be annualized for the full test year but rather that the Judge and Commission recognize that sales to date have been underbudgeted.

Q. What is the result of your revenue adjustment?

A. As shown on Schedule 11, the above revenue adjustment increases base revenue by $11.0 million. After adjusting for incremental costs and taxes, as performed by the company in its D-3b adjustment, this sales increase results in an increase to income of $3.6 million.

Inflation Adjustment

Q. What are the company's inflation factors for 1985 and 1986?

A. The company has used an inflation rate of 5.25 percent for 1985 and 6.4 percent for 1986.

Q. From whom were these inflation factors obtained?

A. As stated on IR-OCA-1-43,

> "The inflation factors were obtained from Budget and Control Division for use in conjunction with the 1985 Budget."

Q. When were these inflation factors developed?

A. During cross examination, Mr. Solecki stated that the corporate inflation factors were finalized in November, 1984.

Q. Upon what data are these corporate inflation factors based?

A. Page 7 of Mr. Solecki's direct testimony states:

> "The inflation rates utilized for budget purposes are a composite of the GNP deflator estimates and wage rate estimates..."

Q. Do you agree with the inflation factors utilized by the company?

A. No, I do not. The Commission in the company's last rate case recognized the Gross National Product (GNP) Implicit Price Deflator as the proper index to be utilized when measuring inflation. In the last proceeding the Commission used an inflation adjustment of 4.2%.

Q. What percentage increase is the GNP Implicit Price Deflator approximating during calendar year 1985?

A. To date, that is, through the third quarter of 1985, the annual rate of increase for the GNP Implicit Price Deflator is 2.3%. In comparison, the annual rate of increase for the consumer price index is 3.6%. Considering the stability of the economy, in my opinion, it is proper for this proceeding to utilize a conservative inflation rate of 3.5% for both 1985 and 1986. These inflation rates are consistent with those being projected by many forecasters for 1985 and 1986 (see OCA Exhibits 1 and 2). I have reflected these inflation factors on Schedules 12a and 12b.

Q. To what items did the company apply these inflation factors?

A. The company has applied these inflation factors to its nuclear and fossil plant outage expenses, as shown on TPH-2, D-10a.

Q. How has the company used these inflation factors in developing its nuclear outage expense claim?

A. For Salem and Peach Bottom, the company has used as a base the nuclear plant outage expenses that were accepted in the prior rate case at Docket R-842590. These expenses were expressed in 1984 dollars. To factor such expenditures through the end of the test year ended June 30, 1986, the company has applied the 1985 corporate inflation adjustment of 5.25% and one-half of the 1986 corporate inflation adjustment of 6.4%. This results in a decrease of $388,000 from the company's Peach Bottom claim and a decrease of $343,000 from its Salem claim.

Since projected Limerick outage expenses were valued in 1985 dollars, the company utilized one-half of its projected 6.4% growth rate for 1986 and one-half of a 3% real growth rate applied to the 1985 projected expense. Again, on Schedule 12a I have utilized one-half of a 3.5% growth rate for 1986 and have reflected one-half of the 3% real growth rate for Limerick. This results in a decrease of $187,000 to the company's Limerick outage expense claim.

Q. How has the company used these inflation factors in developing normalized outage expense for its fossil steam units?

A. Basically, the company utilized the same methodology as it did for its nuclear units, that is, outage expenses in 1984 dollars were inflated through the first half of 1986 using corporate inflation factors. Similar to my adjustment on Schedule 12a, I have calculated fossil plant outage expense utilizing a 3.5% inflation rate for 1985 and one-half of the same rate for inflation through the end of the future test year on Schedule 12b. This is a decrease of $693,000 from the company's claim.

Q. Would you please summarize your inflation-related adjustments to nuclear and fossil production O&M?

A. Yes. Such a summary is shown on Schedule 12. The result of adjustments to nuclear plant O&M and fossil plant O&M is a $1,611,000 downward adjustment to expense and a $809,000 upward adjustment to income.

Salem Management Evaluation Program

Q. Has the company included an amortization of the Salem Management Evaluation Program Expense as part of nuclear and fossil production O&M expense?

A. Yes, on TPH-2, D-10d, the company has included a two-year amortization of its share of the Salem Management Evaluation Program.

Q. What were the circumstances surrounding this audit?

A. The circumstances giving rise to the audit are explained in the testimony of Mr. Carroll (p.18-19). In summary,

> "At the time of the Salem No. 1 breaker incident, Public Service Electric & Gas Company (PSE&G) was questioned by the Nuclear Regulatory Commission on the Company's ability to operate and manage a nuclear facility. When PSE&G addressed this question, it took advantage of the timing to perform a complete management review of their procedures and policies with regard to nuclear power operation."

Therefore, the main impetus for the audit was the breaker incident at Salem #1 and resultant questions by the NRC as to PSE&G's management competence.

Q. When was the audit performed?

A. The audit was performed between March and August, 1983 (IR-Staff-RET-3).

Q. Is such an extensive audit normal operating procedure for PECO?

A. No. Though management audits have previously been conducted by the company, they have not been in response to a serious operational problem such as that as occurred at Salem #1. We are not considering here a general overall company management audit, but rather an extensive investigation as to the cause of the Salem #1 breaker incident with expansion of this investigation to include a management evaluation program. Mr. Carroll admitted that such an investigation is not normally conducted and is, in fact, non-recurring. On TPH-2, D-10d, the company states that:

> "The purpose of this adjustment is to amortize over a two-year period the costs associated with the Salem Management Evaluation Program that are non-recurring."

Therefore, since the audit was not a voluntary action on the part of the company, because costs of the audit are non-recurring, and because the action which forced the audit was found by this Commission to be imprudent (Docket No. P-830453, et al.), such costs should not be reflected for ratemaking purposes. Mr. Knudsen's summary schedules will reflect this adjustment of $3,642,000.

Keystone Alliance-Related Costs

Q. What is your general understanding regarding the complaint filed by the Keystone Alliance at Docket No. C-78080459?

A. On August 28, 1978, the Keystone Alliance filed a complaint against PECO regarding the use of ratepayer funds for certain advertising and public relations activities. Though the company filed several intervening rate cases, no decision on the complaint was issued until August 28, 1985, when the Commission adopted the Initial Decision of the ALJ dated August 31, 1983.

Q. Has the company attempted to quantify the expenses included in its present test year claim related to the Commission order?

A. Yes. In his supplemental testimony (PECO Statement No. 18A) Mr. Hill presented his interpretation of the Commission order as it relates to claimed expenses for the test year ended June 30, 1986. A summary of that interpretation is presented below:

Paragraph 1	Energy Education Advisory Council	$ 631,412
Paragraph 2	Mollie McCormick	$ 6,600
Paragraph 3	Rev. Cecil D. Gallup	$ 11,000
Paragraph 4	Speaker's Bureau	$ 16,418
Paragraph 5	Utility Nuclear Waste Mgt. Group	$ 28,400
Paragraph 6	E.E.I.-TMI Projects	$ 755,830
Paragraph 7	Life Jobs	$ 5,600
Paragraph 8	American Nuclear Society	$ 42,000
Paragraph 9	Americans for Energy Independence	$ -0-
Paragraph 10	Corporate Communications	$ -0-
Paragraph 11	Lobbying	$ -0-
Paragraph 12	Litigation C-78080459	$ -0-
Paragraph 13	Industry Associations	$1,147,412
	Total	$2,644,672

Therefore, the company has included over $2.6 million of expenses in its test year claim which should be specifically disallowed under the Keystone Alliance decision.

Q. Have you requested the company to quantify similar expenses included in rate cases between the time the complaint was filed and the current proceeding?

A. Yes. The company has provided such information in the reply to IR-OCA-13-13 which I have summarized below:

	R-842590	R-822291
Paragraph 1	$ 767,600	$ 960,650
Paragraph 2	$ 6,300	$ 5,800
Paragraph 3	$ 9,900	$ 7,200
Paragraph 4	$ 16,008	$ 14,634
Paragraph 5	$ 20,400	$ 17,800
Paragraph 6	$1,000,000	$ -0-
Paragraph 7	$ 53,000	$ 5,000
Paragraph 8	$ -0-	$ -0-
Paragraph 9	$ -0-	$ -0-
Paragraph 10	$ -0-	$ -0-
Paragraph 11	$ -0-	$ -0-
Paragraph 12	$ -0-	$ -0-
Paragraph 13	$1,009,730	$ 945,050
Total	$2,882,938	$1,956,134

Q. What is your recommendation regarding Keystone Alliance-related expenditures?

A. I recommend that those future test year expenditures in this case specifically disallowed by the Commission in the Keystone Alliance decision be disallowed in this proceeding. It is my understanding that the OCA interprets the terms of the Commission's Order to apply to rates allowed in two prior rate cases, R-822291 and R-842590. For those expenditures, whose rates will have been in effect for 14 months and 17 months, respectively, I recommend that these amounts be amortized over a three-year period. Since the expense levels allowed in those two cases were annual levels, and since the rates from those cases were actually in effect for more than 12 months, on Schedule 13 I have developed the actual expense levels which would have been recovered from ratepayers over the 31-month period between November 23, 1983 (the date of the Commission's Order in R-822291) and June 30, 1986 (the approximate date of the Commission's Order in this case). The amounts shown on Schedule 13 for Industry Associations (Paragraph 13) in the two previous cases are net of the Commission's Edison Electric Institute media communications expense reductions in those cases.

Further, I would note that if the Commission were to reject this adjustment, there should still be an exclusion of the company's EEI media communications and Power of Choice campaign expenses for the current case. These amounts, as shown on IR-OCA-1-20, are $192,000 and $80,000, respectively, for a total of $272,000. The Commission has consistently held that ratepayers should not bear the expenses associated with these advertising and public relations programs.

As shown on Schedule 13, the result of the above recommendation is a $4,588,862 downward adjustment to expense and a $2,305,077 upward adjustment to income.

Decommissioning Cost

Q. How has the company structured its decommissioning cost claim for this proceeding?

A. The company has performed site specific decommissioning cost studies for each of its nuclear units. Future accruals are claimed to be recovered through the year 2008 for the Peach Bottom and Salem units and through 2024 for Limerick #1. These years reflect operating license expiration dates.

Q. Is the company also claiming annual decommissioning expense for Peach Bottom Unit #1?

A. Yes, for the first time the company is claiming $691,000 annual decommissioning expense for this unit.

Q. Will you briefly describe the Peach Bottom #1 Unit?

A. As stated on IR-OCA-15-13:

> "Petitioner's Peach Bottom Atomic Power Station Unit No. 1 is a nuclear generating unit powered by a high temperature, gas-cooled reactor and having a capacity of 40 megawatts. The unit was constructed as a prototype under an Atomic Energy Commission demonstration program pursuant to a contract between Petitioner and the Atomic Energy Commission, whereby Petitioner under took to construct the unit and operate it for a period of five years."

Q. Over what period of time did the unit operate?

A. The unit began commercial operation in 1967, stopped producing power in 1974 and was officially retired from service on June 1, 1975. (IR-OCA-15-11&12)

Q. Were PECO and the AEC the only participants in this project?

A. No, according to the contract provided under IR-OCA-15-15c, the contractor entered into an agreement with High Temperature Reactor Development Associates, Inc. (HTRDA), "a non-profit, non-stock, Delaware corporation composed of fifty-two (52) Member Companies."

Q. What is the current status of Peach Bottom Unit #1?

A. The unit has been decommissioned and has been placed in "protective storage". (IR-OCA-15-17)

Q. Have ratepayers already paid for the protective storage of this unit?

A. Yes. As stated on IR-OCA-15-20, the cost of protective storage "work packages" has been reflected by the company in previous five-year net negative salvage adjustments.

Q. Has the cost of Peach Bottom #1 previously been included in rate base and depreciation and operating costs been included in the cost of service?

A. Yes, as shown on IR-OCA-15-18&19, PECO's share of the capital cost of the plant was included in rate base and its expenses were included in the cost of service in four previous rate cases.

Q. Considering all of the above, why, then, should the future decommissioning cost of this unit be included in this rate case?

A. It should not. The other units for which the company is asking the ratepayer to fund decommissioning costs are presently, or are soon to be, in service. This is certainly not the case for a prototype generating unit that has not been in service since 1974. This type of funded reserve is similar to the concept of depreciation. That is, the ratepayers who actually receive the benefits from a unit of plant also must pay for its obsolescence. Current ratepayers should not be asked to fund costs for a unit which has not provided a benefit for more than 10 years.

Further, as mentioned above, the company participated with fifty-two other members in HTRDA. Yet, there is no mention in the company's claim of participation by any of these members in funding the ultimate decommissioning cost. At the very least, until the responsibility of all participating parties has been determined, PECO ratepayers should not be required to fund decommissioning expense for this unit. It does not appear that the company has even requested these other participants to contribute to the cost of decommissioning this prototype reactor.

Q. What is your recommendation regarding the inclusion of Peach Bottom #1 in the company's decommissioning cost claim.

A. As shown on Schedule 14, I recommend that Peach Bottom #1 decommissioning costs be excluded from the company's claim in this proceeding. The result is a $691,000 downward adjustment to expense and a $347,000 upward adjustment to income.

Q. Does this conclude your testimony at the present time?

A. Yes, it does.

SCHEDULE 1

PHILADELPHIA ELECTRIC CO.
COST OF CAPITAL
TEST YEAR AT JUNE 30, 1986
($000)

	RATIO (1)	COST (2)	WTD. COST (3)
LONG-TERM DEBT	50.70%	10.81%	5.48%
PREFERRED STOCK	10.80%	10.54%	1.14%
COMMON EQUITY	38.50%	14.00%	5.39%
TOTAL	100.00%		12.01%

SCHEDULE 2

PHILADELPHIA ELECTRIC CO.
ELECTRIC PLANT-IN-SERVICE
TEST YEAR AT JUNE 30, 1986
($000)

LINE NO.		
1	ACTUAL ELECTRIC PLANT IN SERVICE @9/30/85	$4,815,116
2	BUDGETED ELECTRIC PLANT-IN-SERVICE @9/30/85	4,792,440
3	PLUS: RICHMOND UNIT #9	40,808
4	ADJUSTED BUDGETED ELECTRIC PLANT (2+3)	4,833,248
5	ADJUSTMENT TO ELECTRIC PLANT (1-4)	($18,132)
6	COMPOSITE DEPRECIATION RATE (TPH-2,C-5e)	3.45%
7	ADJUSTMENT TO DEPRECIATION EXPENSE (5x6)	($626)
8	ADJUSTMENT TO INCOME	$626
9	ADJUSTMENT TO DEPRECIATION RESERVE	($626)

SOURCE: OCA EXHIBITS 24 & 25

PHILADELPHIA ELECTRIC CO.
NON-REVENUE PRODUCING C.W.I.P.
TEST YEAR AT JUNE 30, 1986
($000)

	COMPANY (1)	ADJ (2)	O.C.A. (3)
EDDYSTONE			
INSTALL COAL PILE RUNOFF SYSTEM	$1,652	$0	$1,652
PEACH BOTTOM			
UPGRADE ADS ISOLATION VALVES ON SAFETY GRADE NITROGEN SUPPLY	20	0	20
INCREASE SPENT FUEL STORAGE CAPACITY	1,442	(1,442)	0
SALEM			
FIRE PROTECTION IN WELDING SHOP	60	60	0
FIRE PROTECTION IN OIL STOR. ROOM	107	107	0
CONEMAUGH			
ASH & MINE REFUSE DISPOSAL SITE PREP	1,335	0	1,335
KEYSTONE			
INSTALL OF WATER CURTAIN SPRAY SYS	41	(41)	0
TOTAL NON-REVENUE PRODUCING C.W.I.P.	$4,657	($1,650)	$3,007

SCHEDULE 4

PHILADELPHIA ELECTRIC CO.
MATERIALS & SUPPLIES
TEST YEAR AT JUNE 30, 1986
($000)

COAL					
PHILADELPHIA AREA	204,000	TONS @	$45.90	=	$9,364
KEYSTONE	121,000	TONS @	$32.00	=	3,872
CONEMAUGH	119,000	TONS @	$37.34	=	4,443
TOTAL COAL					17,679
OIL					
NO.6-1.0% SULPHUR	100,000	BBLS @	$24.21	=	2,421
-0.5% SULPHUR	350,000	BBLS @	$25.15	=	8,803
NO.2	226,000	BBLS @	$30.66	=	6,929
TOTAL OIL					18,153
PLANT M&S					
ELECTRIC OPERATING					53,570
TOOLS & RELATED					2,322
STORES EXPENSE					1,033
TOTAL ELECTRIC M&S					$92,757

SCHEDULE 5

PHILADELPHIA ELECTRIC CO.
ACCUMULATED DEFERRED STATE INCOME TAXES
TEST YEAR AT JUNE 30, 1986
($000)

	STATE	FEDERAL	TOTAL
	(1)	(2)	(3)
ACCUMULATED DEFERRED INCOME TAXES			
ACCELERATED AMORTIZATION PROPERTY	$382	$1,941	2,323
OTHER PROPERTY	48,818	477,348	526,166
ADJUSTMENTS:			
RESTATE FEDERAL RESERVE @46% EFFECTIVE RATE	(19,402)	19,402	0
REFLECT AMORTIZATION DUE TO RATE CHANGE (10.5% TO 9.5%)	(1,509)		(1,509)
BALANCE	28,289	$498,691	$526,980
ANNUAL AMORTIZATION @5 YEARS	5,658		
UNAMORTIZED BALANCE @6/30/86	$22,631	$498,691	$521,322

ANNUAL AMORTIZATION @5 YEARS	$5,658
F.I.T. @46%	$2,603
ADJUSTMENT TO INCOME	$3,055

SOURCE:STAFF TXD-5

SCHEDULE 6

PHILADELPHIA ELECTRIC CO.
TAX DEPRECIATION & TAX DEFERRAL
TEST YEAR AT JUNE 30, 1986
($000)

	DEPREC'N BASE FOR TAXES (1)		DEPREC'N RATE FOR TAXES (2)	DEPREC'N (3)
TAX DEPRECIATION				
LIB. PLANT INSTALLED 1986		$18,132	11.61%	($2,105)
INCOME TAX @49.768%				$1,048
ADJUSTMENT TO INCOME				($1,048)
TAX DEFERRAL				
DEPRECIATION-	LIBERALIZED	18,132	11.61%	$2,105
	STRAIGHT LINE	18,132	2.57%	466
EXCESS DEPRECIATION				$1,639
TAX DEFERRAL @46%				($754)
ADJUSTMENT TO INCOME				$754
ADJUSTMENT TO RATE BASE				($754)

SOURCE:TPH-2, D-8a

PHILADELPHIA ELECTRIC CO. SCHEDULE 7

SALEM UNIT #2- TAX BENEFIT TRANSFER

TEST YEAR AT JUNE 30, 1986

1984 YEAR-END BALANCE	$6,440,000
1985- AMORTIZATION	228,000
6/30/86 AMORTIZATION	114,000
BALANCE @6/30/86	$6,098,000
TEST YEAR AMORTIZATION	$228,000
INCOME TAX @49.768%	$113,471
ADJUSTMENT TO INCOME	$114,529

PHILADELPHIA ELECTRIC CO. SCHEDULE 8
CONSOLIDATED TAX SAVINGS

	1983 (1)	1984 (2)	2-YEAR TOT TAX INC(LOSS) (3)	2-YEAR AVE TAX INC(LOSS) (4)	1984 AVE TAX INC-POS COS ONLY (5)	ALLOC FACTOR (6)	AVE TAX INC-NEG COS ONLY (7)
PHILA ELEC CO	(114,989,287)	110,508,970	(4,480,317)	(2,240,159)	110,508,970	89.19%	
CONOWINGO PWR CO	(1,445,216)	4,125,041	2,679,825	1,339,913	4,125,041	3.33%	
PHIL ELEC PWR CO	4,946,912	(553,344)	4,393,568	2,196,784			
SUSQUE ELEC CO	110,194	2,282,391	2,392,585	1,196,293	2,282,391	1.84%	
SUSQUE PWR CO	5,870,759	5,815,580	11,686,339	5,843,170	5,815,580	4.69%	
ADWIN EQUIP CO	471	(102,320)	(101,849)	(50,925)			
ADWIN REALTY CO	810,188	1,177,804	1,987,992	993,996	1,177,804	0.95%	
EAST PA DEVT CO	(749)	(1,945)	(2,694)	(1,347)			($1,347)
EAST PA EXPL CO	(496,834)	(1,433,555)	(1,930,389)	(965,195)			(965,195)
TOTAL					123,909,786	100.00%	($966,542)

FED INC TAX RATE	46%
TAX SAV SUBJ TO ALLOCATION	($444,609)
TAX SAV APPL TO PECO @89.19%	($396,547)
TAX SAV APPL TO PECO ELEC @86.188%	($341,776)
ADJ TO INCOME	$341,776

PHILADELPHIA ELECTRIC COMPANY
HYPOTHETICAL CONSOLIDATED INCOME TAX SAVINGS

SCHEDULE 8a

LINE NO.		A	B	CONSOLIDATED TOTAL INCOME	CONSOLIDATED INCOME TAX
1	TAXABLE INCOME- SEPARATE RETURN	$10,000,000	($1,000,000)		
2	INCOME TAX @46%- SEPARATE RETURN	$4,600,000	$0		$4,600,000
3	TAXABLE INCOME - CONSOLIDATED	$10,000,000	($1,000,000)	$9,000,000	
4	INCOME TAX @46%- CONSOLIDATED				$4,140,000
5	SAVINGS=(LINE 2- LINE 4) OR 46% x TAXABLE LOSS				$460,000

LINE NO.		A	B	C	CONSOLIDATED TOTAL INCOME	CONSOLIDATED INCOME TAX
1	TAXABLE INCOME- SEPARATE RETURN	$10,000,000	($1,000,000)	$2,000,000		
2	INCOME TAX @46%- SEPARATE RETURN	$4,600,000	$0	$920,000		$5,520,000
3	TAXABLE INCOME - CONSOLIDATED	$10,000,000	($1,000,000)	$2,000,000	$11,000,000	
4	INCOME TAX @46%- CONSOLIDATED					$5,060,000
5	SAVINGS=(LINE 2- LINE 4) OR 46% x TAXABLE LOSS					$460,000

PHILADELPHIA ELECTRIC CO.
SPENT FUEL DISPOSAL COST
TEST YEAR ENDED JUNE 30, 1986
($000)

	COMPANY (1)	ADJUSTMENT (2)	O.C.A. (3)
PEACH BOTTOM #2	$2,647	($204)	$2,443
PEACH BOTTOM #3	2,600	(200)	2,400
SALEM #1	2,754	(211)	2,543
SALEM #2	2,827	(218)	2,609
LIMERICK #1	6,247	(480)	5,767
TOTAL	17,075	(1,313)	15,762
AMOUNT IN BUDGET	11,715	0	11,715
ADJUSTMENT TO EXPENSE	$5,360	($1,313)	$4,047
INCOME TAXES @49.768%	($2,668)	$653	($2,014)
ADJUSTMENT TO INCOME	($2,692)	$660	($2,033)

	PEACH BOTTOM #2	PEACH BOTTOM #3	SALEM #1	SALEM #2	LIMERICK 1
PECO SHARE (MW)	447	439	459	471	1,055
CAPACITY FACTOR	60.00%	60.00%	60.00%	60.00%	60.00%
NET GENERATION	2,349,432	2,307,384	2,412,504	2,475,576	5,545,080
GROSS GEN'N FACTOR	1.04	1.04	1.054	1.054	1.04
GROSS GENERATION	2,443,409	2,399,679	2,542,779	2,609,257	5,766,883

PHILADELPHIA ELECTRIC CO.
CAPACITY FACTORS

YEAR	P.B.#2 (1)	P.B.#3 (2)	SALEM #1 (3)	SALEM #2 (4)
1974	81.8	76.5		
1975	55.2	58.3		
1976	60.3	66.5		
1977	43.7	52.7	42.9	
1978	73.8	76.8	47.9	
1979	93.1	67.3	21.6	
1980	47.1	79.6	60.0	
1981	72.0	34.5	65.5	76.8
1982	52.1	94.1	43.3	82.0
1983	48.3	26.7	56.9	7.7
1984	26.3	81.9	22.4	32.9
12/10/85	26.7	38.5	95.6	55.5
AVE	58.2	63.9	45.2	43.3

SCHEDULE 10

PHILADELPHIA ELECTRIC CO.
AMORTIZATIONS
TEST YEAR ENDED JUNE 30, 1986
($000)

	COMPANY (1)	ADJUSTMENT (2)	O.C.A. (3)
LIMERICK #2 SHOW CAUSE	$1,100	($1,100)	$0
INCOME TAXES @49.768%		$547	
ADJUSTMENT TO INCOME		$553	
HEATON-BYBERRY 230 KV LINE	(89)	89	0
TOTAL ADJUSTMENT TO INCOME		$642	

PHILADELPHIA ELECTRIC COMPANY
REVENUE
TEST YEAR ENDED JUNE 30, 1986
($000)

	COMPANY (1)	ADJUSTMENT (2)	O.C.A. (3)
CHANGE IN BASE REVENUE	$38,771	$11,004	$49,775
LESS:GROSS RECEIPTS TAX @2.0%	775	221	996
CHANGE IN REVENUE	37,996	10,783	48,779
LESS: CHANGE IN OP'G EXP 6.2E+08 KWHx2.8178c/KWH	13,805	3,601	17,406
ADJUSTMENT TO TAXABLE INCOME	$24,191	$7,182	$31,373
INCOME TAXES @49.768%	$12,039	$3,575	$15,614
ADJUSTMENT TO INCOME	$12,152	$3,607	$15,759

	RESIDENTIAL				HOUSE HEATING				SMALL COMM'L& IND'L			
	BUDGET (1)	W.A. (2)	W.A.-BUD (3)	% CHNG (4)	BUDGET (5)	W.A. (6)	W.A.-BUD (7)	% CHNG (8)	BUDGET (9)	W.A. (10)	W.A.-BUD (11)	% CHNG (12)
JUL,1985	704,400	700,200	(4,200)	-0.60%	82,400	86,700	4,300	5.22%	306,100	342,700	36,600	11.96%
AUG	734,300	712,200	(22,100)	-3.01%	80,300	88,900	8,600	10.71%	314,000	330,600	16,600	5.29%
SEP	658,900	642,900	(16,000)	-2.43%	69,600	87,300	17,700	25.43%	299,600	328,100	28,500	9.51%
OCT	536,200	527,000	(9,200)	-1.72%	78,000	78,300	300	0.38%	274,000	298,000	24,000	8.76%
NOV	496,100	484,800	(11,300)	-2.28%	112,600	97,200	(15,400)	-13.68%	245,800	281,100	35,300	14.36%
TO DATE	3,129,900	3,067,100	(62,800)	-2.01%	422,900	438,400	15,500	3.67%	1,439,500	1,580,500	141,000	9.80%
$/KWH			$0.1020				$0.0793				$0.0979	
REVENUE			($6,406)				$1,229				$13,804	

	LARGE COMM'L & IND'L				TOTAL			
JUL,1985	1,347,800	1,375,800	28,000	2.08%	2,440,700	2,505,400	64,700	2.65%
AUG	1,339,200	1,329,700	(9,500)	-0.71%	2,467,800	2,461,400	(6,400)	-0.26%
SEP	1,281,700	1,297,200	15,500	1.21%	2,309,800	2,355,500	45,700	1.98%
OCT	1,252,300	1,268,600	16,300	1.30%	2,140,500	2,171,900	31,400	1.47%
NOV	1,163,400	1,147,200	(16,200)	-1.39%	2,017,900	2,010,300	(7,600)	-0.38%
TO DATE	6,384,400	6,418,500	34,100	0.53%	11,376,700	11,504,500	127,800	1.12%
$/KWH			$0.0697					
REVENUE			$2,377				$11,004	

SCHEDULE 12

PHILADELPHIA ELECTRIC CO.
NUCLEAR & FOSSIL PRODUCTION O&M
TEST YEAR ENDED JUNE 30, 1986
($000)

	COMPANY (1)	ADJUSTMENT (2)	O.C.A. (3)
NUCLEAR PLANT O&M INCREASE OVER BUDGET	$20,651	($918)	$19,733
FOSSIL PLANT O&M INCREASE OVER BUDGET	4,028	(693)	3,335
REVISIONS TO MAINTENANCE SCHEDULE	(15,795)	0	(15,795)
ADJUSTMENT TO EXPENSE	$ 8,884	($1,611)	$7,273
INCOME TAXES @49.768%	($4,421)	$ 802	($3,619)
ADJUSTMENT TO INCOME	($4,463)	$ 809	($3,654)

SCHEDULE 12a

PHILADELPHIA ELECTRIC CO.
NUCLEAR PLANT OUTAGE EXPENSE
TEST YEAR ENDED JUNE 30, 1986
($000)

STATION	OUTAGE EXPENSE 1984$	1985 INFLATION FACTOR	INFLATION FACTOR TO 6/30/86	OUTAGE EXPENSE 6/30/86$	PECO CLAIM D-10a
PEACH BOTTOM	$11,726	1.035	1.0175	$12,349	$12,737
SALEM	10,368	1.035	1.0175	10,919	11,262
LIMERICK #1(1985$)	12,900		1.0325(A)	13,319	13,506
TOTAL				36,587	37,505
BUDGET OUTAGE EXPENSE				16,854	16,854
CHANGE IN O&M EXPENSE				$19,733	$20,651

(A) Reflects one-half year each of 3% real growth and 3.5% inflation.
$0.5 \times (1.03 + 1.035) = 1.0325$

PHILADELPHIA ELECTRIC CO.
FOSSIL PLANT OUTAGE EXPENSE
TEST YEAR ENDED JUNE 30, 1986
($000)

	O.C.A.	PECO CLAIM D-10b
CORRECTED VALUE (1984$)	$20,924	
1985 INFLATION	1.0350	
INFLATION TO 6/30/86	1.0175	
NORMALIZED EXPENSE-O.C.A.	22,035	$22,728
BUDGET OUTAGE EXPENSE	18,700	18,700
CHANGE IN O&M EXPENSE	$3,335	$4,028

PHILADELPHIA ELECTRIC CO.
KEYSTONE ALLIANCE-RELATED COSTS
TEST YEAR ENDED JUNE 30, 1986
($000)

SCHEDULE 13

	R-822291	R-842590	R-850152	TOTAL
	(1)	(2)	(3)	(4)
PARAGRAPH 1	$960,650	$767,600	$631,412	
PARAGRAPH 2	5,800	6,300	6,600	
PARAGRAPH 3	7,200	9,900	11,000	
PARAGRAPH 4	14,634	16,008	16,418	
PARAGRAPH 5	17,800	20,400	28,400	
PARAGRAPH 6	0	1,000,000	755,830	
PARAGRAPH 7	5,000	53,000	5,600	
PARAGRAPH 8	0	0	42,000	
PARAGRAPH 9	0	0	0	
PARAGRAPH 10	0	0	0	
PARAGRAPH 11	0	0	0	
PARAGRAPH 12	0	0	0	
PARAGRAPH 13 (A)	785,050	764,730	1,147,412	
TOTAL	$1,796,134	$2,637,938	$2,644,672	
# MOS RATES IN EFFECT	14	17		
AMT TO BE RECOVERED	$2,095,490	$3,737,079	$2,644,672	
ADJUSTMENT IN THIS CASE	698,497	1,245,693	2,644,672	$4,588,862
INCOME TAXES @49.768%				$2,283,785
ADJUSTMENT TO INCOME				$2,305,077

(A) The entries for R-822291 and R-842590 reflect the company's total claim in each case less the Commission's adjustment to EEI dues of $160,000 and $245,000, respectively.

PHILADELPHIA ELECTRIC CO.
DECOMMISSIONING COST
TEST YEAR ENDED JUNE 30, 1986
($000)

	COMPANY (1)	ADJUSTMENT (2)	O.C.A. (3)
PEACH BOTTOM #1	$691	($691)	$0
PEACH BOTTOM #2	1,644	0	1,644
PEACH BOTTOM #3	1,644	0	1,644
SALEM #1	1,369	0	1,369
SALEM #2	1,420	0	1,420
LIMERICK #1	3,253	0	3,253
TOTAL ANNUAL EXPENSE	10,021	(691)	9,330
CORRECT PRIOR ACCRUALS	2,870	0	2,870
TOTAL	12,891	(691)	12,200
EXPENSE IN BUDGET	4,190	0	4,190
ADJUSTMENT TO EXPENSE	$8,701	($691)	$8,010
INCOME TAXES @49.768%	($4,330)	$344	($3,986)
ADJUSTMENT TO INCOME	($4,371)	$347	($4,024)

SOURCE:DR-STAFF-RED-6