

DIRECT TESTIMONY OF

DAVID E. KELCH

for

TEXAS ELECTRIC SERVICE COMPANY

MAY 1980

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DIRECT TESTIMONY OF DAVID E. KELCH

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is David E. Kelch. My business address is 115 W. Seventh Street, Fort Worth, Texas 76102.

Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?

A. I am employed by Texas Electric Service Company and hold the position of Vice President and Treasurer.

Q. WOULD YOU PLEASE BRIEFLY OUTLINE YOUR EXPERIENCE AT TEXAS ELECTRIC SERVICE COMPANY?

A. I was employed by Texas Electric Service Company in March 1955 and have held various positions in the Financial Department. In 1966, I was elected Secretary and Assistant Treasurer and held that position until 1973 when I became Secretary and Treasurer. In 1979 I was named Vice President and Treasurer.

Q. WHAT ARE YOUR DUTIES AS VICE PRESIDENT AND TREASURER?

A. I have responsibility for all financial and accounting matters including determining capital requirements of the Company and developing plans to obtain the necessary funds through long-term and short-term financial arrangements as required to meet expenditures, to preserve the liquidity of the Company and to maintain the Company's financial integrity.

Q. TO WHAT EXTENT DO YOUR DUTIES BRING YOU INTO CONTACT WITH THE FINANCIAL COMMUNITY?

A. My contacts with the financial community include meetings and discussions with underwriting firms, investment bankers, and

1 rating agencies and consultation with individual investors  
2 and security analysts.

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

4 A. My testimony will discuss the following: (a) the Company's  
5 need to attract capital to finance its construction program,  
6 (b) the effect that the inclusion of construction work in  
7 progress in the rate base will have on cash flow and quality  
8 of earnings, (c) the Company's composite cost of capital, (d)  
9 the necessity of including all of the Company's assets in  
10 the rate base, (e) attrition - the effect of increased costs  
11 on the Company's ability to earn whatever rate of return on  
12 common equity is authorized by this Commission, (f) the  
13 Reserve for Insurance and Casualties and (g) the necessity  
14 for a full and current recovery of fuel cost.

15 Q. WHY IS TESCO REQUESTING A RATE INCREASE?

16 A. Our construction program is necessary so we can continue  
17 to serve our customers reliably and economically, but the  
18 burden of financing that program and the continuing effects  
19 of inflation on all costs of providing service are holding  
20 earnings below a level that is adequate to maintain our  
21 financial integrity. TESCO's construction expenditures for  
22 the years 1980 through 1982 will be approximately \$660  
23 million. In 1980 record annual expenditures of \$254 million  
24 are budgeted. The Consumer Price Index increased more than  
25 14% during the test year, and the annualized rate of increase  
26 was 17% in the first quarter of 1980. The persistent infla-  
27 tion has increased the costs of every aspect of the produc-  
28 tion of electric service -- operating costs for items such

1 as gasoline, stationery and payroll; construction costs  
2 through prices paid for poles, transformers and new  
3 generating plants; and, in particular, the cost of capital.  
4 Primarily as a result of heightened inflationary expecta-  
5 tions, investors have demanded increased returns on committed  
6 capital. At the end of March, 1980, there had been an in-  
7 crease over the past year of 342 basis points in yields on  
8 electric utility common stocks and an increase of 444 basis  
9 points in yields on utility bonds (Moody's Investor Services,  
10 Inc., "Moody's Public Utility News Reports", Tuesday, April  
11 1, 1980, Volume 51, No. 76). As a result of these pressures  
12 earnings have not been adequate to compensate investors and  
13 the market value of Texas Utilities Company's common stock  
14 had declined to approximately 75% of book value at the end of  
15 the test year. New common stock issues at less than book  
16 value have resulted in the economic confiscation of the  
17 property of existing shareholders. Unless earnings are re-  
18 stored to an adequate level, our ability to attract capital  
19 at the lowest possible price will be impaired.

20 Q. WHY IS THE COMPANY'S ABILITY TO ATTRACT CAPITAL IMPORTANT?

21 A. The Company is engaged in a substantial construction program  
22 to build power plants that use lignite and nuclear fuel so  
23 that the company will be able to meet anticipated growth in  
24 demand for electricity by our customers and use the cheapest  
25 available fuels to make their electricity. Mr. Taylor, in  
26 his testimony, discusses the amount of construction expendi-  
27 tures in past years and expenditures required in the future.  
28 To successfully carry out this program at the lowest cost to

1 the people we serve will require the company to have access  
2 to the financial markets at all times and at the lowest  
3 possible cost. Such access is possible only if our revenue  
4 is adequate for the maintenance of a sound financial position.

5 Q. WOULD INCLUDING CONSTRUCTION WORK IN PROGRESS IN THE RATE  
6 BASE ENHANCE THE COMPANY'S ABILITY TO ATTRACT CAPITAL?

7 A. Yes. Financing these major construction projects, which have  
8 lengthy construction periods, requires that the Company se-  
9 cure large sums of money from investors. During this extend-  
10 ed construction period, the Company must be able to generate  
11 sufficient cash earnings to cover the costs of providing ser-  
12 vice to customers and to compensate investors. Including  
13 CWIP in rate base eliminates non-cash AFUDC earnings and  
14 provides greater assurance that adequate cash earnings will  
15 be generated. On the other hand, the substitution of AFUDC  
16 earnings for cash earnings will contribute to the impairment  
17 of our ability to attract capital at costs which are  
18 beneficial to our customers.

19 Q. PLEASE DESCRIBE THE PROBLEMS WITH AFUDC RELATIVE TO ATTRACT-  
20 ING CAPITAL.

21 A. AFUDC represents a deferral for later recovery of financing  
22 costs which must be paid today. Due to the continuance of  
23 inadequate earnings, an increased risk is associated with  
24 this promise for the future recovery of financing costs. Ac-  
25 cordingly, investors will require a greater price to be paid  
26 for the use of their funds. Exhibit DEK-1 shows CWIP as a  
27 percent of total plant investment over a period of years.  
28 Over the past four years this percent has remained close

1 to 25%. Because AFUDC is directly related to the level of  
2 CWIP not included in the rate base the significance of AFUDC  
3 in the Company's earnings can easily be seen. As shown on  
4 Exhibit DEK-2, AFUDC currently represents 25 percent of  
5 balance to common, an amount higher than is consistent with  
6 maintaining TESCO's financial integrity. When AFUDC con-  
7 stitutes a high percentage of balance to common, a company's  
8 earnings are suspect, and its ability to attract investors  
9 is impaired. Such a circumstance increases the cost of  
10 capital available for investment in plant.

11 Q. WHY WOULD INCLUDING CWIP IN THE RATE BASE ELIMINATE THE  
12 NEGATIVE IMPACT OF AFUDC?

13 A. By including CWIP in the rate base, non-cash earnings are re-  
14 placed with cash earnings. This improves the quality of the  
15 company's earnings, increases internal generation of cash and  
16 improves pretax interest coverage. With improvement in these  
17 indicators of financial integrity, investor confidence will  
18 be improved.

19 Q. WHAT IS THE EFFECT ON THE CUSTOMER OF INCLUDING CWIP IN THE  
20 RATE BASE?

21 A. Revenue requirements are less over the life of a project.  
22 Therefore, the electric bills of the people we serve will be  
23 less. Including CWIP in the rate base allows capital costs  
24 to be recovered on a current basis rather than on a deferred  
25 basis as is done by capitalizing AFUDC during the construc-  
26 tion period. When capital costs are recovered currently,  
27 less external financing is required and the improved quality  
28 of earnings reduces the cost of new capital. With reduced

1 financing at reduced cost, total capital costs are less.

2 Q. AN OBJECTION TO INCLUDING CWIP IN THE RATE BASE HAS BEEN THAT  
3 SUCH A PRACTICE FORCES PRESENT CUSTOMERS TO PAY FOR BENEFITS  
4 TO BE RECEIVED BY FUTURE CUSTOMERS. DO YOU CONSIDER THAT TO  
5 BE A VALID OBJECTION?

6 A. No. I have used U. S. Bureau of Census data on mortality  
7 and migration in the TESCO service area to calculate the rate  
8 of loss of TESCO customers. This analysis shows that 96.2%  
9 of our current customers will still be our customers one year  
10 from now. This demonstrates that almost all customers who  
11 pay capital costs on a current basis receive the benefit of  
12 that construction when it goes into service. Furthermore,  
13 97.9% of our current customers will continue to be customers  
14 of an electric service company in Texas one year from now.

15 Q. HAS THIS COMMISSION RECOGNIZED THE BENEFITS OF INCLUDING CWIP  
16 IN THE RATE BASE?

17 A. The Public Utility Commission has recognized the benefits to  
18 consumers of including CWIP in the rate base in each previous  
19 electric utility case. In our last rate order, approximately  
20 \$217 million of CWIP was included in the rate base. It is as  
21 important now as ever to maintain the Company's financial  
22 integrity. The Commission should allow all CWIP as of March  
23 31, 1980 in the rate base to maintain the Company's credit-  
24 worthiness in view of our large construction program. Ex-  
25 hibit DEK-1 graphically demonstrates the importance of having  
26 CWIP in the rate base. As can be seen from this exhibit, the  
27 percentage of CWIP in total electric plant has risen substan-  
28 tially in the years subsequent to the beginning of the fuel-

1 changing construction program. It should be understood that  
2 the amount of CWIP requested to be allowed in the rate base  
3 is substantially less than will be invested in CWIP before  
4 the proposed rates are in effect.

5 Q. IS THE COMPANY REQUESTING THAT ALL CWIP BE INCLUDED IN RATE  
6 BASE?

7 A. Yes. The Company has included in the rate base 100% of the  
8 adjusted CWIP balance at March 31, 1980.

9 Q. WOULD YOU DESCRIBE THE TYPES OF CAPITAL UTILIZED BY TEXAS  
10 ELECTRIC SERVICE COMPANY?

11 A. The Company obtains capital through the sale of long-term  
12 debt, preferred stock and common stock as detailed in the H  
13 schedules.

14 Q. WHAT BOND RATING HAS BEEN ASSIGNED TO THE COMPANY'S FIRST  
15 MORTGAGE BONDS AND SINKING FUND DEBENTURES BY THE TWO MAJOR  
16 RATING AGENCIES?

17 A. The Company's first mortgage bonds are currently rated tri-  
18 ple-A by both Moody's Investor Services, Inc. and Standard  
19 & Poor's Corporation. The Company's sinking fund debentures  
20 have a double-A rating by both rating agencies, since those  
21 obligations are not secured by property and are, therefore,  
22 secondary to the first mortgage bonds.

23 Q. HAVE THESE CREDIT RATINGS BEEN BENEFICIAL TO THE CUSTOMERS OF  
24 TEXAS ELECTRIC?

25 A. Definitely. Lower interest rates mean lower costs to our  
26 customers. These credit ratings have allowed the company to  
27 sell debt at lower interest rates than are available to com-  
28 panies with lesser ratings. It is especially apparent in



1 today's chaotic credit market conditions that the company's  
2 triple-A ratings for first mortgage bonds are of great value  
3 to the customer. In March 1980, TESCO sold 30-year, first  
4 mortgage bonds at a yield of 14.32%. This yield is a  
5 tremendous increase in the cost of borrowed funds, almost 500  
6 basis points more than the company experienced in 1979.  
7 However, if TESCO had been down-rated during the past year,  
8 new issues of lesser-rated companies indicate the increase  
9 would have been in the neighborhood of 600 basis points.  
10 One hundred basis points represents a savings of more than  
11 \$2,000 per day on the \$75 million of bonds sold in 1980.  
12 And, a number of lesser-rated companies have found it  
13 necessary to turn to shorter maturity bonds. In these days  
14 of unprecedented yield requirements the company's triple-A  
15 ratings are more essential than ever to secure continued  
16 electric service in the least-costly way to the residents of  
17 our service area.

18 Q. WHAT HAS BEEN TEXAS ELECTRIC SERVICE COMPANY'S RATE OF RETURN  
19 ON COMMON EQUITY DURING THE LAST TEN YEARS?

20 A. Exhibit DEK-3 shows that the trend of the Company's rate of  
21 return on common equity during the last ten years has been  
22 downward in spite of rate increases. In 1979 the Company's  
23 return on equity was only 12%.

24 The Exhibit also shows the return on common equity ex-  
25 cluding AFUDC. This graphically demonstrates the steady ero-  
26 sion of the quality of earnings on common equity. Exhibit  
27 DEK-2 shows AFUDC as a percentage of balance to common equity  
28 has more than doubled, rising from approximately 11% in

1 1972 to 25% during the test year. Such a significant change  
2 over a relatively short period of time is a danger signal,  
3 and we must reverse that trend if the Company is to main-  
4 tain its position in the financial community so we can  
5 continue providing electric service to our customers at  
6 the most reasonable cost. The magnitude of our construction  
7 program and the external financing required for that program  
8 require us to have ready access to the capital market and at  
9 reasonable costs.

10 Q. MR. KELCH, YOU HAVE DISCUSSED THE NEED TO ATTRACT CAPITAL  
11 FROM EXTERNAL SOURCES AND THE SECURITIES USED TO PROVIDE TH.  
12 CAPITAL. HAVE YOU CALCULATED THE COMPANY'S WEIGHTED COST OF  
13 CAPITAL AT MARCH 31, 1980?

14 A. Yes, I have. Schedule H, page 2 of 2, of the Rate Filing  
15 Package shows the outstanding capital at March 31, 1980,  
16 as adjusted for the issuance of 350,000 shares of preferred  
17 stock in June, 1980. The long-term debt and embedded in-  
18 terest rates were taken from Schedule H-6 of the Rate Filing  
19 Package. Notes payable are detailed in Schedule H-5. The  
20 preferred stock and embedded dividend rate are detailed in  
21 Schedule H-4 of the Rate Filing Package. The common equity  
22 and accumulated deferred investment tax credits were taken  
23 from Schedule J. The cost of common equity was determined  
24 from Dr. Olson's recommended return on common equity of 17%  
25 to 18%. Schedule H, page 2 of 2, column (c) shows the  
26 outstanding capital for the test year, column (d) is the  
27 requested return, and column (e) is the cost of capital.  
28 The Company's weighted cost of capital is 12.195%.

1 Q. MR. KELCH, DID YOU CONSIDER THE APPROPRIATENESS OF DR.  
2 OLSON'S RECOMMENDED RETURN ON COMMON EQUITY?

3 A. Yes, I did. I considered the recommended return on common  
4 equity of 17% to 18% in light of financing new projects with  
5 new capital and also considered our earnings record. The  
6 downward trend in equity earnings shown on Exhibit DEK-3 will  
7 not be accepted by investors indefinitely. If this trend is  
8 not stopped, the people who invest their savings in our Com-  
9 pany will turn to other investments that pay them more for  
10 the use of their money. If we can't keep these people in-  
11 terested in Texas Electric Service Company, we will no longer  
12 be able to raise the money we need to keep our construction  
13 program on schedule. Within this framework, I selected  
14 17.5%, for return on common equity. In my opinion, this  
15 level of earnings is sufficient to provide a minimum return  
16 to investors and to maintain the Company's triple-A bond  
17 rating.

18 Q. IS THE DETERMINATION OF THE PROPER AMOUNT OF FUEL OIL INVEN-  
19 TORY A FINANCIAL DECISION?

20 A. No. In my opinion, that is an engineering decision.

21 Q. IS IT A FINANCIAL DECISION TO DETERMINE THAT LAND, WATER  
22 RIGHTS, OR FUEL RESERVES ARE NEEDED FOR FUTURE USE?

23 A. No. Those, too, are engineering decisions.

24 Q. DO YOU, THEN, HAVE ANY INTEREST IN THESE MATTERS?

25 A. Yes. It is true that the need to invest in such items is an  
26 engineering decision. However, when these items become a  
27 part of the assets of the Company, they also become a matter  
28 of interest from a financial standpoint. These assets, like

1 any other, have a current cost, and this cost must be pro-  
2 vided for in rates.

3 Q. HOW SHOULD THE COST OF OWNING THESE ASSETS BE RECOVERED?

4 A. This cost should be recovered by including these assets in  
5 the rate base. The failure to include these assets in the  
6 rate base would mean that not all capital costs would be  
7 recovered. The existence of such a situation would obviously  
8 diminish the financial integrity of the company. The common  
9 shareholder would not earn his required return with the  
10 result being that the price of the stock would be bid down  
11 until he was earning his required return. As a consequence  
12 of this lowered stock price, more shares would have to be  
13 issued in future stock sales in order to realize a given  
14 amount of proceeds from the sale than would have been the  
15 case in the absence of the reduction in stock price. From  
16 this circumstance it follows that more cash earnings would  
17 be required to support a given level of earnings per share  
18 and dividends per share for this increased number of shares  
19 than would have been the case at the original, higher stock  
20 price.

21 The bondholder and the preferred shareholder would be  
22 affected, as well. The reduction in earnings available to  
23 the common stockholder reduces coverage, and the bondholder  
24 and preferred shareholder have smaller margins of safety and  
25 will, consequently, require higher returns.

26 Q. DOES THE FAILURE TO INCLUDE THESE ASSETS IN THE RATE BASE  
27 HAVE ANY AFFECT ON THE CUSTOMER?

28 A. Quite obviously, the short-term effect will be lower electric

1 bills. However, we cannot stop with the short-term perspec-  
2 tive. We must also view the effect over a longer period, and  
3 that effect will be contrary to the best interests of the  
4 customer. This is so, because investors will require a  
5 higher return for bearing the risk of investing in a company  
6 that is not allowed to earn on all of its assets. The result  
7 will be a higher cost of capital for all assets and will lead  
8 to higher electric bills for our customers.

9 Q. WOULD YOU PROVIDE US WITH A DEFINITION OF ATTRITION?

10 A. Attrition may be defined in its broadest sense as an erosion  
11 of earnings. More specifically, I am referring to attrition  
12 as the failure to earn the allowed rate of return on common  
13 equity during the first year subsequent to new rates being  
14 placed in effect.

15 Q. WHY ARE YOU ADDRESSING ONLY THE FIRST YEAR AFTER A NEW SET OF  
16 RATES HAS BEEN EFFECTIVE?

17 A. Quite clearly, the earned rate of return on common equity  
18 will erode over time under the pressures of inflation and the  
19 financial burden of a large construction program. However,  
20 the failure to earn the allowed rate of return at least dur-  
21 ing the first year of new rates is an entirely different mat-  
22 ter and points to the fact that the rates were inadequate  
23 from the outset.

24 Q. HAVE YOU ANY EVIDENCE THAT TESCO'S RATE OF RETURN HAS SUFF-  
25 FERED FROM ATTRITION?

26 A. Yes. Exhibit DEK-4 illustrates authorized rate of return on  
27 common equity as compared to the rate of return actually  
28 earned. The authorized return has increased from 13.5% in

1 Docket 527 to 13.75% in Docket 1903 and to 14.5% in Docket  
2 2606. The return actually earned has continued to fall below  
3 authorized return. Furthermore, there has been a trend to-  
4 ward an increasing deficiency of earned return relative to  
5 authorized return. It is apparent that the rates ordered in  
6 each of these dockets have been inadequate. The Public  
7 Utility Commission has erred consistently, to the detriment  
8 of the investor, in the revenues allowed in previous dockets  
9 for this company. This trend indicates the need for a re-  
10 appraisal by the Commission of the way they formulate their  
11 view of current economic conditions.

12 Q. DO YOU EXPECT ATTRITION TO AFFECT THE RETURN ON COMMON  
13 EQUITY EARNED SUBSEQUENT TO THE FINAL ORDER IN THIS PROCEED-  
14 ING?

15 A. Yes. The rate of inflation is not only at a level that is  
16 high relative to historical levels, it is accelerating, and  
17 the construction program is continuing at a rapid pace. If  
18 this final order reflects the analysis of current economic  
19 conditions inherent in previous orders, there is no reason to  
20 believe that TESCO's experience subsequent to this rate case  
21 will be significantly different than that subsequent to the  
22 previous three rate cases. There is now a vivid history of a  
23 persistence of inadequate returns when the attrition process  
24 is ignored by this Commission. If least cost financing for  
25 facilities to serve our customers is to be obtained in the  
26 future it is imperative that the order authorizes electric  
27 service rates sufficient for the company to earn the allowed  
28 rate of return.

1 Q. WHY DOES THE COMPANY HAVE A RESERVE FOR INSURANCE AND CASUAL-  
2 TIES?

3 A. The reserve was established to provide a measure of protec-  
4 tion against significant uninsured losses resulting from  
5 casualties and damage claims.

6 Q. WHY DOES THE COMPANY NOT PROVIDE INSURANCE COVERAGE FOR THESE  
7 LOSSES?

8 A. Because the Company cannot economically justify the premiums.  
9 For example, the Company has a \$2,000,000 deductible for tur-  
10 bine insurance and cannot obtain a lower one at a reasonable  
11 premium. The Company also assumes the total risk when insur-  
12 ance is unavailable at attractive rates.

13 Q. IN YOUR OPINION, IS THE RESERVE FOR INSURANCE AND CASUALTIES  
14 THE MOST APPROPRIATE METHOD FOR HANDLING THIS TYPE OF COST?

15 A. Yes. The use of the reserve provides for the exclusion from  
16 operating expenses and cost of service those unusual losses  
17 which, because of amount and infrequent occurrence, would  
18 distort earnings. Large casualty losses are spread over a  
19 period of time in order to reduce the impact on the rate-  
20 payer. The reserve provides the best means for spreading  
21 those costs and avoids the problems involved with after-the-  
22 fact amortization.

23 Q. HOW DOES THE COMPANY CALCULATE THE MONTHLY PROVISIONS TO THE  
24 RESERVE FOR INSURANCE AND CASUALTY?

25 A. Monthly provisions to the reserve are in the amount necessary  
26 to achieve a target reserve balance of \$5,000,000 in three  
27 years provided there are no further major losses to be  
28 charged to the reserve during the period. At the first of

1 each year, the reserve balance is observed and the monthly  
2 provision increased or decreased accordingly.

3 Q. WHAT IS THE BASIS FOR THE \$5,000,000 TARGET RESERVE BALANCE?

4 A. The target reserve of \$5,000,000 was established in January,  
5 1978, based on a review of property in service and insurance  
6 coverages in effect at that time. There have been no major  
7 changes in our insurance program since that time. However,  
8 since January, 1978, the value of the dollar has decreased  
9 by about one-fifth and we have made substantial additions to  
10 plant-in-service. Also, no consideration has been included  
11 in the target reserve for liabilities relative to the Comanche  
12 Peak Nuclear Units. We are not requesting an increase in the  
13 target reserve at this time. A common method in the utility  
14 industry for determination of a reserve limit is to take 150%  
15 of the total of (1) the sum of all deductibles for insurance  
16 coverages purchased and (2) the sum of all deductibles that  
17 would reasonably apply to coverages not purchased. Applica-  
18 tion of this rule also indicates the company currently needs  
19 a reserve of approximately \$5,000,000. Rather than provide  
20 for that current need instantly, the company only seeks to  
21 achieve it within three years and with the assumption that no  
22 further losses are forthcoming during those three years.

23 Q. HOW DOES TESCO PRESENTLY RECOVER ITS FUEL COST?

24 A. Our rates contain a fuel cost rider that allows for the full  
25 and current recovery of all fuel costs through the use of a  
26 fuel cost factor.

27 Q. DOES THE EXISTENCE OF A FUEL COST FACTOR HAVE ANY EFFECT ON  
28 TESCO'S FINANCIAL STABILITY?



1 A. Yes. The results are a decreased cost of capital (relative  
2 to the cost that would exist without the fuel cost factor)  
3 and lower electric bills to the customer. A fuel cost factor  
4 that allows for full and current recovery of fuel cost gives  
5 assurance to potential investors that we will be allowed to  
6 recover all fuel costs, and it provides an element of sta-  
7 bility to TESCO's financial condition. This reduction in  
8 earnings variability decreases the risk that the investor  
9 would face in the absence of the stabilizing influence of the  
10 fuel cost factor and, consequently, decreases the return  
11 required by the investor.

12 Q. IN THE PRESENCE OF A FUEL COST FACTOR WHAT INCENTIVE DOES  
13 TESCO HAVE TO OBTAIN ITS FUEL SUPPLIES AT A REASONABLE COST?

14 A. Keeping costs to the people we serve at the lowest possible  
15 level consistent with providing reliable service has always  
16 been among our most important goals. The relatively low  
17 electric service rates charged to consumers by TESCO are  
18 evidence of the fact that we have been successful in that  
19 effort. In addition, any cost incurred in providing service  
20 to customers is subject to scrutiny by the Public Utility  
21 Commission, and the Commission will decide whether the cost  
22 can be charged to customers. The discipline inherent in such  
23 a process is a powerful incentive for TESCO to obtain its  
24 fuel supplies at a reasonable cost.

25 Further, the manner in which revenue-related taxes are  
26 recovered provides an incentive to minimize fuel cost. Since  
27 revenue-related taxes are included in base rates, an increase  
28 in the fuel cost per kwh compared to the test year level

1 means that the Company does not recover all of its revenue-  
2 related taxes. Therefore, TESCO suffers a direct loss  
3 by not doing everything possible to keep fuel cost down.

4 Q. IS IT YOUR TESTIMONY THAT A \$122,904,361 RATE INCREASE IS  
5 REQUIRED IN ORDER TO MAINTAIN TESCO'S FINANCIAL INTEGRITY?

6 A. Yes.

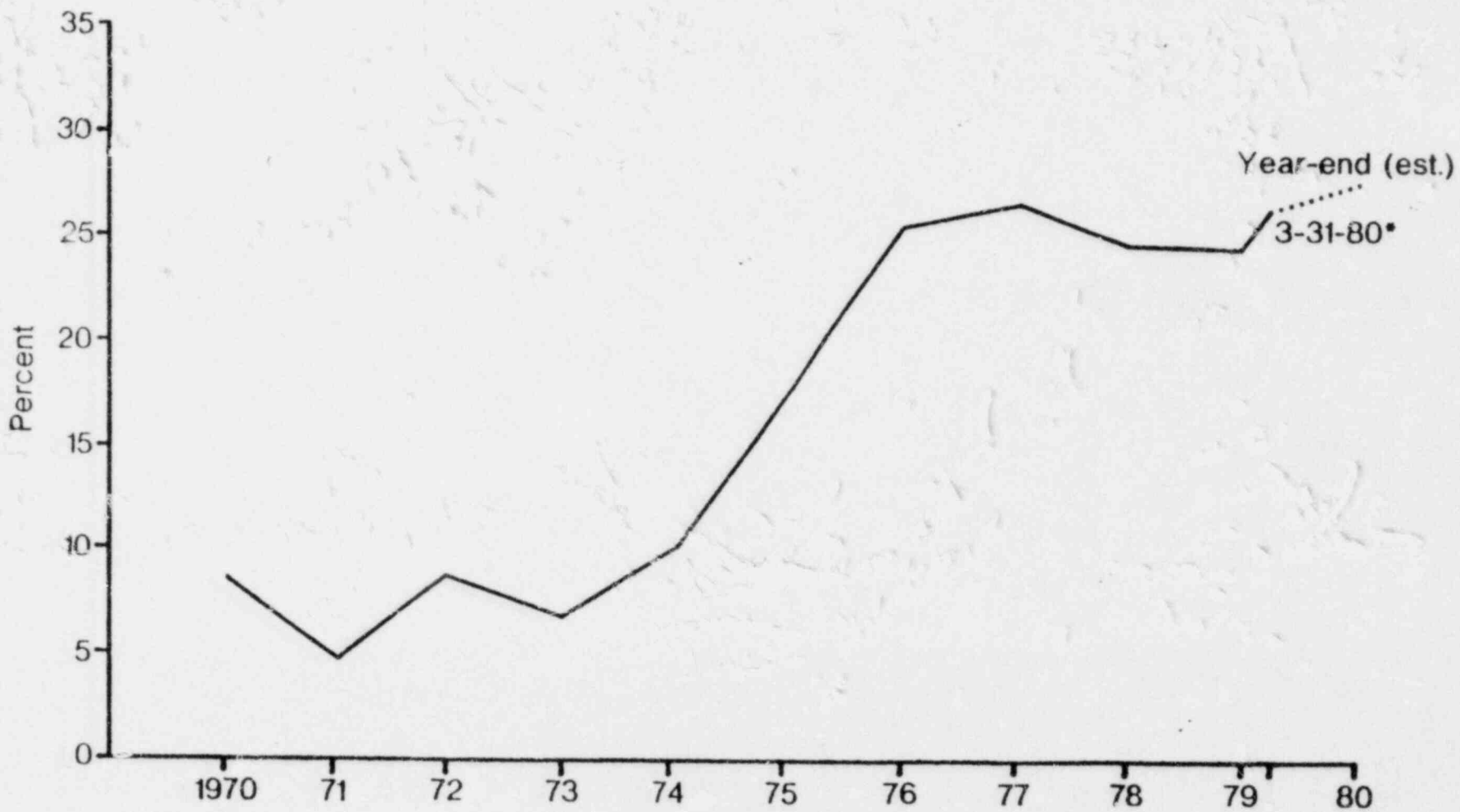
7 Q. DOES THAT COMPLETE YOUR TESTIMONY?

8 A. Yes, it does.  
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# CWIP as a Percent of Total Electric Plant

Texas Electric Service Company and Subsidiary

1970-1980

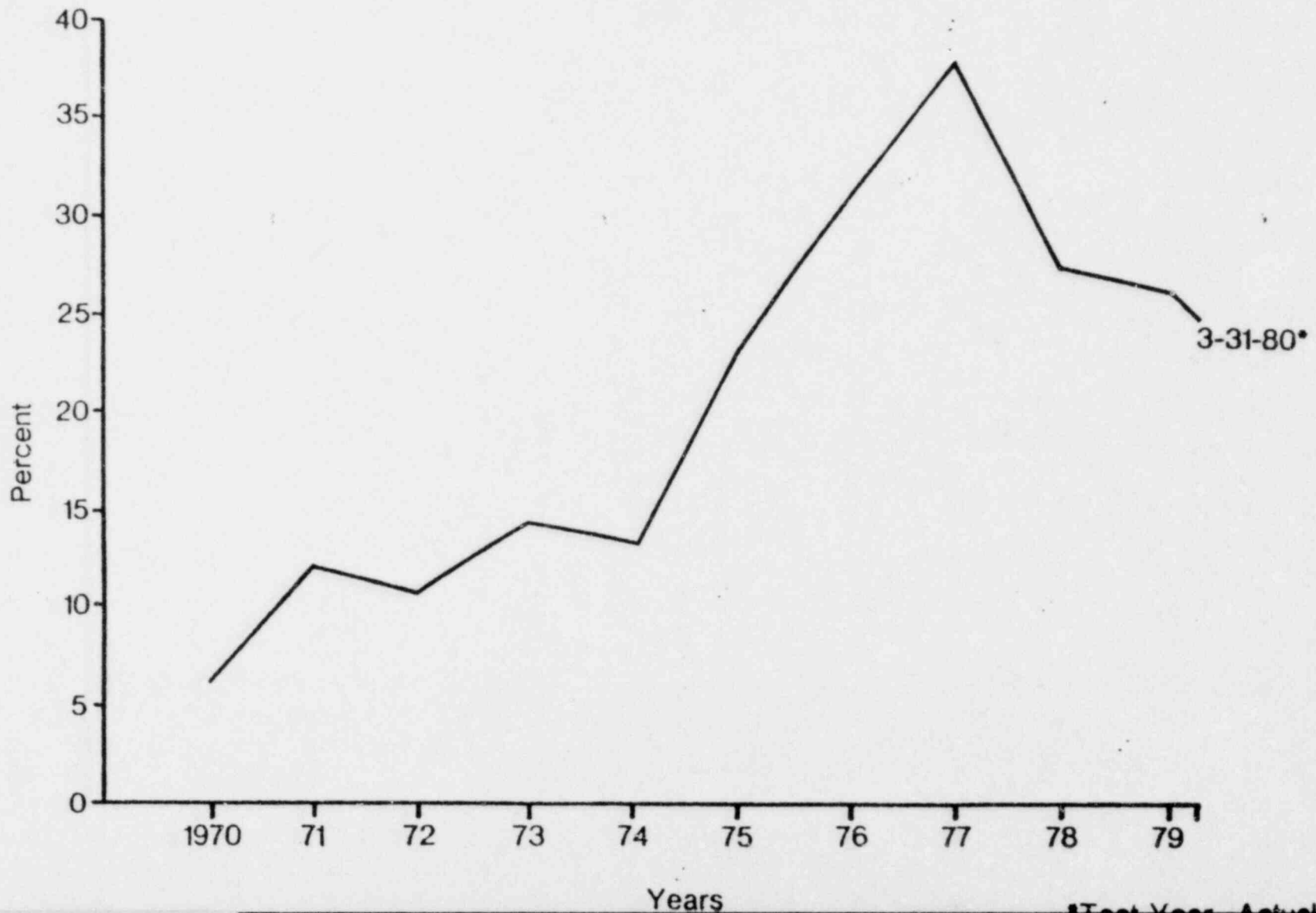


Years

\*Test Year—Actual

# AFUDC as a Percent of Balance to Common

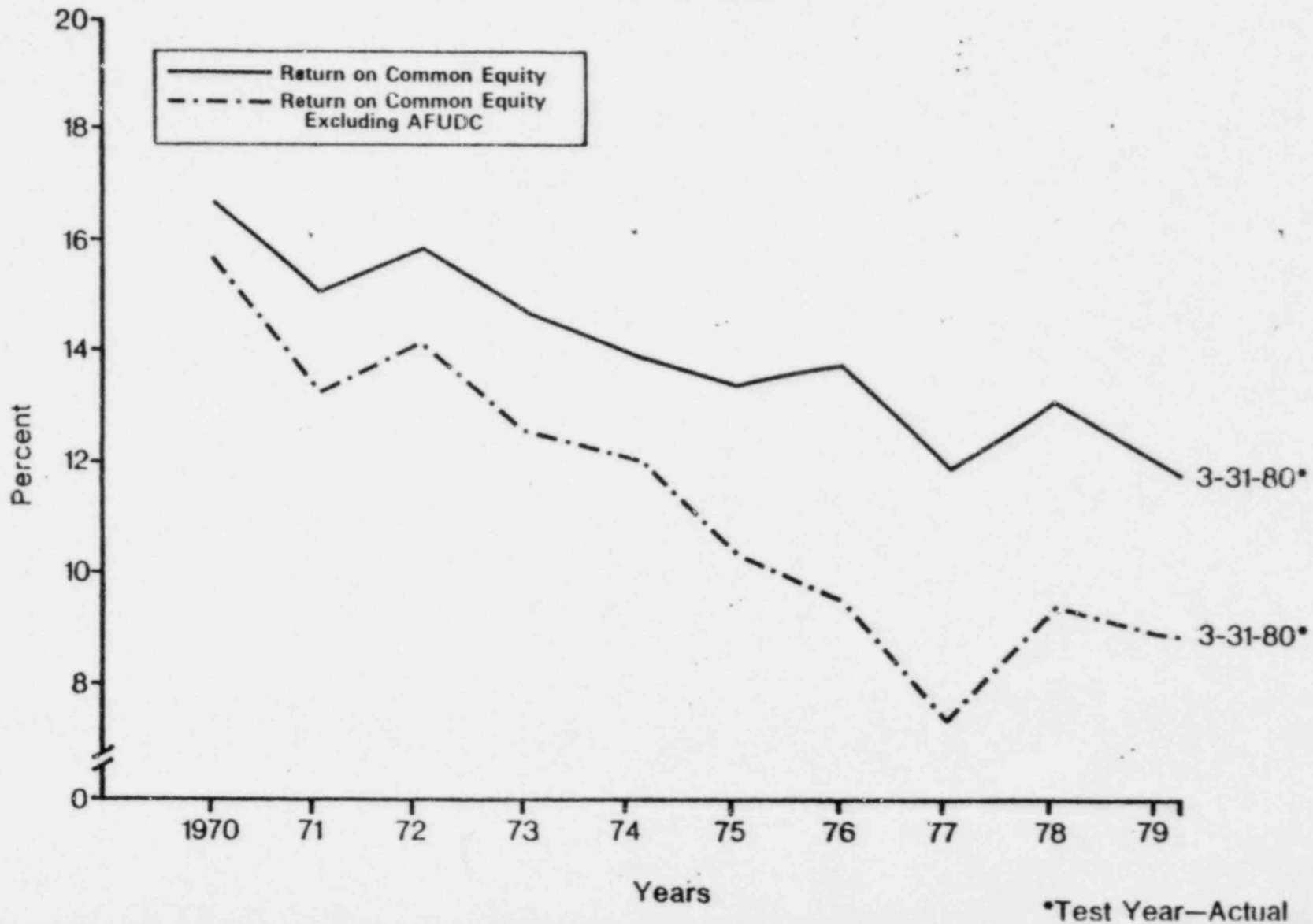
Texas Electric Service Company and Subsidiary  
1970-1980



# Return on Year End Common Equity

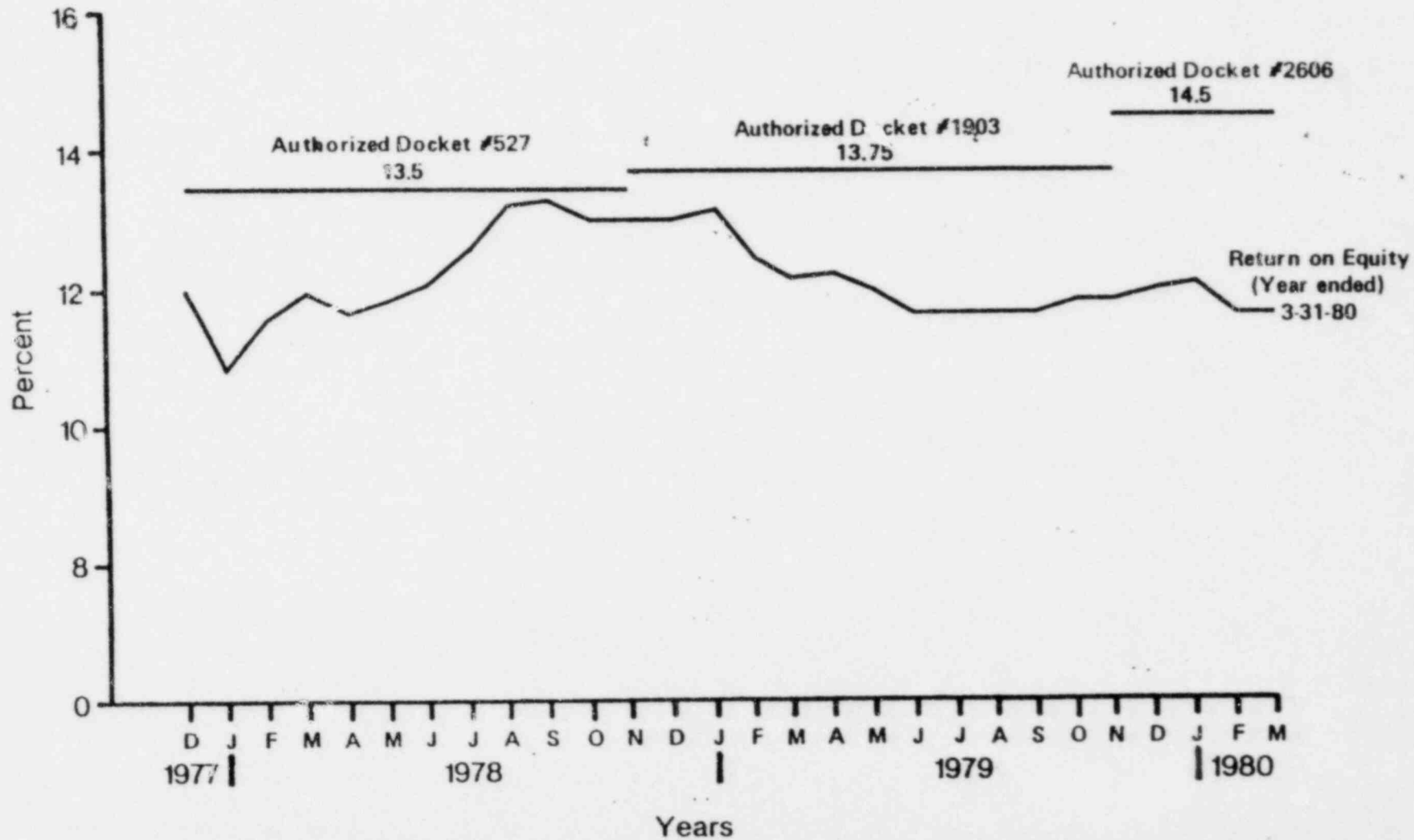
## Texas Electric Service Company and Subsidiary

### 1970—1980



# Comparison of PUC Authorized Returns on Common Equity with Actual Returns

## Texas Electric Service Company and Subsidiary 1977-1980



THE STATE OF TEXAS X

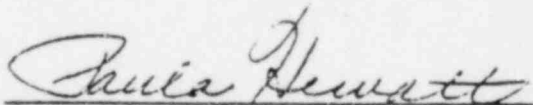
COUNTY OF TARRANT X

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

"My name is David E. Kelch. 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 Electric Service Company, are true and correct, and the opinions stated therein are, to the best of my knowledge and belief, accurate, true, and correct."

  
\_\_\_\_\_  
David E. Kelch

SUBSCRIBED AND SWORN TO BEFORE ME by the said David E. Kelch this 1st day of May, A. D. 1980.

  
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Notary Public in and for

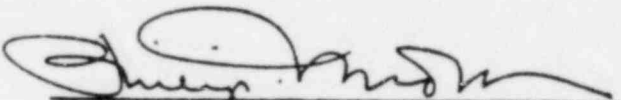
Tarrant Co., Tarrant  
My commission expires December 27, 1980

SEAL

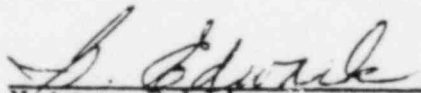
STATE OF TEXAS )

Philip K. Brown, being duly sworn, deposes and says:

1. That he is the Assistant Director of the Public Utilities Department of the City of Dallas, Texas;
2. That included in his duties is the keeping of the original official transcript of hearings held in Dallas, Texas on the request of Dallas Power and Light Company for permission to increase rates;
3. That he is the keeper of the original official transcript of Dallas Power & Light rate hearings held November 24, 25, and 26, 1980; and
4. That the attached pages 256, 284-290, 291-293, 306-310, 324-330 are true and correct copies of the transcript referenced in item 3 preceding.

  
Philip K. Brown

SWORN TO and Subscribed  
before me on this 13th day  
of November, 1981.

  
Notary Public

My Commission expires: 6/27/84

(SEAL)