

PUBLIC SERVICE COMPANY OF INDIANA  
FPC DOCKET NO. ER76-149  
DIRECT TESTIMONY AND EXHIBITS OF J.B. SOLOMON

- 1 Q PLEASE STATE YOUR NAME AND ADDRESS.  
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3 A My name is J. B. Solomon. My business address is 1000 Crescent Avenue,  
4 Atlanta, Georgia 30309.  
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6 Q PLEASE OUTLINE YOUR FORMAL EDUCATION.  
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8 A I received the degree of Master of Business Administration from Georgia  
9 State University in 1973. My area of concentration was Finance. I also  
10 received the degree of Bachelor of Science in Industrial Management  
11 from the Georgia Institute of Technology in 1972.  
12  
13 Q PLEASE STATE YOUR PROFESSIONAL EXPERIENCE.  
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15 A As a Cooperative student at Georgia Tech, I gained approximately two years  
16 work experience as an assistant engineer in an industrial production  
17 setting. After my graduation from Georgia Tech in 1972, I worked approx-  
18 imately 1-1/2 years as a program manager for a management consulting  
19 firm and for another 1-1/2 years as a project analyst for a resort devel-  
20 opment firm. I was employed by Southern Engineering Company of Georgia,  
21 my present employer, in January, 1975. Since that time, I have had  
22 assignments in both the retail and wholesale rate departments of my  
23 company, primarily in the area of electric utility rates. In the retail  
24 area I have participated in the preparation of rate increase filings for  
25 both G & T and distribution rural electric membership cooperatives as  
26 well as the determination of revenue requirements and proper rate design  
27 for unregulated rural electric membership cooperatives. My primary  
28 activities, however, have been in the wholesale area where I have parti-  
29 cipated in the analysis of approximately one dozen Federal Power  
30 Commission filings of private utilities operating in eight different  
31 states. I also participated in the preparation of testimony and  
32 exhibits for several of these rate filings. Additionally, I have partici-  
33 pated in the preparation of retail and wholesale allocated cost of service  
34 studies, and power cost projections.  
35 Q WHAT WAS YOUR ASSIGNMENT IN THIS PROCEEDING?  
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37 A My assignment in this proceeding was to analyze the fuel expenses and  
38 fuel related revenues as filed by PSCI to determine whether those expenses  
39 and revenues are proper, just, and reasonable for purposes of establishing  
40 rates.  
41  
42 Q WHAT DATA HAVE YOU STUDIED IN ORDER TO COMPLETE THIS ASSIGNMENT?  
43  
44 A I have reviewed the testimony and exhibits included in PSCI's filing  
45 particularly those pertaining to Statement O, the Company's rate tariffs  
46 and contracts, and certain additional information supplied in response to  
47 data requests concerning the Company's accounting treatment of these  
48 revenues and expenses.  
49  
50 Q WHAT CONCLUSIONS HAVE YOU REACHED AS A RESULT OF THIS REVIEW?

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1 A. PSCI's treatment of fuel expense and revenues derived from the appli-  
2 cation of the proposed fuel adjustment clause does not properly reflect  
3 the required matching of revenues and expenses incurred during the test  
4 period (Period II) upon which revenue requirements are being determined  
5 and rates being established.

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7 Q. PLEASE EXPLAIN THE OPERATION OF PSCI'S PROPOSED FUEL ADJUSTMENT CLAUSE.

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9 A. The Company's proposed fuel cost adjustment clause stipulates that the  
10 unit cost of fuel in the immediately preceding month shall be applied  
11 in the current month. This means, for example, that the amount of  
12 fuel adjustment billed for the month of January would be based on the  
13 unit cost of fuel in December.

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15 Q. HOW HAS THE APPLICATION OF THIS FUEL CLAUSE RESULTED IN A MISMATCH OF  
16 FUEL EXPENSES AND RELATED REVENUES USED IN THE COMPANY'S PERIOD II TEST  
17 PERIOD?

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19 A. While the Company has included the cost of fuel for each month during the  
20 period July 1975 through June 1976, the application of the proposed fuel  
21 adjustment clause has resulted in the recording of fuel adjustment revenues  
22 based upon the cost of fuel in each of the months during the period June  
23 1975 through May 1976.

24  
25 Q. PLEASE EXPLAIN WHY THE DETERMINATION OF PSCI'S REVENUE REQUIREMENT SHOULD  
26 BE BASED UPON THE MATCHING OF FUEL EXPENSES AND FUEL RELATED REVENUES.

27  
28 A. The concept of matching test period revenues against test period cost of  
29 service to determine the additional revenue requirement is a basic precept  
30 of the ratemaking process. Since this Company is proposing a fuel adjust-  
31 ment clause which will allow it to recover its expenditures for fuel, the  
32 test period (Period II) should reflect a level of revenues equal to these  
33 fuel expenditures.

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35 Q. IS IT NOT TRUE, HOWEVER, THAT THE OPERATION OF THE PROPOSED FUEL ADJUSTMENT  
36 CLAUSE RESULTS IN A ONE MONTH LAG IN COLLECTION OF FUEL EXPENSES ABOVE THE  
37 BASE COST OF FUEL?

38  
39 A. Yes, it is, and as pointed out by Witness Robert M. Gross, Jr. there are  
40 many other leading and lagging expense/revenue situations. To compensate  
41 the Company for the net amount of these leading/lagging situations, Mr.  
42 Gross has included in his cost of service study the Federal Power Commis-  
43 sion's standard 45-day working capital allowance.

44  
45 In addition to this, rates are normally made to continue in effect for more  
46 than a one year period so that over a period of rising and falling unit fuel  
47 costs this lag will be washed out. This happens because just as the Company  
48 collects less than its total fuel expenses in months when unit fuel costs  
49 are escalating, it collects an amount greater than fuel expenditures during  
50 months when unit fuel costs are declining.

1 Q. HAVE YOU PREPARED AN EXHIBIT WHICH SHOWS THE PROPER MATCHING OF FUEL  
2 EXPENSES AND RELATED REVENUES?

3  
4 A. Yes, Intervenor Exhibit No. \_\_\_\_\_(JBS-1).

5  
6 Q. PLEASE EXPLAIN THIS EXHIBIT.

7  
8 A. This Exhibit is comprised of five pages. The adjustment required to  
9 obtain the proper fuel expense/revenue matching for each of the wholesale  
10 customer groups is shown on a separate page. Using Page 1 which is for  
11 the Cooperative customer group as an example, the last column (h) shows  
12 for each month and the total for Period II, the additional revenues which  
13 should be included in the cost of service to properly match fuel expenses  
14 and fuel related revenues. This adjustment is calculated by subtracting  
15 fuel revenues actually used in the Company's Period II Cost of Service  
16 Study (column e) from the fuel revenues which properly match fuel expenses  
17 (column g). The monthly fuel revenues shown in column e are based upon  
18 the unit cost of fuel in the immediately preceding month. The monthly  
19 fuel revenues shown in column g are based upon the unit cost of fuel in  
20 the current month, thus producing a proper matching of revenues and  
21 expenses. The kilowatt hour purchases and unit fuel costs used in this  
22 exhibit were taken from the material filed by the Company in this docket.  
23 The remaining pages of this Exhibit display similar calculations for each  
24 of the remaining wholesale customer groups.

25  
26 This exhibit shows the effect of this adjustment is merely to shift the  
27 collection of a full twelve months of fuel adjustment revenues back one  
28 month in time. This can be illustrated by looking at the fuel adjustment  
29 factors in columns d and f. To obtain fuel revenues which properly match  
30 fuel expenses (column g), the factor shown on line 1, column d is dropped,  
31 the remaining eleven factors in column d are moved back one month (see  
32 column f), and the actual unit cost of fuel in June, 1976 is used on line  
33 12, column f. Thus only twelve months of fuel revenues are included in the  
34 adjusted cost of service -- no more and no less.

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36 Q. WHAT REVENUE ADJUSTMENTS RESULT FROM THESE CALCULATIONS?

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38 A. The Period II test year revenues for the wholesale customers should be  
39 increased as follows:

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42	Cooperatives	\$262,057.84
43	Municipals	\$139,493.10
44	City of Frankfort	\$ 21,094.36
45	Cities of Peru, Washington, Logansport & Crawfordsville	\$ 59,300.22
46	Hoosier	\$ 95,220.60

47

48 Q. HAVE YOU REVIEWED THE TESTIMONY AND EXHIBITS OF THE FEDERAL POWER  
49 COMMISSION STAFF?

50  
51 A. Yes.

1 Q. DID THE FPC STAFF MAKE A SIMILAR ADJUSTMENT TO THE PERIOD II TEST YEAR  
2 REVENUES TO ACHIEVE A MATCHING OF FUEL EXPENSES AND RELATED REVENUES?  
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4 A. Yes.

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6 Q. DID YOU EMPLOY THE SAME METHODOLOGY USED BY THE STAFF IN CALCULATING  
7 YOUR REVENUE ADJUSTMENTS?  
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9 A. Yes.

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