In re: Application of Chem-Nuclear Systems, LLC, for Adjustment in Levels of Allowable Costs and for Identification of Allowable Costs (FY 2010-2011)

STATE OF SOUTH CAROLINA

BEFORE THE
(Caption of Case)
PUBLIC SERVICE COMMISSION
OF SOUTH CAROLINA

COVER SHEET

DOCKET
NUMBER: 2000 - 366 - A

(Please type or print)

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DOCKETING INFORMATION (Check all that apply)

☐ Emergency Relief demanded in petition ☐ Request for item to be placed on Commission's Agenda expeditiously

☐ Other:

INDUSTRY (Check one)	NATURE OF ACTION (Check all that apply)		
☐ Electric	☐ Affidavit	☐ Letter	☐ Request
☐ Electric/Gas	☐ Agreement	☐ Memorandum	☐ Request for Certificatio
☐ Electric/Telecommunications	☐ Answer	☐ Motion	☐ Request for Investigatior
☐ Electric/Water	☐ Appellate Review	☐ Objection	☐ Resale Agreement
☐ Electric/Water/Telecom.	☐ Application	☐ Petition	☐ Resale Amendment
☐ Electric/Water/Sewer	☐ Brief	☐ Petition for Reconsideration	☐ Reservation Letter
☐ Gas	☐ Certificate	☐ Petition for Rulemaking	☐ Response
☐ Railroad	☐ Comments	☐ Petition for Rule to Show Cause	☐ Response to Discovery
☐ Sewer	☐ Complaint	☐ Petition to Intervene	☐ Return to Petition
☐ Telecommunications	☐ Consent Order	☐ Petition to Intervene Out of Time	☐ Stipulation

- [ ] Transportation
- [ ] Water
- [ ] Water/Sewer
- [x] Administrative Matter
- [ ] Other:

- [ ] Discovery
- [ ] Exhibit
- [ ] Expedited Consideration
- [ ] Interconnection Agreement
- [ ] Interconnection Amendment
- [ ] Late-Filed Exhibit

- [x] Prefiled Testimony
- [ ] Promotion
- [ ] Proposed Order
- [ ] Protest
- [ ] Publisher's Affidavit
- [ ] Report

- [ ] Subpoena
- [ ] Tariff
- [ ] Other:

BEFORE
THE PUBLIC SERVICE COMMISSION
OF
SOUTH CAROLINA

Docket No. 2000-366-A
(Year 2010-2011 Proceeding)

DIRECT TESTIMONY
of

JAMES W. LATHAM

for
CHEM-NUCLEAR SYSTEMS, L.L.C.

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

A. My name is James W. Latham. My business address is 740 Osborn Road, Barnwell, South Carolina. I am employed by Chem-Nuclear Systems, LLC (Chem-Nuclear), a wholly-owned subsidiary of Duratek, Inc. which is, in turn, a wholly-owned subsidiary of Energy*Solutions,* LLC. I am Chem-Nuclear's President and concurrently its Vice President for Barnwell Operations. As Vice President for Barnwell Operations, I am responsible for the safe and proper disposal of low-level radioactive waste received at the disposal facility in accordance with the company's South Carolina Radioactive Material License. I am also responsible for management, supervision and administration of disposal operations personnel, equipment and buildings. I am frequently a key point of contact between the company and local community leaders and members of the public. I have been in my current operations position in Barnwell since July 1996.

Q. PLEASE STATE YOUR EDUCATIONAL BACKGROUND AND PROFESSIONAL EXPERIENCE.

A. I graduated from the United States Naval Academy with a Bachelor of Science degree. I served in the United States Navy for twenty years in various assignments associated with nuclear powered submarines. I have worked for Chem-Nuclear since 1989. From 1989 to 1991, I was a project manager planning and directing field projects for Chem-Nuclear. I was assigned to Chem-Nuclear's new disposal site development office in Harrisburg, Pennsylvania from 1991 to 1996. During my five years in the Pennsylvania Project Office, I held a number of positions including engineering director, deputy project manager, and acting project manager. I have been at Chem-Nuclear's disposal facility in Barnwell since July 1996, first as General Manager for Disposal Operations and then as Vice President for Barnwell Operations. I was assigned the concurrent position of Chem-Nuclear's President in August 2006.

Q. HAVE YOU PREVIOUSLY PROVIDED TESTIMONY BEFORE THE PULIC SERVICE COMMISSION?

A. I previously provided testimony at Public Service Commission proceedings regarding disposal site allowable costs in 2002, 2005, 2006, 2007, 2008, 2009, and 2010.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. My testimony will provide information to the Commission about the disposal site and facility operations as those matters relate to disposal of low-level radioactive waste at the disposal facility located in Barnwell County, South Carolina. I will provide a brief background on the general process we have used in this proceeding for identifying the allowable costs associated with our low-level radioactive waste disposal business. I have included an Amended Application for identification of allowable costs as an

exhibit to my testimony. I will explain the differences between this Amended Application and the original Application we submitted in September 2010. The Amended Application reflects the agreements we reached with the Office of Regulatory Staff (ORS) during their audit of our allowable costs. Each year, ORS conducts a detailed audit of our accounting records. My testimony will also focus on the principal differences in categories of costs between costs we actually incurred in Fiscal Year 2009-2010 and the estimated costs identified in Commission Order 2010-435. We are seeking adjustments to the fixed costs, disposal vault costs and irregular costs incurred in Fiscal Year 2009-2010. Finally, my testimony will summarize the anticipated costs we are requesting the Commission to identify as allowable for Fiscal Year 2010-2011.

Q. PLEASE DESCRIBE THE DISPOSAL SITE.

A. Chem-Nuclear operates a low-level radioactive waste disposal facility located approximately five miles west of the City of Barnwell in Barnwell County, South Carolina. The closest municipality to the disposal site is the Town of Snelling. Chem-Nuclear has operated the disposal site since 1971 continuously with no interruptions or regulatory shutdowns. How we operate today has evolved over forty years. We are proud of what we have learned and we are proud of our safety record.

The disposal site comprises approximately 235 acres of property owned by the State of South Carolina and leased by Chem-Nuclear from the South Carolina Budget and Control Board. The 235-acre licensed disposal area is divided into different use categories including active trenches, completed trenches, potential trench areas, and ancillary facility, water management and buffer zone areas. Approximately 119 acres of

multi-layer earthen caps consisting of layers of compacted clay, bentonite, high-density polyethylene, sand, cover soils, top soils and shallow-rooted vegetation (grasses) have been installed to cover 127 completed trenches.

The disposal site could not be operated successfully without an experienced and talented group of employees. They are critically important to the safe and compliant operation of the disposal site. Many of Chem-Nuclear's employees at the disposal site have been with the company for twenty-five years or more. Attracting and retaining high quality, well-motivated personnel is an integral part of successful, safe and regulatory compliant disposal of low-level radioactive waste.

Q. PLEASE DESCRIBE THE DISPOSAL SITE OPERATIONS IN FISCAL YEAR 2009-2010 INCLUDING CHANGES FROM PREVIOUS YEARS' OPERATIONS.

A. Starting on July 1, 2008, and continuing this fiscal year, the disposal site has been accepting waste exclusively from generators in the three Atlantic Compact States of Connecticut, New Jersey and South Carolina. Disposal site operations in Fiscal Year 2009-2010 included disposal of four steam generators from one of the Atlantic Compact utilities. As part of the transition to a smaller routine disposal volume operation, the disposal site also continued certain activities associated with Phase I decommissioning. Phase I decommissioning activities included completion of performance objective verification studies and reports. The Phase I decommissioning activities have been reimbursed from the decommissioning trust fund and costs for these activities are not part of this proceeding. Some of the continuing costs associated with maintenance, monitoring and control of those parts of the disposal site no longer used for active disposal of waste are also paid from the decommissioning trust fund.

Q. PLEASE DESCRIBE THE DECOMMISSIONING TRUST FUND AND HOW IT IS ADMINISTERED

A. On March 24, 1981, Chem-Nuclear entered into a formal Trust Agreement with the State of South Carolina to provide monies for establishment of a Decommissioning Trust Fund. The Agreement establishes the State Treasurer as the "trustee" of the fund and the Budget and Control Board as the "beneficiary." The Decommissioning Trust Fund and expenditures from the fund are controlled and audited in a number of ways. The Trust Agreement requires the trustee to provide the grantor (Chem-Nuclear) and the beneficiary (Budget and Control Board) with an annual accounting of both the Principal Account and the Income Account of the Trust. Chem-Nuclear evaluates the adequacy of the Decommissioning Trust Fund each year and submits that evaluation to the South Carolina Department of Health and Environmental Control (DHEC). Chem-Nuclear submits requests for reimbursements from the Decommissioning Trust Fund to DHEC for technical concurrence and approval and then to the Budget and Control Board staff for approval. Each request includes supporting documentation such as invoices from contractors and suppliers and a summary of activities for which the request is submitted.

Q. PLEASE DESCRIBE BRIEFLY THE STATUTORY AND REGULATORY BACKGROUND FOR CHEM-NUCLEAR'S APPLICATION THAT IS THE SUBJECT OF THIS HEARING.

A. The Commission has conducted ten previous hearings in this docket to fulfill its responsibilities under the Atlantic Interstate Low-level Radioactive Waste Compact Implementation Act of 2000. As required by the Act, the Commission has held formal proceedings annually and published orders after hearings in this docket by which the Commission has identified Chem-Nuclear's allowable costs. By that determination, as

provided by the Act, Chem-Nuclear is able to recover costs it incurs for operations in the disposal of low-level radioactive waste at its Barnwell site.

As the Commission's orders in this docket demonstrate, the Commission has relied on the evidence to make numerous determinations with respect to which of our costs are to be properly considered as allowable, and the Commission has refined its decisions on the issues as necessary. As a consequence, many of the issues that the parties and the Commission addressed in previous proceedings have been resolved and the orders represent the precedents upon which we have relied in preparing our Application and Amended Application and evidence in this case.

Q. PLEASE EXPLAIN THE GENERAL CONCEPT THAT CHEM-NUCLEAR'S APPLICATION, AMENDED APPLICATION AND EVIDENCE EMBODY IN THIS PROCEEDING.

A. The Application, the Amended Application, and the evidence in this case represent a similar approach to what was used in previous proceedings. That approach incorporates the separation of costs into the three categories that were identified in the Collaborative Review of Chem-Nuclear's Operations and Efficiency Plan that the Commission approved and which the Commission has directed Chem-Nuclear to use by previous orders in this docket. Those three categories are fixed costs, variable costs and irregular costs. The original Application, the Amended Application, and evidence for Fiscal Year 2009-2010 also reflect the use of two accounting systems during the year. Each of the two accounting systems meets the standard of generally accepted accounting principles and accurately reports financial transactions. At the end of Calendar Year 2009, Chem-Nuclear's parent company, Energy*Solutions*, LLC, implemented an enterprise-wide accounting system change. Both the CostPoint accounting system used until the end of

Calendar Year 2009 and the Oracle accounting system used in Calendar Year 2010 enabled us to capture and track the separated costs as we incur them and incorporate the data effectively in our internal monthly data reports and in our exhibits to the Application, the Amended Application, and our evidence. In the original Application and in the Amended Application, we have asked the Commission to approve our implementation and use of the Oracle accounting system.

The actual data collected in the three cost categories for Fiscal Year 2009-2010 provide information to adjust the projected costs the Commission identified as allowable in Commission Order 2010-435 to reflect actual operations experience. My testimony will identify the areas where we are seeking adjustments for Fiscal Year 2009-2010.

Q. PLEASE EXPLAIN THE DIFFERENCES BETWEEN CHEM-NUCLEAR'S APPLICATION AND THE AMENDED APPLICATION PROVIDED AS AN EXHIBIT TO YOUR TESTIMONY.

A. The principal differences between the original Application and the Amended Application were in the anticipated costs for Fiscal Year 2010-2011 based on our experience during the first six months of Fiscal Year 2010-2011 and in Corporate allocation of General and Administrative (G&A) costs for Fiscal Year 2009-2010. Total fixed costs for Fiscal Year 2009-2010 identified in the Amended Application are $13,330 less than the total fixed costs in the original Application. Anticipated fixed costs for Fiscal Year 2010-2011 identified in the Amended Application are $15,479 less than the fixed costs anticipated in the original Application. This reduction is primarily the result of a reduction in the anticipated depreciation expense in Fiscal Year 2010-2011.

Irregular costs in the Amended Application are $29,654 more than the irregular costs listed in the original Application for Fiscal Year 2010-2011, based on information from the first six months of the fiscal year.

The variable labor and non-labor rates anticipated for five categories of variable costs and the variable material costs for vaults listed in the Amended Application are the same as those rates in our original Application.

Q. PLEASE DESCRIBE THE MANNER IN WHICH CHEM-NUCLEAR TREATS ALLOWABLE COSTS UNDER THE REGULATORY PROCESS ESTABLISHED BY THE ACT?

A. Chem-Nuclear's method for seeking adjustments to the costs identified by the Commission in its orders is different from the regulatory treatment of other regulated entities. First of all, the Act does not provide for the Commission to determine our revenue requirements, including rate of return, based on a test year, and fix our rates or charges to enable Chem-Nuclear to recover its revenue requirements. Under the Act, the Commission is not responsible to evaluate our revenue or to fix rates and charges. The Act empowers the Commission to identify our allowable costs.

At the end of each fiscal year, we compare the costs we actually incur to operate the site to the costs previously identified as allowable in the Commission's order for that year. We only use the actual costs incurred as the amount that we request the Commission to identify as allowable in the following proceeding. That means that if we do not actually spend as much as the Commission has allowed for a particular cost category, then we only use the actual amount spent in determining the allowable cost for Chem-Nuclear at the end of the year. If we were to spend more than the identified

amount, we apply to the Commission to recover the extra cost in the subsequent fiscal year.

Q. PLEASE EXPLAIN HOW THE PROCESS WORKS BY USE OF AN EXAMPLE?

A. Vault cost recovery is a good illustration of the method. Each year the Commission determines variable vault cost rates for standard disposal vaults that are dependent on the number of cubic feet of waste in four classifications received at the site (Class A, Class B, Class C, and Slit Trench waste). That variable vault cost rate can be used to forecast the vault costs in the next year, based on the volume of waste received in each category. However, it is difficult to predict accurately by waste classification the volume and mix of waste that will be received in any given year. Therefore, the variable vault cost rate will sometimes forecast a dollar amount for vault costs that is in excess of the actual amount spent. In such cases, the actual amount spent to procure concrete disposal vaults is used to determine Chem-Nuclear's cost recovery and fee, not the higher amount forecast by the variable vault cost rate. If, as is the case this year, the situation were reversed, that is, if the vault costs exceeded the level previously identified by the use of rates approved in the Commission's most recent order, Chem-Nuclear would seek to recover the actual amount that we spent in the Commission proceeding for the next fiscal year.

Q. PLEASE EXPLAIN HOW THE ALLOWABLE PORTION OF CORPORATE GENERAL AND ADMINISTRATIVE COSTS IS DETERMINED.

A. There are three components to the Corporate G&A Costs identified in the original Application and in the Amended Application. These components and their respective allocation methods are: Corporate SG&A (total cost basis), Corporate Information

Systems (IT) allocation (based on a head count or the number of employees assigned to each business unit), and Columbia SG&A allocation (based on the number of disposal site personnel located in the company's Columbia, South Carolina, offices). The ORS again conducted an audit of the pool of costs that formed the basis for Chem-Nuclear's G&A allocation to identify costs that were allowable and costs that were not allowable under the Act.

Q. WHAT ALLOWABLE COSTS ARE INCLUDED IN G&A?

A. Corporate SG&A costs are allocated to each business unit on a total cost basis. The pool of costs that forms the basis for the Corporate SG&A allocation includes costs for Corporate Executive Management and Support, Contracts and Finance, Contracts Legal Support, Human Resources Corporate Support, Accounting Corporate Support, and Regulatory Affairs and Environmental, Safety, Health and Quality Assurance Corporate Support.

The Corporate IT costs are allocated based on the "head count" or number of employees assigned to each business unit. Columbia SG&A costs are allocated to business units based on the number of each respective business unit's employees located in the company's Columbia, South Carolina, office. The total allowable Corporate G&A allocations for Fiscal Year 2009-2010 were $536,061.

Q. PLEASE DESCRIBE THE ALLOWABLE COSTS INCURRED IN FISCAL YEAR 2009-2010 AND COMPARE THOSE COSTS TO THE AMOUNTS IDENTIFIED IN COMMISSION ORDER 2010-435.

A. This part of my testimony will focus on the principal differences in categories of costs between costs we actually incurred in Fiscal Year 2009-2010 and the costs identified in Commission Order 2010-435. The actual costs incurred in Fiscal Year 2009-2010 are

also listed in our Amended Application, which is provided as an exhibit to my testimony. We are requesting adjustment to the fixed costs, the variable vault costs, and the irregular costs incurred in Fiscal Year 2009-2010. The total allowable costs incurred in Fiscal Year 2009-2010 as described in our Amended Application were $4,275,106.

Fixed Costs

Actual fixed costs incurred in Fiscal Year 2009-2010 were $72,955 more than the fixed costs identified in Commission Order 2010-435. The primary reasons the fixed costs were more than the amount in the Order were increased insurance costs and increased legal support costs as well as a reduction in Corporate G&A allocations. The total fixed costs in Fiscal Year 2009-2010 were $2,705,618.

Variable Costs

Variable costs in the original Application and the Amended Application consist of two parts. I will discuss variable labor and non-labor costs first and then variable material costs for concrete disposal vaults.

Variable Labor and Non-Labor Costs

Commission Order No. 2010-435 identifies variable cost rates associated with five categories of activities: disposal vault purchase, inspection and placement; handling of Class A, Class B and Class C waste shipments; waste acceptance; waste shipment scheduling; and disposal records maintenance. Each of these rates is associated with an independent variable (number of vaults, number of shipments buried, number of slit trench offloads, or number of waste containers buried). Actual costs of $90,798 were incurred for variable labor and non-labor expenses in Fiscal Year 2009-2010. This amount is $42,305 less than the amount calculated using the rates identified in Commission Order No 2010-435.

Variable Material (Vault) Costs

The amount of actual variable costs incurred in Fiscal Year 2009-2010 for standard disposal vaults were $28,931 more than the amount calculated using rates identified in Commission Order 2010-435.

Costs incurred each year for standard concrete disposal vaults are affected by a number of factors including the size and shape of waste packages received and the number and type of vaults used for routine waste disposal. Each year, variable material cost rates (in dollars per cubic foot) for concrete disposal vaults have been developed for Class A waste, Class B waste, Class C waste, and slit trench waste. The rates developed can then be used as one predictor of the cost of vaults for the following year based on the various volumes of waste received in each waste classification and slit trench waste volumes, however actual costs for the disposal vaults are known and measurable at the conclusion of the year. Actual costs of $319,670 were incurred for concrete disposal vaults used to dispose of routine shipments of radioactive waste in Fiscal Year 2009-2010.

Q. PLEASE EXPLAIN WHY AVERAGE VAULT LOADING ALONE MAY NOT BE A GOOD PREDICTOR OF VAULT COSTS.

A. Vault loading in each of the three standard concrete disposal vaults (rectangular vaults, cylindrical vaults, and slit trench vaults) may be a general indicator of vault disposal efficiency, but other factors related to the characteristics of the waste packages received tend to have a stronger affect on the determination of vault costs per unit volume of waste. As previously mentioned, the size and shape of waste packages received affect vault loading. The package dose rates, disposal site license requirements to segregate

stable and unstable wastes, handling precautions to maintain waste package integrity, and overall waste classification also affect how the vaults are loaded.

Q. PLEASE CONTINUE WITH YOUR EXPLANATION OF ALLOWABLE COSTS INCURRED IN FISCAL YEAR 2009-2010.

A. I will continue with irregular costs:

Irregular Costs

Not all irregular costs for the year are known at the time a Commission order is issued. Irregular costs are costs incurred for projects that may not occur each year or costs for projects that occur each year but with varying costs. Each year irregular cost projects with varying costs include trench construction, site engineering and drawing updates, and other site construction projects. Examples of projects that may not recur each year are irregular component disposal, site assessments and license renewal proceedings and hearings. Total irregular costs incurred for Fiscal Year 2009-2010 were $1,006,020 more than the total irregular cost amount identified in Commission Order 2010-435. We are therefore requesting the Commission to identify the amount of $1,159,020 as allowable. Details of irregular costs for specific projects are provided in Amended Exhibit B.

Disposal of four old steam generators (large components) from one of the Atlantic Compact utilities occurred in March 2010. The irregular costs for this disposal were $972,655. These additional costs for disposal of the old steam generators plus the associated disposal taxes and fees and the allowable margin were billed to the utility in accordance with the approved rate schedule.

Q. PLEASE DESCRIBE THE COSTS PROPOSED FOR FISCAL YEAR 2010-2011.

A. The costs proposed for Fiscal Year 2010-2011 are summarized in Amended Exhibit C. Disposal operations in Fiscal Year 2010-2011 will continue to reflect smaller routine volume disposal site operations because the disposal site will only accept waste from the three Atlantic Compact states.

Proposed Fixed Costs

The fixed labor costs (labor and fringe costs) proposed for Fiscal Year 2010-2011 and non-labor fixed costs proposed are based on actual fixed labor costs incurred in Fiscal Year 2009-2010 and costs incurred during the first six months of Fiscal Year 2010-2011. For example, insurance costs proposed for Fiscal Year 2010-2011 are based on costs incurred during the first six months of the year projected forward to anticipated insurance premium costs for the year.

Legal expenses are anticipated to be continuing because of the license renewal appeal process and other legal matters.

Total fixed costs proposed for Fiscal Year 2010-2011 are $2,757,848.

Proposed Irregular Costs

As discussed earlier, not all irregular costs were known at the time the Application was submitted. The irregular costs identified in Amended Exhibit C are based on activities expected in Fiscal Year 2010-2011. A total of $187,654 in various irregular project costs is summarized in Amended Exhibit C.

Proposed Variable Labor and Non-Labor Cost Rates

The variable labor and non-labor cost rates proposed for Fiscal Year 2010-2011 are based on rates identified in Commission Order 2010-435, plus a nominal inflation rate

of two percent. The amount of waste received during the six months from July 2010 through December 2010 was too small to allow a meaningful rate development. The independent variable parameter used in each of the variable projects is the same as parameters used since 2003 in proceedings in this docket. Each of the variable cost projects is considered separately based on the different independent variable parameters. The number of units of independent variable used in each cost element will vary from year to year generally proportional (but not necessarily in a linear relationship) with the amount of waste received. The variable cost rates developed are shown in Amended Exhibit C as the proposed variable labor and non-labor costs for Fiscal Year 2010-2011.

Proposed Variable Material (Vault) Cost Rates

Rates for concrete disposal vaults are calculated based on the volume of each waste classification disposed and the cost of vaults used for disposal of that waste. The actual volume of waste in each type of disposal vault, of course, depends on a number of other factors including the size, shape and material composition of waste packages received, dose rates measured on the waste packages received, and the mix of waste received between the various waste classifications. The variable cost rate for concrete disposal vaults is expressed in dollars per cubic foot of each major classification of waste (Class A, Class B, Class C, and Slit Trench waste). The rates provided in Amended Exhibit C are based on rates identified in Commission Order 2010-435 with a nominal inflation rate of two percent.

Q. PLEASE EXPLAIN DIFFERENCES IN SLIT TRENCH OPERATIONS IN FISCAL YEAR 2009-2010 COMPARED TO PREVIOUS YEARS AND HOW THAT AFFECTS THE ANTICIPATED VARIABLE COST RATE FOR VAULTS.

A. In July 2008, three horizontally offloaded casks were offloaded at Slit Trench 36. There were no additional horizontally offloaded casks for slit trench offloads during the remainder of Fiscal Year 2008-2009 and during all of Fiscal Year 2009-2010.

The dose rates and radioactive material activity levels involved in the slit trench operation require placement of only one liner (radioactive waste package) per vault. The anticipated variable cost rate for slit trench vaults is shown in Amended Exhibit C and is based on prior year's operations.

Q. DOES THAT CONCLUDE YOUR DIRECT TESTIMONY?

A. Yes it does.

AMENDED EXHIBIT A:
FISCAL YEAR 2009-2010 COSTS

Fixed Costs: $72,955 Adjustment Proposed

Fixed costs, subject to a 29% operating margin, were incurred in Fiscal Year 2009-2010 in the general categories of labor-related costs, non-labor costs, costs allocated from corporate functions, equipment leases and support, depreciation and insurance. Fixed costs, **not** subject to a 29% operating margin, were incurred in Fiscal Year 2009-2010 in the category of legal support. The following table compares the actual costs incurred to the costs identified as allowable in Commission Order No. 2010-435:

	Commission Order No. 2010-435	**Actual Costs Incurred in FY 2009-2010**	**Adjustment Proposed**
Labor, Fringe and Non-labor	$1,318,581	$1,344,161	
Corporate Allocation (G&A)	$574,834	$536,061	
Equipment leases and support	$116,255	$133,505	
Depreciation	$71,475	$65,830	
Insurance	$384,518	$422,721	
Subtotal (Fixed Cost subject to 29% margin)	$2,465,663	$2,502,278	
Legal Support	$167,000	$203,340	
Subtotal (Fixed Cost **not** subject to 29% margin)	$167,000	$203,340	
Total Fixed Costs	**$2,632,663**	**$2,705,618**	**$72,955**

The actual Fixed Costs incurred during Fiscal Year 2009-2010 were **$2,705,618**. This amount is **$72,955** more than the amount identified in Order Number 2010-435. Therefore, an adjustment of **$72,955** is requested in this category of costs.

Variable Costs:

Variable Labor and Non-Labor Costs

No Adjustment Proposed

Commission Order No. 2010-435 identified the following categories of rates for projecting Variable Labor and Non-Labor costs: vault purchase and inspection (per vault), ABC waste disposal (per shipment), slit trench operations (per slit trench offload), customer assistance (per shipment), and trench records (per container).

The following table illustrates the Variable Labor and Non-Labor costs that would be calculated using the Variable Labor and Non-Labor rates identified in Order No. 2010-435 and the number of units in each category:

	Units	Variable Cost Rate in Order No. 2010-435	Calculated Cost
Vault Purchase & Inspection (per vault)	53	$77.43	$4,104
ABC Waste Disposal (per shipment) (total shipments, less slit trench shipments, less irregular project shipments)	61	$1,854.92	$113,150
Slit Trench Operations (per slit trench offload)	0	$6,696.69	$0
Customer Assistance (per shipment)	65	$45.34	$2,947
Trench records (per container)	104	$124.06	$12,902
Total Calculated Variable Labor and Non-labor Costs			**$133,103**

The actual Variable Labor and Non-Labor costs experienced in the disposal of waste in Fiscal Year 2009-2010 resulted in a Total Variable Labor and Non-Labor cost of **$90,798**. This amount is **$42,305** less than the amount that would have been anticipated based on rates provided in Commission Order 2010-435. Therefore, Chem-Nuclear requests no adjustment in this category of costs.

Vault Costs

$28,931 Adjustment Proposed

The following table illustrates the vault costs that would be calculated using the Variable Cost rates identified in Commission Order No. 2010-435 and the volumes of waste received in each respective category:

	Volume Buried (cubic feet)	**Variable Cost Rate in Order No. 2010-435**	**Calculated Cost**
Class A waste	4,609.68	$39.03	$179,916
Class B waste	1,408.80	$40.44	$56,972
Class C waste	1,303.90	$41.30	$53,851
Slit Trench waste	0	$184.54	$0
Irregular Components (in vaults as an irregular cost)		N/A	N/A
Irregular Components (not in vaults)	27,304.00	N/A	N/A
Total Calculated Vault Cost			**$290,739**
Total Volume (cubic feet)	**34,626.38**		

The total cost incurred for routine disposal vaults used during Fiscal Year 2009-2010 was **$319,670**. Therefore, Chem-Nuclear requests an adjustment of **$28,931** in this category of cost.

Irregular Costs: $1,006,019 Adjustment Proposed

The following table summarizes the Irregular Costs incurred in Fiscal Year 2009-2010 organized by projects. Costs incurred for Irregular Projects in Fiscal Year 2009-2010 included $972,655 for trench construction and operations to dispose of four old steam generators. The customer in this case was billed an amount sufficient to cover all allowable costs incurred by the site operator to dispose of this waste. Amended Exhibit B provides additional descriptions of each of these irregular projects. The total costs incurred in Fiscal Year 2009-2010, as Irregular costs, were **$1,159,019** compared to the amount identified in Commission Order No. 2010-435 of **$153,000.** Chem-Nuclear therefore requests an adjustment of **$1,006,019** in Irregular Costs.

Irregular Cost Item	Order No. 2010-435	Actual FY 09-10 Labor	Actual FY 09-10 Non-Labor	Total Cost FY 09-10
Various Trenches (design, construct, and backfill): Trench 86, Trench 97, Trench 98, and Trench 99.	$30,000	$2,745	$71,726	$74,471
License Renewal and Appeal costs	$10,000	$5,862	$10	$5,872
Decontamination and Corrective Actions	$5,000	$2,234	$0	$2,234
Site Engineering and Drawing Updates	$3,000	$1,731	$606	$2,337
Site Assessments	$5,000	$1,081	$0	$1,081
Severance Pay:	$75,000	$54	$62,199	$62,253
Other Irregular costs (Waste Tracking Special Requests, Assessment of Proprietary Submittals, Special Site Maintenance Projects, and B&CB staff support)	$5,000	$24,191	$3,080	$27,271
Increased Security Controls	$20,000	0	$10,846	$10,846
Irregular Costs without Large Component Disposal	$153,000	$37,898	$148,467	$186,365
Large Component Disposal (Design, construction and backfill for Trench 91 and Disposal of Four Old Steam Generators)		$90,063	$882,592	$972,655
Total Irregular Costs	**$153,000**	**$127,961**	**$1,031,059**	**$1,159,020**

AMENDED EXHIBIT B:
FISCAL YEAR 2009-2010 IRREGULAR COSTS
ORGANIZED BY PROJECT

PROJECT NUMBERS	PROJECT NAME AND EXPLANATIONS
188701.8012 188701.8014 188701.8027 188701.8029	**Various Trench Construction and Backfill Operations** **(Labor $2,744.76 and Non-labor $71,726.39)** Trench construction activities in Fiscal Year 2009-2010 included design, construction and backfill (including use of free flowing sand where applicable) in Trench 86, Trench 97, Trench 98, and Trench 99.
952188.8001 952188.8002	**Appeal DHEC License, License Administration,** **(Labor $5,861.77 and Non-Labor $10.00)** Non-routine activities by licensing department and others related to the appeal process for the DHEC radioactive materials license renewal. Included here are costs for CNS labor. Legal expenses are included in fixed costs.
188000.8005 188000.8006	**Decontamination and Corrective Actions** **(Labor $2,234.41 and Non-labor ($0.36))** Includes costs related to decontamination efforts and corrective actions required as a result of waste received for disposal. During Fiscal Year 2009-2010, costs incurred in these projects, although irregular and non-recurring in nature, were within the scope of waste disposal operations work.
188004.8001	**Site Engineering & Drawing Updates** **(Labor $1,730.93 and Non-labor $605.50)** Labor and contractor costs for site engineering support and preparation and reproduction of site drawings. The engineering support and drawings were required for various analyses and reports submitted to DHEC.
952183.8001	**Site Assessments** **(Labor $1,080.54 and Non-Labor $0)** Included here are costs associated with special projects related to site performance as directed by DHEC. Also included are costs for providing DHEC with requested data records and analysis.
952186.8002	**Irregular Severance** **(Labor $53.52 and Non Labor $62,198.80)** Includes costs for labor to screen employees and identify those to be terminated with severance pay. The reduction in labor resources was part of the transition to Atlantic Compact only disposal operations. Severance pay for four employees is considered a non-labor cost.
952182.8002 952182.8003 952183.8003 952192.8002 188000.8009 188000.8011 188031.8001	**Other Irregular Costs (Waste Tracking Special Requests, Assessment of Previous Proprietary Submittals, B&CB Staff Requests)** **(Labor $24,191.48 and Non-labor $3,080.17)** Included here are costs for specific special requests for waste disposal data from generators, regulators and others acting in an official capacity. Also included here are costs for B&CB staff requests and small adjustments in projects from the previous Fiscal Year.

188008.8001	**Increased Security Controls** **(Labor $0 and Non-labor $10,845.72)** Costs associated with maintenance, repair and replacement of physical security equipment as approved by DHEC to implement increased controls over radioactive materials at the disposal site. Some of the previously installed equipment was damaged during a storm.
188007.8001 **188701.8028**	**Large Component Disposal** **(Labor $90,063.24 and Non-Labor $882,591.85)** Included here are costs for design, construction and backfill of Trench 91 and disposal of four old steam generators in Trench 91. The customer was billed an amount sufficient to cover all allowable operating costs incurred by the site operator to dispose of this waste.

AMENDED EXHIBIT C:
FISCAL YEAR 2010-2011 COSTS

We propose the following amounts be identified as allowable costs for Fiscal Year 2010-2011:

FIXED COSTS	
Fixed Costs to which 29% operating margin is added	
Labor, Fringe and Non-Labor	$1,371,044
Corporate Allocations (Management Fees/G&A)	$560,378
Depreciation	$51,668
Insurance	$431,175
Equipment Leases and Support	$136,176
Fixed Costs to which 29% operating margin is not added	
Legal Support	$207,407
Total Fixed Costs	**$2,757,848**
IRREGULAR COSTS	
Trench Construction	$98,307
License Appeal	$10,000
Corrective Action	$5,000
Site Engineering Drawing	$3,000
Site Assessments	$5,000
Miscellaneous	$56,347
Increased Security Controls	$10,000
Severance Pay	$0
Total Irregular Costs	**$187,654**
VARIABLE COSTS	
Variable Labor and Non-Labor Rates	
Vault Purchase and Inspection (per vault)	$78.98
ABC Waste Disposal (per shipment)	$1,892.02
Slit Trench Operations (per slit trench offload)	$6,830.62
Customer Assistance (per shipment)	$46.25
Trench Records (per container)	$126.54
Variable Material Cost Rates (Vaults)	
Class A Waste (per cubic foot)	$39.81
Class B Waste (per cubic foot)	$41.25
Class C Waste (per cubic foot)	$42.13
Slit Trench Waste (per cubic foot)	$188.23

BEFORE THE
PUBLIC SERVICE COMMISSION
OF SOUTH CAROLINA

Docket No. 2000-366-A

IN RE: Application of Chem-Nuclear Systems, LLC, a Subsidiary of Energy Solutions for Adjustment in the Levels of Allowable Costs and for Identification of Allowable Costs (FY 2010-2011 Proceeding)	)	**CERTIFICATE OF SERVICE**

I, ElizaBeth A. Blitch, do hereby certify that I have this date served one (1) copy of the prefiled Direct Testimony of James W. Latham on behalf of Chem-Nuclear Systems, LLC for FY 2010-2011 upon the following parties of record by causing said copies to be deposited with the United States Postal Service, first class postage prepaid and properly affixed thereto, and addressed as follows:

The Honorable Henry Dargan McMaster
Attorney General
State of South Carolina
Post Office Box 11549
Columbia, South Carolina 29211

The Honorable C. Earl Hunter
Commissioner
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March 9, 2011

Columbia, South Carolina