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January 15, 2003

The Honorable Gary E. Walsh
Executive Director
South Carolina Public Service Commission
Post Office Box 11649
Columbia, South Carolina 29211-1649

Re: Application of Chem-Nuclear Systems, LLC (SCPSC Docket No. 2000-366-A) (for Fiscal Year 2002-2003)

Dear Mr. Walsh:

Enclosed herewith for filing with the Commission, please find the original and twenty-five (25) copies of the prefiled testimony of Regan E. Voit and of Carol Ann Hurst, on behalf of Chem-Nuclear Systems, LLC, pursuant to the Commission's Order No. 2002-793 in the above-captioned docket.

By copy of this letter, I am serving all counsel of record with a copy of the testimony.

Should you have any questions with respect to this testimony, please do not hesitate to contact me.

Very truly yours,

Robert T. Bockman

Robert T. Bockman

Enclosures

cc: Robert E. Merritt, Esquire
The Honorable Henry D. McMaster
Hana Pokorna-Williamson, Esquire
The Honorable C. Earl Hunter
The Honorable Max K. Batavia

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POSTED DW 1-16-03

DIRECT TESTIMONY

OF

CAROL ANN HURST

FOR

S. C. PUBLIC SERVICE COMMISSION RECEIVED
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Chem-Nuclear SYSTEMS, LLC
A DIVISION OF DURATEK, INC.

SCPSC DOCKET NO. 2000-366-A
(for Fiscal Year 2002-2003)

Q. PLEASE STATE YOUR NAME AND GIVE YOUR BUSINESS ADDRESS.

A. Carol Ann Hurst, 740 Osborn Road, Barnwell, South Carolina.

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

A. I am the Barnwell Site Controller for Chem-Nuclear Systems, LLC.

Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND BUSINESS EXPERIENCE.

A. I am a graduate of Palmer Business College with a one-year Executive Business degree and I have taken several college Accounting courses. Prior to my employment with Chem-Nuclear Systems in 1978, I had a business of my own and later worked in the accounting department at Carter Furniture Company in Barnwell. During my 24 years employment with the Chem-Nuclear Systems, I have held other positions in the finance department. I became Assistant Controller in 1988 and Controller in 1990.

Q. HAVE YOU PREVIOUSLY OFFERED TESTIMONY IN REGULATORY PROCEEDINGS?

A. Yes. I testified before the South Carolina Public Service Commission in April 2001 and January 2002.

Q. WILL YOU BRIEFLY SUMMARIZE YOUR DUTIES WITH THE COMPANY?

A. As Controller for the Chem-Nuclear System's Barnwell Disposal Operations, I am responsible for the Barnwell Operation's Accounts Payable, Payroll entry, AP Check processing, Billing, and General Ledger transactions. The Barnwell Finance department provides information to the corporate office for payments and prepares reports pertaining to taxes and surcharges which are made to the State of South Carolina. The Barnwell Finance department also provides quarterly and annual reports on allowable costs. My responsibilities also include closely-related functions for purchasing and collections of invoices that provide information to the accounting system. My responsibilities include maintaining accurate and complete accounting records including internal reports and analyses.

Q. PLEASE DESCRIBE THE SCOPE OF THE TESTIMONY YOU ARE PRESENTING.

A. In connection with Docket No. 2000-366-A and the Chem-Nuclear Systems Application for Allowable Costs filed on September 27, 2002, and revised slightly on November 7, 2002, Chem-Nuclear Systems included certain Exhibits A, B, and C containing financial information. That information is intended to permit the Commission to identify allowable costs in accordance with the Atlantic Interstate

Low-Level Radioactive Waste Compact Implementation Act (Act). Exhibit A is attached to my testimony as Exhibit No. _____ (CAH-1). Exhibit B is attached to my testimony as Exhibit No. _____ (CAH-2). Due to errors found in Exhibit B as filed with the revised Application on November 7, 2002, Exhibit No. _____ (CAH-2) has been corrected. Exhibit C is attached to my testimony as Exhibit No._____ (CAH-3). The purpose of my testimony is to describe each of these exhibits and certain other accounting and financial information.

Q. HOW ARE THE BOOKS AND RECORDS OF THE COMPANY MAINTAINED?

A. Chem-Nuclear Systems maintains financial books and records in accordance with Generally Accepted Accounting Principles (GAAP). The accounting software used in the fiscal year 2001-2002 by Chem-Nuclear is J.D. Edwards. The Defense Contracts Administration Agency, a governmental compliance agency, has approved this software.

The Company started using the Costpoint software on July 1, 2002, as the principal General Ledger accounting system. A description of the transition, related reports, and account mapping has been provided to the Public Service Commission staff. In the Commission's Order No. 2001-499, dated June 1, 2001, the Commission required the Company to secure the Commission's approval for the conversion to a different accounting system. By this Application, the Company seeks the Commission's approval of the proposed conversion to the Costpoint accounting system. Chem-Nuclear will maintain history back to November 1998 for transactions on the J.D. Edwards accounting system so data will not be lost as a result of this transition.

The annual cost to make the transition to Costpoint and to operate and to maintain the system on an annual basis is about $4,800 per year less than the annual costs of maintaining and operating the J.D. Edwards system. In addition to this cost savings, Chem-Nuclear wants to make the transition to the Costpoint accounting system to take advantage of improvements the system provides over the J.D. Edwards system. Some of these advantages are:

- Costpoint provides a more uniform project-based accounting system.
- The transition will allow Chem-Nuclear to be consolidated with the rest of the parent company accounts and to share in the expense of the accounting system. That eliminates the large expense Chem-Nuclear would have if the full burden of operating and maintaining the J.D. Edwards system were imposed on Chem-Nuclear.
- The Costpoint system-generated allocations are based on preprogrammed business rules. No manual intervention is required.
- The system provides single data entry points so there are no redundancies and fewer errors.
- Chem-Nuclear's parent company has trained employees that can provide support of the system resulting in less reliance on consultants.
- The system has more capabilities to support the reporting needs of the State of South Carolina. For example, a report system, "Impromptu," provides an allowable, as well as an unallowable,

cost report that the Commission staff will be able to use in place of the manually keyed reports used in prior years with the J.D. Edwards system. This feature will help ensure accuracy of information. The system has the ability to generate and run reports at the Barnwell location instead of requesting the reports from a remote corporate location. This will allow a faster response to the Commission staff during the annual audits.

- Fringe costs in the Costpoint system are more clearly defined than in the J.D. Edwards system. A specific fringe pool is established which will only reflect fringe costs for Chem-Nuclear employees. Monthly reports can be generated to reconcile budgeted fringe costs and actual fringe costs.
- Costpoint provides an automatic calculation of revenue for Chem-Nuclear in accordance with the statute. There is also a report available, through the system, that details each cost and this calculation of revenue.

Q. WHAT STEPS DOES THE COMPANY TAKE TO ENSURE THAT ITS BOOKS AND RECORDS ARE ACCURATE AND COMPLETE?

A. Chem-Nuclear maintains and relies upon an extensive system of internal accounting controls supported by GAAP and audits by both internal and external auditors. Chem-Nuclear's system of internal accounting controls is designed to provide reasonable assurance that all transactions are properly recorded in the books and records and assets are protected against loss or unauthorized use.

Chem-Nuclear's system of internal accounting controls is reviewed annually by Duratek, Inc., its parent company, and its independent auditors, KPMG, in connection with their audit of Duratek, Inc. As a result of their latest review, the independent auditors found no material weaknesses in Chem-Nuclear's system of internal accounting controls.

Q. WILL YOU PLEASE DESCRIBE EXHIBIT A OF THE APPLICATION?

A. Exhibit A, which is also Exhibit No. _____ (CAH-1) is a display of Chem-Nuclear Systems actual Allowable Costs for fiscal year 2001-2002 and proposed costs for fiscal year 2002-2003.

Column 1 provides a description of the items included in the Chart of Accounts numbers.

Column 2 is the Chart of Accounts numbers.

Column 3 presents the Actual per book allowable cost (fiscal year 2001-2002).

Column 4 summarizes Chem-Nuclear's costs over or under the amounts identified in the Commission's Order No. 2001-499. The detail for each amount by line item is included in Exhibit B.

Column 5 presents the allowable cost amounts identified in the Commission's Order No. 2001-499.

Column 6 presents additional amounts of actual allowable cost which Chem-Nuclear requests the Commission to identify as allowable for fiscal year 2001-2002.

Column 7 presents Chem-Nuclear's proposed allowable costs for fiscal year 2002-2003.

Q. WILL YOU PLEASE DESCRIBE EACH ACCOUNTING AND PRO FORMA ADJUSTMENT FOR THE FISCAL YEAR 2001-2002?

A. Yes. I shall start with those accounts we refer to as "direct" costs.

EXEMPT LABOR (5111): Actual costs are $11,848 below the amount estimated in the Commission's Order. The reason for this reduction is mainly because during fiscal year 2001-2002 labor costs were charged to an indirect project number for costs incurred for participation in the Commission's proceedings. In the previous fiscal year, fiscal year 2000-2001, these costs were charged to a direct labor project number and the Commission estimate for direct labor did not take that change into account. The favorable variance in labor costs created by changing some labor costs from direct to indirect accounts was offset somewhat by costs associated with pay raises in April 2002 and the filling of open positions during the year.

NON-EXEMPT LABOR (5112): Actual costs are $11,120 below the amount estimated in the Commission's Order. The reason for this reduction is mainly because during fiscal year 2001-2002 labor costs were charged to an indirect project number for costs incurred for participation in the Commission's proceedings. In the previous fiscal year, fiscal year 2000-2001, these costs were charged to a direct labor project number and the Commission estimate for direct labor did not take that change into account. The favorable variance in labor costs created by changing some labor costs from direct to indirect accounts was offset somewhat by costs associated with pay raises in April 2002 and the filling of open positions during the year.

TEMPORARY LABOR (5312): Actual costs associated with the temporary labor account are $48,448 less than in the Commission's Order. This is due to the lower total waste receipts, the more even month-to-month distribution of waste receipts through the year, and to the filling of open positions during the year.

OVERTIME (5119): Actual costs for overtime in fiscal year 2001-2002 are $16,354 below the amount identified in the Commission's Order mainly due to fewer slit trench offloads received and the more even month-to-month distribution of waste receipts through the year.

EQUIPMENT (5132,34,35): The amount for equipment rental, diesel, and propane costs is $38,250 less than in the Commission's Order.

MATERIALS (5142, 43,45): The amount is $31,450 less than in the Commission's Order due to a different mix of materials and fewer large components received compared to the previous fiscal year.

AFFILIATED (5151): The amount is $10,585 more than the amount identified in the Commission's Order as a result of a higher rate of pay for the new Safety and Loss Control Manager. The new Safety and Loss Control Manager was recruited and hired after his predecessor passed away in June 2001. This category of costs represents the costs for safety supplies and safety management/supervision allocated to disposal operations from labor allocation (Account 6117) and supplies allocated to projects (Account 7310).

CONTRACT SERVICES (5152): The amount is $43,113 more than the amount identified in the Commission's Order. One factor is $19,020 for specialized drilling support associated with a monitoring requirement to confirm boundaries of near-surface

groundwater flow under the disposal site. This work was required by SCDHEC to ensure continued regulatory compliance. The direction from SCDHEC was in response to independent review of site performance and was documented in letters from the agency. Another factor is $8,975.35 for a wetlands construction permit and three consulting firms' design work associated with a surface water control and drainage feature to be constructed in fiscal year 2002-2003. This work is approved by SCDHEC to control surface water run-off from the site. Six thousand, two hundred fifty dollars ($6,250) was incurred for consultant support to develop certain responses and independently review site environmental radiological performance verification follow-on actions related to operations. These follow-on actions were required by SCDHEC as part of the license renewal process and to incorporate Peer Review recommendations for completion of environmental radiological performance verification of the disposal site. The remaining amount of $8,868 is part of the costs for specialized AS-400 programming support associated with waste disposal database management, queries and verifications.

MAINTENANCE (5156): Actual costs for repairs are $9,327 less than the amount identified in the Commission's Order.

LAUNDRY SERVICES (5157): Actual costs for laundry services to clean radioactively contaminated protective clothing are $3,582 less than the amount identified in the Commission's Order.

TRAVEL (5171,72,74): Costs for employee direct travel cost are $4,990 less than in the Commission's Order.

OTHER DIRECT COSTS (5175): The actual amount is $8,843 less than in the Commission's Order. This account includes costs for minor repairs and maintenance not covered elsewhere.

FEDERAL EXPRESS & POSTAGE (5191): The amount is $2,488 more than in the Commission's Order because of additional postage and Federal Express charges caused by a combination of different rates and higher levels of activity from those experienced in the previous fiscal year which was the basis for the Commission's estimate.

CALCULATED FRINGE (5249): This account is related to the labor and fringe for personnel charging to direct project numbers for the Barnwell Disposal Operations. In this account there are also charges for fringe related to personnel from other parent company divisions who work on disposal projects from time to time. The amount is $16,674 less than in the Commission's Order because of the lower amount of direct exempt labor and direct non-exempt labor explained in earlier paragraphs.

R&M EQUIPMENT MAINTENANCE (5303,04): Costs for outside repairs are $18,438 below the amount estimated in the Commission's Order.

CAPITALIZED COO (5310): This account is a credit account for costs associated with trench construction and backfilling that are transferred to the balance sheet and subsequently amortized over the life of the trench. The amount is a $2,746 smaller credit than the amount identified in the Commission's Order.

PROJECT COST (5317): The amount for project costs is $26,434 less than the amount estimated in the Commission's Order. This account includes equipment and materials used in routine operations of the disposal site including radiation detection instrument repair, radiation protection non-disposal items, and decontamination supplies.

INSURANCE (5319): The amount is $9,653 more than in the Commission's Order as a result of insurance premiums for existing policies paid in fiscal year 2001-2002 which were higher than those costs estimated in the Commission's Order based on prior fiscal year experience.

SITE LABOR ALLOCATION (5832): Credits to this account were transferred to the balance sheet for work performed on projects funded from other sources such as the Decommissioning Trust Fund. The amount is a $38,292 smaller credit to expense than the amount identified in the Commission's Order.

EXEMPT LABOR (6111): Actual costs are $99,991 more than the amount identified in the Commission's Order. The reason for this increase is mainly because during fiscal year 2001-2002 labor costs were charged to an indirect project number for costs incurred for participation in the Commission's proceedings. In the previous fiscal year, fiscal year 2000-2001, these costs were charged to a direct labor project number and the Commission estimate for indirect labor did not take that change into account. The unfavorable variance in labor costs created by changing some labor costs from direct to indirect accounts was also increased somewhat by costs associated with pay raises in April 2002.

NON-EXEMPT LABOR (6112): Actual costs are $16,011 more than the amount identified in the Commission's Order. The principal reason for this reduction is the fact

that labor costs during fiscal year 2001-2002 were charged to an indirect project number for costs incurred for participation in the Commission's proceedings. In the previous fiscal year fiscal year 2000-2001, these costs were charged to a direct labor project number and the Commission's estimate for indirect labor did not take that change into account. The unfavorable variance in labor costs created by changing some labor costs from direct to indirect accounts was also increased somewhat by costs associated with pay raises in April 2002.

LABOR ALLOCATION (6117): This credit account is associated with labor and fringe for the support business unit and the Health and Safety personnel. Thirty percent of these labor costs are transferred to other divisions of the company. This category is also associated with labor charges from other divisions of the company related to marketing efforts for disposal operations. The amount is a $3,147 larger credit than the amount identified in the Commission's Order.

CALCULATED FRINGE (6149): This account is a credit account associated with fringe for the Barnwell Disposal Operations personnel charging to direct projects and other parent company business units/divisions. All personnel in the Barnwell Disposal Site division are assigned a home business unit and these dollars transfer to the direct calculated fringe (account number 5249) as labor costs and are charged to direct project numbers. Similarly, when labor costs are charged out to other parent company business units/divisions, appropriate fringe costs are also charged to that unit/division. The amount is a $65,770 larger credit than the amount identified in the Commission's Order.

OVERTIME (6119): The cost in this account is related to labor for preparation of invoices and special projects requirements for fiscal year 2001-2002. The amount is $600 more than the Commission's estimate.

ALLOWABLE FRINGE (6120): The amount for allowable fringe is $115,337 more than in the Public Service Commission's Order. The causes for that difference include increased health insurance costs and higher workers compensation costs than were experienced in previous years. The Commission's estimate was based on the previous years' experience.

TRAVEL (7100): The amount is $2,696 more than the Commission's estimate because of additional indirect travel associated with training and discussions with corporate management for implementation of the Costpoint accounting system. This amount is offset in total costs by the fact that direct travel costs were $4,990 less than the amount estimated in the Commission's Order.

EMPLOYEE COSTS (7200): The amount is $21,828 more than the amount identified in the Commission's Order to cover employee relocation costs for two employees (Safety and Loss Control Manager and Geologist) who were hired to fill open positions during fiscal year 2001-2002. This amount was not anticipated in the Commission's estimate for this cost.

OFFICE SUPPLIES & EXPENSE (7300): The amount is $28,987 less than the amount identified in the Commission's Order.

BUILDING & UTILITIES (7400): This account includes expenses for utilities, telephone service, custodian services, and trash pickup. The amount is $4,949 more than

the Commission's estimate for this category. Higher cost in telephone charges during the fiscal year was the main contributor to this higher overall cost.

SERVICES (7500): Exhibit A indicates the amount is $289,569 more than the amount identified in the Commission Order. The correct amount should be $282,069. This discrepancy of $7,500 was identified and reported to the Commission Staff's auditors during their audit. The amount is more than the amount identified in the Commission's Order primarily due to costs associated with the independent consultant firm hired to prepare an Operations and Efficiency Plan as directed by the Commission's Order No. 2001-499. The Operations and Efficiency Plan was submitted to the Commission in June 2002. Costs for the consultant firm to prepare the Operations and Efficiency Plan were $247,397. Consulting services were also incurred in the amount of $16,696 and $25,643 for third-party estimates, research and preparation of information, and verifications of information related to explanation of the value of intangible assets as directed by the Commission during the 2002 proceedings. Costs were also incurred by consultants for depositions noticed and taken by the South Carolina Budget and Control Board's lawyers associated with the Commission's proceedings.

EQUIPMENT (7600): Costs in this account include expenses for radiation detection instrument repair and maintenance, purchase of microfilm and development cost, and outside repair of small equipment and vehicles. The amount is $200 less than in the Commission's estimated amount.

DEPRECIATION (7700): Actual depreciation expenses for fiscal year 2001-2002 are less than the amount identified in the Commission's Order by $24,621.

MANAGEMENT FEES/G&A ALLOCATION (7904): The amount is $11,167 lower than the Commission's estimated amount.

VARIABLE COSTS

VAULT COSTS AND TRENCH AMORTIZATION (5020 and 5324): The amount is $313,390 more than the amount calculated from the rates identified in the Commission's Order. The variable cost rates identified in the Commission's Order were estimated based on prior years' waste receipts. The estimated rates were: Class A: $18.66 per cubic foot; Class B: $22.61 per cubic foot; Class C: $20.28 per cubic foot; and Class C Slit Trench: $124.17 per cubic foot. These rates, multiplied by their respective volumes of waste received in fiscal year 2001-2002 would produce a total variable cost of $1,172,569.

The actual variable cost rates in fiscal year 2001-2002 were: Class A: $23.67 per cubic foot; Class B: $24.11 per cubic foot; Class C: $22.94 per cubic foot; Slit Trench: $137.60 per cubic foot. We previously submitted data concerning these variable costs for fiscal year 2001-2002 as directed by the Commission's Order No. 2001-499. The actual variable cost rates are derived by first determining the actual variable costs for each trench (vault costs + trench amortization costs) and dividing that amount by the total volume of waste disposed in that trench. Then, a variable cost by waste classification for each trench is calculated. The variable costs for each waste classification in each trench are totaled and divided by the volume of waste received in that category to determine an actual variable cost rate by waste classification. The actual total variable costs for fiscal year 2001-2002 were $1,485,959, which include $34,035 for variable costs incurred in fiscal year 2001-2002 for waste received in fiscal year 2000-2001.

Q. PLEASE EXPLAIN YOUR PROPOSED TREATMENT OF COSTS ASSOCIATED WITH NEW TRENCH CONSTRUCTION.

A. Costs for constructing additional disposal trenches beginning with costs incurred in fiscal year 2002-2003 will be treated as an expense in the year in which those costs are incurred. As waste volumes decline, it becomes increasingly appropriate to treat these costs as current year expenses when the costs can be offset by larger waste disposal revenues. For new trench constructions, this approach will eliminate the need for a trench amortization cost as the trench is filled.

Q. PLEASE DESCRIBE "OTHER ALLOWABLE COST" AND "OTHER PAYMENTS."

A. **"Other Allowable Costs"** are costs related to disposal operations which are not included in the computation of the twenty-nine percent operating margin in accordance with S.C. Code Ann. § 48-46-40 (B)(5).

"Other Payments" are payments made in accordance with S.C. Code Ann. § 48-46-40 (D)(1).

Q. PLEASE DESCRIBE ACTIVITIES TO BE REIMBURSED FROM THE DECOMMISSIONING TRUST FUND IN FISCAL YEAR 2002-2003.

A. During fiscal year 2002-2003, Chem-Nuclear Systems intends to request approvals from SC DHEC and the Budget and Control Board to install the Phase 6 multi-layer earthen cap over a number of completed disposal trenches. Capping construction will require the use of borrow materials and the most efficient source of those materials would be from an on-site construction project. When the Phase 6 capping project is completed, Chem-Nuclear will have to manage additional surface water runoff during periods of heavy rain. Management of this additional surface water runoff will require expansion of the existing on-site retention ponds. Costs for retention pond expansion will also be requested from the Decommissioning Trust Fund. Conducting the Phase 6 capping project and expansion of the on-site retention ponds concurrently are logical and efficient uses of Decommissioning Trust Fund resources. Costs incurred by Chem-Nuclear will be tracked in a separate project number.

Q. WOULD YOU PLEASE DESCRIBE PROPOSED COSTS FOR FISCAL YEAR 2002-2003.

A. Yes. I shall start with the account referenced to as Direct Costs. For consistency, I will use the same chart of account numbers as used in prior Applications.

EXEMPT LABOR (5111): Anticipated costs will be the same as the fiscal year 2001-2002 experience.

NON-EXEMPT LABOR (5112): Anticipated costs will be the same as the fiscal year 2001-2002 experience.

TEMPORARY LABOR (5312): Anticipated costs will be the same as the fiscal year 2001-2002 experience.

OVERTIME (5119): Anticipated costs will be the same as the fiscal year 2001-2002 experience.

EQUIPMENT (5132,34,35): Anticipated costs will be the same as the fiscal year 2001-2002 experience.

MATERIALS (5142, 43,45): Anticipated costs will be the same as the fiscal year 2001-2002 experience.

AFFILIATED (5151): Anticipated costs will be the same as the fiscal year 2001-2002 experience.

CONTRACT SERVICES (5152): Anticipated costs for fiscal year 2002-2003 will be $43,469 more than the amount identified in the Commission's Order, based on additional contract work associated with construction of an operations-related surface water control feature in fiscal year 2002-2003. Contractor costs to install culverts under two state roads will be $33,969. Telephone, power line and drain field relocation will cost $9,500. Total costs in this category for fiscal year 2002-2003 will be consistent with actual costs for 2001-2002.

MAINTENANCE (5156): Anticipated costs will be the same as this year's experience.

LAUNDRY SERVICES (5157): Anticipated costs will be the same as this year's experience.

TRAVEL (5171,72,74): Anticipated costs will be the same as this year's experience.

OTHER DIRECT COSTS (5175): Anticipated costs will be the same as this year's experience.

FEDERAL EXPRESS & POSTAGE (5191): Anticipated costs will be the same as this year's experience.

CALCULATED FRINGE (5249): Anticipated costs will be the same as this year's experience.

R&M EQUIPMENT MAINTENANCE (5303,04): Anticipated costs for fiscal year 2002-2003 will increase from costs incurred in fiscal year 2001-2002 by about $7,390 because of increased maintenance costs for aging equipment at the disposal site.

CAPITALIZED COO (5310): Anticipated costs (credit) will be the same as the fiscal year 2001-2002 experience.

PROJECT COST (5317): Anticipated costs will be the same as the fiscal year 2001-2002 experience.

INSURANCE (5319): The cost for premiums on insurance policies are anticipated to continue to increase. Based on information already available, costs for insurance premiums in fiscal year 2002-2003 will increase over fiscal year 2001-2002 costs for insurance premiums by about $225,055. The following table summarizes the increase in insurance premiums:

INSURANCE POLICY TYPE	DATE OF LAST INCREASE	% INCREASE	EFFECT ON COSTS
General Liability	May 2002	38%	$40,601
Property	May 2002	66%	$178, 887
Business Auto	May 2002	(11%)	($2,675)
Nuclear Facility	May 2002	24%	$268,234
Special Pollution Liability	None (10-year policy)	0%	None

SITE LABOR ALLOCATION (5832): Anticipated costs (credit) will be the same as the fiscal year 2001-2002 experience.

EXEMPT LABOR (6111): Costs for 2002-2003 are anticipated to decrease slightly from the fiscal year 2001-2002 costs due to adjustments in staffing and salaries.

NON-EXEMPT LABOR (6112): Costs for 2002-2003 are anticipated to decrease slightly from the fiscal year 2001-2002 costs due to adjustments in staffing and salaries.

LABOR ALLOCATION (6117): This credit account is associated with labor and fringe for the support business unit and the Health and Safety personnel. Thirty percent of these labor costs are transferred to other divisions of the company. This category is also associated with labor charges from other divisions of the company related to marketing efforts for disposal operations. The credit amount in this account is anticipated to be about the same as the credit amount in fiscal year 2001-2002.

CALCULATED FRINGE (6149): This account is a credit account associated with labor and fringe for the Barnwell Disposal Operations personnel charging to direct projects and other parent company business units/divisions. All personnel in the Barnwell Disposal Site division are assigned a home business unit and these dollars transfer to the direct calculated fringe (Account Number 5249) as labor costs are charged to direct project numbers. The credit amount in this account is anticipated to be about the same in fiscal year 2002-2003 as it was in fiscal year 2001-2002.

OVERTIME (6119): Anticipated costs will be the same as fiscal year 2001-2002 costs.

ALLOWABLE FRINGE (6120): Anticipated costs will be the same as fiscal year 2001-2002 costs. Although it may be reasonable to expect some increase in health

insurance costs and workers compensation costs, the magnitude of those increased costs is not fully known.

TRAVEL (7100): Anticipated costs will be about $5,132 less than the indirect travel costs experienced in fiscal year 2001-2002. These anticipated costs will be about $2,436 less than the amounts identified in the Commission's Order.

EMPLOYEE COSTS (7200): Anticipated costs will be the same as the fiscal year 2001-2002 experience.

OFFICE SUPPLIES & EXPENSE (7300): Anticipated costs will be the same as the fiscal year 2001-2002 experience.

BUILDING & UTILITIES (7400): Anticipated costs will be the same as the fiscal year 2001-2002 experience.

SERVICES (7500): Anticipated costs in fiscal year 2002-2003 will be about the same as in the Commission's Order and $289,569 less than the actual costs in fiscal year 2001/2001. This is primarily due to the fact that the expense for the Operations and Efficiency Plan is a one-time cost.

EQUIPMENT (7600): Anticipated costs will be the same as the fiscal year 2001-2002 experience.

DEPRECIATION (7700): Anticipated costs will be the same as the fiscal year 2001-2002 experience.

MANAGEMENT FEES/G&A ALLOCATION (7904): Anticipated costs will be the same as the fiscal year 2001-2002 experience.

INTANGIBLE ASSETS (7725): Costs will be the same as fiscal year 2001-2002.

VARIABLE COSTS

VAULT COSTS AND TRENCH AMORTIZATION (5020 and 5324): Anticipated variable costs in fiscal year 2002-2003 will be about $244,596 more than variable costs associated with disposal of waste received in fiscal year 2001-2002. The total number of vaults anticipated for fiscal year 2002-2003 will be about the same as the number used in fiscal year 2001-2002. The increase is the result of a vault price increase by the supplier of concrete disposal vaults. The anticipated variable cost increase has already been reduced by some reduction in trench amortization costs if the proposed accounting treatment for new trench construction is approved.

Based on lower volumes of waste mandate by state law and a decreasing number of vaults to be supplied each year, the supplier has lost the "economies of scale" that have kept vault prices stable over recent years. The current vault production location is near the disposal site and allows us to enjoy lower transportation/delivery costs compared to manufacturing the vaults at another location. The current supplier also maintains an inventory of vaults and delivers vaults to the site on an "as needed" basis thereby eliminating costs that would be associated with an on-site inventory or delays waiting for deliveries from a remote location.

The following table illustrates the increase in vault costs leading to the anticipated increase in variable costs:

TYPE OF VAULT	# USED IN FY 2001-2002	UNIT PRICE	EXTENDED PRICE FY 2001-2002	# ANTICI-PATED FOR FY 2002-2003	NEW PRICE (JUNE 2002)	EXTENDED PRICE FY 2002-2003
Cylindrical	332	$2,597	$862,204	332	$3,116	$1,034,645
Rectangular	49 7	$5,830 $6,996	$285,670 $48,972	56	$6,996	$391,776
Slit Trench	11	$4,452	$48,972	12	$5,342	$64,109
Special CRDM Vault	3	$8,480	$25,440	3	$8,480	$25,440
Special Vaults	2	$11,646	$23,292	2	$11,646	$23,292
Total			$1,294,550			$1,539,262

Q. DOES THAT COMPLETE YOUR DIRECT TESTIMONY?

A. Yes

Chem-Nuclear
Barnwell Disp
Reagan Vol
James Lathe

	Adjustment to Level of FY 01/02 Allowable Cost 6	FY 02/03 Proposed Allowable Cost 7	
Cubic Feet		59,000	
ALLOWABLE			
EXEMPT LAB			
NON EXEMP		559,796	
TEMPORARY		835,552	
OVERTIME		9,152	
EQUIPMENT		41,398	
MATERIALS		231,030	
AFFILIATED		38,006	
CONTRACT S	10,585	82,945	
MAINTENANC	43,113	163,673	
LAUNDRY SE		19,329	
TRAVEL		3,138	
OTHER DIRE		4,550	
FEDERAL EX		50,773	
CALCULATED	2,488	5,140	
R&M EQUIPM		476,332	
CAPITALIZED		85,000	
PROJECT CO		(29,538)	
INSURANCE F		46,214	
SITE LABOR /	9,653	687,248	
DIRECT COST		(11,448)	
	65,839	3,298,290	
EXEMPT LAB			
NON EXEMPT	99,991	725,000	
LABOR ALLO	16,011	215,000	
CALCULATED		(130,647)	
OVERTIME		(604,684)	
ALLOWABLE F	600	1,630	
TRAVEL	115,337	1,054,859	
EMPLOYEE C	2,696	54,000	
OFFICE SUPP	21,828	94,284	
BUILDING & U		93,101	
SERVICES	4,949	139,193	
EQUIPMENT	289,569	253,131	
DEPRECIATIO		85,324	
MANAGEMENT		379,079	
INTANGIBLE A		651,235	
INDIRECT COS		625,000	Note 2
TOTAL ALLOW	550,981	3,635,505	
	616,820	6,933,795	
Allowable Var			
DISP EXP VAU	313,390	1,696,520	Note 1
OTHER ALLOV			
Taxes, Licensin			
Licenses			
Disposal Taxes		382,963	
(Decommiss		413,000	
Other Ops cost			
Disposal Site Le		440,000	
Real Estate/Per		50	
		64,831	
TOTAL OTHER		1,300,844	
OTHER PAYME			
Administrative C			
Atlantic Compac			
PSC; Budget and C		236,000	
		580,000	
TOTAL OTHER		816,000	

REVISED EXHIBIT B: EXPLANATION OF DIFFERENCE BETWEEN ACTUAL COSTS FOR FY 2001/2002 AND COMMISSION'S ORDER 2002-395 AMOUNTS FOR EXPENSE ACCOUNTS

The following paragraphs provide an overall discussion of allowable costs incurred in fiscal year (FY) 2001/2002 followed by a discussion of individual cost category adjustments.

Overall allowable costs: The total actual allowable direct fixed costs are $138,881 less than the total direct fixed cost amount identified in the Commission's Order No. 2002-395. The total actual allowable indirect fixed costs are $417,089 more than the total indirect fixed cost amount identified in the Commission's Order. The actual allowable variable costs are $313,390 more than the amount calculated using the rates identified in the Commission's Order multiplied by the actual volume of waste received in each of the respective waste classification or slit trench categories.

Labor-related costs (Chart of Accounts 5111, 5112, 5312, 5119, 6111, 6112 and 6119): There are a number of categories of cost related to labor including chart of account categories for direct and indirect exempt and non-exempt labor, overtime and temporary labor. Considering all these categories together, the overall actual labor costs for FY 2001/2002 are $28,832 more than the total labor-related costs estimated in the Commission's Order. This amount does not include fringe costs. Approximately $22,612 of this amount is related to annual merit pay increases which became effective in April 2002 and were not considered in the Commission's estimate. The remaining $6,220 is due to additional management resources needed to support requirements of economic regulation of the disposal facility. Also, an increased level of management participation in marketing efforts has been required in the face of increased competition for disposal waste volumes and reduced waste generation rates from the nuclear power plant industry. The Barnwell

disposal site has only received on an average about three-fourths of the allowed waste volumes each of the last two fiscal years of operation and an increased sales effort is critical to raising that percentage to 100%.

INDIVIDUAL COST CATEGORY ADJUSTMENTS FOR FY 2001/2002

EXEMPT LABOR (5111): Actual costs are $11,848 below the amount estimated in the Commission's Order. The reason for this reduction is mainly because during FY 2001/2002 labor cost was charged to an indirect project number for costs incurred for participation in the Commission's proceedings. In the previous fiscal year, FY 2000/2001, these costs were charged to a direct labor project number and the Commission's estimate for direct labor did not take that change into account. The favorable variance in labor costs created by changing some labor costs from direct to indirect accounts was offset somewhat by costs associated with pay raises in April 2002 and the filling of open positions during the year.

NON-EXEMPT LABOR (5112): Actual costs are $11,120 below the amount estimated in the Commission's Order. The principal reason for this reduction is the fact that during FY 2001/2002 labor cost was charged to an indirect project number for costs incurred for participation in the Commission's proceedings. In the previous fiscal year, FY 2000/2001, these costs were charged to a direct labor project number and the Commission's estimate for direct labor did not take that change into account. The favorable variance in labor costs created by changing some labor costs from direct to indirect accounts was offset somewhat by costs associated with pay raises in April 2002 and the filling of open positions during the year.

TEMPORARY LABOR (5312): Actual costs associated with the temporary labor account are $48,448 less than in the Commission's Order.

OVERTIME (5119): Actual costs for overtime in FY 2001/2002 are $16,354 below the amount identified in the Commission's Order mainly due to fewer slit trench offloads received and the more even month-to-month distribution of waste receipts through the year.

EQUIPMENT (5132,34,35): The amount is $38,250 less than in the Commission's Order. Equipment rental, diesel, and propane costs are in this account.

MATERIALS (5142, 43,45): The amount is $31,450 less than in the Commission's Order due to a different mix of materials and fewer large components received compared to the previous fiscal year.

AFFILIATED (5151): The amount is $10,585 more than the amount identified in the Commission's Order as a result of a higher rate of pay for the new Safety and Loss Control Manager. The new Safety and Loss Control Manager was recruited and hired after his predecessor passed away in June 2001. This category of costs represents the costs for safety supplies and safety management/supervision allocated to disposal operations from labor allocation (Account 6117) and supplies allocated to projects (Account 7310).

CONTRACT SERVICES (5152): The amount is $43,113 more than the amount identified in the Commission's Order. One factor is $19,020 for specialized drilling support associated with a monitoring requirement to confirm boundaries of near-surface groundwater flow under the disposal site. This work was required by SCDHEC to ensure continued regulatory compliance. The direction from SCDHEC was in response to independent review of site performance and was documented in letters from the agency. Another factor is $8,975.35 for a wetlands construction permit and three consulting

firms' design work associated with a surface water control and drainage feature to be constructed in FY 2002/2003. This work is approved by SCDHEC to control surface water run-off from the site. We incurred $6,250 for consultant support to develop certain responses and independently review site environmental radiological performance verification follow-on actions related to operations. These follow-on actions were required by SCDHEC as part of the license renewal process and to incorporate Peer Review recommendations for completion of environmental radiological performance verification of the disposal site. The remaining amount of $8,868 is part of the costs for specialized AS-400 programming support associated with waste disposal database management, queries and verifications.

MAINTENANCE (5156): Actual costs for repairs are $9,327 less than the amount identified in the Commission's Order.

LAUNDRY SERVICES (5157): Actual costs for laundry services to clean radioactively contaminated protective clothing are $3,582 less than the amount identified in the Commission's Order.

TRAVEL (5171,72,74): Costs for employee direct travel cost are $4,990 less than in the Commission's Order.

OTHER DIRECT COSTS (5175): The actual amount is $8,843 less than in the Commission's order.

FEDERAL EXPRESS & POSTAGE (5191): The amount is $2,488 more than in the Commission's Order because of additional postage and federal express charges caused by a combination of different rates and higher levels of activity from those experienced in the previous fiscal year which was the basis for the Commission's estimate.

CALCULATED FRINGE (5249): This account is related to the labor and fringe for personnel charging to direct project numbers for the Barnwell Disposal Operations. In this account there are also charges for fringe related to personnel from other parent company divisions who work on disposal projects from time to time. The amount is $16,674 less than in the Commission's Order because of the lower amount of direct exempt labor and direct non-exempt labor explained in earlier paragraphs.

R&M EQUIPMENT MAINTENANCE (5303,04): Costs for outside repairs are $18,438 below the amount estimated in the Commission's Order.

CAPITALIZED COO (5310): This account is a credit account for costs associated with trench construction and backfilling that are transferred to the balance sheet and subsequently amortized over the life of the trench. The amount is a $2,746 smaller credit than the amount identified in the Commission's Order.

PROJECT COST (5317): The amount for project costs is $26,434 less than the amount estimated in the Commission's Order.

INSURANCE (5319): The amount is $9,653 more than in the Commission's Order as a result of insurance premiums for existing policies paid in FY 2001/2002 which were higher than those costs estimated in the Commission's Order based on prior fiscal year experience.

SITE LABOR ALLOCATION (5832): Credits to this account were transferred to the balance sheet for work performed on projects funded from other sources such as the Decommissioning Trust Fund. The amount is a $38,292 smaller credit to expense than the amount identified in the Commission's Order.

EXEMPT LABOR (6111): Actual costs are $99,991 more than the amount identified in the Commission's Order. The reason for this increase is mainly because during FY 2001/2002 labor cost was charged to an indirect project number for costs incurred for participation in the Commission's proceedings. In the previous fiscal year, FY 2000/2001, these costs were charged to a direct labor project number and the Commission's estimate for indirect labor did not take that change into account. The unfavorable variance in labor costs created by changing some labor costs from direct to indirect accounts was also increased somewhat by costs associated with pay raises in April 2002.

NON-EXEMPT LABOR (6112): Actual costs are $16,011 more than the amount identified in the Commission's Order. The reason for this reduction is mainly because during FY 2001/2002 labor cost was charged to an indirect project number for costs incurred for participation in the Commission's proceedings. In the previous fiscal year, FY 2000/2001, these costs were charged to a direct labor project number and the Commission's estimate for indirect labor did not take that change into account. The unfavorable variance in labor costs created by changing some labor costs from direct to indirect accounts was also increased somewhat by costs associated with pay raises in April 2002.

LABOR ALLOCATION (6117): This credit account is associated with labor and fringe for the support business unit and the Health and Safety personnel. Thirty percent of these labor costs are transferred to other divisions of the company. This category is also associated with labor charges from other divisions of the company related to marketing efforts for disposal operations. The amount is a $3,147 larger credit than the amount identified in the Commission's Order.

CALCULATED FRINGE (6149): This account is a credit account associated with fringe for the Barnwell Disposal Operations personnel charging to direct projects and other parent company business units/divisions. All personnel in the Barnwell Disposal Site division are assigned a home business unit and these dollars transfer to the direct calculated fringe (account number 5249) as labor costs are charged to direct project numbers. Similarly, when labor costs are charged out to other parent company business units/divisions, appropriate fringe costs are also charged to that unit/division. The amount is a $65,770 larger credit than the amount identified in the Commission's Order.

OVERTIME (6119): The cost in this account is related to labor for preparation of invoices and special projects requirements for FY 2001/2002. The amount is $600 more than the Commission's estimate.

ALLOWABLE FRINGE (6120): The amount for allowable fringe is $115,337 more than the Commission's Order. The reasons for this difference include increased health insurance costs and higher workers compensation costs than were experienced in previous years. The Commission's estimate was based on the previous years' experience.

TRAVEL (7100): The amount is $2,696 more than the Commission's estimate because of additional indirect travel associated with training and discussions with corporate management for implementation of the Costpoint accounting system. This amount is offset in total costs by the fact that direct travel costs were $4,990 less than the amount estimated in the Commission's Order.

EMPLOYEE COSTS (7200): The amount is $21,828 more than the amount identified in the Commission's Order to cover employee relocation costs for two employees (Safety and Loss Control Manager and Geologist) who were hired to fill open positions during

FY 2001/2002. This amount was not anticipated in the Commission's estimate for this cost.

OFFICE SUPPLIES & EXPENSE (7300): The amount is $28,987 less than the amount identified in the Commission's Order.

BUILDING & UTILITIES (7400): This account includes expenses for utilities, telephone service, custodian services, and trash pickup. The amount is $4,949 more than the Commission's estimate for this category. Higher cost in telephone charges during the fiscal year was the main contributor to this higher overall cost.

SERVICES (7500): The amount is $289,569 more than the amount identified in the Commission's Order primarily due to costs associated with the independent consultant firm hired to prepare an Operations and Efficiency Plan as directed by the Commission's Order No. 2001-499. The Operations and Efficiency Plan was submitted to the Commission in June 2002. Costs for the consultant firm to prepare the Operations and Efficiency Plan were $247,397. Consulting services were also incurred in the amount of $16,696 and $25,643 for third party estimates, research and preparation of information, and verifications of information related to explanation of the value of intangible assets as directed by the Commission during the 2002 proceedings. Costs were also incurred by consultants for depositions noticed and taken by the Budget and Control Board's lawyers associated with the Commission's proceedings.

EQUIPMENT (7600): Cost in this account include expenses for radiation detection instrument repair and maintenance, purchase of microfilm and development cost, and outside repair of small equipment and vehicles. The amount is $200 less than in the Commission's estimated amount.

DEPRECIATION (7700): Actual depreciation expenses for FY 2001/2002 are less than the amount identified in the Commission's Order by $24,621.

MANAGEMENT FEES/G&A ALLOCATION (7904): The amount is $11,167 lower than the Commission's estimated amount.

VARIABLE COSTS

VAULT COSTS AND TRENCH AMORTIZATION (5020 and 5324): The amount is $313,390 more than the amount calculated from the rates identified in the Commission's Order. The variable cost rates identified in the Commission's Order were estimated based on prior years' waste receipts. The estimated rates were: Class A: $18.66 per cubic foot; Class B: $22.61 per cubic foot; Class C: $20.28 per cubic foot; and Class C Slit Trench: $124.17 per cubic foot. These rates, multiplied by their respective volumes of waste received in FY 2001/2002 would indicate a total variable cost of $1,172,589.

The actual variable cost rates in FY 2001/2002 were: Class A: $23.67 per cubic foot; Class B: $24.11 per cubic foot; Class C: $22.94 per cubic foot; Slit Trench: $137.60 per cubic foot. We submitted data concerning these variable costs for FY 2001/2002 as directed by Commission's Order No. 2001-499. The actual variable cost rates are derived by determining the actual variable costs by trench and dividing that amount by the total volume of waste disposed in that trench. A variable cost by trench and waste classification is then calculated. The variable costs for each waste classification are totaled and divided by the volume of waste received in that category to determine an actual variable cost rate by waste classification. The actual total variable costs for FY 2001/2002 were $1,485,959 including $34,035 for variable costs incurred in FY 2001/2002 for waste received in FY 2000/2001.

Variations in the variable cost rates arise because of changes in the amount of waste that can be placed in each vault and variations in trench amortization rates. Vault waste loading is affected by the size and shape of waste packages received, and also by the mix of waste received in classification and/or dose rate which is different from what was received in past years. Vault loading is also affected by the rate of waste receipts, the amount of shoring materials used in shipments received, and the ability to combine waste packages from different shipments in the same vault. Trench amortization rates are affected by changes in trench construction costs and the total number of vaults that can be placed in the trench. Trench construction costs vary depending on soil conditions, the type of trench, the length of the trench and the amount of backfill required in the trench.

The following table summarizes average vault waste loading (in cubic feet of waste per vault) by principle vault types and trenches for each of the past two years.

	FY 00/01 Jul – Dec	FY 00/01 Jan – Jun	FY 01/02 Jul - Dec	FY 01/02 Jan – Jun
Trench 86 Cylindrical Vaults	159.29 ft^3/vault	155.07 ft^3/vault	137.81 ft^3/vault	121.00 ft^3/vault
Trench 86 Rectangular Vaults	281.75 ft^3/vault	250.11 ft^3/vault	278.70 ft^3/vault	232.81 ft^3/vault
Trench 92 Cylindrical Vaults	129.47 ft^3/vault			
Trench 93 Cylindrical Vaults	123.2 ft^3/vault	124.79 ft^3/vault	125.78 ft^3/vault	118.45 ft^3/vault
Slit Trench 17&18	57.54 ft^3/vault	57.48 ft^3/vault		
Slit Trench 19&20		57.5 ft^3/vault	57.4 ft^3/vault	57.4 ft^3/vault

"Other Allowable Costs" are costs related to disposal operations which are not included in the computation of the twenty-nine percent operating margin in accordance with S.C. Code Section 48-46-40 (B)(5).

"Other Payments" are payments made in accordance with S.C. Code Section 48-46-40 (D)(1). These costs are not included in the computation of the twenty-nine percent operating margin in accordance with SC Code Section 48-46-40 (B)(5).

REVISED EXHIBIT C: PROPOSED ALLOWABLE COSTS FOR FY 2002/2003

GENERAL COMMENTS CONCERNING FY 2002/2003 COSTS AND ACCOUNTING

TRANSITION TO COSTPOINT ACCOUNTING SYSTEM

As part of a parent company-wide conversion, Chem-Nuclear is requesting approval to convert to the Costpoint accounting system to achieve the following improvements and benefits:

1. Overall Cost Savings – Costpoint will be more efficient and easier to use and the consolidated system will eliminate redundancies and added support costs.
2. Independent Fringe Pools – The new system will be designed to accommodate separate fringe pools for each subsidiary of Duratek, Inc.. A separate fringe pool will be easier to analyze and audit at year-end, which has been an issue in the past.
3. Facilitated Audit – The consolidated Costpoint system will eliminate the extra step of allocating costs from Duratek's corporate systems to Chem-Nuclear. This consolidation will facilitate audits since allocations can be reviewed or approved in advance.
4. More Extensive Support Network – A more extensive support network is in place within Duratek for Costpoint support. This network will enable faster and more efficient response time to specific reporting needs and system support for the users of the system.

All history for Chem-Nuclear transactions will be maintained by Duratek on the JD Edwards accounting system so data will not be lost as a result of this transition. Also, a

detailed parallel test plan is being implemented to ensure the new system matches the output from the old system when the same data is input to the new system. This parallel test will ensure the new system is functioning properly. There will also be a mapping of JD Edwards chart of account numbers to Costpoint chart of account numbers to assist Commission staff in their audit process. System allocations may be reviewed in advance in order to facilitate audits and understanding of the system. The consolidated accounting system will cost less for Duratek, thereby reducing the amount of cost ultimately to the State.

In summary, the conversion to Costpoint is both reasonable and prudent. History will be maintained and accessible and the project will enhance the responsiveness to the Commission in identification of allowable costs.

ACTIVITIES TO BE REIMBURSED FROM DECOMMISSIONING TRUST FUND: During FY 2002/2003, Chem-Nuclear Systems intends to request approvals from SCDHEC and the Budget and Control Board to install the Phase 6 multi-layer earthen cap over a number of completed disposal trenches. Capping construction will require the use of borrow materials and the most efficient source of those materials would be from an on-site construction project. When the Phase 6 capping project is completed, Chem-Nuclear will have to manage additional surface water runoff during periods of heavy rain. Management of this additional surface water runoff will require expansion of the existing on-site retention ponds. Costs for retention pond expansion will also be requested from the Decommissioning Trust Fund. Conducting the Phase 6 capping project and expansion of the on-site retention ponds concurrently are logical and efficient uses of Decommissioning Trust Fund resources.

TREATMENT OF COSTS ASSOCIATED WITH NEW TRENCH CONSTRUCTION: Costs for constructing additional disposal trenches beginning with costs incurred in FY 2002/2003 will be treated as an expense in the year in which those costs are incurred. As waste volumes decline, it becomes increasingly appropriate to treat these costs as current year expenses when the costs can be offset by larger waste disposal revenues. For new trench constructions, this approach will eliminate the need for a trench amortization cost as the trench is filled.

RETENTION COMPENSATION PLAN: Chem-Nuclear proposes to initiate plans designed to encourage retention of qualified and experienced employees at the disposal site as long as those employees are needed to conduct disposal operations and support. The plans are more fully described in Exhibit D to the Application and in Mr. Voit's Ex. Nos. _____ and _____.

Chem-Nuclear believes that each employee has an ability and responsibility to impact the achievement of Company goals. Further, the Company recognizes the unique situation of declining annual disposal volumes imposed on Chem-Nuclear' disposal operations by state law. The Chem-Nuclear retention compensation plans are designed to provide an opportunity for employees to receive additional compensation based on safe, compliant, and cost efficient operation of the disposal site, and a commitment of an employee to continue his or her position with Chem-Nuclear. The plan aligns the employees' interests with those of Chem-Nuclear' shareholders and the disposal-related financial interests of the State of South Carolina.

EXEMPT LABOR (5111): Anticipated costs will be the same as the FY 2001/2002 experience.

NON-EXEMPT LABOR (5112): Anticipated costs will be the same as the FY 2001/2002 experience.

TEMPORARY LABOR (5312): Anticipated costs will be the same as the FY 2001/2002 experience.

OVERTIME (5119): Anticipated costs will be the same as the FY 2001/2002 experience.

EQUIPMENT (5132,34,35): Anticipated costs will be the same as the FY 2001/2002 experience.

MATERIALS (5142, 43,45): Anticipated costs will be the same as the FY 2001/2002 experience.

AFFILIATED (5151): Anticipated costs will be the same as the FY 2001/2002 experience.

CONTRACT SERVICES (5152): Anticipated costs for FY 2002/2003 will be $43,469 more than the amount identified in the Commission's Order based on additional contract work associated with construction of an operations-related surface water control feature in FY 2002/2003. Contractor costs to install culverts under two state roads will be $33,969. Telephone, power line and drain field relocation will cost $9,500. Total costs in this category for FY 2002/2003 will be consistent with actual costs for 2001/2002.

MAINTENANCE (5156): Anticipated costs will be the same as this year's experience.

LAUNDRY SERVICES (5157): Anticipated costs will be the same as this year's experience.

TRAVEL (5171,72,74): Anticipated costs will be the same as this year's experience.

OTHER DIRECT COSTS (5175): Anticipated costs will be the same as this year's experience.

FEDERAL EXPRESS & POSTAGE (5191): Anticipated costs will be the same as this year's experience.

CALCULATED FRINGE (5249): Anticipated costs will be the same as this year's experience.

R&M EQUIPMENT MAINTENANCE (5303,04): Anticipated costs for FY 2002/2003 will increase from costs incurred in FY 2001/2002 by about $7,390 because of increased maintenance costs for aging equipment at the disposal site.

CAPITALIZED COO (5310): Anticipated costs (credit) will be the same as the FY 2001/2002 experience.

PROJECT COST (5317): Anticipated costs will be the same as the FY 2001/2002 experience.

INSURANCE (5319): The cost for premiums on insurance policies are anticipated to continue to increase. Based on information already available, costs for insurance premiums in FY 2002/2003 will increase over FY 2001/2002 costs for insurance premiums by about $225,055. The following table summarizes the increase in insurance premiums:

INSURANCE POLICY TYPE	DATE OF LAST INCREASE	% INCREASE	EFFECT ON COSTS
General Liability	May 2002	38%	$40,601
Property	May 2002	66%	$178, 887
Business Auto	May 2002	(11%)	($2,675)
Nuclear Facility	May 2002	24%	$268,234
Special Pollution Liability	None (10-year policy)	0%	None

SITE LABOR ALLOCATION (5832): Anticipated costs (credit) will be the same as the FY 2001/2002 experience.

EXEMPT LABOR (6111): Costs for 2002/2003 are anticipated to decrease slightly from the FY 2001/2002 costs due to adjustments in staffing.

NON-EXEMPT LABOR (6112): Costs for 2002/2003 are anticipated to decrease slightly from the FY 2001/2002 costs due to adjustments in staffing.

LABOR ALLOCATION (6117): This credit account is associated with labor and fringe for the support business unit and the Health and Safety personnel. Thirty percent of these labor costs are transferred to other divisions of the company. This category is also associated with labor charges from other divisions of the company related to marketing efforts for disposal operations. The credit amount in this account is anticipated to be about the same as the credit amount in FY 2001/2002.

CALCULATED FRINGE (6149): This account is a credit account associated with labor and fringe for the Barnwell Disposal Operations personnel charging to direct projects and other parent company business units/divisions. All personnel in the Barnwell Disposal Site division are assigned a home business unit and these dollars transfer to the direct calculated fringe (Account Number 5249) as labor costs are charged to direct project numbers. The credit amount in this account is anticipated to be about the same in FY 2002/2003 as it was in FY 2001/2002.

OVERTIME (6119): Anticipated costs will be the same as FY 2001/2002 costs.

ALLOWABLE FRINGE (6120): Anticipated costs will be the same as FY 2001/2002 costs. Although it is reasonable to expect some increase in health insurance costs and workers compensation costs, the magnitude of those increased costs is not fully known.

TRAVEL (7100): Anticipated costs will be about $5,132 less than the indirect travel costs experienced in FY 2001/2002. These anticipated costs will be about $2,436 less than the amounts identified in the Commission's Order.

EMPLOYEE COSTS (7200): Anticipated costs will be the same as the FY 2001/2002 experience.

OFFICE SUPPLIES & EXPENSE (7300): Anticipated costs will be the same as the FY 2001/2002 experience.

BUILDING & UTILITIES (7400): Anticipated costs will be the same as the FY 2001/2002 experience.

SERVICES (7500): Anticipated costs in FY 2002/2003 will be about the same as in the Commission's Order and $289,569 less than the actual costs in FY 2001/2001.

EQUIPMENT (7600): Anticipated costs will be the same as the FY 2001/2002 experience.

DEPRECIATION (7700): Anticipated costs will be the same as the FY 2001/2002 experience.

MANAGEMENT FEES/G&A ALLOCATION (7904): Anticipated costs will be the same as the FY 2001/2002 experience.

INTANGIBLE ASSETS (7725): Costs will be the same as FY 2001/2002.

VARIABLE COSTS

VAULT COSTS AND TRENCH AMORTIZATION (5020 and 5324): Anticipated variable costs in FY 2002/2003 will be about $244,596 more than variable costs associated with disposal of waste received in FY 2001/2002 as a result of a vault price increase by the supplier of concrete disposal vaults. The anticipated variable costs will be approximately $210,561 more than the total variable costs incurred in FY 2001/2002

because of the additional $34,035 variable cost amount incurred in FY 2001/2002 for waste received in FY 2000/2001. The total number of vaults anticipated for FY 2002/2003 will be about the same as the number used in FY 2001/2002. There will likely be some reduction in trench amortization costs if the proposed accounting treatment for new trench construction costs is approved. Based on lower volumes of waste mandated by state law and a decreasing number of vaults to be supplied each year, the supplier has lost the "economies of scale" that have kept vault prices stable over recent years. The current vault production location is near the disposal site and allows us to enjoy lower transportation/delivery costs compared to manufacturing the vaults at another location. The current supplier also maintains an inventory of vaults and delivers vaults to the site on an "as needed" basis thereby eliminating costs that would be associated with an on-site inventory or delays waiting for deliveries from a remote location.

The following table illustrates the increase in vault costs leading to the anticipated increase in variable costs.

TYPE OF VAULT	# USED IN FY 2001/2002	UNIT PRICE	EXTENDED PRICE FY 2001/2002	# ANTICI-PATED FOR FY 2002/2003	NEW PRICE (JUNE 2002)	EXTENDED PRICE FY 2002/2003
Cylindrical	332	$2,597	$862,204	332	$3,116	$1,034,645
Rectangular	49 7	$5,830 $6,996	$285,670 $48,972	56	$6,996	$391,776
Slit Trench	11	$4,452	$48,972	12	$5,342	$64,109
Special CRDM Vault	3	$8,480	$25,440	3	$8,480	$25,440
Special Vaults	2	$11,646	$23,292	2	$11,646	$23,292
Total			$1,294,550			$1,539,262

"Other Allowable Costs" are costs related to disposal operations which are not included in the computation of the twenty-nine percent operating margin in accordance with S.C. Code Section 48-46-40 (B)(5). These costs are anticipated to increase slightly for FY 2002/2003 with an increased volume of waste.

"Other Payments" are payments made in accordance with S.C. Code Section 48-46-40 (D)(1). These costs are not included in the computation of the twenty-nine percent operating margin in accordance with SC Code Section 48-46-40 (B)(5). These costs are anticipated to decrease slightly from costs in FY 2001/2002 based on lower advanced payments to the State.

Segal 2
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RECEIVED 2003 JAN 15 PM 4:17 SC PUBLIC SERVICE COMMISSION
S. C. PUBLIC SERVICE COMMISSION RECEIVED
RECEIVED UTILITIES DEPARTMENT

DIRECT TESTIMONY

OF

REGAN E. VOIT

FOR

CHEM-NUCLEAR SYSTEMS, LLC,
A DIVISION OF DURATEK, INC.

SCPSC DOCKET NO. 2000-366-A
(for Fiscal Year 2002-2003)

Q. PLEASE STATE YOUR NAME, POSITION AND BUSINESS ADDRESS.

A. My name is Regan E. Voit. My business address is 140 Stoneridge Drive, Columbia, South Carolina. I am employed by Chem-Nuclear Systems LLC (Chem-Nuclear) and serve as its President.

Q. PLEASE STATE YOUR EDUCATIONAL BACKGROUND AND PROFESSIONAL EXPERIENCE.

A. I graduated from the University of Virginia with a degree in aerospace engineering and received my MBA from the University of South Carolina. From 1972 to 1976, I served as a United States Naval officer on nuclear submarines. From 1976 to 1980, I worked for the United States Department of Energy at the Savannah River site. My responsibilities there were regulatory oversight of the reactor operations conducted at that facility. These first eight years of my nuclear industry career provided experience about radioactive waste issues from a waste generator's point of view. The next 22 years of my career have been in the radioactive waste management industry.

Q. PLEASE DESCRIBE YOUR GENERAL DUTIES AND RESPONSIBILITIES.

A. From 1980 to 1982, I was employed as a project manager for radioactive decontamination services by Chem-Nuclear. I was responsible for introducing personnel training and technician certification programs for field operations, and establishing detailed operational procedures to refine decontamination services. From 1982 to 1986, I worked as director of waste management services for a new company named NUS Process Services Corporation. There, I established administrative and quality assurance policies. From 1986 to 1989, I worked as vice president of operations for LN Technologies, a provider of services for chemical decontamination and chemical cleaning of radioactive systems, radioactive waste processing, and radioactive waste transportation. In 1990, I returned to Chem-Nuclear as director of projects with responsibility for the financial and technical performance of the major site remediation and decontamination/decommissioning projects performed for the federal government. In 1991, I took responsibility for the financial and technical performance of Chem-Nuclear's field services, where our technicians process, package and transport waste for disposal. In 1993, the financial and technical performance of Chem-Nuclear's radioactive and hazardous waste processing facility in Kingston, Tennessee, was added to my field services responsibilities. In 1995, I was promoted to President of Chem-Nuclear.

I have been an active participant in many professional activities and associations over the years, including the American Nuclear Society, the Nuclear Energy Institute, and the Waste Management Conference Program Advisory Committee. I have served on the South Carolina Chamber of Commerce Board of Directors, on the Executive Committee for Excellence in Education, and as chairman of the Executive Advisory Committee for the South Carolina Quality Forum. I have also served as a business community

representative at the request of our State Superintendent of Education on four advisory committees: the School Accreditation Advisory Committee, the Teacher Education Performance-Based Standards Committee, the 2000 Vision Steering Committee and the Governor's Workforce Education Interim Planning Committee.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. My testimony is intended to summarize how the costs incurred in fiscal year 2001-2002 compared to the costs in the previous fiscal year when more waste was received at the Barnwell disposal site, to summarize our request for allowable costs in fiscal year 2002-2003, to seek approval for those cost categories in which our actual costs in fiscal year 2001-2002 exceeded the levels estimated by the Commission in June 2002, and to summarize how we plan to use the information provided in the Operations and Efficiency Plan which Chem-Nuclear submitted to the Commission in June 2002. The Operations and Efficiency Plan was prepared by an independent consultant in accordance with the Commission's Order No. 2001-499, dated June 1, 2001. My testimony will also summarize our request for Commission approval of our new Costpoint accounting system and the Key Manager and Employee Retention Compensation Plans.

Q. EXHIBIT NO. ____ (REV-1) IS A TABLE THAT SUMMARIZES COST DATA WHICH COMPARES FISCAL YEAR 2000-2001 ALLOWABLE COSTS IDENTIFIED BY THE COMMISSION TO FISCAL YEAR 2001-2002 ACTUAL COSTS. WOULD YOU PLEASE EXPLAIN THE INFORMATION IN THAT TABLE?

A. Yes. The table provides information about allowable costs for the last two fiscal years. Column 3 depicts the total allowable costs identified by the Commission for fiscal year

2000-2001. The amounts are the total of amounts identified in Commission Order Nos. 2001-499 and 2002-395. Column 4 depicts the actual costs that Chem-Nuclear incurred, in fiscal year 2001-2002. The table presents costs in each of the cost categories identified in our Application filed on September 27, 2002, revised slightly on November 7, 2002, and revised again on January 7, 2003.

Q. PLEASE CONTINUE WITH A DESCRIPTION OF THE INFORMATION IN EXHIBIT NO. ___ (REV-1).

A. I want to point out that in 2001-2002 we operated the disposal site at a lower overall cost, both fixed and variable, than in the previous year. The total fixed and variable costs incurred in fiscal year 2001-2002 were $1,268,992 less than the total allowable costs identified by the Commission for fiscal year 2000-2001.

The variable cost reduction is closely related to the waste volume reduction experienced between the two years. In fiscal year 2000-2001, 125,989 cubic feet of waste were received and in fiscal year 2001-2002 only 57,763 cubic feet of waste were received. And, the mix of waste between the two years was also different, which has an impact on the magnitude of the variable cost reduction between the two years.

I also want to point out that the total fixed cost (direct and indirect) are lower than they were in the previous fiscal year. These costs that have been identified as fixed are not necessarily closely related to the volume of waste received at the site. However, with the large reduction in waste received in fiscal year 2001-2002 compared to the previous year we were able to realize some savings in these costs. Our total fixed costs (direct and indirect) in fiscal year 2001-2002 were $116,856 lower than the total allowable fixed costs identified by the Commission for the previous fiscal year. If the one time cost for

the preparation of the Operations and Efficiency Plan is not counted, our fixed costs were lower by $364,253. That cost reduction is apparent when the fixed cost total of column 3 is compared to the same total in column 4 and adjusted for the Operations and Efficiency Plan development and preparation costs.

Q. IS THERE A DIRECT, PROPORTIONAL RELATIONSHIP BETWEEN THE REDUCTION IN WASTE VOLUMES AND THE REDUCTION IN DIRECT COSTS FOR DISPOSAL OPERATIONS?

A. No, there is not. There are several factors that impact the relationship between costs of operating the site safely and in compliance with regulations and the volume of waste received. The "mix of waste" received has an impact on the cost of operations. The "mix of waste" is the relative volumes of class A, B, and C waste received in a given period, the types of packaging the waste is received in, the radiation dose rates on the packages and the rate at which the waste is received. This "mix of waste" is changing from year to year as a result of changes in waste generation on the part of our customers and additional competition in the marketplace for low-level radioactive waste (LLRW) disposal services.

The mix of waste has changed between the start of fiscal year 2000-2001 and now because of three major factors. One factor is the expansion of the license for the Utah disposal site. The overall decline in Class A LLRW receipts over this period is largely a result of changes in the type of waste allowed for disposal at Envirocare of Utah (EoU). In 1997, EoU renewed its Utah radioactive materials license. As additional radionuclides were added to the EoU license, EoU was able to accept more and more low-activity Class A (unstable) waste. EoU received its full Class A license in October 2000. In October

2001, EoU received a license amendment which allowed it to receive all Class A waste in bulk form and containerized Class A waste once procedures were in place. EoU received its first shipments of containerized Class A waste in late 2001. Much of the containerized Class A waste is Class A (stable) waste.

That license expansion allowed the Utah site to compete for waste, which before would have been shipped to the Barnwell site. Since Utah disposal rates are significantly lower than the Barnwell rates, customers started getting contracts in place with the Utah site and prepared themselves to ship to that site. Gradually over this two and one-half year period, the Class A waste and then the containerized Class A waste volumes to Barnwell have decreased significantly as a result of the Utah license expansion and the low prices. This situation will likely continue to change as the Utah site works toward expanding their existing license again to accept Class B and C waste.

A second factor involves the Utah disposal site class A waste tax referendum which was voted on by the people of Utah in November 2002. The referendum, if passed, would have placed significant taxes on waste received in Utah and therefore made the Barnwell facility more competitive with Utah. During 2002, many generators waited to see the outcome of the vote and they stored their waste in the interim. Since the referendum did not pass, we again expect a changed waste mix in 2003. The following table shows the significant reduction in class A waste over the past several years. The volumes (in cubic feet) of waste received for disposal at Barnwell by waste classification over the past several years are shown in the following table.

Waste Class	FY 99-00	FY 00-01	FY 01-02
Class A (stable)	66,978	52,352	18,398
Class A (unstable)	51,677	33,604	16,681
Class B	22,054	19,804	12,128
Class C	11,110	20,228	10,556
Totals	151,819	125,988	57,763

A third factor is the change in waste generation by the customers. During 2002, the large reactor decommissioning projects were finishing. The significant waste volumes of class A waste from these projects have been processed and disposed of. Again, we expect a changed waste mix in 2003 as a result of this market change.

This dynamic market situation makes it difficult to predict costs accurately by comparing one operating year to another. An accurate direct proportional relationship cannot be established under these changing conditions. For planning purposes, we have to be staffed, equipped, and ready to receive the maximum amount of waste allowed by law at our site each year. Later in my testimony, I have included further explanation about why costs of operation are not directly proportional to waste volumes received.

Although we experienced an overall reduction in the fixed costs (direct and indirect) associated with waste disposal operations, the magnitude of that cost reduction (a 5% decrease) was less than the magnitude of the volume reduction (a 54% decrease) in waste received. An example that can be used to demonstrate this complex relationship is to look at the labor hours associated with disposal operations. Between the two years 4,921 fewer man-hours were associated with disposal operations.

The labor hour reduction is not directly proportional to the waste volume reduction experienced at the site for several reasons. One reason for this is the result of

changes in the waste mix. The following table summarizes waste volume and waste shipments received during fiscal year 2000-2001 and fiscal year 2001-2002.

	FY 00-01	FY 01-02	FY 01-02 as a percentage of FY 00-01
Total Shipments	802	457	57.0%
Total Volume	125,989.19	57,763.14	45.8%
Number of vans/flatbeds	153	126	82.4%
Van volume	35,139.02	15,877.01	45.2%
Average van/flatbed volume	229.67	126.01	54.9%
Number of casks	649	331	51.0%
Cask Volume	90,850.17	41,886.14	46.1%
Average cask volume	139.98	126.54	90.4%

Some relevant observations can be made from this data. The total van/flatbed waste volume dropped by half during fiscal year 2001-2002, yet the waste arrived in almost the same number of vehicles (126 vs. 153). With the lower average volume per van shipment in fiscal year 2001-2002, 57 more van shipments were required to deliver 15,877 cubic feet of waste than would have been required at the average volume per van experienced in fiscal year 2000-2001.

Similarly, with the lower average volume per cask shipment in fiscal year 2001-2002, 32 more cask shipments were required to deliver 41,886 cubic feet of waste than would have been required at the average volume per cask experienced in fiscal year 2000-2001. Therefore, the labor hours required at the trench to offload a cumulative volume of cask-loaded waste received in fiscal year 2001-2002 were proportionally higher than in fiscal year 2000-2001 because of the additional shipments required.

The relatively higher number of shipments for fiscal year 2001-2002 due to the lower volume per shipment represents one reason for the fact that labor hours do not

follow waste volume in a direct relationship. Each shipment requires radiological surveys, documentation processing, and other handling factors that may be largely independent of waste volume. Another factor affecting the number of man-hours required to offload a volume of cask-loaded waste is the type of cask in which the waste is shipped. Type B casks are becoming more prevalent at the Barnwell disposal site because of the type of waste being shipped. A type B cask requires more labor at the Cask Maintenance Building at the disposal site to remove the impact limiter, prepare the cask for offload operations, and then reinstall the impact limiter following offload of the waste package.

Another reason that there is not a direct relationship between labor hours and waste volume received is that there are full time administrative labor functions that must be performed to support the actual handling of the waste. Currently, the labor costs for these administrative functions are collected under the same project number as the costs for operational labor. The activities included under that project number are:

a. Waste receipt, radiological surveys, Quality Control inspections, transportation unit preparation for offload, waste offload, post offload radiological surveys and decontamination of the transportation unit (if required), and preparation of the transportation unit for dispatch from the disposal site;

b. Waste form and waste shipment reviews and approvals for acceptance by Chem-Nuclear and DHEC;

c. Direct supervision of waste disposal activities;

d. Clerical support and records maintenance for disposal operations supervisors;

e. Radiological surveys and monitoring of disposal operations;

f. Instrument calibration for disposal site radiological survey instruments;

g. DHEC and Chem-Nuclear waste package inspections;

h. Placement of concrete disposal vaults;

i. Operational checks of cranes and forklifts;

j. Trench and disposal site walk-over inspections done monthly and after periods of inclement weather;

k. Monthly safety meeting for disposal site operations personnel;

l. Daily pre-shift operations briefings, periodic refresher training on procedures;

m. Annual re-qualification training and testing for disposal operations personnel;

n. Disposal procedure preparation, review, and distribution;

o. Engineering support for disposal site operations;

p. Housekeeping tasks in and around operations areas;

q. Personnel dosimetry support for disposal site operations personnel;

r. Environmental laboratory support of disposal site operations (samples, analyses, and evaluation);

s. Receipt inspections for disposal site materials;

t. Management of surface rainwater accumulation in active trenches; and

u. Waste shipment scheduling, waste data processing, resolution of any shipment documentation discrepancies, and waste database management.

The grouping of these multiple tasks into a single project number creates a very complex relationship between labor hours and waste volume received. Therefore, under the existing accounting structure, data is not readily available to enable us to establish a precise relationship between the volume of waste received for disposal and the man-hours involved in the direct tasks associated with waste receipts and disposal. Later in my testimony I will discuss our plans for the eventual use of the findings and recommendations from the Operations and Efficiency Plan, which was submitted in June 2002. That Plan suggests a work breakdown structure that could be used to collect data in future years which might be used to more clearly define the relationship between labor and waste volume receipts.

Q. IS CHEM-NUCLEAR REQUESTING THE COMMISSION TO ADJUST THE LEVELS OF COSTS IDENTIFIED IN ORDER NO. 2002-395?

A. For fiscal year 2001-2002, we are requesting a change to the levels of costs identified in Commission Order No. 2002-395, issued on June 3, 2002. Part of our request in this proceeding before the Commission is to seek approval for those cost categories in which our actual costs exceeded the levels estimated by the Commission in June of 2001. Those costs are described in column 6 of Exhibit A of our Application. The Atlantic Compact Commission Act anticipated that a disposal facility operator's actual costs might exceed the allowable costs which the Commission had previously identified and provided the procedural mechanism to enable the operator to compensate for costs not recovered in the previous fiscal year. Our Application relies on, and follows, that statutory procedure.

Q. THE COMMISSION'S ORDER NO. 2001-499 DIRECTED CHEM-NUCLEAR TO CONTRACT WITH A THIRD PARTY TO PREPARE AN OPERATION AND EFFICIENCY PLAN FOR THE OPERATION OF THE BARNWELL DISPOSAL SITE. WOULD YOU PLEASE DESCRIBE HOW CHEM-NUCLEAR COMPLIED WITH THAT PORTION OF THE ORDER?

A. Yes. In its Order No. 2001-499, dated June 1, 2001, at the conclusion of our first proceeding under the Atlantic Compact Commission Act, the Commission directed Chem-Nuclear to provide " an operations and efficiency plan for the Barnwell facility prepared by an independent, qualified party." That Order provided some requirements for the scope of the plan and directed Chem-Nuclear to submit to the Commission any request for proposals or outline of the plan for approval prior to the initiation of any work on the preparation of the plan. Finally, Order No. 2001-499 required the submission of the plan prior to June 30, 2002, and stated that the plan's findings and recommendations would be reviewed and considered by the Commission in subsequent hearings.

On November 7, 2001, Chem-Nuclear submitted a draft request for proposals ("RFP") for the preparation of the operations and efficiency plan which the Commission had directed.

On January 7, 2002, the Commission issued Order No. 2002-1 by which the Commission approved the RFP. Order No. 2002-1 stated the Commission's belief that "the RFP criteria are appropriate in allowing a contractor to develop the proper plan outline to assist [Chem-Nuclear] in the development of the required least-cost operating strategies for the future."

Thereafter, Chem-Nuclear published the approved RFP. After review of responses to the RFP, Chem-Nuclear selected Project Time and Cost, Inc., as the contractor for preparation of the operations and efficiency plan. On April 22, 2002, Chem-Nuclear filed with the Commission the accepted proposal from Project Time and Cost, Inc.

On June 26, 2002, as required by Order No. 2001-499, Chem-Nuclear filed with the Commission the Operations and Efficiency Plan which Project Time and Cost, Inc., had prepared. In our response to the requirements of Order No. 2001-499, we have fully complied with the Commission's directives.

Q. DURING THE FISCAL YEAR 2001-2002, WHAT WERE THE COSTS WHICH CHEM-NUCLEAR INCURRED FOR PREPARATION OF THE OPERATIONS AND EFFICIENCY PLAN?

A. During the 2001-2002 fiscal year, we incurred total costs of $247,397 for the preparation of the Operations and Efficiency Plan. Chem-Nuclear incurred those costs as a direct result of the requirement which the Commission imposed by Order No. 2001-499. Since we incurred the costs for activities necessary for Chem-Nuclear to comply with that regulatory requirement, they are specifically "allowable costs" under Section 48-46-40(B)(3)(j) of the Atlantic Compact Act, and we have included them in the costs to be identified by the Commission in this proceeding.

Q. PLEASE COMMENT ON YOUR INTENDED USE OF THE OPERATIONS AND EFFICIENCY PLAN.

A. The Operations and Efficiency Plan provides a work breakdown structure for the disposal operations that Chem-Nuclear believes could prove beneficial for communicating and

justifying the costs incurred in performing radioactive waste disposal activities in Barnwell. The Plan may also be beneficial in identifying fixed cost components and variable cost components.

Chem-Nuclear plans to align the new Costpoint accounting system with a work breakdown structure like the one identified in the Operations and Efficiency Plan so that actual cost experience can be compared more directly to the estimates made in the Operations and Efficiency Plan work breakdown structure format. This data collection will begin early in 2003 after the new accounts are established and employees are trained in new time keeping practices.

In addition, Chem-Nuclear staff and the staff of the State Budget and Control Board have been meeting to discuss the Operations and Efficiency Plan and to study how the data in the plan might best be applied to the Commission's allowable cost proceedings. On November 27, 2002, a joint statement from Chem-Nuclear and the State Budget and Control Board staff was submitted to the Commission, the Commission staff and all parties of record. The statement describes the initial work done by the parties to evaluate the information in the Operations Efficiency Plan and our proposal to have further discussions through the first half of 2003 such that one or both parties could make recommendations about how the information in the plan could be used in allowable cost proceedings for fiscal year 2003-2004 and beyond.

Q. IN JULY 2002, CHEM-NUCLEAR BEGAN USING THE COSTPOINT ACCOUNTING SYSTEM INSTEAD OF THE J.D. EDWARDS ACCOUNTING SYSTEM. IS CHEM-NUCLEAR REQUESTING THAT THE COMMISSION APPROVE THE USE OF THE NEW ACCOUNTING SYSTEM?

A. Yes. Duratek, Inc., the parent company of Chem-Nuclear, has made the conversion of all its operating groups and subsidiaries to the Costpoint accounting system. Carol Ann Hurst will provide testimony that describes the advantages of this system over the previous accounting system we were using. While we have retained availability and access to the J.D. Edwards system, use of the Costpoint system is already demonstrating its viability and accuracy in reporting its overall efficiency. Historical data from past years will be maintained on the old accounting system and there is a complete mapping of the chart of accounts from the old to the new system. The annual cost to Chem-Nuclear for making the transition to the new system and maintaining it is $4,800 less than the annual cost of using and maintaining the J.D. Edwards Accounting system.

Q. IS CHEM-NUCLEAR REQUESTING APPROVAL OF A RETENTION COMPENSATION PLAN FOR EMPLOYEES AT THE BARNWELL DISPOSAL FACILITY?

A. Yes. The Atlantic Compact Act created a unique situation where the legislated reduction in waste receipts creates uncertainty about job security for employees at the Chem-Nuclear disposal site. With job opportunities likely to increase at the Savannah River Site as the mixed oxide fuel reactor project begins, and as other local job opportunities develop for Chem-Nuclear people at the industrial parks in Barnwell, Snelling, Blackville and Williston, we want to provide our people additional motivation to continue employment at the Barnwell site. We need the skills we have developed and relied upon through the years to continue safe and compliant operations, and we also need to have the proper labor skills on staff to place the site into closure. The Retention Compensation Plans that are provided as Exhibit Nos. ____ and ____ (REV-2 and REV-3), and which

are contained in revised Exhibit D to our Application, are slightly revised to change the criteria for receiving the compensation from the ones included originally with our Application. Revisions to the plans were prepared in close cooperation with the State Budget and Control Board Staff. The plans are designed to provide an opportunity for employees to receive additional compensation based on safe, compliant, and cost effective operation of the disposal site, and a commitment by participating employees to continue their positions with Chem-Nuclear. The plans align the employees' interests with those of Chem-Nuclear shareholders and the disposal-related financial interests of the State of South Carolina. These plans are very important components that support our efforts to keep the experienced work force we have in Barnwell in place, so that we can manage any future reduction in force with no negative impact to operations.

Q. DOES THAT CONCLUDE YOUR DIRECT TESTIMONY?

A. Yes

Chem-Nuclear Sustems, LLC
Barnwell Disposal Site

EXHIBIT NO. _____ (REV-1)

	Chart of Accounts	PSC Order 2002-395 and 2001-499 for FY 00/01	Actual Allowable Costs FY 01/02 as Requested in the Application	Difference FY 01/02 – FY 00/01
1	2	3	4	5
Cubic Feet		125,989	57,759	(68,230)
Allowable Cost of Operations				
Exempt Labor	5,111	587,952	559,796	(28,156)
Non-Exempt Labor	5,112	851,472	835,552	(15,920)
Temporary Labor	5,312	110,926	9,152	(101,774)
Overtime	5,119	71,215	41,398	(29,817)
Equipment	51,323,435	282,165	231,030	(51,135)
Materials	51,424,345	76,302	38,006	(38,296)
Affiliated	5,151	77,505	82,945	5,440
Contract Services	5,152	134,222	163,317	29,095
Maintenance	5,156	20,374	19,329	(1,045)
Laundry Services	5,157	8,707	3,138	(5,569)
Travel	51,717,274	10,798	4,550	(6,248)
Other Direct Costs	5,175	66,158	50,773	(15,385)
Federal Express & Postage	519,192	1,630	5,140	3,510
Calculated Fringe	5,249	504,813	476,332	(28,481)
R&M Equipment Maint	530,304	96,215	77,610	(18,605)
Capitalized COO	5,310	(52,253)	(29,538)	22,715
Project Cost	5,317	80,673	46,214	(34,459)
Insurance Premiums	5,319	454,191	462,193	8,002
Site Labor Allocation	5,832	(71,686)	(11,448)	60,238
DIRECT COSTS		3,311,379	3,065,489	(245,890)
Exempt Labor	6,111	621,751	732,967	111,216
Non-Exempt Labor	6,112	210,027	225,963	15,936
Labor Allocation	6,117	(134,950)	(130,647)	4,303
Calculated Fringe	6,149	(550,721)	(604,684)	(53,963)
Overtime	6,119	1,336	1,630	294
Allowable Fringe	6,120	947,361	1,054,859	107,498
Travel	7,100	65,417	59,132	(6,285)
Employee Costs	7,200	63,887	94,284	30,397
Office Supplies & Expense	7,300	138,094	93,101	(44,993)
Building & Utilities	7,400	138,189	139,193	1,004
Services	7,500	308,790	(see note 1) 535,200	226,410
Equipment	7,600	88,767	85,324	(3,443)
Depreciation	7,700	457,444	379,079	(78,365)
Management Fees/G&A Allocation	7,904	832,210	651,235	(180,975)
Intangible Asset		625,000	625,000	-
Indirect Cost		3,812,602	3,941,636	129,034
Total Fixed Costs (Direct & Indirect)		7,123,981	7,007,125	(116,856)
Allowable Variable Cost: Disp Exp Vault Costs/Trench Amortize.	50,205,324	2,638,095	1,485,959	(1,152,136)
Total Allowable Fixed and Variable Costs		9,762,076	8,493,084	(1,268,992)

Note 1—This number is changed from the application to reflect the $7,500 error in the application as discussed in Carol Ann Hurst's testimony.

CHEM-NUCLEAR SYSTEMS EMPLOYEE RETENTION COMPENSATION PLAN

Background
Chem-Nuclear Systems operates a commercial low-level radioactive waste (LLRW) disposal site located in Barnwell, SC. In return for the safe and efficient disposal of LLRW, the disposal site earns revenue for the financial benefit of both Chem-Nuclear Systems and the State of South Carolina. This unique public-private partnership is governed by South Carolina law specified in the Atlantic Interstate Low-Level Radioactive Waste Compact Implementation Act.

Objective
Chem-Nuclear believes that each employee has an ability and responsibility to impact the achievement of Company goals. Further, the company recognizes the unique situation of declining annual volumes imposed on Chem-Nuclear's disposal operations by state law. The Chem-Nuclear Systems Employee Retention Compensation Plan is designed to provide an opportunity for employees to receive additional compensation based on safe, compliant, and cost efficient operation of the disposal site and a commitment of an employee to continue his or her position with Chem-Nuclear. This plan aligns the employees' interests with those of Chem-Nuclear's shareholders and the disposal-related financial interests of the State of South Carolina.

Eligibility
All non-union employees of Chem-Nuclear Systems are eligible to participate in the Chem-Nuclear Systems Employee Retention Compensation Plan. To qualify for compensation from this plan, the employee must receive an overall performance evaluation of 2 or higher, not be on probation at the end of the plan year or time of award and must be employed by Chem-Nuclear at the time the payment is made. Employees hired during the Plan year will receive a pro-rata compensation based upon their length of service during the Plan year. Should participants be absent for a portion of the Plan year due to Leave of Absence or Long-Term Disability, those periods will be excluded and the compensation pro-rated.

Plan Year
Consistent with the State of South Carolina's Fiscal Year, the Plan Year will be July 1 – June 30, until otherwise modified.

Plan Design
The Chem-Nuclear Systems Employee Retention Compensation Plan is designed to retain qualified, experienced individuals and to encourage participants to contribute toward achievement of Chem-Nuclear Systems, and State of South Carolina performance goals and continued safe operation of the disposal site. Safety and Environmental Compliance and cost controls are key factors in the calculation of retention compensation from this program. The compensation will be calculated as a percentage of the participant's base salary at the end of the Plan Year. Attachment A defines the measures

that will be used to determine how much the retention compensation will be for each employee participating in the program. These measures will be approved each year by the South Carolina Budget and Control Board. Attachment A provides an example of the calculation. The plan will be communicated to each Chem-Nuclear Systems employee by a letter each year.

Retention Compensation Payment

Retention compensation payouts will be calculated as an amount up to 4% of the participant's base annual salary at the end of the Plan Year and based on the goals achieved. Fifty five percent (55%) of the payout will be paid to all eligible participants within 60 days following the close of the Plan Year. The remaining forty five percent (45%) will be held by the company for the employee and will be paid to the employee if the employee is terminated as a result of reduction-in-force, retirement, disability or death. Retention compensation will be paid through payroll and will be subject to all applicable taxes.

An amount equal to 0.33% ($1/12^{th}$ of 4%) of each eligible participant's base salary will be accrued as an expense each month and placed on the balance sheet. When the actual payout is made to employees each year, the balance sheet will be adjusted by that amount. The amounts to be paid out and retained each year will be calculated in a manner similar to that shown in Attachment A. Methods of accounting for this additional compensation expense are described in Attachment B.

Employment Termination

Participants who resign or are terminated for cause by the company during the Plan Year will not participate in any part of the retention compensation program for that year, and they will not receive any amounts of retention compensation, which might have been reserved for them from previous years employment. If the termination results from reduction-in-force, retirement, disability or death, the accumulated amount of retention compensation held for the participant and a pro-rata portion of the current year earned retention compensation will be paid at the same time it is paid to active employees. This pro-rata calculation will be based on the portion of the year that has elapsed at the date of termination.

Right to Modify Plan

Chem-Nuclear Systems may amend or terminate this Plan for any subsequent year upon approval from the State Budget and Control Board and the Public Service Commission, and prior notification to Chem-Nuclear employees. If the Plan is terminated, participants will be paid the accumulated amount of retention compensation held for them at the time of termination along with 100% of the earned amount for the fiscal year that was completed prior to the termination.

Attachment A
Chem-Nuclear Systems Employee Retention Compensation Plan

Example Calculation

Goal (results of previous 12 months)	% of Total	% of Base Salary	Example $30,000 Base Salary	Example 55% Payout	Example 45% Held for Employee
A. No significant notices of violation (NOV)	15%	0.6%	$180.00	$99.00	$81.00
B. Number of OSHA recordable accidents: two or less	10%	0.4%	$120.00	$66.00	$54.00
C. Number of lost workday accidents: zero	20%	0.8%	$240.00	$132.00	$108.00
D. Indivdual employee performance rating: Rating of 2 equates to 2%; Rating of 3 equates to 8%; Rating of 4 or higher equates to 10%.	10%	0.4%	$120.00	$66.00	$54.00
E. Maximize Dollars earned for South Carolina during the fiscal year. See the attached table for specific payment schedule.	40%	1.6%	$480.00	$264.00	$216.00
F. Completion of B&CB authorized decommission-ing activities within budget. Note1	5%	0.2%	$60.00	$33.00	$27.00
	100%	4.0%	$1,200.00	$660.00	$540.00

Note 1: In those years when no decommissioning activity is authorized, the percentage associated with Category F will be combined into Category E.

Attachment B Chem-Nuclear Systems Employee Retention Compensation Plan

Accounting Methods

An amount equal to 0.33% (1/12th of 4%) of each eligible participants base salary will be accrued as an expense each month and placed on the balance sheet. Sixty days following the close of the Plan Year the compensation amount will be calculated based on the goals achieved, and fifty-five percent (55%) of that amount paid to each eligible employee as an allowable cost. The balance sheet will be adjusted to reflect the actual amounts paid to eligible employees.

Forty five percent of the calculated compensation amount will be held on the balance sheet by the company for the employee and will be paid to the employee upon termination by reduction-in-force, retirement, disability or death. During each accounting period this 45% amount is held, it is counted as a non-allowable cost. When the 45% amount is paid to the employee, it becomes an allowable cost.

In the event that some amount will be neither paid out nor held based on not meeting goals in a Plan Year or premature departure of the employee, that amount becomes a credit to expense in the appropriate allowable/non-allowable category and the balance sheet will be adjusted accordingly.

Example:

1. Accrual (Allowable and Unallowable until payment)
2. Payout each year
3. Payout by termination
4. Reduction of accrual

Retention Expense

(1) 55% accrual	
(1) 45% accrual	
	(4) Reduction

Acct. 20508-0101 (Liab. BS)

	(1) 55%
	(1) 45%
(2) 55% payout	
(3) 45% payout	
(4) Reduction	

Cash

	(2) 55% payout each Plan Yr
	(3) 45% payout at termination

Projections of percent retention compensation earned based on dollars for South Carolina in remaining fiscal years

	FY02/03	FY03/04	FY04/05	FY05/06	FY06/07	FY07/08
Site cap	70,000	60,000	50,000	45,000	40,000	35,000
$ for S.C.**	***Percent Earned***					
$10,700,000						3
$10,900,000						6
$11,100,000						9
$11,300,000						12
$11,500,000						15
$11,700,000						18
$11,900,000						21
$12,100,000					3	24
$12,300,000					6	27
$12,500,000					9	30
$12,700,000					12	31
$12,900,000					15	32
$13,100,000					18	33
$13,300,000				3	21	34
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$13,700,000				9	27	36
$13,900,000				12	30	37
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$14,300,000				18	32	39
$14,500,000			3	21	33	40
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$20,700,000	18	38				
$20,900,000	21	39				
$21,100,000	24	40				
$21,300,000	27					
$21,500,000	**30**					
$21,700,000	31					
$21,900,000	32					
$22,100,000	33					
$22,300,000	34					
$22,500,000	35					
$22,700,000	36					
$22,900,000	37					
$23,100,000	38					
$23,300,000	39					
$23,500,000	40					

*Deduct 90% of disposal fee received during fiscal year for any Reactor Pressure Vessels received

**$ for S.C. is equal to net deposits into education accounts plus amount for Barnwell County and S.C. generator rebates based upon laws and agreements in place at the beginning of each fiscal year.

Shaded area contains preliminary estimates. Actual scale must be renegotiated each year if requested by Chem-Nuclear, the Public Service Commission or the Budget and Control Board.

CHEM-NUCLEAR SYSTEMS KEY MANAGER RETENTION COMPENSATION PLAN

Background

Chem-Nuclear Systems operates a commercial low-level radioactive waste (LLRW) disposal site located in Barnwell, SC. In return for the safe and efficient disposal of LLRW, the disposal site earns revenue for the financial benefit of both Chem-Nuclear Systems and the State of South Carolina. This unique public-private partnership is governed by South Carolina law specified in the Atlantic Interstate Low-Level Radioactive Waste Compact Implementation Act.

Objective

Chem-Nuclear believes that certain key managers have an ability and responsibility to significantly impact the achievement of Company goals. Further, the company recognizes the unique situation of declining annual volumes imposed on Chem-Nuclear's disposal operations by state law. The Chem-Nuclear Systems Key Manager Retention Compensation Plan is designed to provide an opportunity for the key managers to receive additional compensation based on safe, compliant, and cost efficient operation of the disposal site and a commitment from those managers to continue their position with Chem-Nuclear. This plan aligns the management team's interests with those of Chem-Nuclear's shareholders and the disposal-related financial interests of the State of South Carolina.

Eligibility

The Chem-Nuclear Systems Key Managers specified on page two are eligible to participate in the Chem-Nuclear Systems Key Manager Retention Compensation Plan. To qualify for compensation from this plan, the manager must receive an overall performance evaluation of 2 or higher, not be on probation at the end of the plan year or time of award and must be employed by Chem-Nuclear at the time the payment is made. Managers hired during the Plan year will receive a pro-rata compensation based upon their length of service during the Plan year. Should participants be absent for a portion of the Plan year due to Leave of Absence or Long-Term Disability, those periods will be excluded and the compensation pro-rated.

Plan Year

Consistent with the State of South Carolina's Fiscal Year, the Plan Year will be July 1 – June 30, until otherwise modified.

Plan Design

The Chem-Nuclear Systems Key Manager Retention Compensation Plan is designed to retain qualified, experienced individuals and to encourage participants to contribute toward achievement of Chem-Nuclear Systems, and State of South Carolina performance goals and continued safe operation of the disposal site. Safety and Environmental Compliance and cost controls are key factors in the calculation of retention compensation from this program. The compensation will be calculated as a percentage of the

participant's base salary at the end of the Plan Year. Attachment A defines the measures that will be used to determine how much the retention compensation will be for each manager participating in the program. These measures will be approved each year by the South Carolina Budget and Control Board. Attachment A provides an example of the calculation. The plan will be communicated to each manager participating in the program each year.

Retention Compensation Payment
Retention compensation payouts will be calculated as a percentage of the participant's base annual salary at the end of the Plan Year in accordance with the following table and based on the goals achieved.

POSITION TITLE	% OF BASE ANNUAL SALARY
Vice President Disposal Operations	20
Vice President ESHQA	10
Senior Manager, Environmental Programs	10
Senior Project Geotechnical Engineer	8
Controller	8

Fifty five percent (55%) of the payout will be paid to all eligible participants within 60 days following the close of the Plan Year. The remaining forty five percent (45%) will be held by the company for the manager and will be paid to the manager if the manager is terminated as a result of reduction-in-force, retirement, disability or death. Retention compensation will be paid through payroll and will be subject to all applicable taxes.

An amount equal to $1/12^{th}$ of each eligible participant's base salary times the retention compensation payout percentage for that management position will be accrued as an expense each month and placed on the balance sheet. When the actual payout is made to managers each year, the balance sheet will be adjusted by that amount. The amounts to be paid out and retained each year will be calculated in a manner similar to that shown in Attachment A. Methods of accounting for this additional compensation expense are described in Attachment B.

Employment Termination
Participants who resign or are terminated for cause by the company during the Plan Year will not participate in any part of the retention compensation program for that year, and they will not receive any amounts of retention compensation, which might have been reserved for them from previous years employment. If the termination results from reduction-in-force, retirement, disability or death, the accumulated amount of retention compensation held for the participant and a pro-rata portion of the current year earned retention compensation will be paid at the same time it is paid to active employees. This pro-rata calculation will be based on the portion of the year that has elapsed at the date of termination.

Right to Modify Plan

Chem-Nuclear Systems may amend or terminate this Plan for any subsequent year upon approval from the State Budget and Control Board and the Public Service Commission, and prior notification to Chem-Nuclear Systems employees. If the Plan is terminated, participants will be paid the accumulated amount of retention compensation held for them at the time of termination along with 100% of the earned amount for the fiscal year that was completed prior to the termination.

Attachment A
Chem-Nuclear Systems Key Manager Retention Compensation Plan

Example Calculation

Goal (results of previous 12 months)	% of Total	% of Base Salary	Example $75,000 Base Salary	Example 55% Payout	Example 45% Held for Employee
A. No significant notices of violation (NOV)	15%	1.5%	$1,125.00	$618.75	$506.25
B. Number of OSHA recordable accidents: two or less	10%	1.0%	$750.00	$412.50	$337.50
C. Number of lost workday accidents: zero	20%	2.0%	$1,500.00	$825.00	$675.00
D. Indivdual employee performance rating: Rating of 2 equates to 3%; Rating of 3 equates to 8%; Rating of 4 or higher equates to 10%.	10%	1.0%	$750.00	$412.50	$337.50
E. Maximize dollars earned for South Carolina during the fiscal year. See the attached table for specific payment schedule.	40%	4.0%	$3,000.00	$1,650.00	$1,350.00
F. Completion of B&CB authorized decommission-ing activities within budget.[1]	5%	0.5%	$375.00	$206.25	$168.75
	100%	10.0%	$7,500.00	$4,125.00	$3,375.00

Note 1: In those years when no decommissioning activity is authorized, the percentage associated with Category F will be combined into Category E.

Attachment B Chem-Nuclear Systems Key Manager Retention Compensation Plan

Accounting Methods

An amount equal to 1/12th of each eligible participant's base salary times the retention compensation payout percentage for that management position will be accrued as an expense each month and placed on the balance sheet. Sixty days following the close of the Plan Year the compensation amount will be calculated based on the goals achieved, and fifty-five percent (55%) of that amount paid to each eligible employee as an allowable cost. The balance sheet will be adjusted to reflect the actual amount paid to eligible employees.

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