

FEBRUARY 1978

1 Q PLEASE STATE YOUR NAME AND ADDRESS.

2 A My name is J. B. Solomon, By business address is 1000 Crescent
3 Avenue, N.E., Atlanta, Georgia 30309.

4 Q PLEASE OUTLINE YOUR FORMAL EDUCATION.

5 A I received the degree of Master of Business Administration from
6 Georgia State University in 1973. My area of concentration was
7 Finance. I also received the degree of Bachelor of Science in
8 Industrial Management from the Georgia Institute of Technology in
9 1972.

10 Q PLEASE STATE YOUR PROFESSIONAL EXPERIENCE.

11 A As a Cooperative student at Georgia Tech, I gained approximately
12 two years work experience as an assistant engineer in an industrial
13 production setting. After my graduation from Georgia Tech in 1972,
14 I worked approximately one and one-half years as a program manager
15 for a management consulting firm and for another one and one-half
16 years as a project analyst for a resort development firm. I was
17 employed by Southern Engineering Company of Georgia, my present
18 employer, in January 1975. Since that time, I have had assignments
19 in both the retail and wholesale rate departments of my Company,
20 primarily in the area of electric utility rates. In the retail
21 area I have participated in the preparation of rate increase filings
22 for both G & T and distribution rural electric membership cooperatives
23 as well as the determination of revenue requirements and the proper
24 rate design for unregulated rural electric membership cooperatives.
25 My primary activities, however, have been in the wholesale area

7909260120

1 where I have conducted analyses of wholesale rate filings of private
2 utilities operating in eight different states. I have also partici-
3 pated in the preparation of testimony and exhibits for several of these
4 rate filings. Additionally, I have participated in the preparation of
5 retail and wholesale allocated cost of service studies and power cost
6 projections.

7 Q HAVE YOU EVER TESTIFIED IN OTHER COMMISSION PROCEEDINGS?

8 A Yes, I have testified before the Public Service Commission of Kentucky.
9 I have also testified before the Federal Energy Regulatory Commission
10 in proceedings involving the Public Service Company of Indiana, Georgia
11 Power Company and Carolina Power & Light Company.

12 Q BY WHOM IS SOUTHERN ENGINEERING COMPANY OF GEORGIA RETAINED IN THIS
13 PROCEEDING?

14 A Southern Engineering is retained by Tex-La Electric Cooperative, Inc.
15 Witnesses Gross, Strozier, Livingstone, Stolnitz, Ewert and I will be
16 Tex-La's witnesses in this proceeding.

17 Q WHAT WAS THE ASSIGNMENT OF SOUTHERN ENGINEERING COMPANY IN THIS PRO-
18 CEEDING?

19 A We were asked to review the filing of the Texas Power and Light Company,
20 identify those areas where the Company's presentation departed from
21 sound ratemaking procedures, good common sense judgment and this
22 Commission's rules and regulations, and prepare and present testimony
23 showing TP&L's true revenue requirement based upon adjustments to the
24 Company's filing to correct the deviations from these standards.

25 Q WHAT DO YOU SEE AS THE ROLE OF SOUTHERN ENGINEERING COMPANY IN THIS
26 PROCEEDING?

1 A As we all know, utilities have been subjected to regulation by public
2 bodies due to the monopolistic characteristics of their operations.
3 In the absence of substantial competition, it becomes the responsibility
4 of this Commission to act as a surrogate for competition in establishing
5 the prices to be charged for electric service. In representing an
6 Intervenor in this proceeding, the role of Southern Engineering is to
7 provide this Commission with additional information which will better
8 enable it to carry out its responsibility to the people of Texas.

9 Q WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING.

10 A The purpose of my testimony in this proceeding is three-fold. First,
11 I will present TP&L's overall cost of service based upon the adjust-
12 ments recommended by Tex-La's witnesses. Secondly, I will discuss the
13 propriety of the Company's attempt to adjust test year revenues down-
14 ward by \$11,805,886 based upon some unarticulated concept of a "normal"
15 weather year. Lastly, I will address the inappropriateness of in-
16 cluding the Big Brown casualty loss in the cost of service.

17 Q WOULD YOU PLEASE SUMMARIZE THE TESTIMONY THAT WILL BE GIVEN BY THE
18 OTHER COOPERATIVE INTERVENOR WITNESSES IN THIS PROCEEDING.

19 A Mr. Gross is providing testimony on rate design, the cost of service
20 adjustments for Martin Lake Unit No. 2 and Monticello Unit No. 3 and
21 on attrition. Mr. Strozier is testifying on the Company's proposed
22 change in depreciation rate for gas and oil fired plants and on the
23 Company's excessive reserve position. The testimony of Dr. Livingstone
24 concerns the appropriateness of excluding construction work in progress
25 from rate base, the unreasonableness of the proposed change in

1 depreciation rate, the Company's attrition adjustment, the unreasonableness
2 of allowing an equity return on the unamortized investment tax credit,
3 the pricing of intercompany transactions and adjustments to the Company's
4 income tax calculations. Dr. Stolnitz testifies on the appropriate rate
5 of return for TP&L, the Company's price resistance and weather adjustment
6 analysis. Dr. Ewert provides testimony on the appropriate rate of return,
7 the reasonableness of allowing an equity return on unamortized investment
8 tax credit and the effects of attrition on rate of return.

9 Q WOULD YOU BRIEFLY SUMMARIZE THE CONCLUSIONS WHICH YOU AND THE OTHER
10 WITNESSES FOR TEX-LA HAVE REACHED AS A RESULT OF STUDYING TP&L'S COST
11 OF SERVICE.

12 A The adjusted cost of service filed by the Company in this proceeding
13 significantly overstates the cost of providing service to its custo-
14 mers. In fact, the Company has returned for a rate increase much
15 sooner than one is required. As will be shown by the Tex-La witnesses,
16 the Commission should require a reduction in rates rather than an in-
17 crease. The following major errors were made by TP&L in its adjusted
18 cost of service, necessitating adjustments:

- 19 1. Construction work in progress should not be included in the
20 rate base on which the Company is allowed a current return.
- 21 2. The Company's proposed attrition adjustment should not be
22 allowed.
- 23 3. As testified by Dr. Ewert, TP&L has over estimated the return

- 1 on common equity necessary to allow it to maintain its
2 financial integrity and to attract capital.
- 3 4. The Company's weather adjustment should be disallowed.
- 4 5. If the Company's weather adjustment is allowed, variable
5 expenses other than fuel should be reduced commensurate
6 with the reduction in kilowatt hour sales.
- 7 6. The advances to affiliates should be removed from TP&L's
8 rate base.
- 9 7. The unamortized investment tax credit should not be given
10 a return in excess of Texas Power and Light's composite
11 cost of capital.
- 12 8. As shown by Witnesses Strozier and Livingstone, the Company's
13 proposed change in gas/oil plant depreciation rate should be
14 disallowed and the lignite plant rate reduced.
- 15 9. TP&L's price resistance adjustment should be disallowed.
- 16 10. The intercompany payments included in the test period should
17 be adjusted to reflect straight line depreciation rather than
18 accelerated depreciation in pricing.
- 19 11. Test year taxes should be reduced by the current year's
20 amortized portion of the investment tax credit generated by
21 Martin Lake Unit No. 2 and Monticello Unit No. 3 during the
22 test year.
- 23 12. The entire amount of the Company's adjustment for accumulated
24 depreciation and deferred income tax should be deducted from
25 rate base as adjusted by Mr. Gross.

1 13. The adjustments to rate base and expenses for Martin Lake
2 Unit No. 2 and Monticello Unit No. 3 should be reduced to
3 allow only the incremental change in embedded cost per mega-
4 watt to be reflected.

5 14. The high voltage discount in the REA rate should be increased
6 as testified by Mr. Gross.

7 I have prepared an exhibit, Exhibit No. ___ (JBS-1), which shows the
8 combined effect of the cost of service adjustments listed above.

9 Q WHAT IS THE BASIS FOR YOUR CONCLUSION THAT THE COMPANY'S WEATHER
10 ADJUSTMENT SHOULD BE REJECTED?

11 A The Company has presented testimony by which it attempts to quantify
12 the amounts of energy which will be consumed under varying weather
13 conditions. While there can be little dispute that energy consumption
14 varies in response to varying temperatures, we have discovered serious
15 defects in the Company's attempt to quantify the response of its custo-
16 mers to changes in weather conditions. Dr. Stolnitz will discuss these
17 difficulties. Even if we had a proper determination of the amount of
18 energy which consumers will consume under varying temperatures, the
19 quantification of a weather adjustment must further rest upon some
20 identification or prediction of weather conditions which will exist
21 during the likely effective period of the rates. The Company presents
22 no evidence on this point and, indeed, while its adjustment assumes
23 what the weather will be, it provides no witness who either purports
24 to support or to be qualified to support such a determination.

25 The Company hangs an \$11,805,886 adjustment on the bare assertion

1 that "if the Company had experienced normal weather for the test
2 year, we estimate that 666,648,127 (later changed by the Company
3 in data responses to 704,983,139) fewer kilowatt hours would have
4 been sold by the Company (Jackson p. 25, lines 21-23)."

5 This is the sum total of the Company's testimony concerning
6 "normal" weather upon which the adjustment is based. The Company
7 totally fails to address the critical issues of fact and of policy
8 upon which its adjustment must rest. Is there such a thing as a
9 normal year of weather in the sense that there is a greater likeli-
10 hood that a defined set of temperature conditions will exist in
11 any given year or is the most that can be said that over a long period
12 of time certain averages exist? We don't know, and the Company has
13 provided no basis for deciding. As an illustration of this issue,
14 we can say that an average of the ages of the Commissioners may
15 give us some concept of the "normal" age of a Commissioner. Yet it
16 provides us with little assurance of the likelihood that a Commissioner
17 will be any particular age and no substantial likelihood that any
18 particular Commissioner will be the average age. Certainly, such
19 a "normal age" provides insufficient likelihood upon which
20 to base the payment of almost twelve million dollars.

21 Absent more information it would appear equally valid (or invalid)
22 to assume that weather phenomenon cycle over a period of years such that
23 the weather next year is more likely or at least as likely to mirror the
24 weather this year than to mirror a ten year average or some other
25 definition of "normal" weather. Certainly the weather provides a

1 fertile field for human speculation. The Company has not gone
2 beyond such speculation in arriving at its weather adjustment.

3 Q HAVE YOU IDENTIFIED ADDITIONAL DIFFICULTIES WITH THE COMPANY'S
4 WEATHER ADJUSTMENT?

5 A Yes, as shown in the Company's response to Tex-La Data Request
6 No.1 , Item No. J-1, no separate adjustment was made to the kW
7 demands. Thus, to the extent that a change in weather has a
8 greater effect on kWh consumption than on kW demands the Company's
9 revenue reduction would be too high for those customer groups
10 served on rates with demand charges. In addition TP&L neglected
11 to consider the increased usage per customer as an offset to the
12 alleged decline in usage due to weather even though TP&L witness
13 Swiger in Exhibit (SSS-13) shows a definite increase in usage per
14 customer. For all of these reasons, it is my opinion that the
15 weather adjustment proposed by the Company is useless as a rate-
16 making tool.

17 Q ARE THERE EXPENSES INCLUDED IN THE TEST YEAR WHICH SHOULD BE REDUCED
18 IF THE ADJUSTMENT FOR WEATHER IS ALLOWED?

19 A Yes, TP&L erroneously omitted the reduction of variable O&M expenses
20 other than fuel and purchase power relating to the reduction in
21 kilowatt hour sales it found desirable.

22 Q HAVE YOU CALCULATED THE ADDITIONAL AMOUNT OF VARIABLE EXPENSE WHICH
23 SHOULD BE ELIMINATED IF THE COMPANY'S WEATHER ADJUSTMENT IS ALLOWED?

24 A Yes, on Volume IV, Schedule O, Section V, page 29 column 9, TP&L
25 shows energy related expenses other than fuel and purchased power in

1 the amount of \$18,253,686. As indicated by the Company, these are
2 variable expenses directly related to the production of kilowatt
3 hours. If fewer kilowatt hours are generated and sold, these
4 expenses will decline in proportion to the reduction of kilowatt
5 hours sold. I calculated the amount of the reduction to be
6 \$603,466 by dividing the energy related expenses of \$18,253,686
7 by the unadjusted sales of 21,322,778,929 kilowatt hours and multi-
8 plied the resulting 0.856 mills per kilowatt hour by the Company's
9 proposed reduction in kilowatt hour sales of 704,983,139 kilowatt
10 hours.

11 Q ARE YOU FAMILIAR WITH THE EXPENSE ADJUSTMENT MADE BY THE COMPANY
12 FOR ITS BIG BROWN CASUALTY LOSS?

13 A Yes, TP&L has increased its test year operation and maintenance
14 expenses by \$333,333 to reflect one-half of the Company's portion
15 of the cost of the casualty loss at Big Brown Unit No. 2.

16 Q IS THIS AN APPROPRIATE ADDITION TO THE TEST YEAR OPERATING EXPENSES?

17 A No, as recognized by the Commission in its final order in the recent
18 TESCO case, Docket No. 527, this expense item should not be allowed
19 due to its non-recurring nature and the possibility of redress
20 against the manufacturer.

21 Q PLEASE EXPLAIN THE RESULTS OF YOUR ADJUSTED OVERALL COST OF SERVICE
22 SHOWN ON EXHIBIT NO. ____ (JBS-1).

23 A This exhibit is composed of four pages and reflects all the adjust-
24 ments proposed by the Tex-La witnesses. Each adjustment has been
25 footnoted to indicate the witness responsible for that adjustment.

1 Page 1, column e, of this exhibit shows that properly adjusted,
2 the Company would have earned 10.14% return on original cost rate
3 base. Column g shows Tex-La's recommended total company revenue
4 requirement for the test year to be \$640,008,771. This results in
5 a revenue reduction of \$16,897,188 below the present rates.

6 Q HOW DID YOU DEVELOP THE 9.521% RATE OF RETURN YOU USED IN EXHIBIT
7 NO. _____ (JBS-1)?

8 A As shown on page 4 of that exhibit, I used the average of the returns
9 on equity recommended by Tex-La Witnesses Stolnitz and Ewert with
10 the capital structure and other capital costs shown on Exhibit No.
11 _____ (DCE-1), page 18.

12 O HAVE YOU APPLIED THE ORIGINAL COST/CURRENT COST WEIGHTING RECOMMENDED
13 BY DR. LIVINGSTONE TO PRODUCE THE ADJUSTED VALUE RATE BASE?

14 A Yes, the resulting rate base is shown on Exhibit No. _____ (JBS-2) to be
15 \$1,692,459,122.

16 Q DOES THIS CONCLUDE YOUR DIRECT TESTIMONY AT THIS TIME?

17 A Yes, it does.

18

19

20

21

22

23

24

25