

SUPPLEMENTAL TESTIMONY OF STEWART E. GORDON, JR.
ON BEHALF OF
PENNSYLVANIA ELECTRIC COMPANY

1 - Q. Are you the same Stewart E. Gordon, Jr. who has
2 previously presented testimony in this pro-
3 ceeding?

4
5 A. Yes, I am.
6

7 Q. What is the subject of your supplemental
8 testimony?
9

10 A. My testimony is concerned with the allocation
11 of Penelec's overall cost of service to its
12 wholesale for resale customers in the revised
13 cost of service exhibit which Mr. Hafer dis-
14 cusses. I sponsor Statement M to that exhibit,
15 Exhibit No. ___ (PN-103). Mr. Carroll sponsors
16 the other statements.
17

18 Q. How does this revised cost of service differ
19 from that presented in the original filing
20 made July 17, 1978?
21

22 A. All schedule numbers presented today cor-
23 respond to those initially furnished. This
24 study, like the original study, uses the
25 twelve coincident peak method of demand allo-
26 cation in the demand and energy allocators
27 and billing determinants for the customers
28 remain unchanged.
29

30 Q. What major changes were made in the cost of
31 service you submit today?
32

33 A. The principal and most important change in the
34 cost of service is to effectively eliminatete
35 return on the common equity component of the
36 investment in the Three Mile Island No. 2 new
37 plant. This was done by dividing the return
38 as shown in Statement L (based on adjusted
39 rate of return of 9.44%) by the proposed rate
40 of return desired on all property except
41 TMI-2's common equity share to arrive at a new
42 rate base. The difference between this rate
43 base and the "L" rate base was removed from

1 production plant and the study run on 10.05% rate
2 of return. In addition to this major change,
3 were other changes that evolved from discussions
4 at the earlier settlement conference as follows:
5

6 1) The functionalization of general and intan-
7 gible plant on the basis of Staff labor ratios
8 allocator K929 revised to consider the K519
9 customer accounts allocator.

10
11 2) The functionalization of administrative
12 and general expenses on the basis of labor
13 ratios.

14
15 3) The functionalization of payroll taxes
16 on Staff labor ratios allocator K929 re-
17 vised to consider the K519 customer accounts
18 allocator.

19
20 4) The interest expense deduction for tax
21 purposes is synchronized with the weighted
22 cost of long-term debt component of the
23 capital structure.

24
25 5) Deferred energy and associated tax com-
26 ponents are not allocated to the wholesale
27 electric customers.

28
29 Q. Why was it necessary to develop a rate base based
30 on 9.44% rate of return and then allocate on
31 10.05%?
32

33 A. When the overall cost of service was calculated,
34 it was intended that the full debt and preferred
35 portions of the return should be earned on all
36 property. It was more convenient for the account-
37 ants to adjust the capital structure to reflect
38 the elimination of the common equity share of
39 TMI-2 than to immediately excise that number of
40 dollars from the plant in-service claimed. If
41 all customers were users of the entire investment
42 of the company, it would have been possible to
43 allocate the entire rate base at the 9.44% rate
44 and achieve a varied distribution of cost of
45 service. However, Penelec has a wheeling customer

1 (Allegheny Electric Cooperative) that uses no part
2 of the production plant, and to allocate on the "L"
3 basis would cause the cost of service to the wheel-
4 ing customers to be understated since the proper
5 return for them would be 10.05%. By adjusting the
6 total rate base to produce the same return as was
7 produced by the 9.44% rate, applying a 10.05% rate
8 of return to the wheeling rate base, the distortion
9 caused by the presence of the wheeling customer is
10 eliminated.

11
12 Q. What does Statement M show as the result of using
13 this rate of return and this method on your resale
14 revenue requirement?
15

16 A. Statement M, page 1, shows that the total revenue
17 requirement for resale is \$34,722,015, an increase
18 over the prior rate of some \$6,035,189. This is
19 a reduction of approximately \$1,554,000 from the
20 original filing which included all of Three Mile
21 Island No. 2.
22

23 Q. Do you sponsor an additional cost of service
24 exhibit?
25

26 A. Yes. I sponsor Exhibit No. ____ (PN-204) which con-
27 sists of the Statement M for a cost of service which
28 was performed using a 10.56% overall rate of return
29 on our entire rate base. This exhibit shows the
30 revenue requirement needed to produce a 16% return
31 on common equity. As can be seen on page 2 of this
32 exhibit, the total resale increase would be
33 \$7,747,356.
34

35 Q. Does this complete your supplemental testimony?
36

37 A. Yes, it does.

EXHIBIT NO. _____ (PN-204)
DOCKET NO. ER78-494

PENNSYLVANIA ELECTRIC COMPANY
SUMMARY COST OF SERVICE
USING 10.56% RATE OF RETURN

PENNSYLVANIA ELECTRIC COMPANY
 COST OF SERVICE STUDY
 FOR 12 MONTHS ENDING: 6/30/79
 APPROXIMATE INCREASE REQUIRED FOR LEVELIZED RETURN

USING LEVELIZED RETURN OF : 10.560%

RATE GROUP	OPERATING EXPENSES (11)	REV OR STATE TX (12)	OPERATING REVENUE (13)=(8-11-12)	INC TAX (14)	OPERATING INCOME (15)=(13-14)	RATE BASE (16)	RATE OF RETURN (17)=(15/16)
RATE RP	4922209.	93171.	2434051.	742473.	1691573.	16018693.	10.560
ALLEG-SU	16500135.	1147150.	8169320.	2491945.	5677374.	53763012.	10.560
WHEELING	1532441.	0.	1733208.	528593.	1204516.	11406396.	10.560
TOTAL RESALE	22954785.	1240329.	12336579.	3763111.	8573463.	81188101.	10.560
RETAIL	317585713.	21667698.	174714752.	53294474.	121420277.	1149813233.	10.560
TOT COMP	340540503.	22908027.	187051331.	57057585.	129993740.	1231001334.	10.560

POOR ORIGINAL

EXHIBIT NO. (PN-204)
 DOCKET NO. ER 78-494

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June 26, 1979

PENNSYLVANIA ELECTRIC COMPANY
 COST OF SERVICE STUDY
 FOR 12 MONTHS ENDING: 6/30/79
 APPROXIMATE INCREASE REQUIRED FOR LEVELIZED RETURN

USING LEVELIZED RETURN OF : 10.560%

RATE GROUP (1)	BASE REVENUE (2)	PERCENT INCREASE (3)	DOLLAR INCREASE (4)=(2X3)	OTHER REVENUE (5)	TOT GROUP REVENUE (6)=(2+4+5)	MISC REVENUE (7)	TOTAL REV REQ (8)=(6+7)	MWH OF SALES (9)	COS IN ¢ PER KWH (10)=(8/9)/10	INC AS % OF TOT REV (11)=(4/6)
RATE RP	5908565.	24.464	1445465.	0.	7354030.	95400.	7449430.	209352.	3.558	19.655
ALLEG-SU	19373467.	31.584	6118941.	0.	25492408.	324205.	25816613.	709526.	3.639	24.003
WHEELING	2721987.	10.304	280460.	0.	3002442.	263207.	3265649.	0.	0.0	9.341
TOTAL RESALE	28004014.	28.013	7844866.	0.	35848880.	682812.	36531692.	918878.	3.976	21.883
RETAIL	371675423.	36.134	134302991.	0.	505978414.	7989753.	513968167.	10544534.	4.874	26.543
TOT COMP	399679437.	35.565	142147857.	0.	541827294.	8672565.	550499859.	11463412.	4.802	26.235

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June 26, 1979

EXHIBIT NO. _____ (PN-204)
 DOCKET NO. ER 78-494