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DIRECT TESTIMONY OF

GARY L. PRICE

FOR

TEXAS POWER & LIGHT COMPANY

DECEMBER 1979

8104170646



1 DIRECT TESTIMONY OF GARY L. PRICE

2 Q. WILL YOU STATE YOUR NAME AND BUSINESS ADDRESS PLEASE?

3 A. Gary L. Price, Texas Power & Light Company, P. O. Box 226331, Dallas, Texas.

4 Q. WHAT ARE YOUR POSITION AND RESPONSIBILITIES FOR TEXAS POWER &
5 LIGHT COMPANY?

6 A. I am Assistant Treasurer of the Company. My responsibilities include general
7 accounting, field accounting, budgets, construction and plant accounting and
8 payroll.

9 Q. WOULD YOU BRIEFLY DESCRIBE YOUR EDUCATION, PROFESSIONAL QUAL-
10 IFICATIONS AND COMPANY EXPERIENCE?

11 A. I received a B.B.A. degree from Baylor University in 1966. I began my career
12 with Texas Power & Light as a trainee immediately following graduation. In 1969,
13 I became Supervisor of Budgets; in 1972, Manager of General Accounting; and I
14 was elected Assistant Treasurer in 1975. Included in my thirteen years with the
15 Company are appearances before numerous city councils and the Public Utility
16 Commission of Texas concerning rate applications of the Company.

17 I became a Certified Public Accountant in 1968, and I belong to the Texas
18 Society of Certified Public Accountants, the Dallas Chapter of Certified Public
19 Accountants and the American Institute of Certified Public Accountants.

20 Q. WAS EXHIBIT GLP-1 PREPARED BY YOU OR UNDER YOUR SUPERVISION?

21 A. Yes.

22 Q. WOULD YOU PLEASE DESCRIBE EXHIBIT GLP-1.

23 A. This Exhibit was prepared in accordance with Substantive Rule 052.02.03.032(a).
24 It is the overall Cost of Service for Texas Power & Light Company for the twelve
25 months ended September 30, 1979, as adjusted. It is a summary of Operation and
26 Maintenance Expenses, Depreciation, Federal Income Taxes, Deferred Federal
27 Income Taxes, Federal Investment Credit Adjustments, Taxes Other Than Federal
28 Income Taxes, Interest on Customer Deposits, Gain on Reacquisition of Debt and



1 the Return on Invested Capital. The above items are further detailed to present
2 the amounts as recorded on the books of the Company (column b), the effect of
3 the adjustments for known and measurable changes (columns c and d) and the
4 effect on the test year of the proposed rate increase (columns e and f).

5 Q. WHY HAS THE TEST YEAR BEEN ADJUSTED?

6 A. The test year data reflects operating conditions of the past, conditions which
7 must be adjusted if rates are to be properly designed for use in the future.

8 Article VI, Sec. 39 of the Public Utility Regulatory Act states:

9 "In fixing the rates of a public utility the regulatory authority
10 shall fix its overall revenues at a level which will permit such
11 utility to recover its operating expenses together with a reasonable
return on its invested capital." (emphasis added)

12 It is quite obvious from the statutory language, as well as past Commission rate
13 orders, that rates are set for the future. Since rates are designed for the future,
14 it is equally obvious that they must be set at a level that reflects costs which will
15 be incurred in providing service in the future.

16 If the historical test year is sufficiently adjusted so as to express the levels
17 of operation and maintenance expenses, depreciation, taxes, and capital costs
18 during the period when the new rates will be in effect, the new rates can be set to
19 cover these costs. If these conditions are met, the ratemaking objective will have
20 been accomplished.

21 The basic purpose of the test year is to provide a starting point in
22 developing appropriate cost data for setting rates. Therefore, the best way of
23 measuring the future cost of service for setting future rates would be to use a
24 forward looking test year, i.e. a budgeted or future test year. This approach
25 would reflect the level of revenues, expenses and cost of capital during the same
26 time frame.

27 The historical test year approach attempts to do the same thing (match
28 revenues, expenses and cost of capital) but in my opinion falls short of the goal.

1 By adjusting the actual test year data for known events, we have attempted to
2 bring operating expense closer to the level which will be incurred when the
3 requested rates are placed in effect.

4 Q. DO THE ADJUSTED OPERATING EXPENSES REFLECT THE LEVEL WHICH
5 WILL BE INCURRED WHEN THE RATES ARE PLACED IN EFFECT?

6 A. No. Due to time constraints and the use of September 30, 1979 as the cut-off
7 date for most of the adjustments, the level of operating expenses is lower than
8 that which will be incurred when the rates go in effect.

9 Q. DOES CUSTOMER GROWTH TAKE CARE OF THE PROBLEM?

10 A. No, when a utility's rates are fixed and it experiences increasing costs, customer
11 growth accentuates the problem.

12 Q. COULD YOU GIVE US AN ILLUSTRATION?

13 A. Certainly. Assuming a customer bill form costs us 5 cents and rates were set to
14 reflect this cost, then the Company's rates would be proper. If the Company adds
15 a customer, the expense would increase because of an additional customer but so
16 would revenue and the Company would still cover its costs. But, if the cost of the
17 bill form were increased to 6 cents by the supplier, the Company's rates would not
18 reflect this increase. The "deficit" in the Company's rates would apply to each of
19 the more than 678,000 customers, and growth would only compound the "deficit."

20 Inflation (and that is what the 1 cent increase in the cost of the bill form
21 represents) is a very real fact of life, but no adjustment to operating expense for
22 inflation has been made for the period after September 30, 1979, even though it
23 has certainly occurred and will continue to occur.

24 Q. WHO PAYS FOR THIS "UNDERRECOVERY OF COSTS?"

25 A. Since the Company must pay its bills, the common shareholder is the one who
26 absorbs the "underrecovery" through lower earnings than granted in the rate case.
27 Mr. Swiger discusses this problem in his testimony.

28



1 Q. REFERRING TO EXHIBIT GLP-1, WOULD YOU PLEASE EXPLAIN THE ADJUST-
2 MENTS APPLICABLE TO OPERATION AND MAINTENANCE EXPENSES?

3 A. Yes. Fuel and purchased power were adjusted: (1) to reflect the changes in
4 kilowatt hour sales for weather normalization and customer annualization as
5 provided by Mr. Don Simpson; (2) to recognize more current cost levels; and
6 (3) to recognize a full year's generation from Martin Lake Unit #3. The effect of
7 these adjustments to fuel and purchased power is an increase of \$19,022,513.

8 The next adjustment is for additional production expense. This adjustment
9 of \$7,463,822 is necessary for two reasons: (1) Martin Lake Unit #3 was not in
10 service for a full year during the test year and (2) the Company's portion of labor
11 costs at the jointly-owned lignite plants (Big Brown, Monticello and Martin Lake)
12 did not reflect current conditions. By annualizing the expenses, including required
13 overhauls, for Martin Lake and adjusting the labor costs at the jointly-owned
14 plants in the same way as TP&L's other labor costs were adjusted, the test year
15 more closely reflects the level of these costs when the new rates are placed in
16 effect.

17 The next adjustment to operation and maintenance expenses is to adjust
18 other labor costs to reflect the level of employees and their wages at the end of
19 the test year and to adjust the result for known salary changes. In November,
20 1979, scheduled employees received an annual salary increase. Although non-
21 scheduled employees did not receive this increase at that time, the same level
22 will be the general guideline when their salaries are reviewed. Since these salary
23 increases will occur throughout the year, an adjustment for one-half the increase
24 was made to nonscheduled employees' salaries. The total of this adjustment is
25 \$5,142,618.

26 Employee benefits were adjusted by \$359,340 to reflect the increase in
27 wages and to recognize known changes in the cost to the Company for employee
28 insurance and pension costs.



1 The next two adjustments were made to comply with Substantive Rule
2 052.02.03.032(a)(6)(B). They eliminate from the test year the expenses incurred
3 for legislative advocacy and social membership dues. I might add at this point
4 that the total of contributions, donations and advertising does not exceed the
5 three-tenths of one percent limit as provided in Substantive Rule
6 052.02.03.032(a)(6)(A).

7 The next adjustment amounts to \$53,768 and is based upon our application
8 for a rate increase. The Company is estimating \$500,000 will be spent on this
9 rate filing and the adjustment is necessary to recognize the difference between
10 the \$500,000 and the amount expensed during the test year applicable to prior
11 rate cases.

12 The uncollectible accounts provision to expense and the Utility Commission
13 fee have been adjusted by \$130,514 and \$34,227, respectively, to reflect the
14 adjustment made to revenues.

15 The next adjustment of \$539,082 is necessary due to a change in the
16 Company's relocation policy. The Company was finding it extremely difficult to
17 get employees to transfer from one location to another due to increased housing
18 costs, high interest rates and the inability to sell homes within a reasonable time.
19 In order to be able to fill vacant jobs with the best qualified people, the Company
20 instituted a home purchase plan for transferred employees effective May, 1979.
21 The adjustment is to annualize test year expense.

22 The next adjustment, Provision for Insurance and Casualties, is the result of
23 problems the Company has faced for several years and will continue to face in the
24 future. These problems are: (1) insurance premiums are escalating rapidly;
25 (2) deductibles are being increased by the insurance companies, thus putting the
26 Company in a position of being a self-insurer whether it wants to or not; and
27 (3) with the growth of the Company, the exposure to losses continues to increase.

28 In order to operate as efficiently as possible, while at the same time not

1 taking undue risks, a Reserve for Insurance and Casualties was established in 1971
2 to provide the Company some protection in the event of a large loss and to
3 produce a savings to the customer through lower insurance premiums.

4 Q. HAS THE COMPANY EXPERIENCED ANY LOSSES?

5 A. Yes. TP&L has experienced losses in previous years, such as the generator winding
6 failure at the Big Brown Generating Station and, during the test year, the
7 Company experienced a loss of \$1,677,000 due to the ice storm in January, 1979.

8 Q. WAS THE \$1,677,000 CHARGED TO EXPENSE DURING THE TEST YEAR AND,
9 AS A RESULT, REFLECTED IN THE COST OF SERVICE OF THE COMPANY?

10 A. No, the loss was charged to the Reserve for Insurance and Casualties.

11 Q. WHAT IS THE EFFECT OF THE ADJUSTMENT TO THE COST OF SERVICE?

12 A. In July 1979, we increased the accruals to the Reserve for Insurance and
13 Casualties to restore the Reserve to the dollar level accumulated before the
14 charges for the ice storm. The increased accruals would achieve this over a three
15 year period assuming no further losses. Also, the normal accrual to the Reserve
16 has been increased approximately 10 percent. The adjustment, \$460,309, is the
17 amount necessary to produce an annualized level in the adjusted test year.

18 Q. WILL THE COMPANY BE IN THE SAME RELATIVE POSITION IN REGARD TO
19 THE RESERVE FOR INSURANCE AND CASUALTIES WITH THESE ADDITIONAL
20 ACCRUALS AS BEFORE THE ICE STORM LOSS?

21 A. No. As I stated before, it will be three years before this loss is restored to the
22 Reserve. In addition, to increase the normal accrual which was approved in our
23 previous rate case (Docket #1517) by only 10 percent per year will not keep the
24 Reserve in the same relative position to Electric Plant in Service as before.
25 Inflation alone reduces the relative coverage provided by the Reserve for
26 Insurance and Casualties.

27 Q. DOES SELF-INSURING SAVE THE CUSTOMER MONEY?

28 A. Yes, the customer benefits from our policy in two ways. If Texas Power & Light



1 purchased insurance coverage with the lowest deductibles possible, the additional
2 annual insurance premiums would be between \$2,500,000 and \$3,000,000. These
3 additional premiums would be paid every year and rates would reflect this higher
4 level of premiums. The customer would pay more but would receive no benefit
5 until a loss occurred. Additionally, through the use of a Reserve for Insurance and
6 Casualties, whatever amount the customer pays to create the Reserve is deducted
7 from the Rate Base, thus saving the customer the allowed return on the amount
8 deducted. The customer certainly benefits from our policy.

9 Q. IS THE RESERVE FOR INSURANCE AND CASUALTIES REALLY NECESSARY?

10 A. Yes, it is. One must keep in mind that management has a fiduciary responsibility
11 to maintain adequate insurance coverage on the Company's assets. Management
12 is also striving to provide dependable service at the lowest reasonable cost
13 possible to its customers.

14 Management could provide adequate insurance coverage on the Company's
15 assets by purchasing insurance with the lowest deductibles possible but this would
16 be very expensive. Through the use of a Reserve, lower insurance premiums are
17 realized (which benefits our customers) while adequate coverage is maintained.

18 Q. PLEASE EXPLAIN THE NEXT ADJUSTMENT ON EXHIBIT GLP-1.

19 A. We have adjusted the test year to reflect a known increase in our EEI research
20 and development commitment of \$677,792. The amount is based upon the actual
21 sales of electricity for the year 1978 and is necessary to reflect the actual
22 amount due in the coming year.

23 Q. WHY WAS AN ADJUSTMENT MADE FOR "OTHER OPERATION AND MAIN-
24 TENANCE EXPENSES"?

25 A. In order for the test year to accurately reflect conditions as of September 30,
26 1979, it was necessary to adjust the "other operation and maintenance expenses"
27 which have not been individually adjusted to reflect changes in costs during the
28 test year.

1 "Other operation and maintenance expenses" include such items as repairs,
2 maintenance on transportation equipment, parking expense, postal charges,
3 customer bill forms, subscriptions to professional and business publications,
4 repairs on office equipment and facilities, janitorial supplies, legal services,
5 technical consultant fees, rent, etc. Due to the number of items included in
6 "other operation and maintenance expenses", to adjust each item would be very
7 expensive and time consuming. As an alternative to making literally hundreds of
8 adjustments, these expenses have been adjusted to the September 30, 1979 level
9 based on past experience and the number of customers served.

10 Q. HAS THIS APPROACH BEEN ACCEPTED BY THE COMMISSION IN RECENT
11 CASES?

12 A. Yes.

13 Q. DOES THE ADJUSTMENT REQUESTED IN THIS CASE REFLECT ANY
14 INCREASED COSTS AFTER SEPTEMBER 30, 1979?

15 A. No, and under present conditions, I believe the adjustment is very conservative.

16 Q. HOW WAS THE ADJUSTMENT TO "OTHER OPERATION AND MAINTENANCE
17 EXPENSES" CALCULATED?

18 A. A study was made to determine the relationship between customers served and
19 "other operation and maintenance expenses". Our study produced a coefficient of
20 determination between customers served and "other O & M expenses" of .9643
21 which means that 96.43 percent of the change in "other O & M expenses" is
22 mathematically explained by customer growth. Exhibit GLP-2 shows the
23 historical trend since October, 1977. This trend has been used to establish the
24 expense level based upon test year-end customers. The adjustment is \$3,273,498.

25 Q. WAS A CONFIDENCE INTERVAL CALCULATED TO MEASURE THE REASON-
26 ABLENESS OF THE EXPENSE LEVEL UPON WHICH YOUR ADJUSTMENT IS
27 MADE?

28 A. Yes, we calculated a 95 percent confidence interval for this estimate.



1 Q. IS YOUR ADJUSTMENT BASED ON THE LOWER LIMIT OF THIS INTERVAL?

2 A. No, it is the midpoint.

3 Q. WHY DIDN'T YOU CHOOSE THE LOWER LIMIT?

4 A. The purpose of the study was to determine a reasonable estimate for this
5 adjustment. We believe the mid-point to be a reasonable basis for this adjustment
6 although as I previously pointed out, it is conservative in that it is below the level
7 that we anticipate will be actually experienced.

8 The lower limit would certainly not be reasonable since there would be a
9 97 1/2 percent probability that actual expense would exceed the estimate.

10 Q. DOES THIS SAME LOGIC EXPLAIN WHY YOU CHOSE NOT TO ASK FOR THE
11 UPPER LIMIT?

12 A. Yes. I am seeking the best available estimate which is, statistically, the most
13 probable. Although I believe that some upward bias is justified, I have utilized the
14 results of the study without any bias. As I have stated before, the adjustment is
15 conservative due to the fact that I have not considered any increase in costs
16 beyond September 30, 1979, even though they have occurred.

17 Q. WOULD YOU DESCRIBE THE ADJUSTMENT TO DEPRECIATION EXPENSE?

18 A. The Depreciation Expense recorded on the books of the Company has been
19 adjusted for two items. One, we are seeking approval of a change in certain
20 depreciation rates as discussed by Mr. Dwight Cole and two, we have annualized
21 our depreciation expense for depreciable plant in service at September 30, 1979.
22 The total adjustment is \$5,376,476 which results in an adjusted test year
23 Depreciation Expense of \$68,036,076.

24 Q. PLEASE EXPLAIN THE CHANGE IN FEDERAL INCOME TAXES, DEFERRED
25 FEDERAL INCOME TAXES, AND FEDERAL INVESTMENT CREDIT
26 ADJUSTMENTS.

27 A. Federal Income Taxes, Deferred Federal Income Taxes, and Federal Investment
28 Credit Adjustments have been adjusted to recognize the tax effect of the



1 adjustments made to the Cost of Service and Rate Base.

2 Q. WOULD YOU PLEASE DESCRIBE THE ADJUSTMENTS TO TAXES OTHER THAN
3 FEDERAL INCOME TAXES?

4 A. The taxes which are revenue related (gross receipts and city franchise) have been
5 adjusted to reflect the changes in revenues. Social Security taxes have been
6 adjusted to reflect the known increase in wages and the known increase in the
7 taxable wage base from \$22,900 to \$25,900. Ad valorem taxes have been adjusted
8 by multiplying plant in service at the end of the test year by the current effective
9 tax rates. The state franchise tax has been computed using the adjusted capital
10 of the Company at September 30, 1979. The total adjustments to taxes other than
11 Federal income taxes is ^{4,523,464} \$4,521,920 and the adjusted test year amount is
12 ^{45,053,432} \$45,051,888.

13 Q. WHAT IS THE TOTAL AMOUNT OF OPERATING EXPENSES, AS ADJUSTED?

14 A. Total operating expenses, as adjusted, on present rates amount to ^{661,018,684} \$661,684,305
15 for the test year. The total of ^{719,934,763} \$721,259,681 represents the total adjusted
16 operating expenses for the test year including the adjustments due to the proposed
17 rate increase.

18 Q. WHAT ARE THE OTHER ITEMS ON EXHIBIT GLP-1?

19 A. The next item is Interest on Customer Deposits which has been annualized based
20 upon the level of active customer deposits at September 30, 1979. This amount of
21 \$371,550 is appropriate since customer deposits have been included as a reduction
22 to the Rate Base.

23 The amount of \$170,771 shown as Gain on Reacquisition of Debt is the
24 discount we received when we repurchased some of our debt issues.

25 The final item is Return on invested Capital, which I will discuss later.

26 Q. WAS EXHIBIT GLP-3 PREPARED BY YOU OR UNDER YOUR SUPERVISION?

27 A. Yes. I relied on Mr. Cole for certain items, but the Exhibit was prepared under
28 my supervision.

1 Q. WOULD YOU PLEASE EXPLAIN EXHIBIT GLP-3?

2 A. This Exhibit shows the details of the Original Cost and Adjusted Value Rate Bases
3 for the Company. Some of the items have been adjusted to more appropriately
4 reflect the Company's Rate Base which should be considered in this proceeding.

5 Q. WOULD YOU EXPLAIN EACH ADJUSTMENT?

6 A. The first adjustment is to Accumulated Depreciation. The adjustment is to
7 reflect one-half of the adjustment made to depreciation expense in the Cost of
8 Service. This gives an adjusted Accumulated Provision for Depreciation of
9 \$421,621,343.

10 Q. MR. PRICE, WHY HAVE YOU ONLY CONSIDERED ONE-HALF THE INCREASE
11 IN DEPRECIATION EXPENSE AS AN ADJUSTMENT TO THE RESERVE?

12 A. To analyze this adjustment, an understanding of the definition of depreciation
13 expense is imperative. Depreciation expense, as defined in rate filings, is the
14 invested capital recovered from rate payers through base rates. To deduct the
15 full amount of the additional depreciation expense from the Rate Base before it is
16 received from the rate payer would cause an understatement of the invested
17 capital necessary to serve the customers as demonstrated below:

18
19 Case A. Reserve Adjusted for Full Amount of
20 Depreciation (assuming 20 year life):

21 \$1,000,000 - invested capital
22 (50,000) - depreciation reserve adjustment
23 \$ 950,000 - adjusted invested capital
24 8% - allowed rate of return
25 \$ 76,000 - required operating income
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Results:

\$1,000,000 - beginning invested capital
(50,000) - depreciation expense recovered in base rates
 \$ 950,000 - ending invested capital
 \$ 975,000 - average invested capital necessary to serve customers
 \$ 76,000 - allowed operating income
 7.79% - actual return earned

Case B. Reserve Adjusted for 1/2 of Depreciation (assuming 20 year life):

\$1,000,000 - invested capital
(25,000) - 1/2 of depreciation reserve adjustment
 \$ 975,000 - adjusted invested capital
8% - allowed rate of return
\$ 78,000 - required operating income

Results:

\$1,000,000 - beginning invested capital
(50,000) - depreciation expense recovered in base rates
 \$ 950,000 - ending invested capital
 \$ 975,000 - average invested capital necessary to serve customers
 \$ 78,000 - allowed operating income
 8% - actual return earned

As is apparent in Case B, the customer is paying a return on the average dollars of invested capital necessary to provide service, whereas in Case A the customer gets the benefit of the additional depreciation expense before he pays it. This penalizes the investor through realization of a lower return than was allowed.

1 Q. WOULD YOU PLEASE CONTINUE YOUR EXPLANATION OF THE EXHIBIT?

2 A. The Current Cost of Plant in Service, the respective weighting of RCN and Net
3 Original Cost, and the methodology of determining the allowance for age and
4 condition were supplied by Mr. Dwight Cole. By applying a 60 percent weighting
5 to Net Original Cost and 40 percent to Net Current Cost, the total adjusted value
6 of Net Plant in Service is \$2,127,007,940.

7 Electric Plant Held for Future Use has been reduced by \$1,008,725 to
8 reflect only the dollars representing land, lignite and water rights that
9 are not dedicated to a specific power plant, but which will be dedicated in the future.
10 I might add that this is the original cost of these items and not an adjusted value.

11 Q. WHY SHOULD PLANT HELD FOR FUTURE USE BE INCLUDED IN THE RATE
12 BASE?

13 A. The only way a utility can earn a return on these dollars is by inclusion in the
14 Rate Base. Under the Uniform System of Accounts, we are not allowed to
15 capitalize an Allowance for Funds Used During Construction on Plant Held for
16 Future Use. Therefore, if these items are not included in the Rate Base, the
17 Company will forever lose the carrying costs on these investments made in the
18 customers' best interest and for their benefit, effectively removing any incentive
19 for the Company to continue with its time proven program. When one weighs the
20 cost of including land, lignite and water rights in the Rate Base versus the
21 potential cost of waiting to purchase these items, the least costly approach would be to
22 encourage these timely purchases by including same in the Rate Base. In my
23 opinion, to exclude entirely or to establish an arbitrary time frame for inclusion in
24 Rate Base items which are vital in the production of electricity cripples the
25 Company's ability to save its customers money through long-term planning.

26 Q. WHY WAS AN ADJUSTMENT MADE TO CONSTRUCTION WORK IN PROGRESS?

27 A. The amount of C.W.I.P. on the books of the Company at September 30, 1979, is
28 \$598,752,658. In accordance with Mr. Campbell's testimony, I have reduced this

1 amount by the total expenditures applicable to the Forest Grove Unit; to
2 eliminate 82.569 percent of the expenditures for Sandow Unit #4; and to eliminate
3 25 percent of the remaining C.W.I.P. balance.

4 I would like to point out that this in no way represents the level of
5 Construction Work in Progress that the Company will have on its books when the
6 proposed rate increase goes into effect. Exhibit CLP-4 shows the present
7 estimate of the levels of Construction Work in Progress (excluding Forest Grove
8 and 82.569 percent of Sandow Unit #4) which the Company will experience during
9 the first year the proposed rates are in effect. As shown by this Exhibit,
10 Construction Work in Progress will substantially exceed the \$338,117,435 which
11 has been included in the Rate Base in Exhibit GLP-3.

12 Q. WHAT ARE THE BENEFITS OF INCLUDING C.W.I.P. IN THE RATE BASE?

13 A. There are many benefits derived from including C.W.I.P. in the Rate Base. The
14 ones I believe are the most important are: (1) Improves cash flow; (2) Improves
15 quality of earnings; (3) Improves interest coverage; and (4) Helps keep future
16 rates lower.

17 Q. HOW IS CASH FLOW IMPROVED?

18 A. If C.W.I.P. is not included in the Rate Base, the financing costs of construction
19 are added to the cost of the plant. This procedure is accomplished by recording
20 an Allowance for Funds Used During Construction on the books of the utility. The
21 result is to defer costs (which the utility must pay currently) for future recovery.
22 Therefore, by including C.W.I.P. in the Rate Base, the utility collects the
23 financing costs currently which improves its cash flow.

24 Q. DOES THE CUSTOMER PAY FOR CONSTRUCTION IF C.W.I.P. IS INCLUDED IN
25 THE RATE BASE?

26 A. No. The investor is still paying for the construction. The customer is only paying
27 the "interest" or carrying costs on the money used to pay for the construction.
28



1 Q. HOW IS THE QUALITY OF EARNINGS IMPROVED?

2 A. Simply stated, cash income is being substituted for non-cash income. When a
3 utility capitalizes the financing costs of construction by the recording of
4 A.F.U.D.C., the income of that utility is increased by the amount of the
5 A.F.U.D.C. Since this increase in income is simply the result of a journal entry
6 rather than actual cash, the quality of the utility's earnings decline. In other
7 words, as A.F.U.D.C. becomes a larger percentage of earnings of a utility, the
8 poorer the quality of earnings. Financial analysts discount A.F.U.D.C. and look at
9 a utility's financial record exclusive of A.F.U.D.C. When C.W.I.P. is included in
10 the Rate Base, the utility recoups the financing costs on a current basis as they
11 are incurred, thus improving the quality of earnings.

12 Q. WOULD YOU EXPLAIN HOW INTEREST COVERAGE IS IMPROVED?

13 A. Earnings that a utility receives in lieu of A.F.U.D.C. would also have to cover the
14 tax liability. Since interest coverages are computed on a pre-tax basis, the
15 coverage would be improved. Also, because the utility would not have to borrow
16 as much (since its cash flow would be improved), there would be less interest to
17 cover.

18 Q. HOW WOULD FUTURE RATES BE LOWER?

19 A. Two ways, by paying the financing costs currently, future rates will not include
20 such costs and, since the utility's financial position will be improved, the lower
21 financing costs will result in lower rates for the consumer.

22 Q. DO YOU FEEL INCLUSION OF THE REQUESTED LEVEL OF C.W.I.P. IS
23 NECESSARY TO THE COMPANY'S FINANCIAL INTEGRITY?

24 A. Yes. Considering the level of C.W.I.P. when the proposed rates go into effect and
25 the factors mentioned above, I feel that the amount requested is the minimum
26 that should be allowed.

27 Q. PLEASE EXPLAIN THE REMAINING ITEMS ON EXHIBIT GLP-3.

28 A. The next item, Nuclear Fuel in Process, is per the books as of September 30, 1979.

1 This item is similar to Construction Work in Progress. It is money that has
2 already been spent by Texas Power & Light to provide for our customers' future
3 electric power needs. Due to this, I feel that inclusion in the Rate Base is
4 appropriate, especially since commitments have to be made for such fuel well in
5 advance of actual use.

6 Working Capital represents one-eighth of adjusted operation & maintenance
7 expenses less fuel, purchased power, and the portion of prepayments and material
8 and supplies charged to operation and maintenance expenses, plus the amount of
9 materials and supplies and fuel stock on the Company's books at September 30,
10 1979, and a 13 month average of prepayments. This computation was made in
11 accordance with Substantive Rule .052.02.03.031(a)(3).

12 Q. WHY HAVE YOU USED THE "1/8 OF O & M" FORMULA INSTEAD OF THE
13 AVERAGE DAILY CASH BALANCES FOR THE COMPUTATION OF CASH
14 WORKING CAPITAL?

15 A. There are several reasons. The "1/8 of Operation and Maintenance Expenses" has
16 been used for many years, is representative of the amount of cash working capital
17 necessary for a utility and is a part of the Substantive Rules of this Commission.
18 I have not asked for the maximum allowed under this Commission's Rules since I
19 have deducted fuel expenses from the total Operation and Maintenance Expenses.

20 I have not used the average daily cash balances for the computation of cash
21 working capital due to the fact that the daily cash balances have no relationship
22 to the amount of cash working capital that is required.

23 Cash working capital is the amount of investor supplied capital which is
24 necessary to fund operations until the customer pays his bill. Since the investor
25 supplies the capital, a return is necessary for this capital, the same as on capital
26 used to fund power plants.

27 Daily cash balances do not represent the amount paid for operation and
28 maintenance expenses but, instead, merely represent what is left after those

1 items are paid. Two companies with identical accounting practices could have the
2 same daily cash balances although one company is twice as large as, and has twice
3 the cash working capital needs of, the other company. These cash balances
4 depend on the cash management practices of a company and do not represent the
5 amount of cash working capital necessary for that company.

6 Q. PLEASE CONTINUE YOUR EXPLANATION OF EXHIBIT GLP-3.

7 A. The next three items, Accumulated Deferred Federal Income Taxes, the Reserve
8 for Insurance and Casualties, and Customer Deposits and Advances have been
9 deducted from the Rate Base because they represent customer-supplied sources
10 of capital invested in utility plant. The reason I have adjusted the amount for
11 Accumulated Deferred Federal Income Taxes is to eliminate the accumulated
12 deferred taxes applicable to those items which have been eliminated from the
13 Rate Base.

14 An Original Cost Rate Base of ^{1,893,953,522} \$1,893,953,491 and an Adjusted Value Rate
15 Base of ^{2,434,695,498} \$2,434,695,467 were calculated by simply adding the dollars in columns (d)
16 and (e), respectively. These figures were supplied to Mr. Steve Swiger to
17 determine the return on invested capital. Mr. Swiger determined the return
18 dollars to be ^{210,607,632} \$210,607,628, which I included in the Cost of Service on Exhibit
19 GLP-1.

20 Q. WHAT IS THE OVERALL COST OF SERVICE THAT YOU CALCULATED ON
21 EXHIBIT GLP-1 AND WHAT DID YOU DO WITH THAT FIGURE?

22 A. The overall Cost of Service (including fuel) is ^{930,743,174} \$932,068,088. I gave this figure to
23 Mr. Gene Lewis for his use in designing the appropriate rate schedules.

24 Q. DOES THIS CONCLUDE YOUR TESTIMONY?

25 A. I would like to add one thing. A utility is no different than any other business
26 when it comes to purchasing materials, hiring employees, paying bills, etc. The
27 utility has to pay the "market price" for these items and pay in cash. However, a
28 utility does not have the same flexibility that other businesses have in making



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necessary changes in the pricing of its product. Since we cannot adjust the price of electricity except through lengthy rate hearings, the price that is set should reflect as closely as possible the cost of producing that electricity. To do otherwise is to subsidize one group (customers) at the expense of another group (shareholders). If this is done for any extended period of time, the Company will not be able to attract the capital necessary to provide adequate and dependable electric service to its customers or will have to pay an unnecessarily high premium for that capital -- either result being to the customers' substantial detriment.

TEXAS POWER & LIGHT COMPANY
Overall Cost of Service
Test Year Ended September 30, 1979, As Adjusted

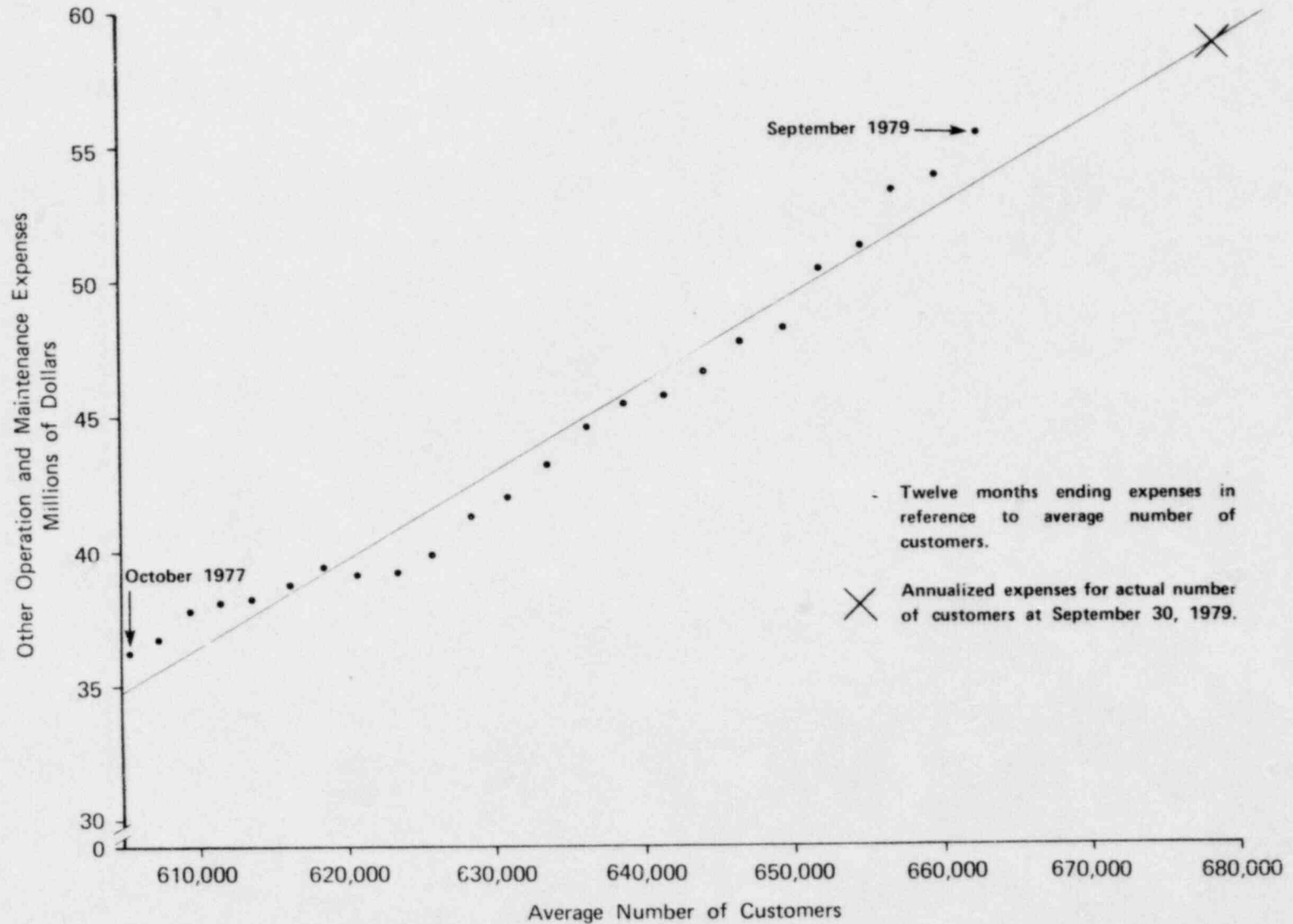
Line No.	Description (a)	Amount per Books (b)	At Present Rates		At Proposed Rates	
			Known Adjustments (c)	As Adjusted (d)	Rate Increase Adjustments (e)	As Adjusted (f)
Operating expenses:						
1	Operation and Maintenance Expenses	\$446,114,099	\$ 37,068,067	\$483,182,166	\$ 644,095	\$483,826,261
2	Fuel and purchased power		19,022,513			
3	Additional production expense		7,463,822			
4	Wages		5,142,618			
5	Benefits		359,340			
6	Legislative advocacy		(16,721)			
7	Social dues		(72,947)			
8	Rate case expenses		53,768			
9	Uncollectible accounts		130,689		447,245	
10	Public Utility Commission fee		34,304		196,850	
11	Relocation expense		539,082			
12	Provision for insurance and casualties		460,309			
13	EEl research and development support		677,792			
14	Other operation and maintenance		3,273,498			
15	Depreciation	62,659,600	5,376,476	68,036,076		68,036,076
16	Federal income taxes	8,009,784	4,547,539	12,557,323	54,317,673	66,874,996
17	Deferred Federal income taxes	25,984,666	(3,991,630)	21,993,036		21,993,036
18	Federal investment credit adjustments	37,784,221	(7,587,570)	30,196,651		30,196,651
19	Taxes other than Federal income taxes	40,529,968	4,523,464	45,053,432	3,954,311	49,007,743
20	Gross receipts		259,629		1,495,318	
21	City franchise		426,952		2,458,993	
22	Social security		377,016			
23	Ad valorem		2,864,699			
24	State franchise		595,168			
25	Total operating expenses	621,082,338		661,018,684		719,934,763
26	Interest on customer deposits	331,871	39,679	371,550		371,550
27	Gain on reacquisition of debt	(170,771)		(170,771)		(170,771)
28	Return on invested capital	167,738,273		146,843,407		210,607,632
29	Total Cost of Service (Operating Revenues)	\$788,981,711		\$808,062,870		\$930,743,174

TEXAS POWER & LIGHT COMPANY
Overall Cost of Service
Test Year Ended September 30, 1979, As Adjusted

Line No.	Description (a)	Amount per Books (b)	At Present Rates		At Proposed Rates	
			Known Adjustments (c)	As Adjusted (d)	Rate Increase Adjustments (e)	As Adjusted (f)
Operating expenses:						
1	Operation and Maintenance Expenses	\$446,114,099	\$ 37,067,815	\$483,181,914	\$ 651,321	\$483,833,235
2	Fuel and purchased power		19,022,513			
3	Additional production expense		7,463,822			
4	Wages		5,142,618			
5	Benefits		359,340			
6	Legislative advocacy		(16,721)			
7	Social dues		(72,947)			
8	Rate case expenses		53,768			
9	Uncollectible accounts		130,514		452,263	
10	Public Utility Commission fee		34,227		199,058	
11	Relocation expense		539,082			
12	Provision for insurance and casualties		460,309			
13	EEL research and development support		677,792			
14	Other operation and maintenance		3,273,498			
15	Depreciation	62,659,600	5,376,476	68,036,076		68,036,076
16	Federal income taxes	8,009,784	4,526,386	12,536,170	54,925,383	67,461,553
17	Deferred Federal income taxes	25,984,666	(3,991,630)	21,993,036		21,993,036
18	Federal investment credit adjustments	37,784,221	(6,899,000)	30,885,221		30,885,221
19	Taxes other than Federal income taxes	40,529,968	4,521,920	45,051,888	3,998,672	49,050,560
20	Gross receipts		259,045		1,512,093	
21	City franchise		425,992		2,486,579	
22	Social security		377,016			
23	Ad valorem		2,864,699			
24	State franchise		595,168			
25	Total operating expenses	621,082,338		661,684,305		721,259,681
26	Interest on customer deposits	331,871	39,679	371,550		371,550
27	Gain on reacquisition of debt	(170,771)		(170,771)		(170,771)
28	Return on invested capital	167,738,273		146,130,004		210,607,628
29	Total Cost of Service (Operating Revenues)	\$788,981,711		\$808,015,088		\$932,068,088

Trend of Other Operation and Maintenance Expenses Based On Average Number of Customers

October 1977—September 1979



TEXAS POWER & LIGHT COMPANY
Original Cost and Adjusted Value Rate Bases
Test Year Ended September 30, 1979, As Adjusted

Line No.	Description (a)	Original Cost Rate Base			Adjusted Value Rate Base (e)
		Actual September 30, 1979 (b)	Adjustments (c)	September 30, 1979 As Adjusted (d)	
1	Plant in Service	\$2,007,887,307	\$ -	\$2,007,887,307	\$
2	Less: Accumulated Depreciation	<u>418,933,105</u>	2,688,238	<u>421,621,343</u>	
3	Net Plant in Service	1,588,954,202		1,586,265,964	1,586,265,964
4	Adjusted Value Weighting				60%
5	Net Original Cost in Adjusted Value Rate Base				<u>951,759,578</u>
6	Net Current Cost of Plant in Service				2,938,120,906
7	Adjusted Value Weighting				40%
8	Net Current Cost in Adjusted Value Rate Base				<u>1,175,248,362</u>
9	Adjusted Value Plant in Service				2,127,007,940
10	Electric Plant Held for Future Use	4,499,042	(1,008,725)	3,490,317	3,490,317
11	Construction Work in Progress	598,752,658	(260,635,223)	338,117,435	338,117,435
12	Nuclear Fuel in Process	23,896,607	-	23,896,607	23,896,607
13	Working Capital	50,369,561	2,255,694	52,625,255	52,625,255
14	Accumulated Deferred Federal Income Taxes	(101,332,653)	(77,145)	(101,409,798)	(101,409,798)
15	Reserve for Insurance & Casualties	(1,486,398)	-	(1,486,398)	(1,486,398)
16	Customer Deposits & Advances	<u>(7,545,860)</u>	-	<u>(7,545,860)</u>	<u>(7,545,860)</u>
17	Total	\$2,156,107,159		\$1,893,953,522	\$2,434,695,498
18	Weighted Cost of Capital			11.12%	
19	Percent Return				<u>8.65%</u>
20	Total Return			<u>\$ 210,607,632</u>	<u>\$ 210,607,632</u>

TEXAS POWER & LIGHT COMPANY
Original Cost and Adjusted Value Rate Bases
Test Year Ended September 30, 1979, As Adjusted

Line No.	Description (a)	Original Cost Rate Base			Adjusted Value Rate Base (e)
		Actual September 30, 1979 (b)	Adjustments (c)	September 30, 1979 As Adjusted (d)	
1	Plant in Service	\$2,007,887,307	\$ -	\$2,007,887,307	\$
2	Less: Accumulated Depreciation	<u>418,933,105</u>	2,688,238	<u>421,621,343</u>	
3	Net Plant in Service	1,588,954,202		1,586,265,964	1,586,265,964
4	Adjusted Value Weighting				60%
5	Net Original Cost in Adjusted Value Rate Base				<u>951,759,578</u>
6	Net Current Cost of Plant in Service				2,938,120,906
7	Adjusted Value Weighting				40%
8	Net Current Cost in Adjusted Value Rate Base				<u>1,175,248,362</u>
9	Adjusted Value Plant in Service				2,127,007,940
10	Electric Plant Held for Future Use	4,499,042	(1,008,725)	3,490,317	3,490,317
11	Construction Work in Progress	598,752,658	(260,635,223)	338,117,435	338,117,435
12	Nuclear Fuel in Process	23,896,607	-	23,896,607	23,896,607
13	Working Capital	50,369,561	2,255,663	52,625,224	52,625,224
14	Accumulated Deferred Federal Income Taxes	(101,332,653)	(77,145)	(101,409,798)	(101,409,798)
15	Reserve for Insurance & Casualties	(1,486,398)	-	(1,486,398)	(1,486,398)
16	Customer Deposits & Advances	<u>(7,545,860)</u>	-	<u>(7,545,860)</u>	<u>(7,545,860)</u>
17	Total	\$2,156,107,159		\$1,893,953,491	\$2,434,695,467
18	Weighted Cost of Capital			11.12%	
19	Percent Return				<u>8.65%</u>
20	Total Return			<u>\$ 210,607,628</u>	<u>\$ 210,607,628</u>

TEXAS POWER & LIGHT COMPANY
Estimated Construction Work in Progress Balances

Line No.	Description (a)	Estimated In Service Date (b)	Amount Included in Requested Rate Base (c)	Estimated Balance											
				7-31-8 (d)	8-31-80 (e)	9-30-80 (f)	10-31-80 (g)	11-30-80 (h)	12-31-80 (i)	1-31-81 (j)	2-28-81 (k)	3-31-81 (l)	4-30-81 (m)	5-31-81 (n)	6-30-81 (o)
<u>Major Projects</u>															
1	Sandow 4*	1981	\$ 28,885	\$ 38,212	\$ 38,624	\$ 38,948	\$ 39,225	\$ 39,459	\$ 39,728	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-
2	Comanche Peak 1 & 2	(1981 1983)	347,326	440,451	446,865	453,466	462,988	470,143	478,454	483,561	488,513	493,412	498,307	503,163	507,667
3	Oak Knoll 1	1990	1,897	3,329	3,342	3,355	3,438	3,451	3,464	3,712	3,726	3,740	3,754	3,780	3,864
4	Martin Lake 4	1985	8,443	10,050	10,139	10,216	10,293	10,371	10,481	10,562	10,643	10,725	10,996	11,270	14,196
5	Mill Creek 1 & 2	(1987 1988)	1,259	2,238	2,263	2,436	2,461	2,485	2,825	2,851	2,879	3,008	3,205	3,370	3,834
6	Twin Oak 1 & 2	(1985 1986)	<u>31,619</u>	<u>45,958</u>	<u>47,106</u>	<u>48,315</u>	<u>49,701</u>	<u>51,711</u>	<u>53,729</u>	<u>56,222</u>	<u>58,214</u>	<u>60,140</u>	<u>62,047</u>	<u>64,696</u>	<u>67,316</u>
10	Sub-Total		419,429	540,238	548,339	556,736	568,106	577,620	588,681	556,908	563,975	571,025	578,309	586,279	596,877
11	Transmission, Distribution, etc.		31,394	20,582	21,575	19,333	21,134	17,466	9,012	8,138	8,191	8,243	8,297	8,367	8,451
12	Reduction for 25% of Net Remaining Construction Work in Progress		<u>112,706</u>	-	-	-	-	-	-	-	-	-	-	-	-
13	Total		<u>\$338,117</u>	<u>\$560,820</u>	<u>\$569,914</u>	<u>\$576,069</u>	<u>\$589,240</u>	<u>\$595,086</u>	<u>\$597,693</u>	<u>\$565,046</u>	<u>\$572,166</u>	<u>\$579,268</u>	<u>\$586,606</u>	<u>\$594,646</u>	<u>\$605,328</u>

*Excludes 82.569% of cost (portion dedicated to large industrial customer)

THE STATE OF TEXAS |
COUNTY OF DALLAS |

BEFORE the undersigned authority on this day personally appeared GARY L. PRICE, who, having been placed under oath by me, did depose as follows:

"My name is Gary L. Price. I am of legal age and a resident of the State of Texas. The foregoing testimony, and exhibits, offered by me on behalf of Texas Power & Light Company, are true and correct, and the opinions stated therein are, to the best of my knowledge and belief, accurate, true, and correct."

Gary L. Price
GARY L. PRICE

SUBSCRIBED AND SWORN TO BEFORE ME by the said Gary L. Price this 19th day of ^{February}~~December~~, A. D. 1979.

Robert D. Daniels

Robert D. Daniels
Notary Public in and for
Dallas County, Texas
My Commission expires 8-31-80

| Space

