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C O N T E N T S

<u>WITNESSES</u>	<u>DIRECT</u>	<u>CROSS</u>	<u>REDIRECT</u>	<u>RECROSS</u>
Alfred E. Kahn				
By Mr. Kaplan	924	---	---	---
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By Mr. Caplan	---	940	---	---
By Mr. Zalzman	---	948	---	---
Ronald E. Hill				
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Barbara R. Alexander				
By Mr. Mullins	997	---	---	---
By Mr. Rubin	---	1001	---	---
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By Mr. Russell	---	1036	---	---
Oliver G. Kasper				
By Mr. Russell	1050	---	1103	---
By Mr. Kleppinger	---	1052	---	---
By Mr. Caplan	---	1082	---	---
By Mr. Lavelle	---	1092	---	---
By Ms. Moury	---	1099	---	---
Joseph M. Kleha				
By Mr. Russell	1104	---	1180	---
By Mr. Longwell	---	1110	---	---
By Mr. Stewart	---	1119	---	---
By Mr. Lavelle	---	1122	---	---
By Ms. Swanstrom	---	1127	---	---
By Mr. Kleppinger	---	1128	---	---
By Mr. Caplan	---	1135	---	---
By Mr. Zalzman	---	1157	---	---
By Mr. Burgraff	---	1168	---	---
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E X H I B I T S

<u>NUMBER</u>	<u>FOR IDENTIFICATION</u>	<u>IN EVIDENCE</u>
<u>PP&amp;L Statements</u>		
18-R (Kahn)	925	962
2 (Hill)	963	996
2-R (Hill)	963	996
11 (Kasper)	1050	1103
11-R (Kasper)	1050	1103
3 (Kleha)	1104	1185
3-R (Kleha)	1104	1185
<u>PP&amp;L Exhibits</u>		
AEK-1 (Kahn)	925	962
OGK-1 through OGK-6 (Kasper)	1050	1103
JMK-1 through JMK-7 (Kleha)	1104	1185
<u>OCA Statements</u>		
5 (Alexander) ✓	998	1048
5-S (Alexander) ✓	998	1048

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P R O C E E D I N G S

1  
2 ADMINISTRATIVE LAW JUDGE GEORGE M. KASHI: I call  
3 this proceeding back to order. This is the third day of  
4 cross-examination in the matter. The order of the day,  
5 we're going to begin with the witnesses that have been set  
6 down for stranded cost principles. This morning we're going  
7 to start with Mr. Kahn, followed by Hill, Alexander, and  
8 that will take care of what we need to do for the cross on  
9 stranded cost principles. Then later we will shift back to  
10 the rate design and have Mr. Kasper and Mr. Kleha's cross-  
11 examination this afternoon.

12 One last thing on some of the matters that I've been  
13 talking about related to lead counsel and joint briefs. If  
14 everybody would like to take a look at the cite from 52 Pa.  
15 Code 5.403 and take your pick out of there; it's big enough  
16 to drive a truck through the way I figure, maybe even a UPS  
17 truck.

18 Are there any preliminary matters from counsel?

19 MR. RUSSELL: No, Your Honor.

20 MR. FRANCIS: Your Honor, David Francis for the  
21 Quaker Oats Company and Mount Joy Wire Corporation. We  
22 filed a motion for consideration on our petition for  
23 intervention with Your Honor last night.

24 JUDGE KASHI: I haven't seen it yet.

25 MR. FRANCIS: I'm sure you haven't.

1 JUDGE KASHI: I'll get to it at the first break.,

2 MR. FRANCIS: I understand, Your Honor. I guess my  
3 matter would be, Your Honor, that -- I wouldn't expect you  
4 to rule on that immediately. Mr. Kasper is here today. We  
5 would ask that we be permitted to cross him and to introduce  
6 certain requests for admission. In the event Your Honor  
7 ruled against us on the motion for reconsideration, we can  
8 strike the cross-examination.

9 JUDGE KASHI: Let me take a look at your request  
10 first.

11 MR. FRANCIS: Thank you.

12 JUDGE KASHI: Maybe we can save everybody a lot of  
13 time and heartache that way.

14 MR. FRANCIS: Thank you.

15 JUDGE KASHI: I appreciate you calling it to my  
16 attention.

17 Any other preliminary matters?

18 (No response.)

19 JUDGE KASHI: Hearing none, Mr. Kaplan.

20 MR. KAPLAN: Thank you, Your Honor. Pennsylvania  
21 Power and Light Company calls Dr. Alfred E. Kahn.

22 JUDGE KASHI: Dr. Kahn, could I get you to stand,  
23 raise your right hand and be sworn, sir?

24

25

1 Whereupon,

2

ALFRED E. KAHN

3 having been duly sworn, testified as follows:

4

JUDGE KASHI: Please be seated, sir.

5

DIRECT EXAMINATION

6

BY MR. KAPLAN:

7

Q. Good morning, Professor Kahn.

8

A. Good morning, Mr. Kaplan.

9

MR. KAPLAN: Your Honor, I'd like to identify for the  
10 record, in accordance with our procedures, the rebuttal  
11 testimony of Alfred E. Kahn, Statement No. 18-R, a statement  
12 of some 50 pages, plus Exhibit No. AEK-1.

13

BY MR. KAPLAN:

14

Q. Professor Kahn, do you have any corrections in  
15 Statement No. 18-R?

16

A. Yes. There is an incomplete sentence on page  
17 21, at the top of page 21. On line 3, after the words "out  
18 of territory" there should be inserted a dash dash, and then  
19 the following words, "and the likelihood of a very large  
20 amount of costs being stranded." If you read the sentence,  
21 you'll see that it has a "both," but then it doesn't have  
22 the "and" clause that follows.

23

That's the only additional correction.

24

MR. KAPLAN: Thank you, Professor Kahn.

25

With that, Your Honor, we have, if Your Honor will

1 bear with me here, a very small amount of rejoinder.

2 JUDGE KASHI: Let's have the statements marked as  
3 identified, PP&L Statement 18-R and appended Exhibit AEK-1,  
4 marked for purposes of identification.

5 (Whereupon, the documents were marked  
6 as PP&L Statement No. 18-R and PP&L  
7 Exhibit No. AEK-1 for  
8 identification.)

9 (Pause.)

10 MR. KAPLAN: May I proceed, Your Honor?

11 JUDGE KASHI: Go ahead, sir.

12 BY MR. KAPLAN:

13 Q. Professor Kahn, at page 5 of his surrebuttal  
14 testimony, Mr. LaCapra criticizes your contention that PP&L  
15 has no recourse if the PUC sets stranded costs too low. He  
16 contends that the legislation maintains specific provisions  
17 which allow the company to seek relief if the PUC sets  
18 stranded costs too low. Do you agree?

19 A. No. As I understand it, his statement is simply  
20 incorrect. As I understand it, there is no provision for  
21 relief if the estimate of stranded costs that gets embodied  
22 in the CTC turns out to be too low. So my statement on page  
23 30, lines 10 to 16, which trace out that logic, is, so far  
24 as I know, absolutely correct. Beginning on line 10, "If  
25 the estimate of stranded costs adopted by the Commission

1 turns out to be unrealistically low because the pertinent  
2 marginal costs and the prices that tend to be forced to that  
3 level by competition do not increase as the OCA projects,  
4 its recommendation would unequivocally deprive PP&L of the  
5 opportunity to recover the costs."

6 There are any number of reasons why the estimate  
7 could turn out too low, none of which need reflect on PP&L's  
8 efficiency or performance. The most obvious one is the one  
9 that I mention, that is to say if market prices do not rise  
10 as OCA projects, then in those circumstances the decision  
11 made at the outset on the basis of that projection will not  
12 be remediable in any way. There are other such reasons.  
13 There might be an increase in the costs of decommissioning  
14 coal plants, there might be environmental restrictions,  
15 additional environmental restrictions, imposed on coal,  
16 nuclear plants. The cogeneration power, cogenerating power  
17 that PP&L is obliged to take under its contracts, those  
18 facilities may operate at higher operating rates than  
19 projected. So there are any number of reasons why their  
20 costs might rise relative to market prices, and if those  
21 were not envisioned in the estimate of stranded costs, that  
22 is absolutely irremediable.

23 The escape that Mr. LaCapra mentions provides for an  
24 increase in the rate caps not the CTC, but in the rate caps,  
25 and only under two circumstances, one, if PP&L's fuel costs

1 rise, and second, if its return falls below reasonable  
2 levels. Now, that could happen only in the improbable  
3 circumstance that the cost of its coal and nuclear fuel  
4 would increase but market prices, which are based at the  
5 margin on the prices of oil and gas, do not increase. This  
6 is the very opposite of the scenario that OCA projects.

7 OCA projects that the prices of oil and gas, and  
8 therefore market prices of electricity, would increase more  
9 than the cost of coal and uranium, and therefore PP&L's  
10 cost. In that event, which, as I say, is unlikely, that the  
11 costs of the fuel to PP&L rise more than the cost of oil and  
12 gas to its competitors and market prices, then those two  
13 conditions would be met, and it could have an increase in  
14 its price cap, but there's no assurance in those  
15 circumstances that it could collect that because market  
16 prices, which are based on the price of oil and gas, would  
17 in those circumstances have had to increase less than PP&L's  
18 fuel costs, so there's no assurance that it could recover in  
19 any event. There is no provision in the law for an escape  
20 from a CTC that is set too low on the basis of a projection  
21 of stranded costs that is too low.

22 Q. Dr. Kahn, on page 4 of his surrebuttal  
23 testimony, Mr. LaCapra disputes your assertion that OCA's  
24 market prices contradict the expected benefits of  
25 competition. As support he notes that OCA's market forecast

1 is less than the average generating cost cited in your  
2 testimony and the cost of a new combined cycle generating  
3 unit. What is your response?

4 A. Well, fundamentally, I disagree with him.  
5 First, that estimate of 4 cents is one that I made -- I  
6 didn't actually make it; I took it from somewhere else a  
7 couple of years ago, and I now am quoted estimates of 3.5  
8 and even 3 cents a kilowatt-hour for new combined cycle gas  
9 generating plants. But in any event, his prediction that  
10 PP&L would have only a small fraction of its costs stranded,  
11 and, in fact, for its generating plants alone, stranded cost  
12 would be negative, depends critically on the price of oil  
13 and gas rising relative to PP&L's fuel costs, which are  
14 primarily coal and nuclear; and it depends on PP&L then  
15 being able to pocket that difference, profit by the fact  
16 that market prices are going up while its costs are not  
17 going up.

18 Now, if PP&L continued to be regulated, it would not  
19 be permitted to get the higher prices that OCA projects  
20 would occur in the market, because the price of oil and gas  
21 would go up, it's rates would be based on its costs, which,  
22 under OCA's projections, would not be going up. So again,  
23 the very reason why in OCA's projection the stranded costs  
24 turn out to be very low defeats the benefits for consumers  
25 of moving from regulation when their rates would continue to

1 be based on their not rising coal and nuclear fuel costs and  
2 their being permitted to pocket the difference between their  
3 relatively stable fuel costs and OCA's assumed increase in  
4 the price of oil and gas.

5 In short, under OCA's scenario itself, there is no  
6 benefit from moving from regulation to competition, and that  
7 was my point; that its projection is in conflict with its  
8 expectation and the expectation of the legislation that  
9 consumers will be better off, purchasers of PP&L power will  
10 be better off if they are deregulated and they get more  
11 competitive market prices.

12 Q. Finally, Dr. Kahn, Mr. Bradford, in his  
13 surrebuttal testimony at page 3, line 21, asserts in his  
14 discussion of the LILCO settlement that this embodies the  
15 principle upon which you agree. Do you share that view  
16 based upon his discussion?

17 A. This one is really a beauty. LILCO built a  
18 plant; the costs that were not declared imprudent were \$4.2  
19 billion. It is a plant which everybody at the time decided  
20 was not going to be used, it was going to be useless, so  
21 here is a total lemon. Mr. Bradford says, "Well, but we got  
22 something in exchange for giving them 95 cents on the  
23 dollar. We gave them a promise of \$4.0 billion out of \$4.2  
24 billion," which I cite as evidence that even in that extreme  
25 case, when a full application of used and useful would

1 require disallowance of the whole \$4.2 billion, I cite it as  
2 evidence that even in that extreme case, New York did follow  
3 the principles that I followed when I was Chairman, and, I  
4 assert, that Mr. Bradford also followed when he was  
5 Chairman. He says, "No, no; we got something. We got a  
6 concession." What was the concession? It was a concession  
7 that they would no longer operate the lemon and turn it over  
8 to a Long Island Power Authority. He says that was  
9 something -- I quote him. He says, "This is something that  
10 New York State did not necessarily have the power to order  
11 directly," notice, "so we had to bargain for it, because we  
12 didn't necessarily have the power to order it directly."  
13 But New York State did everything it could to prevent it  
14 indirectly, because New York State refused to sign off on an  
15 emergency evacuation plan, which was a necessary condition  
16 for Shoreham being licensed. So it did everything it could  
17 to prevent it indirectly.

18 Finally, what kind of a concession was it? LILCO  
19 gave up a lemon that it was never going to be able to  
20 operate and settled for 95 cents on the dollar. I regard  
21 that as clearly demonstrating that even in that extreme  
22 situation, New York continued essentially to honor the  
23 commitment to give companies a right to return on their  
24 prudently invested costs.

25 And finally, I said that this was a principle that

1 was followed not just by me, but was followed by the  
2 Commission under Chairman Bradford. So I asked our  
3 attorneys to look at New York State decisions to see if they  
4 could support that, and they very quickly came up with a  
5 decision, 1994, in a case involving Central Hudson Gas &  
6 Electric where the Commission, with Chairman Bradford  
7 sitting as Chair, said the following. It refers to certain  
8 positions of intervenors, and the Commission says: "They do  
9 not appreciate the differences between the obligations of a  
10 utility and outside contractors. Utilities by law have an  
11 obligation to serve all present and future customers'  
12 demands, while contractors' obligations are limited to those  
13 voluntarily accepted in the contract. Accordingly,  
14 utilities traditionally have been allowed to recover their  
15 prudent costs and to earn a regulated profit whether their  
16 investments perform better or worse than predicted. It is  
17 unfair," the Commission says, "to subject the utility-run  
18 programs to the same performance-based risks encountered in  
19 unregulated markets while simultaneously constraining the  
20 utility's profits and obligating it to serve all who request  
21 service."

22 That is the most perfect statement of what I have  
23 referred to as a general compact or an understanding, and  
24 clearly, unequivocally supports my statement that not only  
25 did the Commission follow that under me, not recovering

1 every dollar, necessarily, in all circumstances no matter  
2 how extreme, but as a general principle adhered to even in  
3 the extreme LILCO case, 95 percent, by the New York  
4 Commission under Chairman Bradford.

5 MR. KAPLAN: Thank you, Dr. Kahn.

6 Dr. Kahn is now available for cross-examination.

7 JUDGE KASHI: Thank you very much, Mr. Kaplan.

8 Are you filling in for Mr. Kohler today?

9 MR. LONGWELL: Yes, I am, Your Honor. Enron has no  
10 questions for Dr. Kahn this morning.

11 JUDGE KASHI: No questions?

12 MR. LONGWELL: No.

13 JUDGE KASHI: Mr. Kleppinger.

14 MR. KLEPPINGER: Thank you, Your Honor.

15 **CROSS-EXAMINATION**

16 BY MR. KLEPPINGER:

17 Q. Good morning, Dr. Kahn.

18 A. Good morning.

19 Q. My name is David Kleppinger and I represent the  
20 PP&L Industrial Customer Alliance. Welcome to Pennsylvania.

21 A. Thank you. Are you responsible for the rain?

22 Q. No. I won't take credit for that.

23 This is your first appearance before our Commission  
24 as a testifying witness; is that correct?

25 A. In person, yes. I testified in writing.

1 Q. Now, at page 9 of your testimony --

2 A. Yes.

3 Q. -- you, at line 1, use the terms "clear  
4 intention" and then footnote us to the statute. Do you see  
5 that reference?

6 A. Yes.

7 Q. In the footnote you provide the definition  
8 that's in the statute for stranded costs, and then indicate  
9 that the Act provides for a procedure to recover those  
10 costs. Do you see that?

11 A. Yes.

12 Q. Now, is it your understanding that the procedure  
13 that is referenced in footnote 2 in your testimony includes  
14 an empowerment for the Commission to determine the level of  
15 stranded costs?

16 A. Yes, it is.

17 Q. Is it also your understanding that that  
18 procedure empowers the Commission to provide for a  
19 competitive transition charge to recover an appropriate  
20 amount of those transition costs?

21 A. That's my understanding.

22 Q. Is it also your understanding that that  
23 procedure allows for the competitive transition charge to  
24 recover costs that the Commission determines to be just and  
25 reasonable to recover from ratepayers?

1 A. That's my understanding.

2 Q. And when you introduce that footnote with the  
3 terminology "clear intention," you had each of those  
4 procedures in the statute in mind?

5 A. Yes, generally.

6 Q. Turning to page 24 of your testimony, at lines 1  
7 through 3, again you're referencing what the Pennsylvania  
8 legislature has said in the statute, and here you use the  
9 term "entitled" in line 2.

10 A. Yes.

11 Q. Can you reference me to what portion of the  
12 statute itself uses the term "entitlement" to recover just  
13 and reasonable levels of stranded costs?

14 A. Would you remind me of what the first reference  
15 was?

16 Q. In your testimony?

17 A. Yes.

18 Q. Page 24, lines 1 through 3.

19 A. I meant the previous one where I cited the  
20 section of the statute.

21 Q. And to keep it in context, Dr. Kahn, at page 30  
22 of your testimony you again use the term "entitled" with  
23 reference to the Act, and that's at lines 15 and 16.

24 A. Fair enough.

25 Q. So the question really relates to both of those

1 references to the word "entitlement" or "entitled."

2 A. Yes. What I was referring to was my, in this  
3 sense, layman's interpretation of the section of the statute  
4 that I quote in the footnote 2 on page 9 of my testimony. I  
5 profess to no expert knowledge on the legislative history.  
6 What I am is an expert on the English language; I'm on the  
7 Usage Panel of the American Heritage Dictionary. As I read  
8 that, I read it as a layman, as saying there has been a  
9 determination here that as part of the bargain of moving  
10 toward competition, that there are measurable net electric  
11 generating related costs which traditionally would be  
12 recoverable under a regulated environment but which may not  
13 be recoverable in a competitive electric market and which  
14 the Commission determines will remain following mitigation.  
15 As a layman, I read that as saying there is clearly an  
16 intention here to let them recover always a reasonable  
17 proportion of their costs, as I understand it, the Supreme  
18 Court, U.S. Supreme Court, itself said has been  
19 Pennsylvania's general practice.

20 Q. I think you refer to the Barasch decision in  
21 your testimony.

22 A. That's the Duquesne --

23 Q. That's the one you're -- yes.

24 A. Yes; that's correct.

25 Q. In the section of the statute then that you did

1 quote on page 9 of that footnote, when the statute uses the  
2 terms "traditionally would be recovered under a regulated  
3 environment," is it your belief that that would refer to the  
4 traditional ratemaking mechanisms that the Commission has  
5 utilized in the past that are sprinkled throughout the  
6 Public Utility Code in Pennsylvania?

7 A. I assume so, yes.

8 Q. Is there a difference in your mind, Dr. Kahn,  
9 between language which would say that the Commission must  
10 determine an amount of stranded costs that is just and  
11 reasonable to recover from ratepayers versus the Commission  
12 determining a just and reasonable amount of stranded costs?

13 A. I'm not able to distinguish the two.

14 Q. So is it your belief that what's just and  
15 reasonable in terms of a utility's stranded costs will  
16 always be the same number that is just and reasonable to  
17 recover from customers?

18 A. No. In the very first public reference of which  
19 I am aware that I made to a regulatory compact, which is  
20 quoted by Chairman Bradford in an op-ed piece in The Wall  
21 Street Journal, I made two points, one, that historically  
22 commissions, including the New York Commission under my  
23 Chairmanship, attempted to ascertain what the costs were  
24 that were actually incurred by the Commission, disallowing  
25 only those that we felt were not directly related to the

1 performance of service, such as perhaps country club dues  
2 for executives, and there was a lot of dispute about  
3 charitable contributions; and our conception was that just  
4 and reasonable rates were equated to those costs, rates that  
5 gave the companies a reasonable opportunity, a fair shot at  
6 recovering those costs. So that we did not differentiate in  
7 my practice costs, just and reasonable costs, from costs  
8 that it would be just and reasonable to recover in rates.  
9 On the contrary, our conception was that just and reasonable  
10 rates were rates that gave the companies an opportunity to  
11 recover their not imprudently incurred costs.

12 Q. And you continue to use the word "opportunity"  
13 there as opposed to "entitlement." It isn't an entitlement  
14 to those costs, it's an opportunity, a fair shake, I think  
15 you said, or a fair chance.

16 A. They were entitled to the opportunity.

17 Q. Entitled to the opportunity. Okay. But not a  
18 pure entitlement. That's different than a pure entitlement,  
19 isn't it? To me a pure entitlement connotes guarantee. An  
20 entitlement to an opportunity connotes that they have every  
21 fair chance of getting that, but factors may prevent them  
22 from doing so.

23 A. Yes. But let's be clear about what the  
24 opportunity is. As I conceive it, it is the obligation of a  
25 Commission to make the most honest estimate it can,

1 recognizing that there is always a symmetrical risk that the  
2 rates that it set, designed to permit the company to recover  
3 those costs, may prove to be too high or may prove to be too  
4 low; therefore, it's never a guarantee, but, as my  
5 conception of what my responsibilities were, was and is, I  
6 had an obligation to set rates that, as best we could  
7 estimate, would have -- if you had a bell-shaped  
8 distribution of the probable results, the central point  
9 would be those costs on the basis of which we set the rates,  
10 and it was that opportunity to recover them. It was not a  
11 conception that, on average, we expected that they would  
12 fall short of that level.

13 Q. Next, Dr. Kahn, this may be a minor point, at  
14 page 32 of your testimony --

15 A. Yes.

16 Q. -- line 20, which is a question theoretically  
17 from your counsel on direct, it makes reference to a price  
18 freeze. Is it your understanding that the legislation  
19 itself really calls this a price cap, not a freeze?

20 A. Yes. It probably is not my attorney's fault. I  
21 probably put that in by mistake.

22 Q. That's a sensitive issue for some of us.

23 A. I understand.

24 Q. So you would agree to a correction there, that  
25 "freeze" could be "cap"?

1 A. Yes.

2 Q. Finally, on page 49 of your testimony, you list  
3 three bullet points here which, in your opinion, if these  
4 bullets are all true, then there is an internal  
5 inconsistency in what the Commission is attempting to do in  
6 this case. Is that sort of a fair summary of that page of  
7 your testimony?

8 A. Yes, it is.

9 Q. In preparation for your appearance today, have  
10 you reviewed the Pennsylvania legislation that caused us all  
11 to be here today? We call it Act 138.

12 A. I've reviewed it, but I've certainly not  
13 pretended to fully grasp it.

14 Q. In that review, do you recall whether the  
15 legislature confirmed any expectation of an amount by which  
16 it believed prices would be lower in competitive markets  
17 than in the regulated market?

18 A. I'm sorry, I don't remember that.

19 Q. But I take it you would agree with one of the  
20 declarations of policy in the legislation, which is short,  
21 so I'll read it to you verbatim. This is from Section  
22 2802(5). "Competitive market forces are more effective than  
23 economic regulation in controlling the cost of generating  
24 electricity."

25 A. I believe I actually quote that in my testimony,

1 and of course I agree with that.

2 Q. But how much more efficient or how much lower  
3 prices will be due to that truism the legislature didn't  
4 speak to?

5 A. That was my understanding.

6 MR. KLEPPINGER: Thank you, Dr. Kahn. That's all I  
7 have.

8 THE WITNESS: You're welcome.

9 JUDGE KASHI: Thank you very much, Mr. Kleppinger.  
10 Mr. Caplan.

11 MR. CAPLAN: Thank you, Your Honor.

12 **CROSS-EXAMINATION**

13 BY MR. CAPLAN:

14 Q. Dr. Kahn, my name is Richard Caplan. I  
15 represent a number of independent power producers, some or  
16 all of which have contracts to supply power to Pennsylvania  
17 Power and Light under the Public Utility Regulatory Policies  
18 Act or PURPA. So my interest in asking you questions is  
19 going to be related primarily to competitive issues, which I  
20 think you address in the third portion of your filed  
21 testimony and which has been summarized I guess as equal  
22 access versus competitive handicapping. Is that a summary  
23 of what you address?

24 A. Yes.

25 Q. I detected in your testimony on that point a

1 belief on your part that once open access to bottleneck or  
2 necessary facilities, such as transmission and distribution,  
3 once those regulatory and/or structural impediments to  
4 access are removed, that would be sufficient to stimulate a  
5 free and competitive market.

6 A. In addition, I emphasize, in agreement with  
7 Professor Mayor, for example, the necessity for regulatory  
8 prohibitions of exclusionary tactics, such as tie-ins, and I  
9 refer to that explicitly. At a certain point I say, "such  
10 as are embodied in the anti-trust laws."

11 Q. You would agree with me, would you not, that  
12 prohibitions without enforcement mechanisms and  
13 investigative mechanisms are essentially of very little  
14 value?

15 A. I wouldn't assess what percentage of value, but,  
16 obviously, there have to be mechanisms.

17 Q. And would you also agree that those mechanisms  
18 have to act on a timely basis, in other words, in line with  
19 the maxim that justice delayed is justice denied?

20 A. Yes. I have publicly approved, lauded, the  
21 provisions of the Telecommunications Act, for example, which  
22 sets rather rigid time schedules between the date of a  
23 request for interconnection and the issuance of an  
24 agreement, whether as a result of arbitration or not. I  
25 agree with that.

1 Q. Have you given any thought to which entities or  
2 institutions would in fact have the policing function,  
3 assuming that the appropriate regulatory prohibitions are  
4 included either in the Act or in regulations promulgated  
5 pursuant to the Act?

6 A. I have generally assumed, without giving it very  
7 intense consideration, that it would be the utility  
8 commissions that would be most expert and able to do that.

9 Q. Let me ask you: to what extent have you studied  
10 the activities of the Pennsylvania Public Utility Commission  
11 with regard to policing behavior in competitive markets as  
12 opposed to regulated markets?

13 A. I have not.

14 Q. Would you agree with me as a general principle  
15 that it is unlikely that any public utility commission, up  
16 to, let's say, the last five years or so, had any  
17 substantial experience in policing competitive markets?

18 A. No, I would not agree with that. The utility  
19 commissions have historically, over decades, developed  
20 rules, for example, for the allocations of costs, and they  
21 have been, I would say, as an economist, excessively  
22 successful in protecting purchasers of regulated services  
23 against cross-subsidization, which is one of the main  
24 concerns as we move toward a competitive situation. They  
25 also -- and again, I can't tell you about Pennsylvania, but

1 I would be totally astounded if Pennsylvania had not,  
2 similarly, rules about not merely the allocation of costs as  
3 between competitive and regulated ventures, but rules having  
4 to do with inter-corporate transactions, arm's-length  
5 selling at tariffs, such as the codes of conduct clearly  
6 must contemplate, to assure that there's no discrimination  
7 by the monopolist distribution company as between affiliated  
8 and unaffiliated service providers. The arm's-length  
9 transaction kind of rules between separated subsidiaries,  
10 rules about division of personnel, strategic personnel, that  
11 kind of thing, there's a long, long regulatory history of  
12 that kind of thing.

13 Q. Now, would you admit, assuming for argument's  
14 sake that the Pennsylvania Public Utility Commission has the  
15 expertise to do the job, that it would need the resources to  
16 do it?

17 A. Yes. I've also stopped beating my wife.

18 Q. Would you also concede that in a transitional  
19 state from a regulated to a deregulated or partially  
20 deregulated market, that opportunities for raising claims  
21 with regard to alleged predatory conduct are going to be  
22 substantial; in other words, there's a likelihood that more  
23 claims are going to arise during the transition period than  
24 after the market has, if you will, settled and become more  
25 stable?

1 A. I think that's a reasonable supposition.

2 Q. And, therefore, would it be fair to say that the  
3 resources necessary to conduct investigations and to  
4 adjudicate claims of predatory behavior in violation of  
5 codes of conduct or statutory prohibitions or regulatory  
6 rules would have to be at their height during the transition  
7 period; in other words, that there would have to be funding  
8 and personnel in place and mechanisms available during the  
9 transition to support this enforcement?

10 A. Yes, but if my "yes" leaves the implication that  
11 that requires a major increase in the staffs of the  
12 commissions, I'm not in a position to say that. For  
13 example, when I was Chairman of the New York Commission, we  
14 spent all our energies in rate cases, one rate case scarcely  
15 ended before another one began, so we had a huge staff  
16 processing rate cases. The movement toward incentive-based  
17 regulation and rate caps frees up, should free up, a very  
18 large amount of resources, and it may well be that in other  
19 respects, moving toward competition would do so.

20 In any event, therefore, my answer to your question  
21 is yes, but I didn't want to leave that impression that the  
22 commissions were incapable of doing it.

23 Q. Now, to what extent would you believe that the  
24 Federal Energy Regulatory Commission would play a role in  
25 this enforcement process?

1 A. "Play a role." I'm sorry.

2 Q. The Federal Energy Regulatory Commission, would  
3 you believe that it would have a function comparable at the  
4 wholesale level to the Pennsylvania Utility Commission's  
5 function in policing the deregulation in terms of retail  
6 sales?

7 A. I assume so, but I'm not an expert on  
8 federal/state jurisdiction issues.

9 Q. Are you familiar with its alacrity in terms of  
10 handling enforcement proceedings as of today?

11 MR. KAPLAN: I made the same objection yesterday;  
12 that there is no foundation in Mr. Caplan's question as to  
13 its alacrity.

14 JUDGE KASHI: All right, Mr. Caplan.

15 MR. CAPLAN: Your Honor, --

16 JUDGE KASHI: Mr. Caplan, just set it up.

17 MR. CAPLAN: Thank you.

18 BY MR. CAPLAN:

19 Q. Have you any exposure, either from reading it in  
20 the press or from contacting people in Washington, as to the  
21 backlog of enforcement complaints that are presently lodged  
22 with the Federal Energy Regulatory Commission?

23 A. No, I do not.

24 Q. Now, do you see the federal or state courts as  
25 having a role in the transition process with regard to

1 application of the federal anti-trust laws?

2 A. Yes, of course I do. I do not, as one of the  
3 rebuttal testimonies erroneously cited me as saying, that it  
4 could all be left to the anti-trust agencies. I guess it  
5 was John Mayo who said that. I never said that. What I  
6 said was that it would suffice to have prohibitions such as  
7 are embodied in the anti-trust laws, but I never suggested  
8 that all this be thrown to the courts.

9 Q. Are you familiar with any claim at least that  
10 the level of federal anti-trust enforcement has declined  
11 both in terms of the receptiveness of the federal courts to  
12 anti-trust claims and to the Justice Department's pursuit of  
13 such claims?

14 A. I have not made a study of that. I can't say  
15 whether that's true or not.

16 Q. Would you admit that access to the federal  
17 courts with regard to anti-trust claims would be  
18 particularly critical during the transition period, the  
19 period from the regulated market to the deregulated market?

20 A. Whether it's critical or not would depend upon  
21 the efficacy of regulatory protections, and I envision,  
22 contrary to Professor Mayo's interpretation of my testimony,  
23 that the brunt of this would be borne by the commissions. I  
24 remind you again that in the telecommunications field where  
25 the new Act is only a year-and-a-half old, we have had over

1 1,500 agreements negotiated and approved, over 1,500, under  
2 the general guidance of the regulatory commissions,  
3 primarily by a process of negotiation, where the parties  
4 have strong incentives of different kinds of come to an  
5 agreement. I envision here as well that it will be  
6 primarily a negotiating process, with the commissions,  
7 however, available to carry the overwhelming portion of the  
8 burden of policing and serving as arbiters.

9 MR. CAPLAN: I have no further questions, Your Honor.

10 JUDGE KASHI: Thank you very much, Mr. Caplan.

11 Mr. Zalcman.

12 MR. ZALCMAN: Thank you, Your Honor.

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## CROSS EXAMINATION

1  
2 BY MR. ZALCMAN:

3 Q. Good morning, Dr. Kahn, my name is Fred Zalczman,  
4 and I represent the Environmentalists.

5 A. Good morning.

6 Q. Dr. Kahn, in sharing with you the fruits of your  
7 labor, did you attorneys favor you with a copy of the  
8 decision in early 1997 by the supreme court in New York  
9 State on the lawsuit by the Energy Association against the  
10 New York PSC?

11 A. No. Would it have been a favor?

12 (Laughter.)

13 Q. Do you have any independent knowledge?

14 A. No, I'm sorry, I don't.

15 Q. Now, referring to page 10 of your rebuttal  
16 testimony, there you emphatically assert a general  
17 understanding that utilities were entitled to a reasonable  
18 opportunity to recover their prudent investments; is that  
19 correct?

20 A. Yes.

21 Q. And you later assert that as chairman of the New  
22 York Public Service Commission you acted consistent with  
23 that general understanding.

24 A. Yes.

25 Q. Now, you served on the New York Public Service

1 Commission between the years --

2 A. '74 and '77.

3 Q. Now, do you recall a case during your tenure,  
4 a 1977 case, involving Central Hudson Gas and Electric  
5 Company?

6 A. Not specifically. We must have had seven Central  
7 Hudson cases in those three years.

8 Q. So you wouldn't recall if in that proceeding the  
9 Commission had disallowed recovery of prudent costs when  
10 needed to protect ratepayer interests?

11 A. Do you have the date of that decision?

12 Q. Yes, I do. It's Opinion 77-6, a 1977 case.

13 A. You don't have the precise date? I left the  
14 Commission in April of '77.

15 Q. Pardon me?

16 A. I left the Commission in April of '77.

17 Q. So you don't recall if --

18 A. No, I don't.

19 Q. -- you acted on that case? All right. And do  
20 you recall at all a decision you rendered in Opinion 76-23,  
21 a Niagara Mohawk Power Corporation rate case?

22 A. I know that we were involved in rate decisions  
23 involving Niagara Mohawk.

24 Q. So, again, you wouldn't recall if the Commission  
25 in that case denied the utility recovery of a portion of its

1 carrying charges on prudent company plant?

2 A. I didn't hear the last part. Carrying charges  
3 on?

4 Q. Prudent company plant.

5 A. No, I don't recall it. I'd be happy to have my  
6 memory refreshed. I'm sure I'd recognize the language.

7 Q. Now, within your rejoinder statement, you took  
8 issue with Mr. Bradford's position on the Shoreham recovery,  
9 and --

10 A. Excuse me. May I ask; was that a permanent rate  
11 case or a temporary, a request for temporary rate increase?

12 Q. Well, I don't know, but it's not really relevant  
13 to my question.

14 A. Yes, but it's relevant to my answer. Okay,  
15 please go ahead.

16 Q. Now, as I understand your quarrel with  
17 Mr. Bradford, it's that you basically disagree as to whether  
18 New York citizens have a good deal from the Shoreham  
19 settlement agreement; correct?

20 A. No, that's not my disagreement. My citation of  
21 the LILCO decision is intended to demonstrate that even  
22 under Chairman Bradford, even with respect to a \$5.5 billion  
23 lemon, that the -- which, in a sense, had a market value of  
24 zero, or perhaps negative, because of decommissioning costs,  
25 that the New York Commission, under Chairman Bradford,

1 allowed 95 percent recovery of the prudent costs.

2 And that's the point with which I began, that I don't  
3 care of Chairman Bradford says the glass is five percent  
4 empty, and I say the glass, even in those extreme  
5 circumstances, is 95 percent full, because he says there  
6 never has been an agreement under which companies were  
7 entitled to recover every last cent, I never said that they  
8 were entitled to recover every last cent regardless of the  
9 extremity of the circumstances.

10 The deal that they got depends on what you mean. I  
11 mean, it was terrible for the economy in New York and of  
12 Long Island. From that sense it was a terrible deal. But  
13 the error had occurred years before.

14 When I was leaving the Commission, I called my staff  
15 together, and I said, there's something going on at  
16 Shoreham. They had estimated that it would cost \$400 a  
17 kilowatt. At the time when I was leaving it was \$1,500 a  
18 kilowatt. And I said, we've got to do a full-scale inquiry  
19 and decide whether to tell them to stop.

20 It ended up at \$5,500, or \$6,000 a kilowatt; I've  
21 forgotten precisely. But those were all errors made in the  
22 past.

23 And the issue is, then, under the system of  
24 regulation in place, how do we decide how to apportion that  
25 blame. And what I assert emphatically, and

1 Chairman Bradford's actions clearly support, is that the New  
2 York Commission, even in that extreme situation, honored its  
3 commitments 95 percent.

4 Q. But is it your position that the decision by the  
5 New York PSC to enter into that settlement, or to sanction  
6 that settlement, was based on a recognition of the  
7 regulatory compact, and that simply a consideration that  
8 they had a quid pro quo in terms of agreement by LILCO to  
9 shot down the plant in deference to public health and safety  
10 considerations?

11 A. Yes. They were, without deeply investigating  
12 Governor Cuomo's motives, there was clearly a political  
13 situation there. And LILCO helped get him out of a  
14 politically difficult situation.

15 The fact remains that Mr. Catecasinos, who was the  
16 head of LILCO, drove a very hard bargain, and simply refused  
17 to make life easier for the governor or the Public Service  
18 Commission unless he got 95 cents on the dollar. And the  
19 Commission acceded.

20 Mr. Catecasinos felt that he had precedent that  
21 entitled him, acting on behalf of the shareholders, to claim  
22 the major portion of the prudent costs.

23 Q. And in citing that as an example of the so-called  
24 regulatory compact, your basis for that assertion if the  
25 actions of regulators, sort of extrinsic evidence, if I can

1 use that word; is that correct?

2 A. It is. The policies that regulators have  
3 followed over the last at least 50-70 years, under original  
4 cost or prudent investment regulation, such as was largely  
5 developed, the logic of which was largely developed by  
6 Justice Brandise back in the 1920's.

7 Q. And you don't recall, do you, whether the actual  
8 settlement agreement used the term "regulatory compact"?

9 A. I suspect that it did not. In fact, I allude  
10 specifically to that in my testimony; it did not, despite  
11 the fact that an administrative law judge explicitly  
12 formulated that notion. It was not based on that.

13 On the other hand, I just cited you the Central  
14 Hudson decision in which the Commission, under  
15 Chairman Bradford, said everything but the word "compact."

16 Now, I don't care about the word. If they don't like  
17 "compact," call it a banana. But in any case, it is an  
18 understanding, a series of precedents under which -- and I  
19 don't think it's necessary for me to finish that sentence.

20 MR. ZALCMAN: Your Honor, I have no further  
21 questions.

22 JUDGE KASHI: Thank you.

23 MR. ZALCMAN: Thank you.

24 JUDGE KASHI: Before I ask counsel for redirect, I'm  
25 going to take kind of a point of personal privilege here. I

1 just can't pass this up.

2 Professor Kahn, I appreciate your being here today.  
3 And you have been a major part of our lives, and the people  
4 who have been sitting here.

5 THE WITNESS: It's a tribute to my age.

6 (Laughter.)

7 JUDGE KASHI: And there are some questions that I  
8 would you, if it's possible for you to answer. I mean, it  
9 has nothing to do, per se, as to why you're here on stranded  
10 costs.

11 You understand, sir, that as part of these  
12 proceedings we take in a number of public input hearings  
13 where we go out on the stump, so to speak, and listen to  
14 John Q. as to what he thinks about it. It's been our  
15 experience that he has not had a great deal of information  
16 as to what's going on and how it's going on.

17 And so, therefore, by and large, what I seem to be  
18 getting is, a pox on this Kahn fellow and the Carter  
19 Administration, and they started this competition  
20 steamroller going, and it has just rolled over everybody.

21 I mean, we went through the railroad industry, we  
22 went through the trucking industry, we went through the  
23 airline industry, telecommunications, and now they want to  
24 ruin the electric industry.

25 And the thought seems to go something like this from

1 the people that have formulated some ideas as to what, in  
2 fact, has taken place. And I guess what I hear is that the  
3 competition that started in the Carter era came in in a  
4 period of very high inflation. And then after that what we  
5 started seeing was in like the trucking industry, where  
6 every mom and pop outfit I know that we had in Pennsylvania  
7 thought they were going to get in there, and they were all  
8 going to provide their grandchildren and everything else  
9 with wonderful economic benefits.

10 What, in fact, they think happened was that they're  
11 now allowed to work for slave wages for the larger companies  
12 that have managed to survive; and if they want to work  
13 they'll put in a hundred hours, or they won't work.

14 And then you go on to the guys who start telling you  
15 about the airline troubles that, yes, I can go to San  
16 Francisco on a return trip for \$200. But any of these  
17 fellows who have to go back and forth from Harrisburg to  
18 Pittsburgh, it's going to cost them \$500.

19 And the same thing with the telephone industry is, if  
20 we want to call Bangladesh and Brazil and all the rest of  
21 those places, boy our rates have dropped fantastically. But  
22 if, in fact, I want to call my daughter at a college that's  
23 a long distance call within the state, I haven't gained a  
24 thing.

25 And now you want to take my electric system and throw

1 it into this heap called competition; and 30 years ago you  
2 were going to tell me that it was going to cost me a nickel  
3 for my kW, so we weren't even going to use meters. And now  
4 they're telling me that if I want reliability, it's probably  
5 going to cost me 25 cents per kW to make sure when I turn my  
6 light switch on as a resident that it's going to be there.

7 What do I tell those people? And what do I say about  
8 that when I do the decision on this to the Commission?

9 THE WITNESS: Well, it's a great question. And I  
10 assure you I think about it all the time.

11 Regulation, particular of the public utility  
12 industries, gets a bad rap. If you look at the history of  
13 the electric industry in the United States, you find that in  
14 the fifties, in the sixties, the forties, fifties, sixties,  
15 on into the early seventies, rates went down. Average  
16 residential rates went down 43 percent in real terms,  
17 adjusted for inflation. The industry behaved very well.  
18 Telephone service was very good service.

19 There was a certainty about what prices would be,  
20 there was an assurance of non-discrimination, there was a --  
21 you had redress if you had complaints against the quality of  
22 service, and it provided a relatively secure environment and  
23 life for stockholders on the one side, for labor on the  
24 other.

25 And if you want to see a real devotion to that kind

1 of society, go to France or to Germany, where, however, it's  
2 accompanied by twelve to fifteen percent unemployment.

3 Let me take two separate parts. There are some  
4 industries to which regulation was applied, industries that  
5 unquestionably could be highly competitive. Trucking. I  
6 have probably 40 pages on trucking in my second volume,  
7 1971, where it's obvious that this industry is not a natural  
8 monopoly. It could be highly competitive.

9 When we opened trucking up, there were 18,000  
10 certificated, ICC certificated truckers. Within a decade,  
11 there were 48,000. And as you say, there was an awful lot  
12 of mom and pop people.

13 When we put together a coalition to support trucking  
14 deregulation, the National Federal of Independent Businesses  
15 was on our side, the National Federation of Minority  
16 Businesses, because this seemed to be a place where small  
17 scale enterprises could begin if the industry were not  
18 rigidly closed under a kind of a cartel.

19 The other side of the coin is, however, that air  
20 travel was a luxury, that it was expensive. Everybody paid  
21 the same fare, but the fare was high. And our purpose in  
22 introducing competition was to bring air travel within the  
23 reach of people of modest means. That it has certainly  
24 done. Last year 95 percent of all travel was the discount  
25 fares.

1           It's a mess; I understand that. Competition is very  
2 messy. But 95 percent of the travel; people found ways of  
3 finding discounts. And the average discount was 69 percent.  
4 The discount was 69 percent. The average fare paid for  
5 under this 95 percent, in other words, was 31 percent of a  
6 fare that was, however, outrageous; the other five percent.  
7 I think the technical economic term is that the other five  
8 percent were screwed.

9           (Laughter.)

10          THE WITNESS: Competition is messy, it's  
11 discriminatory. It also puts very great pressure on wages  
12 and work practices.

13          The main beneficiaries of the protection against  
14 competition under regulation in the airline industry were  
15 not the airline companies. Their profits were very, very  
16 low compared with industry average. It was the pilots, who  
17 typically had total flying hours of 30 to 45 hours a month,  
18 and ought to do perfectly well, total duty hours of 60 hours  
19 a month.

20          You know, I want my pilot to be well paid and to be  
21 qualified. But it was a non-competitive average wage and  
22 fringes of pilots in the range of \$125,000 a year.

23          Truckers similarly. The estimates are that the  
24 average wages of Teamsters were something like 40 or 45  
25 percent above what they would be under competitive levels.

1           So competition is a hard taskmaster. But it does  
2 bring benefits to the public. And I have no reason to doubt  
3 that average air fares are a good 20 percent lower than they  
4 otherwise would be. And the Brookings Study estimates that  
5 benefits to travelers are something like \$10 billion a year.

6           And they've made studies of trucking and railroads;  
7 and again, remember the work practices in railroads of the  
8 featherbedding. That's had to be eliminated. So it is  
9 harder on organized labor.

10           On the other hand, total employment in the airline  
11 industry has gone up from about 300,000 to something like  
12 540,00, because the industry has expanded so because  
13 everybody travels now.

14           A lot of people don't like that, because the planes  
15 are more crowded. But what we wanted to do is to offer  
16 people of limited means a bare bones service; longer lines,  
17 tighter seating, discomfort, but low fares. And that it  
18 certainly has brought.

19           Now, I don't mean to go on at such a length. You  
20 recognize your question was a probing one, and a very  
21 reasonable question, but also a very complicated one.

22           In the case of electric, the one promise that  
23 competition in deregulation brings that I think is the most  
24 powerful is the promise that the public will not have to pay  
25 the price of big mistakes.

1           And of course, that's why there's such a pressure for  
2 deregulation as I describe it. We are living with the  
3 results of some enormous mistakes that were made under the  
4 traditional cost plus system of regulation, under which the  
5 obligations, of commissions, under which I've already  
6 described.

7           And it will introduce a responsibility into the  
8 investment decision that isn't there under rate base rate of  
9 return.

10           So even though, as I look back over the whole history  
11 of the electric industry, I cannot say that regulation has  
12 produced a bad result for the public.

13           But we've come through a period now in which, in  
14 circumstances that may never be repeated, but the fiasco of  
15 these scores of billions of dollars of investments that were  
16 made under a system in which the companies -- look, they had  
17 to finish plants often, because if they didn't finish them,  
18 even if they knew that it was stupid to finish the plant,  
19 they wouldn't get it rate-based at all. So it created that  
20 irrationality.

21           And the same thing is true of PURPA. I testified  
22 twice before Congress in support of the Public Utility  
23 Regulatory Practices Act, in favor of it. And the provision  
24 for compelling the companies to buy that independently  
25 generated power was clearly logical, given the distortions

1 of the rate base rate of return, where the companies had no  
2 incentive to go out and buy power from independents, even if  
3 they could buy it at rates lower than their avoidable cost.  
4 Because it just flowed through to customers.

5 So we had a correction. It was a correction  
6 necessitated by the irrationality of the present, previous  
7 system. But then it, in turn, was a regulatory correction  
8 which produced multi-billion dollar mistakes; another  
9 fiasco. Because commissions had to set the rates, and there  
10 were various compulsions on the setting of rates; but we  
11 made mistakes.

12 The history of that tells me, and I think it tells  
13 the public generally, that entirely apart from the fact that  
14 competition does put greater pressure on companies to be  
15 efficient, and eliminating featherbedding, and improve the  
16 efficiency of their operations. It also tells me that we no  
17 longer want to entrust ourselves to a system in which  
18 regulators or companies can make such multi-billion dollar  
19 mistakes, and then turn around and say, well, there's a  
20 regulatory compact; Fred Kahn says so. And I'm sorry we  
21 made these awful mistakes, but you've got to pay the price.

22 So I regard it as almost a historical compulsion.

23 JUDGE KASHI: Thank you, sir. So that indicates that  
24 when anybody asks that question, I can say the promise is  
25 that we're not going to have to pay for the big mistakes,

1 given that we don't make any big mistakes here, Counsel; is  
2 that correct?

3 (Laughter.)

4 JUDGE KASHI: Thank you very much, sir. I genuinely  
5 appreciate it.

6 THE WITNESS: I appreciate the question, sir.

7 JUDGE KASHI: Mr. Kaplan.

8 MR. KAPLAN: We have no redirect, Your Honor.

9 JUDGE KASHI: Thank you very much.

10 You are excused, sir. And I thank you again for  
11 coming.

12 THE WITNESS: Thank you.

13 (Witness excused.)

14 JUDGE KASHI: That which has been previously marked  
15 and identified as PP&L Statement No. 18-R, and its attendant  
16 exhibit is received into the evidentiary record without  
17 objection. Without objection.

18 MR. KAPLAN: Thank you, Your Honor.

19 (Whereupon, the document marked as PP&L  
20 Statement No. 18-R, including PP&L Exhibit  
21 AEK-1, was received in evidence.)

22 MR. KAPLAN: We would like to ask for just a two- or  
23 three-minute recess to change witnesses.

24 JUDGE KASHI: Surely.

25 MR. KAPLAN: We are ready to proceed promptly at that

1 point.

2 (Recess.)

3 JUDGE KASHI: Do you wish to call your next witness,  
4 Mr. Kaplan?

5 MR. KAPLAN: Thank you, Your Honor. Pennsylvania  
6 Power & Light Company calls Ronald E. Hill.

7 JUDGE KASHI: Mr. Hill, would you stand, raise your  
8 right hand and be sworn.

9 **Whereupon,**

10 **RONALD E. HILL**

11 **having been duly sworn, testified as follows:**

12 MR. KAPLAN: Your Honor, I would like to identify for  
13 the record Statement No. 2, the Direct Testimony of Ronald  
14 E. Hill, a statement of 23 pages, and Statement No. 2-R, the  
15 rebuttal testimony of Ronald E. Hill, a statement of seven  
16 pages.

17 JUDGE KASHI: So marked for purposes of  
18 identification.

19 MR. KAPLAN: Thank you, Your Honor.

20 (Whereupon, the documents were marked  
21 as PP&L Statement Nos. 2 and 2-R for  
22 identification.)

23 **DIRECT EXAMINATION**

24 BY MR. KAPLAN:

25 Q. Mr. Hill, do you have any corrections to make?

1           A. Yes, I do. In my direct testimony, on page 18,  
2 the amount as shown for our stranded cost claim and the  
3 amount which we would recover under the competitive  
4 transition charge, those amounts have been revised as a  
5 result of interrogatories and rebuttal testimony.

6           The exact amount on line 3, the 4,611,000,000 is  
7 4,641,000,000.

8           On line 5, the company anticipates 4.026 billion, and  
9 the remaining amount would be \$615 million. And that's on  
10 line 6.

11           Those are the corrections and changes I had.

12           MR. BURGRAFF: I'm sorry, Mr. Hill. What page was  
13 that on?

14           THE WITNESS: Page 18 of my direct testimony.

15           MR. BURGRAFF: And could you just go through those  
16 again, please?

17           THE WITNESS: Line 3, 4.611 is 4.641. Line 5, 4.210  
18 is 4.026. Line 6, the 401 is 615.

19           MR. BURGRAFF: Thank you very much.

20           BY MR. KAPLAN:

21           Q. Thank you, Mr. Hill.

22           MR. KAPLAN: PP&L, first of all, will have no  
23 rejoinder testimony of this witness. And we therefore at  
24 this time make a motion for admission into the record of the  
25 Statement No. 2 and Statement No. 2-R, the direct and

1 rebuttal testimony of Ronald E. Hill.

2 JUDGE KASHI: Subject to any timely motions and or  
3 objections, pending cross examination, that which has been  
4 identified and moved as PP&L Statement No. 2 and 2-R will be  
5 received into the evidentiary record.

6 MR. KAPLAN: Thank you, Your Honor. Mr. Hill is  
7 available for cross examination.

8 JUDGE KASHI: Mr. Kleppinger.

9 MR. KLEPPINGER: Thank you, Your Honor.

10 **CROSS EXAMINATION**

11 BY MR. KLEPPINGER:

12 Q. Good morning, Mr. Hill.

13 A. Good morning.

14 Q. With the corrections you've made to your direct  
15 testimony, I'm going to have a few questions for you that I  
16 was a little unclear with some of the responses from prior  
17 witnesses.

18 The company is still requesting that the Commission  
19 approve a stranded cost number for collection of \$4.64  
20 billion; is that correct?

21 A. The company's claim for stranded cost is \$4.641  
22 billion. The amount that we are requesting recovery of  
23 because of the rate cap is \$4.026 billion.

24 Q. So, if we get to the end of the stranded cost  
25 collections period, and the company has collected \$4.026

1 billion, the company will not seek any extension in the CTC  
2 beyond that point in time other than the nuclear  
3 decommissioning issue?

4 A. If the company is permitted recovery by a  
5 decision of the Commission to recover \$4.026 billion, we  
6 would not seek any additional amount at the end of the  
7 transition period, that's correct.

8 Q. And are you only asking the Commission to approve  
9 the collection of \$4.026 billion, or are you asking the  
10 Commission to approve a collection of \$4.641 billion?

11 A. A collection of \$4.026 billion based on a  
12 stranded cost claim of 4.6. We're requesting collection of  
13 only 4.026.

14 Q. If by December 31, 2002, the company has  
15 collected \$4.026 billion, will the company terminate the  
16 CTC?

17 A. If the Commission has granted us recovery of  
18 4.026, whenever we have recovered that amount we would stop  
19 collecting and charging under our CTC. So the answer is yes  
20 to your question.

21 Q. But I'm just trying to nail down if you are  
22 asking the Commission to approve collection of \$4.641  
23 billion, in the event that that amount can be fit within the  
24 rate cap.

25 A. No, based on our projections it can't be fit

1 within with the rate cap. And based on our claim, it's not.

2 Q. But if the projections turn out to be incorrect?

3 A. Well, once a decision is made with respect to  
4 what we're allowed to recover in the CTC, we do not  
5 anticipate changing that.

6 Q. In your assumptions of being able to collect the  
7 \$4.026 billion, am I correct that the company has not built  
8 in sales growth to the collection of that number?

9 A. I really can't -- I believe we have, but I would  
10 say that subject to check with, I believe Mr. Kasper's  
11 coming on later on on the ability for that to recover. I  
12 think he would have the detail on that.

13 Q. Whatever the sales assumption is, whether there's  
14 no sales growth assumed in there or there is sales growth,  
15 if sales growth exceeds whatever the assumption is in  
16 actuality, and you begin to collect your stranded costs  
17 quicker, the company will terminate the CTC at the point in  
18 time that it gets to the amount of collection that the  
19 company approves in this case; correct?

20 A. The exact mechanism that would be used, I'm not  
21 sure I say at this point in time. It may be a change in the  
22 CTC to recover -- you know, lower the CTC to recover it over  
23 the remaining period. Or maybe a termination of the CTC.

24 We haven't made that decision, and I'm sure the  
25 company could make that unilaterally. What I am saying is,

1 we will adjust the CTC or terminate it so that we would  
2 collect no more than the \$4.026 billion. I can't say what  
3 that mechanism would be at this point in time.

4 Q. Your rebuttal testimony addresses the OCA and  
5 PPLICA stranded cost recommendations. And I'd just like to  
6 probe some of your comments on at least the PPLICA  
7 recommendation.

8 Q. You agree with me, do you not, that the statute  
9 that we're operating under here includes a definition of  
10 stranded cost?

11 A. Yes, it does.

12 Q. And it provides some direction as to how that  
13 stranded cost should be calculated or quantified; do you  
14 agree with that?

15 A. Yes.

16 Q. And is it safe to say that your dispute with the  
17 PPLICA position is with the market price or market value  
18 that PPLICA has identified for the company's generating  
19 units?

20 A. Without going into the detail, and I believe  
21 Mr. Schadt can answer that better, my complaint really is  
22 the impact it would have on PP&L on a financial basis, in  
23 that, given the outcome or the results that we've modeled  
24 from the PPLICA assumptions, such that the financial results  
25 would be very detrimental to the company, producing an

1 immediate rate reduction to such an extent that we may not  
2 be able to survive financially.

3 Q. An immediate rate reduction or a reduction at the  
4 point in time the CTC would expire under PPLICA's proposal?

5 A. At the point in time that the rate reduction  
6 would occur.

7 Q. Okay. Now, that result, you would acknowledge,  
8 would you not, is driven by PPLICA's proposed quantification  
9 of PP&L's stranded cost?

10 A. That's one of the drivers, yes. That's a driver.

11 Q. So, if PPLICA's quantification is, in fact,  
12 correct, and the assumptions that went into that calculation  
13 prove to be correct, would not PP&L recover a reasonable  
14 amount of its costs through its market prices?

15 A. Again, my testimony deals with they bottom line  
16 result that would impact us based on reflecting in our  
17 modeling the impact on the rate reduction. What's driving  
18 that, I really haven't looked at in detail. I believe  
19 Mr. Schadt could provide the exact rationale and the drivers  
20 for what's causing those results.

21 Q. So when you looked at that financial result, I  
22 believe you agreed that that would occur, the rate  
23 reduction, if you will, would occur under PPLICA's proposal  
24 when the company has terminated the CTC?

25 A. I'm not sure when that would occur.

1 Q. When you fully collected your stranded costs, if  
2 the Commission adopts PPLICA's approach, its recommendation  
3 here, PP&L would conclude its collection of stranded costs  
4 fairly quickly; correct?

5 A. Yes.

6 Q. Now, the statute has a rate cap in place in the  
7 generation piece of the business for the duration of your  
8 CTC collection; correct?

9 A. Yes.

10 Q. So, if the rate reduction were to occur when the  
11 CTC expires, cannot PP&L then charge market prices without  
12 worry of the rate cap for the generation component of its  
13 rates?

14 A. Well, if the CTC is such that there would be an  
15 immediate reduction in our rates because it's substantially  
16 smaller than what PP&L has claimed, then there would be an  
17 immediate reduction in revenues, with an immediate reduction  
18 and an immediate adverse impact on the company's financial  
19 position.

20 Q. Do you understand PPLICA's position not calling  
21 for an immediate reduction beginning January 1, 1999?

22 A. That's what I've said, whenever a rate reduction  
23 occurs, that's whenever the dramatic financial impact would  
24 occur.

25 Q. Okay. Now, when you did your modeling, were you

1 comparing the financial implications to PP&L under PP&L's  
2 market price assumptions at that point in time, as opposed  
3 to PPLICA's market price assumptions at that point in time?

4 A. I really believe that detail Mr. Schadt can  
5 answer better than I can.

6 Q. Okay. The result would be different, --

7 A. It could be.

8 Q. -- would you acknowledge?

9 A. Yes.

10 Q. Okay. Thank you, Mr. Hill, that's all I have.

11 JUDGE KASHI: Thank you, Mr. Kleppinger.

12 Mr. Zalcman?

13 MR. ZALCMAN: Yes, thank you, Your Honor.

14 **CROSS EXAMINATION**

15 BY MR. ZALCMAN:

16 Q. Mr. Hill, my name is Fred Zalcman, and I  
17 represent the Environmentalists.

18 Mr. Hill, at page 13 of your direct testimony, you  
19 refer to a number of the company's economic development  
20 programs. Now, is it your testimony that these economic  
21 development programs help to reduce the company's potential  
22 stranded costs?

23 A. Yes, it is.

24 Q. And included among those programs you've  
25 identified energy conservation; is that correct?

1 A. Yes, economic development, yes.

2 Q. And would you agree that these conservation  
3 programs help to retain customer load?

4 A. I think they've helped our customers to be more  
5 efficient, which enabled them to stay in business, to be  
6 more productive.

7 Q. If this is really a question for another witness,  
8 please indicate. But do you have any idea what order of  
9 magnitude the company's programs have spent in the past  
10 couple of years? Do you know, for example, how much the  
11 company spent on its conservation programs?

12 A. I don't have that detail.

13 Q. Do you have any idea in terms of kilowatt hours  
14 saved on an order of magnitude --

15 A. I don't have --

16 Q. -- the results --

17 A. I don't have that detail either.

18 Q. Do you know who would be the appropriate witness  
19 to ask that question?

20 A. Possibly Mr. Kasper.

21 MR. ZALCMAN: Thank you, Your Honor, I have nothing  
22 further.

23 JUDGE KASHI: Thank you very much, sir.

24 Mr. Stewart?

25 MR. STEWART: I have nothing for this witness, Your

1 Honor.

2 JUDGE KASHI: Mr. Caplan?

3 MR. CAPLAN: Thank you, Your Honor.

4 **CROSS EXAMINATION**

5 BY MR. CAPLAN:

6 Q. Mr. Hill, my name is Richard Caplan, and I'm  
7 representing a number of independent power producers,  
8 including Gilberton Power and Schuylkill Energy Resources,  
9 Inc.

10 In your direct testimony you talk a little bit about  
11 the history of PP&L's interaction with those non-utility  
12 generators who were able to enter into long-term supply  
13 contracts with PP&L as a consequence of PURPA, the federal  
14 legislation. Do you recall dealing with that subject in  
15 your direct?

16 A. Yes, I do.

17 Q. Now, you made reference in your direct to  
18 something called the pioneer rate. Could you describe for  
19 us what the pioneer rate was, or is?

20 A. That was a unique rate designed quite a while  
21 ago. It was six cents per kilowatt hour. It's no longer in  
22 effect, to my understanding. And I'd have to go back and  
23 research exactly what that pioneer rate did.

24 Q. Well, do you know who developed the rate; in  
25 other words, what entity was responsible for determining

1 that six cents per kilowatt hour?

2 A. PP&L was involved in determining it.

3 Q. Well, isn't it correct that PP&L determined that  
4 on its own?

5 A. Yes.

6 Q. In other words, it was not subject to  
7 negotiation, but was rather determined by PP&L through its  
8 internal modeling and forecasting capability?

9 A. It was a rate developed by PP&L.

10 Q. Do you know how that was done? In other words,  
11 how did PP&L go ahead and determine the six-cent rate?

12 A. I can't give you the detail on that, that was  
13 quite a while ago.

14 Q. Is there any witness to this proceeding that you  
15 know of that might have that knowledge?

16 A. I don't know, to be honest with you.

17 Q. Well, was it supposed to be a forecast of energy  
18 only avoided cost?

19 A. As I said, I don't recall the detail of that. It  
20 was a rate we set up, but it's been so long ago, I don't  
21 recall the exact detail.

22 Q. Well, are you familiar with PURPA and the  
23 requirements that sales be made at no higher than a  
24 utility's energy only avoided cost?

25 A. I am.

1 Q. And therefore would it be fair to say that that  
2 rate, that six cents, was estimated back in the 1980's by  
3 PP&L as its long-term energy only avoided cost for the  
4 duration of the contract?

5 A. No, I can't say that's fair. As I said before, I  
6 don't know the detail of the derivation of the six cents.

7 Q. How long was the average NUG contract involving  
8 the PURPA requirement to purchase?

9 A. How long are our contracts?

10 Q. Yes.

11 A. I believe on average of somewhere around twenty  
12 years.

13 Q. All right. And those were entered into in the  
14 latter part of the 1980's, or like 1986 onward?

15 A. Yes.

16 Q. Therefore they would expire anywhere between 2006  
17 and 2010?

18 A. Yes.

19 Q. Now, you've talked in terms of your efforts to  
20 mitigate stranded costs, and you've proposed, or pointed out  
21 that, in fact, PP&L has been successful in negotiating the  
22 buy-out of at least two contracts representing 118.5  
23 megawatts of generation; is that correct?

24 A. That's correct.

25 Q. You have no basis, do you, for believing that it

1 would be impossible for PP&L to buy out additional non-  
2 utility generation contracts for the future; do you?

3 A. I have no basis of saying it's impossible. I  
4 also have no basis to say that we will, in fact, be able to  
5 achieve any future buy-outs.

6 Q. Well, is the company looking into that prospect  
7 at the present time?

8 A. Yes, we are.

9 Q. All right. And once the CTC is approved, is it  
10 then not fair to say that if the company does, in fact, buy  
11 out a NUG contract on terms that would reduce the long-term  
12 cost, reduce the present -- in other words, would be  
13 economically advantageous, that that would represent a  
14 windfall to the company?

15 A. I'm not sure that would be a windfall. There is  
16 provision in the law for periodic review of the CTC and  
17 what's being collected. I would expect that the Commission  
18 would take that into consideration during a transition  
19 period.

20 Q. In other words, you're saying that if PP&L bought  
21 out, or bought down a non-utility generator contract, you  
22 believe that the law allows the PUC to determine that income  
23 to be the equivalent of the CTC?

24 A. I believe there's the ability to adjust the CTC  
25 in the future. That may be one of the areas that the

1 Commission could take into consideration.

2 Q. Where is the authority that you find in the act  
3 for the ability of the Commission to reduce the level of the  
4 CTC not based on a reconciliation of actual CTC collections?

5 MR. KAPLAN: Your Honor, I'm going to object.

6 Mr. Hill is the chief financial officer of the company, and  
7 Mr. Caplan can read the act and put in his brief whatever  
8 legal arguments he wants to make.

9 JUDGE KASHI: Well, the gentleman has stated that the  
10 act permits it, and I'd like to hear why he thinks that.  
11 And if he thinks it's based upon something he's been told or  
12 seen in the act, I'd like to know what that is. Maybe I can  
13 read it that way, too.

14 THE WITNESS: I'm not sure I could find it right now.  
15 It's my understanding, my impression, that there is -- the  
16 company does have the ability to do some adjustment of a CTC  
17 over the transition period, and that one of those factors  
18 could be the buy-out of a NUG contract.

19 BY MR. CAPLAN:

20 Q. Well, if it has the ability to reduce the CTC,  
21 prospectively, as a consequence of the buy-out, would you  
22 not believe, based on your reading of the act, that it would  
23 have the ability to increase the CTC on the basis of some  
24 improper forecast or some unexpected change of energy or  
25 fuel cost?

1 A. No, I don't believe they do.

2 Q. So, in other words, it's your view that the only  
3 discretion that the PUC has under the act would be to reduce  
4 the CTC because of some unforeseen event which realizes the  
5 PP&L income that's the equivalent to the CTC?

6 A. I can't be that specific. I think it's fairly  
7 broad, my recollection. And again, if I could find the  
8 exact part in the legislature that I'd be referring to, I  
9 might be able to be more specific. But I can't find it at  
10 this point in time.

11 Q. Unless the PUC were to act, PP&L could keep  
12 whatever economic benefit it achieves by buying out  
13 contracts after the CTC is approved as part of the  
14 reorganization plan; isn't that true?

15 A. We could keep, or we could use it to further  
16 mitigate any other stranded that we have.

17 Q. Well, has the PUC determined at this state that  
18 if, in fact, it's successful in buying out in the future any  
19 of these NUG contracts, it will, in fact, use whatever the  
20 net proceeds turns out to be to mitigate its stranded costs?

21 A. No, the Commission's made no decision with  
22 respect to that.

23 Q. I asked if PP&L had made such a decision  
24 unilaterally.

25 A. No, PP&L has not made that.

1 Q. You've indicated in your testimony that you have  
2 a proceeding pending before the FERC, which, if successful  
3 -- and this involves a qualifying facility under PURPA,  
4 issues of compliance. In other words, there is, as I  
5 understand it, a proceeding by PP&L against one of the non-  
6 utility generators seeking to change its certification,  
7 which would have a concomitant consequence of reduction in  
8 the amount that would be paid for that particular  
9 generator's power. Is that correct?

10 A. That's correct.

11 Q. And that would represent, according to you, a  
12 reduction in the cost of approximately \$10 million a year;  
13 correct?

14 A. That's correct.

15 Q. And that contract runs to 2009, does it not?

16 A. I can't tell you exactly when that contract  
17 runs.

18 Q. Well, you would admit that it runs at least ten  
19 more years; correct?

20 A. I believe it runs at least ten years, yes.

21 Q. So that reduction, if successful, represents  
22 \$100 million or more; true?

23 A. That's correct.

24 Q. And is that reduction going to be in mitigation  
25 of the CTC if in fact the stranded cost components are

1 included in the CTC and approved let's say within the next  
2 six months and that decision doesn't come out until 1998 or  
3 thereafter?

4 A. It is my understanding that we have reflected  
5 that in our calculation of the CTC in our stranded  
6 investment.

7 Q. Reflected what?

8 A. The \$10 million reduction.

9 Q. You've reflected a win in that case as though it  
10 were mitigation of the CTC?

11 A. I believe we've reflected it in our energy cost  
12 rate today and our rates today.

13 Q. And in the event that the decision turns out not  
14 to be favorable to PP&L, are the company shareholders going  
15 to eat the consequences?

16 A. Yes.

17 MR. CAPLAN: I have no further questions of the  
18 witness.

19 JUDGE KASHI: Thank you very much, sir.

20 Mr. Burgraff.

21 MR. BURGRAFF: Thank you, Your Honor.

22 **CROSS-EXAMINATION**

23 BY MR. BURGRAFF:

24 Q. Mr. Hill, good morning.

25 A. Good morning.

1 Q. My name is Craig Burgraff. I represent the  
2 Office of Consumer Advocate.

3 I'm going to refer you initially, Mr. Hill, to page  
4 14 of your original testimony. On line 9 thereof, you say  
5 that the company's past mitigation efforts is lower rates to  
6 customers and lower stranded costs; is that correct?

7 A. That's correct.

8 Q. Now, the company's stranded cost analysis in  
9 this case indicates roughly \$4.6 billion of stranded costs;  
10 is that correct?

11 A. That's correct.

12 Q. And of that amount, how much is really the  
13 generation assets?

14 (Pause.)

15 Q. Perhaps to make it simple, let me just refer you  
16 to Exhibit JRS-1, Mr. Schadt's exhibit. I realize there may  
17 have been some minuscule changes in these numbers; Tab B.

18 A. I have it.

19 Q. Do you have that?

20 A. Yes, I do.

21 MR. KAPLAN: May I ask: are we on JRS-1 Revised or  
22 JRS-1?

23 MR. BURGRAFF: I am on JRS-1.

24 MR. KAPLAN: Why don't we work off the substitute for  
25 that exhibit so we work off numbers that are current

1 numbers, if I may suggest? I have a copy here.

2 MR. BURGRAFF: That's fine.

3 MR. KAPLAN: Do you have that? Is that what you  
4 have?

5 THE WITNESS: No. I have the original.

6 MR. KAPLAN: You have the original.

7 (Witness perusing document.)

8 MR. KAPLAN: You have that one?

9 THE WITNESS: I have it.

10 BY MR. BURGRAFF:

11 Q. And for the generation asset portion of the  
12 company's claim, roughly, what is the claim?

13 A. About 3.6 billion.

14 Q. Thank you. Staying there, of that amount, how  
15 much of the claim is related to Susquehanna?

16 A. About 2.9 billion, in round numbers.

17 Q. Now, let me refer you to your Statement 2-R, Mr.  
18 Hill -- I'm sorry; let me stay on Statement 2, pages 9 and  
19 10, the bottom of page 9.

20 MR. KAPLAN: I'm sorry. I didn't get the reference,  
21 Mr. Burgraff.

22 MR. BURGRAFF: Mr. Hill's original statement at the  
23 bottom of page 9.

24 MR. KAPLAN: Thank you.

25 MR. BURGRAFF: You're welcome.

1 BY MR. BURGRAFF:

2 Q. Now, there you note, do you not, that a  
3 significant portion of the company's stranded cost claim  
4 relates to the Susquehanna Steam Electric Station? Is that  
5 correct?

6 A. That's correct.

7 Q. And you state the company has undertaken various  
8 measures that have resulted in a significant reduction in  
9 stranded costs associated with this facility. Is that also  
10 correct?

11 A. That's correct.

12 Q. Could you enumerate for me and the record what  
13 those measures are?

14 A. Yes. I think one of the major factors we've  
15 taken with respect to Susquehanna in mitigation of stranded  
16 costs in any nuclear facility is to get as much output at  
17 that facility as you reasonably can. That is going to  
18 reduce the overall cost of the facility because of its very  
19 high capital cost. So we've taken efforts to reduce our  
20 operating expenses there to make those as efficient and  
21 effective as we can. We've tried to run the plant as well  
22 as we can, run it safely.

23 I think the experience within the industry is clear  
24 that if you don't operate a nuclear facility safely and  
25 effectively, you can run into more trouble in the long run

1 by trying to take shortcuts and that type of thing. So I  
2 think we've been very successful with respect to our overall  
3 operation of Susquehanna. We made an addition to its output  
4 at a relatively, I think, very effective cost that is  
5 upgrading the facility. We spent only \$45 million for a 90  
6 megawatt upgrade, again, more capacity, more output. We  
7 have also been very active in cost containment efforts at  
8 the plant.

9 Q. All right; so you reduced annual O&M  
10 expenditures by how much? Do you know?

11 A. I don't have those numbers in front of me.

12 Q. But that is part and parcel of the company's  
13 stranded cost methodology?

14 A. Controlling costs; we are very sensitive in  
15 reducing costs at the nuclear plant, because, as I said, in  
16 the long run it is better to keep that plant operating  
17 effectively and getting the output than having it shut down  
18 for regulatory and other reasons.

19 Q. I understand that, Mr. Hill. My question is:  
20 have you reflected reduced O&M expenditures for stranded  
21 cost purposes in this case?

22 A. Our O&M for Susquehanna is based on a modest 2.5  
23 percent escalation of cost over its life, operating cost.

24 Q. Beginning with the expenditure level at what  
25 point in time?

1 A. Beginning with the 1997 budget.

2 Q. So this would be an ongoing effort to reduce O&M  
3 at Susquehanna?

4 A. An ongoing effort to keep costs as low as  
5 possible, yes.

6 Q. Does that include reducing O&M expenditures?

7 A. No. As I said, in the plan is an escalation of  
8 costs at nuclear at a 2.5 percent rate.

9 Q. I understand that. But as far as operations are  
10 concerned, is it the company's plan to reduce annual O&M  
11 expenditures at Susquehanna on a going-forward basis?

12 A. We are going to try to control them and contain  
13 them as much as possible.

14 Q. Control and contain them. You gave some general  
15 numbers at the back of your original statement regarding  
16 kind of gross numbers that may fall out of future mitigation  
17 efforts. Do you recall that?

18 A. Yes, I do.

19 Q. And I believe one of those kind of gross numbers  
20 involved a reduction in anticipated capital expenditures; is  
21 that correct?

22 A. That's correct.

23 Q. You reduced annual capital expenditures in the  
24 future in that section of your testimony. Does that make  
25 the assumption that you would also be reducing annual

1 capital expenditures at Susquehanna?

2 A. I believe there are some reductions at  
3 Susquehanna.

4 Q. Those are included within your numbers?

5 A. Yes.

6 Q. Does the company intend to reduce nuclear fuel  
7 costs at Susquehanna in the future?

8 A. What we have done is implement a process by  
9 which we are changing our fuel design at Susquehanna. We  
10 are implementing a fuel design which will permit us to  
11 operate the unit for 24 months before refueling as opposed  
12 to 18 months. That will result in greater output of the  
13 unit and therefore lower the unit fuel cost.

14 Q. Was that assumption built into your stranded  
15 cost forecast?

16 A. It is my understanding that it was, but I  
17 believe Mr. Schadt would confirm that, and that should be  
18 asked of him.

19 Q. That's fine. Does the company plan on reducing  
20 inventory costs at Susquehanna in the future?

21 A. The company has a plan of trying to maintain a  
22 very effective and efficient inventory level at all of its  
23 plants, including Susquehanna; and as part of that, we are  
24 putting in a new inventory system, have it in at all of our  
25 fossil plants, and are putting it in at the Susquehanna

1 plant.

2 Long range, though, I don't believe that there is  
3 anything in this filing that would reflect an overall  
4 reduction, but we're, again, trying to be as most efficient  
5 and effective in our costs as possible.

6 Q. And I believe you testified you will implement  
7 the 24-month operating cycle at the Susquehanna plant?

8 A. That's correct.

9 Q. Have you attempted to shorten the refueling  
10 outage time frame?

11 A. Yes, we have; and we have been successful.  
12 We've come down from almost 60 days down to 30-some days in  
13 the refueling cycle.

14 Q. And I assume that was in your assumptions going  
15 forward for stranded cost purposes?

16 A. The exact number of days and refueling outage, I  
17 can't tell you if it is in there going out.

18 Q. Has the company or does the company plan to  
19 increase the capacity factor for Susquehanna?

20 A. We have no current plans.

21 Q. I can't recall the capacity factor assumed by  
22 the company for stranded cost purposes.

23 A. I believe it is 78 percent, subject to check.

24 Q. I can check that. Mr. Hill, are you aware that  
25 the company's claim for stranded costs related to its

1 generating assets exceeds the net book value of those assets  
2 as of January 1, 1999?

3 A. I believe it does, yes, the projected book value  
4 at that time.

5 Q. Yes.

6 A. That's correct.

7 Q. Does that result suggest to you that PP&L's  
8 generating assets have a negative value?

9 A. As of January 1, '99?

10 Q. Yes.

11 A. Not really. I think the situation you have is  
12 the projection of stranded costs takes into account a number  
13 of costs; not just the capital side of it, but also the  
14 operating expenses, the fuel expense, wages and benefits  
15 associated with it, materials and supplies, the total cost  
16 of that. What we're doing is discounting all that revenue  
17 back and then comparing it to the book value, which is only  
18 the invested capital portion. Part of those costs we  
19 wouldn't have as of January -- they are all going-forward  
20 costs as opposed to where we stand today.

21 Q. I understand that, Mr. Hill. I suppose my  
22 question is: based upon your prior answer relative to  
23 January 1, 1999, wouldn't it be more of a benefit to the  
24 company and to its ratepayers essentially for the company to  
25 retire its assets and go into the market and either build

1 new capacity or purchase power?

2 A. No, I don't believe so, because I think if you  
3 look at the numbers, Susquehanna on an incremental basis, on  
4 a marginal cost basis is very competitive, and going forward  
5 the capital is invested. Going forward we're looking at a  
6 marginal cost situation.

7 Q. Mr. Hill, as a mitigation measure, if your  
8 expanded cost claim is higher than the net book value of the  
9 plant, doesn't the result of your stranded cost analysis  
10 mean that it would be more beneficial for the company to  
11 essentially retire or sell those units because the result of  
12 your analysis is it would be more beneficial to go to the  
13 market and either purchase power or build new capacity?

14 A. I don't believe that is necessarily that clear.

15 Q. So as far as mitigation is concerned, that is  
16 not an option that PP&L considered; is that correct?

17 A. That's correct. We have not made a decision to  
18 that. We've looked at that, and we don't believe that is  
19 the correct action to take at this point in time.

20 Q. Has PP&L considered offering its generating  
21 assets for sale?

22 A. We have not offered any for sale.

23 Q. Has PP&L considered it as a mitigation effort?

24 A. We have considered it.

25 Q. And I take it you've rejected it?

1 A. That's correct.

2 Q. Are you familiar with the results of the recent  
3 sale of New England Power's generating assets to U.S.  
4 Generating?

5 A. Only the little that I've read in the Trade  
6 Press.

7 Q. Did they not sell capacity for \$1.6 billion or  
8 roughly .6 billion above its book value?

9 A. My recollection from the Trade Press is they did  
10 sell above book value. I don't recall what that exact  
11 amount was.

12 Q. Are you aware that they had 25 bidders for that  
13 capacity?

14 A. No, I'm not.

15 Q. So essentially, at the end of this proceeding  
16 and when the Commission makes its decision and as we go  
17 forward in 1999, the company has made the determination that  
18 it is more beneficial to retain assets, generating assets,  
19 that are completely charged to ratepayers and recover an  
20 additional \$400 million, roughly, in stranded costs as a  
21 means of positioning itself for competition?

22 A. What we've done is submitted a claim. I think  
23 it is very clear what is in our claim. I'm not sure I would  
24 describe it as you did.

25 Q. What's wrong with my description?

1           A. I think you conclude that certain assets should  
2 be disposed of -- I believe that's what you're alluding to  
3 -- as opposed to continue to operate. I think over the life  
4 they will ultimately prove to be economical.

5           Q. But that's not the result of your stranded cost  
6 analysis. I'm simply looking at your stranded cost  
7 analysis, the net book value of your plants from a  
8 mitigation standpoint.

9           A. What I don't know is what we could get from  
10 them, what we could in fact sell them for.

11          Q. Well, the company has not looked at that; is  
12 that correct?

13          A. That's correct.

14          Q. So you would not agree with the proposition that  
15 it would be more beneficial for ratepayers and indeed for  
16 the company to sell assets with a value of roughly \$3.2  
17 billion even for a dollar as opposed to paying \$3.6 billion  
18 or \$3.7 billion in stranded costs?

19          A. I certainly don't think it might be beneficial  
20 to the company to sell assets of \$3.2 billion for a dollar  
21 and take a \$3.2 billion loss.

22          Q. No. The assumption in your stranded cost  
23 analysis is that it would be cheaper for you to, as I said  
24 before, go into the market and purchase power or build new  
25 capacity than retain your existing capacity and collect the

1 stranded costs. You disagree with that?

2 MR. KAPLAN: Your Honor, I think this has been asked  
3 and answered.

4 MR. BURGRAFF: I'll withdraw the question.

5 JUDGE KASHI: Thank you.

6 (Pause.)

7 MR. BURGRAFF: If you just give me on minute, Mr.  
8 Hill, I think I'm almost done.

9 (Pause.)

10 BY MR. BURGRAFF:

11 Q. Finally, Mr. Hill, if I could briefly refer you  
12 to page 15 of your original statement.

13 A. Yes.

14 Q. Lines 7, 8, "Lower rates mean lower stranded  
15 costs." Can you elucidate for me the thinking behind that  
16 statement?

17 A. Well, stranded costs in the Act are defined as  
18 the difference between the amount of revenue that would have  
19 been generated under a regulated environment and that which  
20 would be expected to be realized in a market situation. So  
21 lower rates generally mean lower costs today. Lower rates  
22 mean that over the life of the facilities, you would require  
23 less revenue in a regulated environment than if in fact our  
24 rates were higher. So the result of that, if your rates are  
25 lower today, the projected revenue would be lower than what

1 they would be for higher rates today, and therefore the  
2 stranded costs would be lower.

3 MR. BURGRAFF: Thank you, Mr. Hill. That's all we  
4 have.

5 JUDGE KASHI: Very well.

6 Mr. Epstein?

7 (No response.)

8 JUDGE KASHI: Let the record show that Mr. Epstein is  
9 not present.

10 Mr. Zalcmán, did Mr. Epstein present you with any  
11 questions?

12 MR. ZALCMAN: He did not, Your Honor.

13 JUDGE KASHI: He has not.

14 Redirect, counsel?

15 MR. KAPLAN: Your Honor, we'll need a few minutes.

16 JUDGE KASHI: Surely.

17 (Discussion off the record.)

18 JUDGE KASHI: Redirect, Mr. Kaplan.

19 MR. KAPLAN: Thank you, Your Honor.

20 **REDIRECT EXAMINATION**

21 BY MR. KAPLAN:

22 Q. Mr. Hill, do you recall that Mr. Burgraff asked  
23 you a question regarding the book value of PP&L's generation  
24 assets versus its stranded cost claim?

25 A. Yes, I do.

1 Q. Was he correct in his assumption that the book  
2 value was less than the stranded cost claim?

3 A. It is my understanding that that is not the  
4 correct situation and that Mr. Schadt will address that in  
5 his testimony later on. We're talking about net book value  
6 of the assets.

7 Q. Mr. Hill, do you recall that Mr. Burgraff asked  
8 you about whether PP&L was considering selling any of its  
9 generation assets?

10 A. Yes, I do.

11 Q. Do you have anything to add to your answer?

12 A. Yes. It is my understanding that Mr. Jones will  
13 deal with that item in further testimony whenever he  
14 testifies.

15 Q. Finally, Mr. Hill, do you recall that Mr. Caplan  
16 asked you about whether or not the stranded cost claim of  
17 PP&L could be adjusted based upon buy-outs of non-utility  
18 generation contracts?

19 A. Yes, I do.

20 Q. Was your answer that you gave at the time  
21 correct?

22 A. I don't believe it is now. I believe I  
23 misinterpreted part of the legislation, not being an  
24 attorney, that there is an annual review for the CTC. In  
25 fact, it is my understanding that it cannot be adjusted for

1 such an item.

2 Q. Do you expect that there will be significant  
3 additional opportunities for non-utility generation contract  
4 buy-outs?

5 A. No. Although we will try, I don't believe that  
6 we will achieve any significant buy-outs that would produce  
7 any large savings to the company.

8 MR. KAPLAN: Thank you. That's all I have, Your  
9 Honor.

10 JUDGE KASHI: Thank you very much.

11 Any follow-up, Mr. Burgraff?

12 MR. BURGRAFF: Yes. Thank you, Your Honor.

13 **RE-CROSS-EXAMINATION**

14 BY MR. BURGRAFF:

15 Q. Mr. Hill, your testimony on whether or not the  
16 stranded cost claim of the company exceeds the generation  
17 portion of the company's stranded cost claim, exceeds the  
18 net book value of generation itself, at what point in time  
19 was your answer meant to reflect?

20 A. That detail will be provided by Mr. Schadt. It  
21 is my understanding that he has that detail.

22 Q. So you don't know at what point?

23 A. No, I don't.

24 Q. And Dr. Jones will testify as to potential  
25 mitigation options; is that what you said?

1 A. No; with respect to the possibility of sale of  
2 assets from a mitigation point of view, yes.

3 MR. BURGRAFF: With counsel's indulgence, this  
4 doesn't have anything to do with your redirect. However, I  
5 want to clear up the record. I want it to be clear that  
6 when I asked Mr. Hill a question --

7 MR. KAPLAN: Could you keep your voice up?

8 MR. BURGRAFF: I'm sorry. -- on the sale of the  
9 assets, I may have asked it incorrectly. I may have said  
10 the sale of the assets at a dollar. I meant the sale of the  
11 assets at net book value plus a dollar just so we're all  
12 clear on that.

13 That's all I have.

14 JUDGE KASHI: Thank you, sir. You are excused, sir.

15 (Witness excused.)

16 JUDGE KASHI: That which has been marked and  
17 identified as PP&L Statements 2 and 2-R are received into  
18 the evidentiary record without objection.

19 (No response.)

20 JUDGE KASHI: Without objection.

21 (Whereupon, the documents marked as  
22 PP&L Statements Nos. 2 and 2-R were  
23 received in evidence.)

24 JUDGE KASHI: Mr. Burgraff, do you wish to call your  
25 witness?

1 MR. BURGRAFF: Yes, Your Honor. Mr. Mullins will  
2 handle this witness.

3 JUDGE KASHI: Mr. Mullins.

4 MR. MULLINS: Thank you, Your Honor. The OCA calls  
5 Barbara Alexander to the stand.

6 JUDGE KASHI: Please raise your right hand and be  
7 sworn?

8 Whereupon,

9 BARBARA R. ALEXANDER  
10 having been duly sworn, testified as follows:

11 JUDGE KASHI: Please be seated.

12 DIRECT EXAMINATION

13 BY MR. MULLINS:

14 Q. Good morning, Ms. Alexander.

15 A. Good morning.

16 Q. Do you have before you OCA Statement No. 5?

17 A. Yes.

18 Q. Is that your direct testimony?

19 A. Yes, it is.

20 Q. Do you have any modifications, additions or  
21 deletions to that statement?

22 A. No, I don't.

23 Q. Do you also have before you OCA Statement No.  
24 5-S?

25 A. Yes.

1 Q. And that is your surrebuttal testimony?

2 A. That is correct.

3 Q. Do you have any additions, deletions or  
4 modifications to that statement?

5 A. No, I don't.

6 MR. MULLINS: Your Honor, at this time I would like  
7 to identify for the record OCA Statement No. 5, the direct  
8 testimony of Ms. Alexander, consisting of 53 pages of text  
9 and three exhibits.

10 JUDGE KASHI: So marked for purposes of  
11 identification.

12 (Whereupon, the document was marked  
13 as OCA Statement No. 5 for  
14 identification.)

15 MR. MULLINS: I'd also like to identify for the  
16 record OCA Statement No. 5-S, the surrebuttal testimony of  
17 Ms. Alexander, consisting of 25 pages of text and two  
18 appendices.

19 JUDGE KASHI: So marked for purposes of  
20 identification.

21 (Whereupon, the document was marked  
22 as OCA Statement No. 5-S for  
23 identification.)

24 MR. MULLINS: Your Honor, I'd like to move for the  
25 admission of both of those statement subject to

1 cross-examination and timely objections by the parties.

2 JUDGE KASHI: Subject to timely motions and/or  
3 objections pending cross-examination, that which has been  
4 marked as OCA Statement No. 5 and No. 5-S will be received  
5 into the evidentiary record.

6 MR. MULLINS: If I may, Your Honor, I just have brief  
7 rejoinder for Ms. Alexander.

8 JUDGE KASHI: Go ahead.

9 BY MR. MULLINS:

10 Q. Ms. Alexander, do you recall Judge Kashi's line  
11 of questioning to Professor Kahn regarding the lack of  
12 public awareness in light of electric deregulation?

13 A. Yes. I was struck by the Judge's description of  
14 the input that he is getting informally from customers and  
15 other people about the notion of deregulation and how people  
16 have not felt that deregulation in some of the other large  
17 industries have been helpful to them, and I would like to  
18 say that that is a finding that much of the customer  
19 research about electric restructuring is finding, that  
20 people are a bit cynical, to say the least, about the  
21 potential impact of electric restructuring, and that this is  
22 coming in part, I believe, because these deregulations are  
23 not arising from the bottom up; that is, they are being  
24 imposed from the top down.

25 Government is making changes, and government has not

1 done a very good job of educating people about why these  
2 changes have happened and what new opportunities might be  
3 available to customers and how to participate in these  
4 competitive markets.

5 JUDGE KASHI: I think that might be one of the big  
6 mistakes that Professor Kahn was talking about.

7 THE WITNESS: I believe that is correct, and I think  
8 the Commission here has an opportunity with the proper  
9 customer education plan to react to that misfortunate and  
10 take a different approach to the electric restructuring we  
11 have before us today.

12 BY MR. MULLINS:

13 Q. And if you would, briefly explain what approach  
14 you think would be best.

15 MR. KAPLAN: Your Honor, I object at this point. I  
16 thought the first question was marginally proper, but at  
17 this point I think counsel is asking for the witness to  
18 essentially reiterate direct in the guise of rejoinder.

19 JUDGE KASHI: Counsel?

20 MR. MULLINS: I'll withdraw the question, Your Honor.

21 JUDGE KASHI: Thank you, sir. Nice try.

22 MR. MULLINS: Your Honor, Ms. Alexander is now  
23 available for cross-examination.

24 JUDGE KASHI: Mr. Rubin.

25 MR. RUBIN: Thank you, Your Honor.

## CROSS-EXAMINATION

1  
2 BY MR. RUBIN:

3 Q. Good morning, Ms. Alexander.

4 A. Good morning.

5 Q. It is nice to finally meet you. I am Scott  
6 Rubin. I represent IBEW Local 1600 in this case. I'd like  
7 to start with your direct testimony, if we can, page 8. I'm  
8 looking at the last question and answer on that page. You  
9 state that electric customers want unbiased information  
10 about electricity.

11 Is this any different than what customers want when  
12 they purchase any other type of product?

13 A. No; and we've seen the development of other  
14 kinds of methodologies to help people compare prices, unit  
15 pricing on the grocery store shelves, the Truth-in-Lending  
16 Act for the annual percentage rate. I think the motivation  
17 and interest is quite similar.

18 Q. For example, if I want to sell clothing, I can't  
19 lie about my product, but I can pretend to inform and  
20 educate a customer while I'm also trying to get the customer  
21 to buy my product, can't I?

22 A. Yes. Marketing often takes the approach of  
23 attempting to educate customers about things the marketer  
24 wants the customer to pay attention to in the buying  
25 decision, sure.

1 Q. In your view, why should electricity be any  
2 different from that? Why shouldn't it be advertised and  
3 sold the same way as clothing or any other product?

4 A. Well, electricity is different than clothing.  
5 The change that we are going to go through here in  
6 Pennsylvania in the next couple years and that presumably  
7 other states will also be engaged in is a dramatic change in  
8 the way we buy electricity. Customers are not prepared to  
9 think about how to buy electricity. They have not had to  
10 think about it. They've had no choice. Therefore, I think  
11 we need to get people educated about what is going to  
12 happen, what their choices are, and how to shop for  
13 electricity.

14 Second, if government does not mandate a uniform  
15 disclosure method, it will not happen. The history of  
16 credit regulation is a perfect case in point.

17 Q. What I'm trying to get to is: why is the  
18 purchase and sale of electricity any different than the  
19 purchase and sale of any other commodity out there in the  
20 marketplace? Why should it be subject to different  
21 regulations, different prohibitions on what can and can't be  
22 said by people trying to sell it?

23 A. Well, it certainly should be subject to the  
24 typical consumer protection regulations that apply to the  
25 sale of clothing. I'm not trying to say that those

1 regulations should not be applicable. They will be and they  
2 should be. But there are specific aspects to the sale of  
3 electricity just as there is for the sale of credit or the  
4 sale of food that require the development of unique  
5 regulatory tools to respond to the importance of electricity  
6 in our daily lives.

7 Q. Now, if I can carry my clothing example a little  
8 bit further here, if I'm a consumer who needs clothing but I  
9 can't afford it, I'm pretty much out of luck. There aren't  
10 special government programs that help me buy clothing, are  
11 there?

12 A. Well, of course, there are. There are financial  
13 assistance programs, one purpose of which is to provide  
14 people with the income necessary to shelter and clothe  
15 themselves and their families.

16 Q. But there isn't a government program like we  
17 have for food stamps, for example, for clothing. If I get  
18 money from the government, I can spend it on whatever I  
19 want.

20 A. That's correct.

21 Q. And if I am in the business of selling clothing  
22 or manufacturing clothing, is there anything that requires  
23 me to provide the product that I make or sell at a lower  
24 price to people who have lower incomes?

25 A. Not that I'm aware of. There is, of course, a

1 wide range of clothing available at different qualities and  
2 prices, many of which are geared toward customers who need  
3 the bare necessities and cannot afford what I would call the  
4 fancy model.

5 Q. But the fact is if I'm in the business of  
6 selling clothing, nobody requires me to sell that clothing  
7 at a certain price or to discount the price to people with  
8 lower income; is that right?

9 A. As far as I know, not being an expert in the  
10 clothing industry, but as a lay person, I would agree with  
11 that.

12 Q. Now, again, in your opinion, why should  
13 electricity be sold any differently from that?

14 A. Because electricity has historically been  
15 provided to customers in a uniform priced method and the  
16 prices have been set by government or approved by  
17 government, I will say, and fully regulated in its provision  
18 and the extent to which it will not be available; in other  
19 words, the disconnection and bill collection regulations.

20 Q. But isn't --

21 A. I don't think we can take customers from a  
22 regulatory system that provides that cocoon or approach and  
23 put them into a market in which electricity is treated as  
24 clothing in any short amount of time without uproar,  
25 opposition; and frankly, it wouldn't comply with the

1 provisions of the legislature as to how we're going to go  
2 about restructuring electricity in this state anyway. So  
3 it's kind of hypothetical and kind of moot.

4 Q. Well, let me not respond to what you just said,  
5 but ask that we can continue, because I'm not 100 percent  
6 sure, as you are, about what the legislation actually  
7 required.

8 Once we open up the market for electricity, as we're  
9 planning to do here, will there be anything that requires a  
10 electric generation supplier to serve customers who lived in  
11 poor neighborhoods or very rural areas, other places that  
12 might be more difficult or costly to serve?

13 A. The Federal Equal Credit Opportunity Act would  
14 prohibit discrimination in the granting of service to  
15 electricity supply customers based on the prohibited items  
16 listed in that federal law, and one of them is  
17 discriminating against people based on the source of their  
18 income. This has been held in effect to, if done in that  
19 way, result in redlining, which is also prohibited by fair  
20 housing and equal opportunity laws.

21 So yes, there are provisions of law that would  
22 prohibit improper discrimination against poor customers.  
23 There would be --

24 Q. I'm sorry. Before you go on to your next point,  
25 I want to make sure I understand what you just said. It is

1 your opinion that the Fair Credit Opportunity Act would  
2 apply to the sale of electricity by an electric generation  
3 supplier?

4 A. Yes.

5 Q. Would an electric generation supplier, as you  
6 understand it, be required to provide service in an area  
7 that the supplier does not want to serve?

8 A. No. A supplier would be able to decide  
9 generically that it wanted to compete statewide, what region  
10 of the state it sought its customers. It could establish,  
11 for example, load usage criteria for the type of customer.  
12 Maybe it wants to market only to electric heat customers.

13 If a supplier sought to market to customers at large,  
14 the so-called low-use residential, everyday customer, it  
15 could not discriminate in its credit terms to those  
16 customers based on the criteria of the Equal Credit  
17 Opportunity Act, but there is no traditional obligation to  
18 serve as we've come to associate that with our current  
19 utilities, which is, of course, why we have a provider of  
20 last resort option in the law.

21 Q. So it couldn't discriminate in its credit terms,  
22 but it could, for example, offer a discount for customers  
23 who consume over "X" amount of electricity?

24 A. Yes.

25 Q. But if it charges a late charge of one percent

1 per month, it can't vary that charge from one customer to  
2 another?

3 A. That's probably true, at least based on any  
4 criteria that might end up reflecting the economic status of  
5 the customer, for example.

6 Q. Now, on page 28 of your direct testimony, you  
7 talk about restrictions that should be placed on PP&L's  
8 bills. Should those same restrictions be placed on bills  
9 that generation suppliers might issue to their customers?

10 A. Oh, I very much would support minimum bill  
11 disclosures for suppliers. In fact, the Commission has  
12 imposed such minimum requirements through its customer  
13 information order to implement the Act.

14 Q. On page 28, you don't just talk about minimum  
15 disclosure requirements. You also state on line 11 or  
16 beginning on line 11, that if the generation supplier is  
17 PP&L, then PP&L can't in some way use its distribution  
18 company bill to reinforce its corporate identity as a  
19 supplier of electricity.

20 Do I have that right?

21 A. Yes, you do.

22 Q. Would a generation supplier be subject to that  
23 same restriction, that it couldn't use its bill to reinforce  
24 its identity?

25 A. Well, a generation supplier is not providing a

1 monopoly regulated service to its customers.

2 Q. Well, what if the generation supplier is  
3 permitted to bill for distribution charges; would that be  
4 any different?

5 A. I would think that because there is no  
6 competition with respect to the distribution function, that  
7 the key is to not allow that monopoly, non-competitive  
8 distribution function to cross-subsidize and gain an unfair  
9 advantage by virtue of that communication with its  
10 customers, to not gain an advantage because of that  
11 communication for its unregulated generation supplier  
12 affiliate or sales division, and that is the generic purpose  
13 that I'm proposing here.

14 A supplier who would be billing for PP&L's  
15 distribution function would obviously use its bill to market  
16 and to identify it in the customer's eyes as a competitive  
17 supplier, because that's the competitive market; and the  
18 distribution portion of the bill, why would we care as long  
19 as it is done in the disclosure format that the Commission  
20 has required, because there is no competition for the  
21 distribution portion of the bill.

22

23

24

25

1 Q. Have you reviewed the testimony that witnesses  
2 from Enron have filed in this case?

3 A. I say that I have, but I will also say that I'm  
4 not, in detail, familiar with it. I reviewed it for both  
5 the PECO filing and the PP&L filing, and I confess,  
6 sometimes I'm not exactly sure which one I'm remembering. I  
7 think they're quite similar in intent.

8 Q. Are you aware that Enron is proposing that it be  
9 permitted to provide what I'll call agency services, that  
10 is, it can serve as the customer's agent and the customer  
11 would have all dealings for distribution as well as  
12 generation through Enron or some other entity that provides  
13 agency service?

14 A. I'm aware of the proposal for the agency  
15 services, yes.

16 Q. If an entity other than PP&L is allowed to be  
17 the agent, so that they would be the only contact point for  
18 a customer, would that change your opinion on what should be  
19 includable on a bill that that agent would issue to the  
20 customer?

21 A. Clearly, the Commission has already thought  
22 about the fact that this will be happening, because their  
23 service quality order requires the utilities to submit a  
24 proposal for a single bill option by the supplier; and one  
25 of my criticisms in this case is that PP&L has not conformed

1 with that Commission recommendation. We should explore the  
2 implications of your question in the context of that type of  
3 proposal.

4 Q. Well, before we talk about that, isn't there a  
5 difference between a supplier providing a single bill and a  
6 supplier serving as the agent for the customer?

7 A. There could be a difference, yes.

8 Q. What I am asking you is specifically for this  
9 notion of the generation supplier or some other entity  
10 serving as the agent for the customer, that is, as the sole  
11 point of contact for distribution as well as generation,  
12 would that make a difference in how the agent would have to  
13 present a bill to the customer?

14 A. The bill it presents to customers would clearly  
15 be regulated by the Commission, would have to be done in a  
16 way that made sure that the customer understood the  
17 distinction between the regulated part of the bill and where  
18 those charges come from versus the supplier's part of the  
19 bill and the nature of those charges. Absolutely. I'm not  
20 sure what more I could say since it's not clear to me what  
21 such a proposal would look like; we have not seen one yet.

22 Q. On page 34 of your testimony you state that PP&L  
23 should not be able to evaluate a customer's credit  
24 worthiness based on anything other than the customer's  
25 payment history for electric distribution service. Did I

1 summarize that properly? I may have missed something.

2 A. Well, I do state that PP&L's tariffs should make  
3 it clear it will not evaluate a customer's credit worthiness  
4 based on the customer's payment history with competitive  
5 suppliers for the distribution portion of the service.

6 Q. All right. If I can, I'd like to give you a  
7 short hypothetical situation that I think might get at this  
8 a little bit. Let's assume that three years from now a  
9 customer is moving from PECO's service territory to PP&L's  
10 service territory, and this customer has always paid PECO  
11 for distribution service and has paid in a timely fashion,  
12 but the customer has a terrible history of paying its  
13 electric generation supplier. Under that situation, would  
14 PP&L be able to consider the customer's problems in paying  
15 its generation supplier?

16 A. It's my understanding of Chapter 56 that PP&L,  
17 number one, could not deny the customer service, we all  
18 agree with that, for distribution services, and could  
19 establish a deposit only based on whether they have, in  
20 fact, paid for these regulated utility services. That's my  
21 understanding of Chapter 56.

22 Q. Setting Chapter 56 aside for the moment, do you  
23 think that's a good idea?

24 A. Yes.

25 Q. Why?

1           A.     Because what PP&L has a right to want to make  
2     sure happens is that the customer pays for the regulated  
3     distribution services it owes to PP&L. PP&L should be  
4     entirely indifferent as to the customer's payment history to  
5     Sears, its auto loan, or to a supplier for competitive  
6     electricity services.

7           Q.     Would that still be the case if PP&L were  
8     required to prorate payments that it receives between  
9     distribution services and supply services?

10          A.     It's my understanding that proration has been  
11     rejected by the Commission and that we're into a regime in  
12     which we are allocating payments first to the distribution  
13     company on the correct policy theory that that is the  
14     service that must be maintained by the customer as a  
15     priority.

16          Q.     Now, if I could ask you to take a hypothetical  
17     situation where the Commission has not required that to be  
18     the case. If we're in a regime where payments that are  
19     received are prorated between distribution services and  
20     supply services, would that change your opinion on what a  
21     distribution utility should be allowed to consider in  
22     evaluating a customer's credit worthiness?

23          A.     It might.

24          Q.     There's one portion of your testimony that  
25     confuses me a little bit, and I'm hoping we can clear it up.

1 Are you proposing that generation suppliers should be given  
2 the option of providing a single bill for both PP&L's  
3 charges and the supplier's charges?

4 A. The Commission has proposed that, and my  
5 testimony's point was, since the Commission has required  
6 that to be explored in the context of these cases, my  
7 criticism to the company was: you didn't make a good faith  
8 effort to do that; we ought to see a proposal on the table.

9 Q. I understand that aspect of it. Before we get  
10 back to the question I actually asked --

11 A. I'm sorry.

12 Q. -- are you aware that the Commission has granted  
13 a petition for reconsideration of the order that you're  
14 referring to?

15 A. Yes.

16 Q. Now, getting back to my question, I'm trying to  
17 find out what your proposal is. Are you proposing that  
18 generation suppliers should be given the option of providing  
19 a single bill for both PP&L's distribution charges and the  
20 supplier's charges?

21 A. My testimony refers to the Commission's order.  
22 If you're asking me my personal opinion on that matter, I'll  
23 be happy to give it. Is that what you're doing?

24 Q. Well, I'm asking if you have made a proposal in  
25 this case.

1 A. No, I have not.

2 Q. So you are not -- in the testimony you have  
3 filed in this case, you are neither supporting or opposing  
4 the idea that there should be a single bill option?

5 A. Well, I obviously support the Commission's  
6 proposal to obtain a way to do it, to explore how to do it.  
7 Clearly, I do or I would not have highlighted that matter in  
8 my testimony.

9 Q. I'm sorry. There's a difference between saying  
10 you should implement what the Commission says in its order -  
11 -

12 A. Yes.

13 Q. -- and saying that I either think it's a good  
14 idea or a bad idea.

15 A. Okay. I think it's a good idea, and that's why  
16 I recommended that it be done in this case.

17 Q. Are you suggesting that this option should be  
18 available to suppliers effective January 1, 1999?

19 A. I don't have a specific date in mind because I  
20 do think there are some operational issues that would need  
21 to be worked out and some disclosure issues of the kind you  
22 alluded to, and so I would not suggest at this point that I  
23 have a particular date or would recommend a particular date.  
24 But that is a significant time away, and one would assume  
25 those issues could be worked out between now and then.

1 Q. You referred to operational issues that need to  
2 be worked out. Can you expand on that a little bit?

3 A. Sure. The transmittal of information between  
4 the supplier and the distribution company on the  
5 distribution company's rates and rate structure, and the  
6 usage that the customer has had that month, the meter  
7 reading and so forth; yes.

8 Q. Is that the only one?

9 A. Those are the immediate ones that would come to  
10 mind, yes.

11 Q. Are you proposing that generation suppliers  
12 should be given the option of providing all metering and  
13 meter reading service?

14 A. No, I don't believe I've proposed that expansion  
15 at this point in my testimony.

16 Q. Are you proposing that generation suppliers  
17 should be given the option of providing other customer  
18 service functions related to the distribution of  
19 electricity?

20 A. I don't think I addressed -- well, let me ask a  
21 clarification, please, of you. What do you mean by "other  
22 customer service functions"?

23 Q. I had a feeling we might get here. For example,  
24 are you proposing that generation suppliers should be able  
25 to negotiate payment agreements with customers for

1 distribution services?

2 A. If they are in fact billing for that service,  
3 then I would imagine that that would be a requirement that  
4 they would have to conform to in light of the requirement of  
5 Chapter 56 that, in fact, the distribution charges are  
6 subject to payment arrangements.

7 Q. So if a generation supplier is allowed to bill  
8 for distribution services, then the generation supplier  
9 would be able to negotiate a payment agreement for  
10 distribution services?

11 A. It seems to me that that would go with the  
12 territory, yes. And don't forget, it's possible that the  
13 arrangement between the supplier and the distribution  
14 company is that the distribution company gets paid whether  
15 or not the customer pays the supplier for that portion of  
16 the bill. That is an entirely appropriate contractual  
17 arrangement that completely protects the distribution  
18 company from the customer's future non-payment, and that is  
19 in fact what the California Commission has ordered in that  
20 case with regard to at least the stranded cost portion of  
21 the distribution company bill. The supplier takes the  
22 entire risk of collecting, and the distribution company is  
23 made whole, so why would the distribution company care?

24 Q. Are you aware of any requirement in that regard  
25 in Pennsylvania?

1           A.    Oh, no, not at all, and that is the sort of  
2 issue that needs to be explored and can't be until we have a  
3 proposal on the table.

4           Q.    Are you proposing that generation suppliers  
5 should be able to order the disconnection or reconnection of  
6 distribution service?

7           A.    That is an obviously very touchy matter that  
8 would have to be explored in the context of any proposal.  
9 Clearly, it would be extremely important for the Consumer  
10 Advocate's Office to make sure that there is no diminution  
11 in any way to the protections customers have with respect to  
12 the rules relating to disconnection and reconnection.

13          Q.    I appreciate your answer, and I just want to  
14 make it clear that at this point -- and here we sit in the  
15 middle of August 1997 -- are you proposing that generation  
16 suppliers should be permitted to offer that service, the  
17 disconnection and reconnection of customers?

18          A.    No.  There's no testimony from me on that topic  
19 in this record; no.

20          Q.    In your opinion, should a what I'll call a  
21 typical residential customer have more than one electric  
22 meter?

23          A.    I can't imagine why that would be efficient; no.

24          Q.    Now, I'd like to give you another hypothetical  
25 situation.  Let's assume that a customer, a typical

1 residential customer, has an electric meter that is supplied  
2 by a generation supplier. If the customer changes  
3 generation suppliers, what would happen?

4 A. Well, it depends on whether the customer has  
5 bought the meter. If they bought it, they would keep it,  
6 and they can change their supplier as they see fit.

7 Q. And if the customer has not bought the meter?

8 A. If the customer has not bought the meter but  
9 has, for example, leased it, then the contract with the  
10 customer and the supplier will say what will happen to that  
11 meter in terms of physically who gets custody, what payments  
12 need to be made, what the value of the meter is and so  
13 forth. And it may be that in some cases the meter will have  
14 to be physically removed and replaced with either a standard  
15 meter or another meter that the customer has obtained. That  
16 will be an issue having to do with educating customers,  
17 having them understand what risks they run in the  
18 competition of the metering business.

19 Q. Are you suggesting that if competition is  
20 allowed in the metering side of the business, that it would  
21 be a matter of private contract between a generation  
22 supplier and a customer for what would happen to the meter  
23 under various circumstances?

24 A. It certainly could be. If the customer has  
25 chosen an alternative meter with extensive functionalities

1 for instantaneous data transfer and so forth, they will have  
2 obtained that from competitors in the field, as it were,  
3 meter suppliers, probably sellers of electricity services,  
4 and the contract, if it is competitive, it will be a matter  
5 of contract as to how the meter is paid for and what happens  
6 to it at the termination of the sale of electricity from the  
7 supplier.

8 Q. So that would not be regulated in any fashion by  
9 the Public Utility Commission?

10 A. I would think it would be very important to  
11 regulate, for example, the type of meter that is sold in  
12 Pennsylvania to make sure that it complies in all respects  
13 with the standards that are under development for the open  
14 architecture, the accuracy, the testing of the meter and all  
15 of those things. And I think, obviously, the Commission  
16 would have an interest in making sure that there is a  
17 replacement for any meter that is removed from the  
18 residence. Without a meter you have no electricity flowing  
19 at all, presumably.

20 Q. But in terms of the price or the way in which  
21 meters are sold, is that something that you would ask this  
22 Commission to regulate?

23 A. No.

24 Q. So if, again, hypothetically, a generation  
25 supplier provides meters on a rent-to-own basis, which could

1 result in large balloon payments if the customer were to  
2 cancel service from that supplier, that should not be  
3 regulated in any fashion by this Commission?

4 A. Yes, in the sense that all unfair trade  
5 practices are subject to regulation in Pennsylvania.

6 Q. Well, no; I'm sorry. I asked about regulation  
7 by this Commission. A minute ago you said you didn't want  
8 this Commission to regulate the price and terms and  
9 conditions of providing a meter to a customer, and now  
10 you're telling me that, well, somebody needs to regulate it.  
11 That's what I'm trying to figure out here. Who's going to  
12 regulate this, or is it just going to be the same way it  
13 would be if I buy a television on a rent-to-own basis?

14 A. The Commission could decide that it needed to  
15 issue regulations to prevent unfair practices but basically  
16 take a hands-off on the standard type of pricing that we're  
17 talking about in the sale of electricity. The Commission  
18 could perhaps defer to the Attorney General's Office, to the  
19 unfair trade practices and terms and disclosures of  
20 contracts for customers, if it chose to do so.

21 Q. Let's assume hypothetically that a generation  
22 supplier is providing a meter to the customer and the  
23 generation supplier goes out of business, who would have an  
24 obligation to provide the customer with a meter?

25 A. I would imagine that the Commission would want

1 to set in motion the same kind of provider-of-last-resort  
2 approach in the metering area as it would in the sale of  
3 electricity. But I am supposing this; there has not been an  
4 exploration yet, as far as I know, of exactly what would  
5 happen. That is definitely something that needs to be  
6 worked out.

7 Q. Would it be your recommendation that if the  
8 Commission permits competition for metering, meter reading  
9 and billing, that the Commission also designate a supplier-  
10 of-last resort for those services?

11 A. Certainly, for metering, with regard to that  
12 issue. Obviously, the distribution company is the provider-  
13 of-last-resort for the sale of electricity and the billing  
14 and collection of that function already. That's been  
15 decided.

16 Q. I'm sorry; I want to make clear I understand  
17 your answer. Are you saying that the distribution company  
18 also should be the supplier-of-last-resort for metering and  
19 meter reading services if those are allowed to be provided  
20 competitively?

21 A. That is an obvious way to handle that issue. It  
22 is my understanding of what the California Commission has  
23 ordered. It has not been the subject of any comment or  
24 other serious exploration here.

25 Q. Let's assume hypothetically again that

1 generation suppliers are very successful and five years from  
2 now 90 percent of PP&L's customers have meters that are  
3 installed, read and billed by generation suppliers. In your  
4 opinion, should PP&L still be required to retain its meter  
5 installation, meter reading and billing operations?

6 A. I don't know the answer to that question. Let  
7 me just say that that would be an environment not envisioned  
8 for any state's move to electric restructuring that I am  
9 aware of.

10 Q. Do you have an opinion as to the point at which  
11 PP&L should no longer be required to maintain these  
12 services?

13 A. No.

14 Q. In your opinion, should the distribution utility  
15 always be required to make these revenue cycle services  
16 available?

17 A. In the short run, yes.

18 Q. In your opinion, should generation suppliers be  
19 allowed to choose which customers they will provide revenue  
20 cycle services to and which customers they won't provide  
21 these services to?

22 A. Well, that is the implication of the competition  
23 in that area, yeah.

24 Q. So there would be nothing, for example, that  
25 said if you were a supplier and you decide to provide these

1 services to anyone, you must provide them to all customers  
2 that you serve?

3 A. I can't imagine a supplier whose economy of  
4 scale would allow it to do anything other than supply it to  
5 all the customers it serves. I mean they would be subject  
6 to the same economic imperatives as any competitive  
7 business, and it would be difficult for me to see how that  
8 would work.

9 Now, I guess I could conceive of a supplier who  
10 wanted to focus on very large industrial and large  
11 commercial customers and focus its revenue cycle services  
12 for those customers. In fact, that may happen with the sale  
13 of electricity, too. But as far as distinguishing among  
14 residential customers in the way you just hypothesized, it  
15 doesn't make much practical sense to me, frankly.

16 Q. Well, your view of what's practical aside, would  
17 there be anything that would require a generation supplier  
18 to either provide these services to all of its customers or  
19 to none of its customers?

20 A. At this point, of course, there is no such  
21 requirement since we have not opened the door to competition  
22 in that area and we don't know the Commission's reaction to  
23 that scenario.

24 Q. In your opinion, should generation suppliers be  
25 allowed to choose which revenue cycle services they will

1 provide to which customer? For example, should they be  
2 allowed to provide some customers with all revenue cycle  
3 services and others with only billing services?

4 A. I don't see why not at this point, as a  
5 hypothetical.

6 Q. If that were allowed to happen, for example, if  
7 the supplier said, "Well, I will bill all of my customers  
8 but I will only do meter reading for this group of a  
9 thousand customers," who would have to provide the meter  
10 reading services for the remaining customers?

11 A. Well, under the scenario you've just proffered,  
12 the distribution company would obviously -- as it currently  
13 has that obligation, one would presume, in the world we're  
14 talking about, that it would continue to have that  
15 obligation.

16 Q. Are you proposing any type of regulation over  
17 the rates that a generation supplier could charge for  
18 revenue cycle services?

19 A. I'm not proposing anything with regard to that  
20 issue in my testimony here, no.

21 JUDGE KASHI: Mr. Rubin, would this be a good time --  
22 are you moving on to another subject?

23 MR. RUBIN: Your Honor, I could probably finish in  
24 about five minutes, if you'd like to do that before lunch.  
25 It's at your pleasure. We can break here, if you'd like.

1 JUDGE KASHI: Having an attorney tell me he could  
2 probably finish in five minutes, we'll break for lunch.

3 (Laughter.)

4 JUDGE KASHI: We're going to break until 1:30. We'll  
5 come back, finish Mr. Rubin and PP&L with this witness, and  
6 then we'll move on to Mr. Kasper and Mr. Kleha.

7 (Witness temporarily excused.)

8 (Whereupon, at 12:35 p.m., the hearing was adjourned,  
9 to be reconvened at 1:30 p.m., this same day.)

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FORM 2

AFTERNOON SESSION

(1:30 p.m.)

JUDGE KASHI: Going back on the record. We are finishing the cross of Mr. Rubin.

Mr. Rubin.

MR. RUBIN: Thank you, Your Honor.

Whereupon,

BARBARA R. ALEXANDER

having previously been duly sworn, testified further as follows:

CROSS-EXAMINATION (Continued)

BY MR. RUBIN:

Q. Good afternoon, Ms. Alexander.

A. Good afternoon.

Q. Would you agree with me that PP&L's customer charge is more or less based on the average cost of providing service to customers?

A. What customer charge are we talking about?

Q. If we just talk about the basic customer charge that's on the bill. You can call it a billing charge or meter charge.

A. The flat rate portion of the customer bill?

Q. Yes.

A. I would have no idea what it's based on, but typically at a utility like PP&L it is an average of serving

1 all the customers in that class.

2 Q. Are you aware if PP&L is allowed to charge a  
3 different flat rate portion of its bill to different  
4 customers within the same class of service?

5 A. Am I aware if they can do that?

6 Q. That's what I asked.

7 A. No, I'm sorry, I am not aware.

8 Q. Are you proposing that PP&L should be allowed to  
9 vary its customer charge based on the cost of actually  
10 serving a particular customer?

11 A. No. I've not made any such proposal.

12 Q. If generation suppliers are allowed to include  
13 in their bill distribution charges, would you recommend that  
14 they be required to bill their customer exactly what PP&L's  
15 tariff rate is for distribution charges?

16 A. Yes.

17 Q. So that a supplier should not be allowed to  
18 discount PP&L's charges to a customer?

19 A. That's correct.

20 Q. And a supplier should not be allowed to roll  
21 those charges in with some other package of services?

22 A. That's correct.

23 Q. And I assume you'd also say that they should not  
24 be allowed to charge more than PP&L's tariff charge?

25 A. Of course.

1 Q. In your direct testimony on page 41, you  
2 indicate that there should not be restrictions on what PP&L  
3 could be asked to include on its bill by a generation  
4 supplier. First, am I reading that accurately?

5 A. No, I don't think so. My concern here had to do  
6 with the fact that PP&L, I believe, tried to describe the  
7 potential for limitations on the rate design that it could  
8 bill on behalf of suppliers based on, perhaps, computer  
9 aspects or amount of room on the bill; I'm not exactly sure  
10 now what. But what I'm suggesting here is that if PP&L is  
11 suggesting, as it is, that only two bill options remain,  
12 then if it truly is offering the option to suppliers to do  
13 billing on their behalf, it really has to bill all the  
14 suppliers' charges and in the rate design the supplier is  
15 marketing it to its customers. That's my main purpose  
16 there.

17 Q. If a generation supplier is also selling a  
18 service that's unrelated to electricity, let's say cable  
19 television service, would PP&L be required to include that  
20 charge on its bill also?

21 A. That's an intriguing question. The Commission's  
22 customer information order definitely talks about how the  
23 basic generation charge should be disclosed, and then goes  
24 on to point out that other non-basic charges should be  
25 separately itemized, and it would be up to the supplier as

1 to whether they appeared on a separate page on the bill or  
2 not. The implication is that the bill could very well  
3 contain other services sold to the customer as part of their  
4 sale of electricity to the customer. I suspect suppliers  
5 who are marketing that kind of bundled package will  
6 definitely try to do direct billing to its customers for all  
7 of those different services to reinforce its market  
8 identity, if nothing else.

9 Q. Are you recommending that suppliers should be  
10 allowed to include charges for services that are completely  
11 unrelated to electricity?

12 A. I did not address that issue in my testimony.  
13 All I'm doing is pointing out that the Commission's order  
14 conceivably would allow such an approach to be done here.

15 Q. But, again, I'm asking for your proposal here,  
16 not for what the Commission has said in another order.

17 A. I have not made a proposal here on that topic.

18 Q. On page 43 of your direct testimony, you  
19 recommend that the disputes involving meter reading or usage  
20 levels should be handled by PP&L. Would that be true even  
21 if the supplier bills for PP&L's charges?

22 A. It could be true in the sense that the contract  
23 about this billing arrangement could have the supplier  
24 notify PP&L about the dispute and have PP&L then dispatched  
25 out to actually do what needs to be done at the meter. Or,

1 depending on the contract between the two entities, this  
2 could be something that the supplier contracts to provide,  
3 again, under this agency theory that --

4 Q. Again, are you making a proposal in this regard?

5 A. No.

6 Q. I assume you're also not making a proposal that  
7 might vary this arrangement if the supplier is the one who  
8 is responsible for supplying the meter or reading the meter?

9 A. Well, this paragraph was written from the  
10 perspective of the traditional situation, which will be the  
11 majority of cases in the near term, and that is that the  
12 distribution company does own, read and will continue to  
13 investigate disputes about usage on that meter; and that's  
14 the purpose of this particular paragraph in my testimony.

15 Q. So you're not addressing what would happen if  
16 the supplier is given responsibility for the meter?

17 A. That's correct.

18 Q. Just to clarify something that we were  
19 discussing a couple of minutes ago, you stated that a  
20 supplier who is billing for PP&L's charges should not be  
21 allowed to discount or increase those charges in any way.  
22 If generation suppliers are allowed to provide billing,  
23 meter reading and metering services, I assume that suppliers  
24 would be allowed to develop their own charges for those  
25 services?

1           A.    Charges to customers or charges to the  
2 distribution company?

3           Q.    Charges to customers, to the end-user.

4           A.    The implication of allowing the installation of  
5 an alternative meter is that the price for that meter would  
6 be set between the supplier and the customer; yes.

7           Q.    And the same would be true for billing and meter  
8 reading?

9           A.    Well, suppliers can build whatever charges they  
10 like into the cost of their doing business. They would  
11 probably build it into the cost of the electricity that  
12 they're selling to customers.

13          Q.    Are you aware that other parties to this case  
14 have made proposals requiring the separate listing on  
15 customers' bills of the charge for meter reading and  
16 billing?

17          A.    I'm not sure that they're proposing that it be  
18 listed on customer bills. They are definitely proposing  
19 that those charges be unbundled in your tariffs so that  
20 there can be negotiation about the provision of those  
21 services. I'm not sure I've seen a proposal that the  
22 customer bill contain all those separate unbundlings,  
23 although I certainly don't mean to speak for them, but there  
24 is a difference between those two ideas, and I just wanted  
25 to say one does not mean the other.

1 Q. Just so I'm sure that I understand that, for  
2 example, if I am an end-use customer, I might see on my bill  
3 a \$5.00 customer service charge every month, which can  
4 include any number of things on it, and if PP&L provides me  
5 with those services, that would be a tariffed charge,  
6 wouldn't it?

7 A. Yes.

8 Q. And if I decide that I want to have billing and  
9 metering and meter reading done by an alternative supplier,  
10 would my \$5.00 charge to PP&L be reduced in some way?

11 A. The clear -- once you start down that path, yes,  
12 the answer to that is yes. The California Commission has  
13 suggested that some such approach would need to be  
14 developed. Whether that might be some sort of per customer  
15 credit that would be developed through a different kind of  
16 proceeding, I don't know, but at some point that issue would  
17 have to be reflected so that the customer does not pay  
18 twice.

19 Q. And what I'm asking is -- let's assume that  
20 there is some credit. Would there then be any restriction  
21 on how much the generation supplier could charge me for that  
22 service? Say I got a credit of a dollar on my bill because  
23 someone else is billing me. Would the generation supplier  
24 be limited to charging me no more than a dollar to provide  
25 that service, or would that just be unregulated?

1           A.    I don't know the answer to that question.  I  
2    don't think any Commission has yet and I certainly have not  
3    got any specific proposal about that.  That would suggest  
4    that it would be important to unbundle these charges so  
5    customers know what it is they're buying, and, therefore,  
6    their credit is related to their ability to shop for that  
7    service.  But, on the other hand, I am also very concerned  
8    about the volume of information that appears on customer  
9    bills and the potential for a lot of customer confusion and,  
10   therefore, ignoring all of it because it gets too  
11   complicated.

12           Q.    And again, you don't have any specific proposal  
13   for us in that regard?

14           A.    No, I don't.

15           MR. RUBIN:  Thank you, Ms. Alexander.

16           That's all I have, Your Honor.

17           JUDGE KASHI:  Thank you very much.

18           Before we send it to redirect --

19           MR. RUSSELL:  Your Honor, we have a few questions as  
20   well.

21           JUDGE KASHI:  Yes, I'm sorry; that's what I meant,  
22   before I allow you to cross-examine.

23           I just don't want to pass by this one question,  
24   because you said you don't have any proposal on it, and yet,  
25   at the same time, you say that you're concerned about the

1 volume of what appears on a bill. How many pages?

2 THE WITNESS: Well, there is no proposal here before  
3 us that will require us to make that decision in this case,  
4 so that's why I don't have a proposal on it, but I am very  
5 sensitive to the implication of your question that people  
6 can really, legitimately only handle a couple of these big  
7 decisions here with regard to their electric bill,  
8 particularly when it may result in differences of a dollar  
9 or two a month and not huge dollars annually for most  
10 customers. So I think that in the context of the dockets  
11 that are looking at the development of these alternative  
12 billing and metering approaches, that the Commission is  
13 quite rightly to be concerned about making sure we don't  
14 have a lot of long and complicated customer bills in the  
15 guise of helping competition.

16 JUDGE KASHI: The public input people that I listened  
17 to say, "God forbid, are we going to have 50-page bills like  
18 we do in the telephone industry now?" What am I going to  
19 have to do to recommend that we don't get close to 50 pages?

20 THE WITNESS: Well, we don't have 50-page bills in  
21 the telephone industry.

22 JUDGE KASHI: Where do they throw them in the basket  
23 at?

24 THE WITNESS: Say it again, please?

25 JUDGE KASHI: Where do they throw them in the basket

1 at, how many pages?

2 THE WITNESS: Customers will throw them in the basket  
3 and not participate in the competitive market when the price  
4 and inconvenience of participating in it pass their  
5 threshold level, and marketers will be smart to make sure  
6 that doesn't happen for low use residential customers or  
7 they will not get those customers as their customers. I  
8 guess that's the easy answer.

9 JUDGE KASHI: Thank you very much.

10 Mr. Russell, cross-examine.

11 MR. RUSSELL: Thank you, Your Honor.

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## CROSS-EXAMINATION

1

BY MR. RUSSELL:

2

3

Q. Good afternoon, Ms. Alexander.

4

A. Good afternoon.

5

Q. My name is Paul Russell. I'm representing Pennsylvania Power & Light Company in this proceeding.

6

7

A. How do you do?

8

Q. Could you turn to page 29 of your direct testimony?

9

10

A. Yes.

11

Q. Beginning on line 15, you discuss the issue of disclosure of supplier fuel mix.

12

13

A. Right.

14

Q. Do you have any knowledge of how electric distribution companies will obtain supply in a competitive marketplace?

16

17

A. In a general sense; not in a technical, you know, everyday, utility manager type of sense that I'm sure you all do.

19

20

MR. RUSSELL: Not me, Your Honor.

21

(Laughter.)

22

Q. In a general sense, would you expect that one of the sources of supply would be the spot market?

23

24

A. Yes.

25

Q. Are you aware how the spot market functions in

1 the PJM area, for example?

2 A. No, I'm not. I'm familiar with the least-cost  
3 dispatch model used in NEPOOL, but not at PJM.

4 Q. On a least-cost dispatch model, that would mean  
5 that -- am I correct that that would mean different units  
6 would be running at different hours of the day?

7 A. Yes.

8 Q. Could you give us a sense of how the  
9 distribution company will be able to track fuel mix if it is  
10 obtaining a portion of its supply from that type of spot  
11 market?

12 A. Certainly. It would ask PJM for the last  
13 monthly or six-month or annual, depending on what time frame  
14 we're going to use here, average generation mix that was run  
15 to serve the Pennsylvania market, and that could be  
16 presented to you in the same kind of bar chart that you in  
17 turn then could present it to your customers.

18 Q. So it would be done on a state average basis,  
19 not on an individual company basis?

20 A. It could very well be done on a state average  
21 basis if it's a regional dispatch model that would not allow  
22 you to distinguish between company.

23 Q. Is that how you would suggest it be done?

24 A. That is perfectly acceptable to me, yes, and to  
25 most people involved in this proposal, yes.

1 Q. On page 30, you talk about specific language on  
2 PP&L's bill. Would it be your recommendation that language  
3 on utility bills be addressed in individual restructuring  
4 proceedings or in a generic proceeding?

5 A. I think it would be better to do it in a generic  
6 proceeding; and in fact, the Commission has addressed this  
7 issue in its customer information order, which was not  
8 issued at the time I wrote my direct testimony.

9 Q. Would you look at page 39 of your direct  
10 testimony? Beginning on line 8, you are suggesting that  
11 suppliers should be able to offer electronic meter reading.  
12 Do you know if the Commission has made any determination  
13 whether suppliers could offer that meter reading to  
14 customers without jeopardizing the reliability of the  
15 distribution system?

16 A. I'm not aware of any decision of the Commission  
17 in this area yet.

18 Q. To return for just a minute to the spot market  
19 for electricity and our discussion about the power pool  
20 dispatch, to your knowledge, does the power pool also sell  
21 outside of the pool to surrounding pools?

22 A. I'm not familiar with how it works here. That  
23 would not surprise me.

24 Q. And under those circumstances, wouldn't the mix  
25 of generation vary on a monthly basis?

1           A.    Yes; probably by time of year and month, yes,  
2 very much so.

3           Q.    If electric distribution companies are required  
4 to permit third-party metering and billing, would customer's  
5 choice to use that third-party metering and billing services  
6 strand investment that the electric distribution company had  
7 made in metering and billing facilities?

8           A.    That potential is there, which is one of the  
9 reasons I did propose in my testimony that as part of this  
10 proceeding the Commission issue guidance to the company  
11 about what risks it will run with continued investment in  
12 those areas in the sense of alternative meter technology and  
13 so forth.

14           Both the New York Commission and the California  
15 Commission has basically said to their distribution  
16 companies, "You know, you're going to have to take some  
17 risks here with regard to your investment in these systems  
18 if in fact it is correct that we're headed towards some  
19 competitive market, the degree of which is unknown at this  
20 point." So I think it is important for the Commission in  
21 this case to send the same signal to the company for the  
22 very same reason.

23           Q.    And the risk that you're talking about is a risk  
24 that investment might be made and not recovered?

25           A.    That's correct.

1 Q. Would it be your expectation that that stranded  
2 metering and billing cost could be recovered as a stranded  
3 cost?

4 A. I don't know. I'm not familiar with the  
5 stranded cost provisions in any great detail in the  
6 Pennsylvania law. I mean, I've read it, but it's not an  
7 area that is my area of expertise, so I would have to say I  
8 don't know to that question.

9 Q. On page 41 of your direct, in response to a  
10 question from Mr. Rubin, I think I understood you to say  
11 that your recommendation beginning on line 13 about the  
12 scope of PP&L's metering and billing was directed to the  
13 situation of PP&L's proposal that there be only two bills,  
14 the two bill option.

15 Am I correct in understanding it to be limited that  
16 way?

17 A. I'm not sure I understand your clarification.  
18 Can I just give you my intent and then we'll see if we're  
19 communicating here?

20 Q. Yes.

21 A. PP&L did attach some bill formats to either its  
22 filing or a data response to another party in this  
23 proceeding, and it showed that the generation supply costs  
24 would be listed as a one-line item. The point I'm making  
25 here is that suppliers may seek to bill these generation

1 costs in a variety of rate designs, and PP&L, if it is  
2 issuing the supplier bill, must have a system and an option  
3 in place to bill according to the generation supplier's rate  
4 design. So the bill format has to be designed in a way that  
5 allows generation suppliers a wide variety of pricing  
6 mechanisms that would appear on your bill issued on their  
7 behalf.

8 Q. Would I be correct in my assumption that  
9 designing a billing system that would have that type of  
10 flexibility would require some additional investment in  
11 billing technology?

12 A. Correct.

13 Q. And I guess to loop back to our earlier  
14 discussion, it is conceivable that that investment  
15 ultimately would not be recovered if suppliers were able to  
16 do all billing?

17 A. Cheaper than you, yes.

18 Q. On page 42, beginning at line 17, you discuss  
19 some dispute resolution issues. Could you assume for a  
20 minute that the electric distribution company unbundles  
21 dispute resolution services and they are provided by  
22 suppliers?

23 A. Yes.

24 Q. Under those circumstances, how could the  
25 distribution company avoid being involved or becoming

1 involved in billing disputes if the revenue it receives for  
2 distribution services is also in dispute with the revenue  
3 for generation services?

4 A. I'm not sure that they would completely avoid  
5 being involved in the dispute any more than suppliers that  
6 you will bill for can avoid being involved in billing  
7 disputes by customers.

8 Q. And under those circumstances, the electric  
9 distribution company would have to have in place procedures  
10 and personnel to deal with those disputes?

11 A. That would seem likely, yes.

12 Q. On page 47, still in your direct, really I want  
13 to focus on lines 19 and 20, where, if I understand  
14 correctly, you're suggesting a fee be imposed on customers  
15 who change suppliers more than twice in any 12-month period.

16 A. That would be a proposal as an option to more of  
17 a market-based rate for the provider of last resort  
18 services, yes. In other words, I'm trying to give options  
19 to the company to respond to their concern about gaming the  
20 system in the way in which customers are moving in and out  
21 of the provider of last resort generation supply service.

22 Q. Do you recognize the company's concern about  
23 gaming is a valid concern?

24 A. Yes, I think I did acknowledge that issue here.

25 Q. Is the fee that you discuss on this page a

1 proposal or an option for consideration?

2 A. The latter.

3 Q. Do you have any opinion on how large that fee  
4 would have to be in order --

5 MR. MULLINS: I have to object, Your Honor. Ms.  
6 Alexander just said that it was an option that may be  
7 appropriate.

8 MR. RUSSELL: I don't disagree with that answer. My  
9 next question was going to be to ask her opinion of how  
10 large that fee might be.

11 MR. MULLINS: Once again, Your Honor, she hasn't made  
12 any indication as to whether or not she has examined that or  
13 not. She said a fee may be appropriate. It may not be  
14 appropriate. She doesn't have any knowledge of what that  
15 fee should be.

16 JUDGE KASHI: We'll let him ask her whether or not  
17 she has an opinion as to what it should be.

18 Mr. Russell.

19 BY MR. RUSSELL:

20 Q. Do you have any opinion on how large that fee  
21 would have to be?

22 A. I really don't. It might be one that would  
23 change annually, depending on what is happening in the  
24 market and to respond to the reality of the situation.

25 (Pause.)

1 Q. Would you turn to page 48 of your direct where  
2 you discuss the concept of new customers under the Customer  
3 Choice Act? Have you looked at the Customer Choice Act?

4 A. Yes.

5 Q. And you've looked at Section 2807(e)(4) that  
6 talks about returning customers?

7 A. Yes.

8 MR. RUSSELL: Your Honor, can I approach the witness?

9 JUDGE KASHI: Yes, sir.

10 (Documents distributed by counsel.)

11 BY MR. RUSSELL:

12 Q. Ms. Alexander, I've provided you with a copy of  
13 that section of the Act where it discusses returning  
14 customers and treatment as a new applicant.

15 Is it your opinion that a customer would be treated  
16 as a returning customer only if that customer had left the  
17 utility's distribution system and returned then to the  
18 distribution system?

19 A. Well, the paragraph that you're speaking about  
20 is 4?

21 Q. Yes, it is.

22 A. Right. It states that it does not require that  
23 you leave the distribution company. In other words, that  
24 phrase is not in here. But I think Subsection 4 here is  
25 part of the Commission's rulemaking that will take effect at

1 the end of the phase-in period, and the point I'm making is  
2 that during the phase-in or the transition period or  
3 whatever the timing is that we're talking about here, the  
4 operation of the rate caps are a paramount directive as to  
5 the prices that can be charged to customers; and I think the  
6 company has an obligation under the rate cap provisions of  
7 this law to provide generation services to its customers  
8 coming in and out of the competitive market for whatever  
9 reason at rates that do not exceed the rate cap; and if you  
10 take away their right to qualify for certain tariff  
11 provisions that they currently qualify for, you will have  
12 violated the rate cap for those customers when they return.  
13 So that's the conflict that the Commission needs to resolve  
14 with regard to this provision here.

15 Q. Let me just try to clarify. Are you disputing  
16 that a customer of a distribution company that picks an  
17 alternative supplier and then returns is a new customer?

18 A. Well, it's not new for the purposes of the  
19 distribution services. You've continued to provide that  
20 customer no matter who the supplier is.

21 Q. But it is new for purposes of this section of  
22 the law?

23 A. It says, "new applicant for energy services."  
24 What that means and when it will apply will depend on the  
25 Commission's rulemaking that is described in subparagraph 2,

1 "At the end of the transition period, the Commission shall  
2 promulgate regulations."

3 MR. RUSSELL: I don't have anything else, Your Honor.

4 JUDGE KASHI: Thank you very much, Mr. Russell.

5 Before I ask Mr. Mullins to do his redirect, I don't mean to  
6 push you on this, because I know you said you haven't set a  
7 price, but the testimony does say that you think in terms of  
8 the gaming aspect back on page 47, that the fee that you  
9 described is modest.

10 Does that ring any bells to you as to -- I mean, when  
11 you use the term in your testimony "modest," try and keep me  
12 on the same wavelength as you.

13 THE WITNESS: Okay. I used the term "modest" because  
14 I am thinking that the difference between the tariff  
15 generation supply rate that the customer would get by going  
16 back to PP&L and the market will over an annual basis not be  
17 particularly large at least for most low-use customers whose  
18 monthly bill does not vary widely and who do not have time  
19 of use or hourly interval meters anyway.

20 So I don't think that a lot of those customers are  
21 going to be monitoring this to the point where they're going  
22 to flip back and forth for the couple dollars a year that  
23 might result. So for that group, depending on what is  
24 happening in the market, the fee could be very modest,  
25 \$5.00.



1 (Whereupon, the documents marked as  
2 OCA Statements Nos. 5 and 5-S were  
3 received in evidence.)

4 JUDGE KASHI: Let me clarify for the record. Mr.  
5 Kleppinger, you in fact have already moved in Mr. Rooney's  
6 testimony; is that correct?

7 MR. KLEPPINGER: Yes, Your Honor.

8 JUDGE KASHI: And Mr. Zalzman, we are going to wait  
9 until tomorrow to move into evidence Mr. Bradford's  
10 testimony. We're waiting for an affidavit.

11 MR. ZALCMAN: That's correct, Your Honor.

12 JUDGE KASHI: We are now going back into the area  
13 that we didn't finish yesterday on rate design. We're going  
14 to have Mr. Kasper and Mr. Kleha.

15 For the record, Mr. Francis, I'm going to ask that  
16 Mr. Kasper be kept available perhaps for your questions. I  
17 was unable to attend to that over the lunch hour. I will  
18 attend to it as soon as possible. If you're going to have a  
19 chance to do it, Mr. Russell will make sure Mr. Kasper is  
20 available.

21 MR. FRANCIS: At a future date, Your Honor?

22 JUDGE KASHI: At a future date.

23 MR. FRANCIS: Thank you.

24 JUDGE KASHI: Mr. Russell.

25 MR. RUSSELL: Thank you, Your Honor. At this time,

1 PP&L would like to call Oliver G. Kasper. Your Honor, while  
2 Mr. Kasper is setting up at the witness table, because of  
3 your ruling on the issue raised by Mr. Francis, I would not  
4 propose at this point to identify or introduce Mr. Kasper's  
5 surrebuttal testimony, because it addresses only that issue.

6 JUDGE KASHI: Good enough. Before I swear Mr. Kasper  
7 in, so I don't forget about it, we are being evicted. Try  
8 as I may to have the Commission go to the Museum for their  
9 meeting tomorrow or some other appropriate place, I couldn't  
10 accomplish it. They're just real picky. So we're going to  
11 move across the hall to Hearing Room 2. I apologize for the  
12 inconvenience. And I guess we'll make a determination  
13 tomorrow whether it is worth coming back for Friday, because  
14 we can't come back in the afternoon. My understanding is we  
15 have a Russian delegation coming in to take up the place  
16 tomorrow afternoon. I asked if they needed an interpreter.

17 MR. BURGRAFF: We could dazzle them with this  
18 proceeding, couldn't we?

19 (Laughter.)

20 JUDGE KASHI: All right. Raise your right hand to be  
21 sworn, sir.

22 **Whereupon,**

23 **OLIVER G. KASPER**

24 **having been duly sworn, testified as follows:**

25 JUDGE KASHI: Please be seated, sir.

1 MR. RUSSELL: Your Honor, under our agreed-upon  
2 procedures, I would like to identify Mr. Kasper's testimony  
3 and exhibits. PP&L Statement No. 11 is the direct testimony  
4 of Oliver G. Kasper consisting of 18 pages and accompanied  
5 by Exhibit OGK-1 through OGK-5. PP&L Statement No. 11-R is  
6 the rebuttal testimony of Oliver G. Kasper consisting of  
7 seven pages and accompanied by Exhibit OGK-6.

8 JUDGE KASHI: So marked for purposes of  
9 identification.

10 (Whereupon, the documents were marked  
11 as PP&L Statements Nos. 11 and 11-R  
12 and PP&L Exhibits Nos. OGK-1 through  
13 OGK-6 for identification.)

14 DIRECT EXAMINATION

15 BY MR. RUSSELL:

16 Q. Mr. Kasper, do you have any corrections to your  
17 testimony or exhibits?

18 A. I have one correction to the direct testimony,  
19 page 14, line 17. It should read, "At least 1,000 kW per  
20 year."

21 Q. Is there anything else?

22 A. No.

23 MR. RUSSELL: Your Honor, with the foundation laid by  
24 agreement, PP&L moves into the record PP&L Statement No. 11,  
25 Statement No. 11-R and Exhibits OGK-1 through OGK-6.

1 JUDGE KASHI: Subject to any timely motions and/or  
2 objections made pending cross-examination, they are received  
3 into the evidentiary record.

4 MR. RUSSELL: And finally, Your Honor, we have very  
5 brief rejoinder for Mr. Kasper.

6 JUDGE KASHI: Go ahead, sir.

7 BY MR. RUSSELL:

8 Q. Mr. Kasper, are you familiar with Mr. Knecht's  
9 proposal regarding the GS-1 demand charge?

10 A. Yes.

11 Q. Could you describe your understanding of Mr.  
12 Knecht's proposal?

13 A. Mr. Knecht proposes to leave the existing demand  
14 charge in the transmission and distribution rates and  
15 exclude it from the capacity and energy rider. As described  
16 in his surrebuttal testimony, Mr. Knecht's proposal would  
17 produce \$10.9 million from the customer charge, \$8.9 million  
18 from the delivery and demand charge, and \$33.5 million from  
19 the blocked delivery and energy charge, for a total of \$55.3  
20 million.

21 Q. Do you have any further response to Mr. Knecht's  
22 proposal?

23 A. Yes. I initially had concerns about the effects  
24 of Mr. Knecht's proposal. However, after further review, I  
25 am willing to accept Mr. Knecht's proposal. Although PP&L

1 believes its initial proposal is reasonable and appropriate,  
2 Mr. Knecht's proposal also would recover delivery service  
3 revenue requirements approved in the company's last base  
4 rate proceeding.

5 MR. RUSSELL: With that, Your Honor, Mr. Kasper is  
6 available for cross-examination.

7 JUDGE KASHI: Thank you very much, sir.

8 Mr. Kleppinger.

9 MR. KLEPPINGER: Thank you. I wasn't sure if Enron  
10 had any cross.

11 JUDGE KASHI: No.

12 MR. KLEPPINGER: All right. Thank you.

13 CROSS-EXAMINATION

14 BY MR. KLEPPINGER:

15 Q. Good afternoon, Mr. Kasper.

16 A. Good afternoon, Dave.

17 Q. Good to see you again. I'd like to start with  
18 your rebuttal testimony. On page 5, you discuss the CTC  
19 applicability to interruptible service customers.

20 Now, in the proposed tariffs implementing this case,  
21 am I correct that you have calculated and included a CTC for  
22 interruptible rate schedules IS-P and IS-T?

23 A. Yes.

24 Q. And if we turn to that rate schedule, which is  
25 page 30-C of the tariff that is found at Exhibit OGK-2,

1 would I be correct that under the variable CTC approach, the  
2 first year of the transition, the charges to such a customer  
3 would be \$3.14 per kW for billing kW, 1.054 cents per kWh  
4 for the first 400 hours use, and .257 cents per kWh for all  
5 additional kilowatt-hours?

6 A. Yes.

7 Q. Now, would I be correct that as long as a  
8 customer continues to purchase service from PP&L under Rate  
9 Schedule IS-T during that year of 1999 at least, those would  
10 be the CTC charges that they would pay?

11 A. That would be the variable CTC charges they  
12 would pay. There would also be a fixed charge.

13 Q. And that is found on the next page; correct?

14 A. Correct.

15 Q. And where would that appear? Actually, it's on

16 --

17 A. It's on the same page.

18 Q. The same page, first paragraph.

19 A. First paragraph.

20 Q. Okay. And that is under the customized design  
21 option; correct?

22 A. That's correct.

23 Q. Now, you have included, have you not, in your  
24 proof of revenue for the amount of CTC to be collected from  
25 Rate Schedule IS-T a total amount that assumes all customers

1 remain on Rate Schedule IS-T?

2 A. Correct.

3 Q. So when we were discussing with prior witnesses  
4 the company's ability to collect \$4.0 billion, \$4.2 billion,  
5 or \$4.6 billion of stranded costs, that was keyed off of  
6 your proof of revenue analysis that assumed all IS-T and  
7 IS-P customers would stay on their interruptible rate?

8 A. Yes.

9 Q. Now, during the phase-in of direct access, if an  
10 IS-T or an IS-P customer are accepted into the first third  
11 and would use direct access for, let's say, one-third of  
12 their load, would those customers be permitted to purchase  
13 the remaining two-thirds of their load on Rate Schedule IS-T  
14 or IS-P?

15 A. No. If you read the first paragraph of each one  
16 of those rate schedules, you're going to see that it is for  
17 customers who take full requirements from PP&L only. If a  
18 customer takes service from another alternate supplier, they  
19 do not qualify for this rate any longer.

20 Q. And that would be true whether they take 1  
21 percent, 33 percent or 100 percent of their load from  
22 alternate supplier?

23 A. That's correct.

24 Q. And that is in addition to these two tariffs, is  
25 it not? It is not contained in the currently effective

1 tariff for IS-T or IS-P?

2 A. No, it is not.

3 Q. Now, once the customer elects to take any amount  
4 of their energy on direct access, will they pay the fixed  
5 and variable CTC as set forth in Rate Schedules IS-T and  
6 IS-P?

7 A. No.

8 Q. In fact, under the company's proposal, they  
9 would revert back, would they not, to the CTC that is  
10 included in Rate Schedule LP-5 and LP-4, respectively?

11 A. That's correct.

12 Q. Could you turn to those tariff sheets at this  
13 point in time? I believe it is tariff sheet page number 28  
14 again from Exhibit OGK-2.

15 A. Okay.

16 Q. Now, again, I believe the fixed competitive  
17 transition charge component here, at least the language  
18 would be the same, although the calculation of it would be  
19 different; is that true?

20 A. That's correct.

21 Q. And the variable CTC as set forth in this  
22 exhibit -- I won't read through the numbers, but is it safe  
23 to say that those variable CTC charges are higher than the  
24 CTC charges found on IS-T for the energy block, in  
25 particular?

1 A. On the energy blocks, yes.

2 Q. And you've reviewed PPLICA's testimony in this  
3 proceeding, I would assume, that quantifies the effect of  
4 that CTC level change on at least 11 of the PPLICA members  
5 that are participating in this case and who take service on  
6 Rate Schedule IS-T?

7 A. Yes.

8 Q. Now, you're aware, are you not, of the statutory  
9 provision at Section 2808(a) of the Customer Choice Act?

10 (Witness perusing document.)

11 Q. I'd like to read for you one sentence, which is  
12 the second sentence of that section. "The costs to be  
13 recovered shall be allocated to customer classes in a manner  
14 that does not shift inter-class or intra-class costs and  
15 maintains consistency with the allocation methodology for a  
16 utility production plant accepted by the Commission in the  
17 electric utility's most recent base rate proceeding."

18 Is that a correct reading of the statute?

19 A. Yes.

20 Q. And by the word "costs," the statute here is  
21 referring back to transition or stranded costs earlier in  
22 that section, is it not?

23 A. I thought that would indicate all costs.

24 Q. The title of the section is Section 2808,  
25 "Competitive Transition Charge," and the introductory

1 sentence refers to the provision of an electric utility with  
2 the opportunity to recover transition or stranded costs.

3 A. Okay.

4 Q. Now, if any one customer on Rate Schedule IS-T  
5 or IS-P were in fact to take direct access at any time  
6 during the transition period and the PP&L proposal here was  
7 approved, that customer would pay a larger total amount of  
8 competitive transition charge under the PP&L proposal than  
9 what they would have paid if they had remained on Rate  
10 Schedule IS-P or IS-T; isn't that correct?

11 A. That's correct, because they would no longer  
12 qualify for the interruptible rate as stated for that class  
13 and have to be shifted to the class that they qualify for.

14 Q. And that shift occurs because of the new  
15 language proposed in the tariff that has full requirements  
16 as a condition of service?

17 A. That's correct.

18 Q. Now, if that were to happen and a greater amount  
19 of competitive transition charges are collected from those  
20 customers, will not other customers who have not switched to  
21 a direct access supplier, whether or not they are on IS-T or  
22 any other rate schedule for PP&L, pay less competitive  
23 transition charges, all other things being equal?

24 A. No. The CTCs stated in the tariff are fixed for  
25 the transition period by rate class.

1 Q. But your proof of revenue assumes that none of  
2 these IS-P or IS-T customers have switched; correct?

3 A. Correct.

4 Q. And your proposal assumes that \$4 billion of  
5 stranded costs approved by the Commission would be collected  
6 for the duration of this transition period under your proof  
7 of revenue?

8 A. Correct.

9 Q. Now, if IS-T or IS-P customers take direct  
10 access and you collect more CTC dollars from them, will not  
11 PP&L reach that \$4 billion number sooner during the  
12 transition period than the anticipated termination of the  
13 transition period at the end of 2005?

14 A. Possibly, depending on what happens with other  
15 customers that may leave.

16 Q. We started with all other things -- what do you  
17 mean if they leave? If they leave, they're still paying the  
18 CTC.

19 A. Not if a customer actually goes out of business  
20 or moves their manufacturing to another location.

21 Q. Okay, or a sales growth increase. So we have to  
22 assume all other things being equal in the question, do we  
23 not?

24 A. Right.

25 Q. If more dollars are being collected from IS-T

1 and IS-P customers that take direct access because of the  
2 provision now that has them pay a Firm Rate Schedule CTC and  
3 the CTC itself will expire earlier, will not all other  
4 customers remaining on PP&L pay less total dollars in CTC?

5 A. All things being equal, yes.

6 Q. And in your opinion, that occurring is not a  
7 violation of the inter or intra-class cost prohibition that  
8 you and I read together at Section 2808(a) of the statute?

9 MR. RUSSELL: Your Honor, I'd like to object. That  
10 requires a legal conclusion from Mr. Kasper.

11 MR. KLEPPINGER: We'll argue the point, Your Honor.

12 JUDGE KASHI: All right. You don't have to answer  
13 the question. The objection is sustained.

14 BY MR. KLEPPINGER:

15 Q. Now, turning to page 6 of your rebuttal  
16 testimony, here you discuss the level of the interruptible  
17 rate just in general terms. At lines 7 and 8, you make the  
18 assertion that "all other rate classes currently are  
19 subsidizing the interruptible service customers." Do you  
20 see that reference?

21 A. Yes.

22 Q. Mr. Kasper, are all other rate classes on PP&L  
23 under Mr. Kleha's cost of service study providing a system  
24 average rate of return?

25 A. I'd have to refer that question to Mr. Kleha to

1 be specific, but I do not think so.

2 Q. Now, insofar as a rate class is not providing  
3 the system average rate of return, how could they be  
4 subsidizing the interruptible service customers if they're  
5 not paying their own cost of service?

6 A. In PP&L's last rate case, we were directed to  
7 maintain a modest increase to the interruptible customers  
8 and then recover those revenues from other rate classes,  
9 which, in essence, increased the rate of return from the  
10 other rate classes to recover those revenues. So in  
11 essence, there was a change that took place in PP&L's last  
12 base rate case that caused the rate of return for the other  
13 rate classes to come up slightly to cover the revenue  
14 shortfall from the interruptibles.

15 Q. If what you say is true, however, and the class  
16 that was allocated those costs is still not, despite that  
17 change, still not covering their own cost of service, how  
18 could they be subsidizing another class?

19 A. They still had an increase due to the revenue  
20 requirements of the interruptible customers.

21 Q. They're paying a higher rate than they may have  
22 otherwise paid, but that rate is still not covering their  
23 own total cost of service; correct?

24 A. It's not coming to equal rates of return by rate  
25 class, and that's an historic outcome of rate design over

1 the years.

2 Q. But will you agree with me that until a rate  
3 class reaches a system average rate of return in the  
4 company's cost of service, they're not covering 100 percent  
5 of the costs that have been assigned to them?

6 A. Yes.

7 Q. Now, is it your understanding that PP&L's current  
8 rates today are primarily cost based rates and not market  
9 based rates?

10 A. Yes.

11 Q. At page 7 of your rebuttal you make the assertion  
12 that any customer moving between rate schedule -- this is  
13 lines 10 through 12 -- will see a change in CTC charges from  
14 the former to the latter.

15 Now, in the case is IS-P and IS-T, are those  
16 customers making a conscious decision to move rate  
17 schedules, or are they making a conscious decision to  
18 exercise their right under the statute to move to an  
19 alternative supplier?

20 A. Within our proposal they would taking a look at  
21 the economics of going to an alternate supplier. And if the  
22 economics of moving to a new rate schedule, plus the  
23 discount provided to them from the alternate supplier was  
24 beneficial to them, they would make their decision based on  
25 the economics.

1 Q. And those economics are changed, are they not, by  
2 the fact that the CTC that the company would seek to impose  
3 on the customer when they make that decision to another  
4 supplier is going to be higher than if they stay on PP&L's  
5 system?

6 A. Could you repeat that question?

7 Q. Aren't the economics of that customer's decision  
8 impacted by the fact that their CTC obligation increases if  
9 they move to the alternative supplier as opposed to staying  
10 on PP&L?

11 A. They must consider that in their decision.

12 Q. Is there any other rate schedule where the  
13 customer has to factor a change in the CTC into that  
14 economic decision?

15 A. I would say that in all the rate schedules they'd  
16 have to factor that same economic decision in. A customer,  
17 let's say, that is on GS-3 that decides to purchase  
18 transformation facilities from PP&L and move to a 12-kV  
19 rate, which would be then supplied under LP-4, would be  
20 faced with the same decision.

21 Q. Well, but that's a conscious decision by a  
22 customer --

23 A. That's correct.

24 Q. -- to move from one rate schedule to another.  
25 Here it's by virtue of a change in the applicability section

1 of the tariff that is forcing the customer to move from one  
2 schedule to another. It's not a voluntary move. Do you  
3 agree with that?

4 A. No, I think it's a customer choice whether he  
5 wants to stay with the PP&L current interruptible rate or  
6 move to an alternate supplier.

7 Q. The choice is to move to the alternate supplier,  
8 I agree with you there.

9 A. Right.

10 Q. In any other case, any other tariff on PP&L's  
11 system right now, under your proposal, if the customer makes  
12 the decision to move to an alternative supplier, is there  
13 any other rate schedule where the prior CTC or ITC  
14 obligation is going to be higher because of that move?

15 A. CTC obligation, no. EDI credits being withdrawn,  
16 yes.

17 Q. Okay. And EDI credits are part of the tariff,  
18 they're not their own rate schedule?

19 A. Right.

20 Q. Okay. So, as far as you know, it's only rate  
21 schedules IS-P and IS-T that have the effect of a CTC stated  
22 in a schedule now, which is not the CTC that they will pay  
23 if they choose an alternate supplier?

24 A. That's correct.

25 Q. Well, then I guess I'm a little confused on the

1 language that you've proposed for, actually, my own rate  
2 schedule, RTS.

3 Now, this is tariff sheet 21 in Exhibit OGK-2. Now,  
4 Mr. Kasper, if I understand the first paragraph of this  
5 tariff sheet, you have also included a provision where  
6 service under this rate schedule is available only to  
7 customers if they do not choose an alternative generation  
8 supplier; is that correct?

9 A. Yes, you're correct. I forgot about these two.  
10 It's both RTS and the RTD rate that follows it, has that  
11 same provision.

12 Q. So is it your testimony then that if I, as an RTS  
13 customer, stay on the PP&L system as an RTS customer, I  
14 would pay, in 1999 at least, a competitive transition charge  
15 of nine cents a kilowatt and 1.271 cents a kilowatt hour?

16 A. That's correct.

17 Q. Okay. And if I have the fortune of being  
18 selected in the first third of the phase-in for January 1,  
19 1999, and I exercise that rate as given to me under the  
20 statute, does my competitive transition charge then as a  
21 residential customer revert back to the standard residential  
22 service rate schedule?

23 A. Yes, according to our proposal.

24 Q. And if I'm correct, then I would pay a block  
25 charge that starts at 3.9 cents a kilowatt hour?

1 A. That's correct.

2 Q. Is it safe to say that my competitive transition  
3 charge, if I exercise my right of access, having been an RTS  
4 customer for the last ten years, is higher when I exercise  
5 that right than if I would stay an RTS customer?

6 A. Yes.

7 Q. With respect to rate schedule RTS and IS-P and  
8 IS-T, would you conclude, Mr. Kasper, that the company's  
9 proposal is an inhibiting factor from having customers  
10 exercise their right of access?

11 A. No, I would not agree with that. Change of a  
12 customer moving from an interruptible rate to a firm power  
13 rate, and having the CTC that goes with it, reflects the  
14 fact that the customer will no longer be taking service from  
15 PP&L's generation resources.

16 Therefore, the customer doesn't really qualify for  
17 PP&L's interruptible rate or for the RTS rate any longer,  
18 which are basically generation related functions, being  
19 interruptible or the off-peak rate, as they were designed.

20 So, in moving from the interruptible rate out to an  
21 alternate supplier, it's logical to move those customers off  
22 the interruptible rate and the interruptible CTC and put  
23 them onto the firm rate.

24 Now, what we're discussing here is the size of the  
25 credit that these customers are getting, which is fairly

1 large compared to the open market.

2 Q. I'm sorry, I didn't think we were discussing the  
3 size of the credit whatsoever. We're discussing the size of  
4 the competitive transition charge, which is what is at issue  
5 here. We're not litigating in this case, are we, the size  
6 of the credits on the interruptible or the RTS rate. We did  
7 that two years ago.

8 A. No, but the credit is what's causing the problem  
9 with the interruptible customers. They would like to carry  
10 that regulated credit over into a competitive marketplace.  
11 And the credit compared to the open market is fairly large.

12 Q. But inherent in today's rates, Mr. Kasper, hasn't  
13 the company been told by the Commission that it can only  
14 charge a given level of rate on the IS-P and IS-T tariffs by  
15 virtue of the last rate case decision?

16 A. That's correct.

17 Q. And doesn't the statute now require us to  
18 unbundle rates at their current levels and keep those levels  
19 at capped rates?

20 A. On a rate class basis.

21 Q. Okay.

22 A. For customers who qualify for those rates.

23 Q. And inherent in that rate cap, Mr. Kasper, isn't  
24 there some number of stranded costs in every rate schedule  
25 throughout PP&L's system, IS-P and IS-T included?

1 A. Yes.

2 Q. And whatever that inherent level is, you have  
3 calculated in the unbundling of that tariff, as required by  
4 the statute, that produces the CTC charges that we read  
5 through on the IS-P and IS-T schedule?

6 A. Yes.

7 Q. And the mere fact of exercising a customer's rate  
8 to direct access is what is triggering the change in that  
9 CTC level for that customer?

10 A. That's correct.

11 Q. Okay. Turning back to your direct testimony. We  
12 had, I believe, referenced already the EDI and IDI credits,  
13 and it's my understanding, Mr. Kasper, that if a customer  
14 who's receiving those credits today, that if they were to,  
15 again, be in the first third of the phase-in, and elect to  
16 take from an alternative supplier, that they wouldn't only  
17 lose those credits on the load that shifted, they would lose  
18 those credits on the two thirds of a load that they continue  
19 to purchase from PP&L; is that correct?

20 A. That's correct.

21 Q. And would the same be true for the demand free  
22 day option customers?

23 A. Yes.

24 Q. And the same would be true, would it not, for a  
25 customer that's no a competitive rate rider?

1 (No response.)

2 Q. Could they purchase a third of their load on  
3 access and two thirds remain under their competitive rate  
4 rider contract?

5 A. The competitive rate rider is a little different.  
6 Under our proposal, PP&L wants to continue the competitive  
7 rate rider. But we would only be allowed to negotiate terms  
8 of a contract for basically CTC and delivery charges. And  
9 the customers would still be able to purchase their energy  
10 and capacity from alternative suppliers.

11 Q. So, is it safe to say that the customer that's on  
12 a competitive rate rider contract now, the contractual  
13 provisions on whether they'd be able to utilize an  
14 alternative supplier or not would still govern?

15 (No response.)

16 Q. What I'm trying to probe, Mr. Kasper, if I can  
17 withdraw that question, is just to see if there's something  
18 in this proposal under competitive rate rider that would  
19 alter or modify the contractual provisions that are  
20 contained in any CRR contracts you have.

21 A. That I have now?

22 Q. Yes.

23 A. It would only, as I put in my testimony, affect  
24 one customer at this time.

25 Q. And would it change the contractual provisions in

1 that agreement without disclosing what those provisions  
2 would be?

3 A. I would have to review the contract. I can't  
4 answer that right now.

5 MR. KLEPPINGER: Your Honor, subject to any  
6 proprietary information that response would contain, I would  
7 like at least to make an on-the-record data request as to  
8 whether or not the modifications that are proposed here by  
9 PP&L on the competitive rate rider would change or modify  
10 any of the terms or conditions contained in that CRR  
11 contract.

12 MR. RUSSELL: We'll prepare a response, Your Honor.

13 JUDGE KASHI: Thank you, sir.

14 BY MR. KLEPPINGER:

15 Q. The next type of rider that you discuss in your  
16 direct testimony is the price for spot service rate  
17 schedules, PR-1 and PR-2, on page 13.

18 Can customers on rate schedule PR-1 or PR-2 take a  
19 portion of their load on that service from PP&L and the  
20 remainder of their load on direct access?

21 A. I'll go back to the tariff itself.

22 (Pause.)

23 Q. PR-1 and PR-2, when a customer has access to  
24 alternate suppliers, not necessarily taking service, but  
25 access, as soon as they have access, that contract will be

1 cancelled.

2 Q. Okay. So on this availability provision it's the  
3 mere opportunity to purchase competitively, not even the  
4 exercise of that right, that would cause this rate schedule  
5 to be unavailable?

6 A. That's correct. It's an experimental rate, and  
7 we're moving forward to the phase-out on that.

8 Q. Well, how will you define on January 1, 1999,  
9 whether or not a PR-1 customer is in the first third of that  
10 phase-in?

11 A. If they're selected within the first third, they  
12 then have availability of the open market.

13 Q. And they lose their PR-1 contract?

14 A. That's correct.

15 Q. How do they keep themselves out of that? Suppose  
16 they like the PR-1 service? They have no control over  
17 whether -- can they go to you ahead of time and say, look,  
18 I'm happy with PR-1, I don't want any parts of the first  
19 third? They don't want to be randomly selected.

20 A. I don't know if they have any provisions. I'd  
21 have to defer that question off to Hank Baumann at this  
22 point on how we're going to do selection. But at this  
23 point, if we're doing a random selection, and the customer's  
24 selected in the first third, he would lose his PR-1 or PR-2  
25 contract.

1 Q. Nonetheless, you are, I guess, proposing that the  
2 PR-1 and PR-2 experimental rates be extended through  
3 January 1, 2001?

4 A. That's correct. Not all customers would be  
5 selected in the first third or the second third.

6 Q. But if selected, their contracts terminate?

7 A. Right.

8 Q. What's the CTC level on PR-1 customers?

9 A. The CTC level for PR-1 customers would be  
10 calculated under either LP-4 or LP-5, depending on their  
11 voltage level service. And it would be for their customer  
12 base line usage?

13 Q. So PR-1 is a firm power rate schedule; correct?

14 A. That's correct.

15 Q. So they would be paying the firm power CTC on the  
16 otherwise applicable rate schedule?

17 A. That's correct.

18 Q. Now, PR-2 is an interruptible service?

19 A. Yes.

20 Q. And if a PR-2 customer unknowingly gets randomly  
21 selected in the first third, and their contract is  
22 terminated under the company's proposal, what is the CTC  
23 level that they would get?

24 A. You say unknowingly?

25 Q. Yes, because --

1 A. Meaning we wouldn't notify them?

2 Q. Well, I imagine you'd eventually notify them.  
3 But they didn't know they were being randomly selected and  
4 having their contract terminated.

5 MR. RUSSELL: Your Honor, this is not really an  
6 objection, and I shouldn't be testifying, but we are not  
7 proposing random selection in this proceeding. Mr. Baumann  
8 can explain in detail what our proposal is. But to the  
9 extent the questions are premised on that understanding, I  
10 don't want you to go off in the wrong direction.

11 MR. KLEPPINGER: Okay. Thank you, Mr. Russell, I  
12 appreciate that.

13 THE WITNESS: The customer would still be an  
14 interruptible customer, and he would be treated under IS-T  
15 or IS-P.

16 BY MR. KLEPPINGER:

17 Q. Okay. So if a PR-2 customer exercises their  
18 right of access, they would pay the CTCs that are included  
19 in the IS-T or IS-P rate schedule?

20 A. If they exercise their right of access and went  
21 to an alternate supplier?

22 Q. Yes.

23 A. According to our IS-T and IS-P rate schedule,  
24 they would then move to a firm power rate.

25 Q. Well, okay. So they would end up on the same

1 LP-5 for CTC. So if they continue to be a PR-2  
2 interruptible service customer, they would pay a CTC on  
3 their baseline usage, calculated under rate schedule IS-P or  
4 IS-T, whichever would apply?

5 A. That's correct.

6 Q. Now, moving to the interruptible rate schedules,  
7 which begin on the bottom of page 14 and carrying on over to  
8 page 15, I think we've discussed the change that's discussed  
9 on the first answer on page 15. And then you ask whether  
10 there are any other changes to the tariff, and you discuss  
11 this rate cap issue. Do you see that?

12 A. Yes.

13 Q. And that's the only other change then to the  
14 interruptible rate schedule discussed in your testimony  
15 here?

16 A. No, there was another one that I overlooked in  
17 the testimony, and that was the change to the economic  
18 interruptions.

19 Q. Oh, so there's another tariff change on the  
20 interruptible schedule that's not included in your direct  
21 testimony?

22 A. Not in the direct testimony, but it is included  
23 in the list of changes made to the supplement for Tariff  
24 201.

25 Q. Is Tariff 201 the list of changes at the

FORM 2

1 beginning of the tariff?

2 A. Yes. And it's also marked on the tariff page.

3 Q. What page in the list of changes is that one  
4 identified?

5 A. It's on page 2(e). And it's the second  
6 paragraph.

7 Q. Okay. Do you have with you the Exhibit OGK-1,  
8 which is the current tariff?

9 A. Yes.

10 Q. And I'm looking at Exhibit OGK-1, tariff page  
11 30(d), which has the hours of interruption discussed.

12 A. Yes.

13 Q. And as I understand the currently effective  
14 tariff, the company can call interruptions for economic load  
15 control, system and local emergencies, and testing of a  
16 customer's ability to interrupt during an emergency. Those  
17 are the three areas that they can interrupt for?

18 A. Yes.

19 Q. And there's a frequency limitation, is there not,  
20 on the amount of load interruptions that PP&L can call for?

21 A. Yes.

22 Q. And that frequency amount is not differentiated  
23 under the current tariff based on the type of interruption  
24 that's called?

25 A. No, it is not.

1 Q. And those limitations are twenty in a calendar  
2 year, no more than ten hours in any one day, no more often  
3 than five days in a single month, and no more than 200 hours  
4 in a calendar year; is that correct?

5 A. That's correct.

6 Q. Now, if there were to be an economic load control  
7 called for an interruption, the customer has the option to  
8 actually buy through that interruption, do they not, if they  
9 continue to purchase through PP&L?

10 A. Yes.

11 Q. And at least under the existing tariff, they  
12 would be charged the rate under the tariff plus the PJM  
13 interconnection billing rate?

14 A. Yes.

15 Q. Now, let's compare that to the proposed tariff,  
16 which is Exhibit OGG-2. And I believe the hours of  
17 interruption section begins on page 30(e).

18 Do you have that?

19 A. Yes, I do.

20 Q. Now, again, there are three primary types of  
21 interruptions; economic load control, number one; number  
22 two, system and local emergencies; and number three, tests  
23 for a customer's ability to interrupt. Those three types of  
24 interruptions are not being proposed to change in this  
25 tariff; correct?

1 A. That's correct.

2 Q. Now, the frequency of interruption language is  
3 proposed to change, and the limitations that we had  
4 discussed in the existing tariff, namely twenty per year, no  
5 more than ten hours in a day, no more than five days a  
6 month, and 200 hours in a year, under the company's proposal  
7 now only apply to load interruptions for emergencies; is  
8 that correct?

9 A. That's correct.

10 Q. And the frequency and duration of economic  
11 interruption is now unlimited under the proposal; is that  
12 correct?

13 A. That's correct.

14 Q. So, effectively, this proposed change takes a  
15 tariff which had an explicit number of interruptions and  
16 durations of interruptions and made those limitations  
17 unlimited, at least with respect to economic interruption;  
18 is that correct?

19 A. Yes, that is correct.

20 Q. And you elected not to discuss that in your  
21 direct testimony?

22 A. It was an oversight.

23 Q. Now, the consequences to the customer of that  
24 provision is that they either choose during an economic  
25 interruption to shut down their facility, because they are

1 taking an interruptible rate, or to buy through; correct?

2 Those are the two choices?

3 A. That's correct.

4 Q. Now, in the buy-through, that language is also  
5 proposed to change; is it not, Mr. Kasper?

6 (No response.)

7 Q. We had previously discussed the use of the PJM  
8 billing rate as the, I'll call it, penalty for buy-through.  
9 It's not listed as a penalty, but you're charged the rate  
10 plus the PJM billing rate today. And under the proposed  
11 tariff, if I read this correctly, you're charged the rate  
12 that's in the tariff plus the company's estimated -- and I'm  
13 quoting -- "estimated replacement capacity of energy cost;"  
14 correct?

15 A. That's correct. The billing rate as we knew it  
16 when this tariff originally was developed in roughly 1992  
17 has changed and really doesn't exist in that form any  
18 longer. So now we're taking a look at the company's  
19 estimated replacement capacity and energy for the period of  
20 economic interruption.

21 Q. Will the estimated replacement capacity and  
22 energy cost be equal to, greater than, or less than the PJM  
23 billing rate?

24 A. I have no knowledge of that at this point. Like  
25 I said, the PJM billing rate has disappeared, it no longer

1 exists.

2 Q. There are still economic transactions occurring  
3 on the PJM of a varied priced; are there not?

4 A. Yes.

5 Q. And isn't that very similar to what the PJM  
6 billing rate used to be, except for the fact that it doesn't  
7 utilize split savings anymore?

8 A. That's correct. It is now more of a spot market  
9 price as opposed to a split savings rate.

10 Q. Okay. And is that spot market price what you're  
11 intending to define as the company's estimated replacement  
12 capacity and energy cost?

13 A. Yes. At this time, unless it changes again.

14 Q. So, we can assume that that means PJM's spot  
15 price?

16 A. For purposes of this discussion, I would say yes.

17 Q. Well, I'm more concerned about what my client's  
18 may actually be charged than this discussion. Is the  
19 charge, if a customer were to buy through under this newly  
20 proposed tariff, going to be the PJM spot price or some  
21 other estimated replacement capacity and energy cost that  
22 the company designates?

23 A. It's going to be that estimated spot price.

24 Q. Estimated spot price?

25 A. Yes.

1 Q. And is there any true-up as to what the actual  
2 spot price was during the hours that the customer chose to  
3 buy through?

4 A. No.

5 Q. And that spot price, the estimated spot price,  
6 could, in fact, be higher than what the actual spot price  
7 was?

8 A. And it could actually be lower than the actual  
9 spot price.

10 Q. See how that works. Now, this change on the buy-  
11 through provision, that one was also not discussed in your  
12 direct testimony; is that correct?

13 A. No, it was not.

14 Q. Mr. Kasper, do you agree with the policy  
15 declaration in the Electricity Generation Customer Choice  
16 and Competition Act that states that the cost of electricity  
17 is an important factor in decisions made by businesses  
18 concerning locating, expanding and retaining facilities in  
19 this commonwealth?

20 A. Yes.

21 Q. Is it PP&L's position that the proposed changes  
22 to the IS-P and IS-T tariff, insofar as they relate to the  
23 competitive transition charge that we've been discussing,  
24 the increase in the interruptibility that we've been  
25 discussing, and the change in the pricing of the buy-through

1 that we've been discussing, serve the economic development  
2 and business retention interests of the commonwealth?

3 A. In general, I think our overall tariff supports  
4 the economic development of the act itself. Being that the  
5 interruptible customers moving off to another tariff, or  
6 whatever, cannot find a deal in the open market as good as  
7 what PP&L's supplying at this time points to the fact of the  
8 size of that credit is probably better than what they're  
9 going to get in the open market. So, if they do stay with  
10 PP&L, they are getting the benefits of a very good economic  
11 development rate.

12 Q. But Mr. Kasper, hasn't the deal, as you referred  
13 to it, changed in this proposed tariff? Number one, the  
14 proposed tariff requires them to buy 100 percent of their  
15 requirements; number two, the interruptibility has become  
16 unlimited for economic interruptions; number three, if they  
17 move from the system, their CTC is charged higher; and  
18 number four, the charge for a buy-through is different and  
19 perhaps higher than the existing tariff. Hasn't the  
20 structure of the tariff changed?

21 A. The structure of the pricing has not changed, the  
22 structure of some of the provisions of the rate have  
23 changed.

24 Q. And do you think the structure of those changed  
25 provisions are beneficial or harmful to the customer in

1 terms of quality of service and pricing service?

2 A. I would say it would depend on what the customer  
3 chooses. If he chooses to stay with the rate they're  
4 probably not going to be harmful for the customer.

5 Q. They can get interrupted a lot more frequently.

6 A. They may.

7 Q. They may. And in fact, hasn't PP&L called four  
8 days of economic interruptions this summer?

9 A. Yes.

10 Q. And how many economic interruptions did they call  
11 prior to 1997?

12 A. None.

13 Q. None, okay.

14 JUDGE KASHI: Are you moving into a different area,  
15 Mr. Kleppinger?

16 MR. KLEPPINGER: Actually, I'm finished, Your Honor.

17 JUDGE KASHI: All right. We're going to take a  
18 fifteen-minute recess for the afternoon, and we will come  
19 back and continue the cross.

20 Mr. Fogel isn't here today. So, Mr. Caplan, we'll  
21 begin with you.

22 Did Mr. Fogel ask anybody to pick up cross for him?  
23 He had indicated that he had some.

24 MR. LONGWELL: No.

25 JUDGE KASHI: We'll stand in recess for fifteen

1 minutes.

2 (Recess.)

3 JUDGE KASHI: Going back on the record.

4 Mr. Caplan.

5 **CROSS-EXAMINATION**

6 BY MR. CAPLAN:

7 Q. Mr. Kasper, my name is Richard Caplan, and I am  
8 representing a number of independent power producers, most  
9 of whom have contractual relationships with Pennsylvania  
10 Power & Light Company and operate within its service  
11 territory. As a result of Mr. Kleppinger's cross-  
12 examination, the scope of my inquiry will be somewhat more  
13 limited than I had anticipated, but I did want to ask you a  
14 follow-up question. This is something that he raised with  
15 regard to the RTS and the RTD rate classes.

16 I understood in your cross-examination that you  
17 admitted that the amount of the CTC that members of this  
18 rate class would pay, should they choose an alternate  
19 purveyor of electricity other than PP&L, would change. Am I  
20 correct in adducing that point?

21 A. Yes.

22 Q. And it is my understanding from the tenor of  
23 your testimony that there would be some increase, is that  
24 correct, in the CTC component of the non-bypassable charge?

25 A. That's correct.

1 Q. Could you do us the service of just estimating  
2 for us in percentage terms the level of increase?

3 A. I have not reviewed that at this point.

4 Q. Would you say it is several orders of magnitude  
5 at least; in other words, it's more than 200 percent?

6 A. No. It's not anywhere near that.

7 Q. It is not. Well, if you haven't evaluated it,  
8 how can you tell me that?

9 A. Well, just looking at the numbers, it's not  
10 going to come out to that kind of a level. We could do that  
11 as an on-the-record data request.

12 Q. I would certainly appreciate if you would do  
13 that for us.

14 MR. RUSSELL: Excuse me just a minute. Could I ask  
15 for a clarification of exactly what you're looking for? Is  
16 it a percentage increase of total bills for customers moving  
17 from RTS, shopping from RTS or shopping from RTD?

18 MR. CAPLAN: No. It would be the increase in the CTC  
19 component alone, not in the total bill; in other words, the  
20 percentage increase from one CTC to another.

21 BY MR. CAPLAN:

22 Q. Now, in your direct testimony, you've indicated  
23 that you have supervisory responsibility for the cost of  
24 service function within PP&L?

25 A. Yes.

1 Q. Could you tell us what that function is?

2 A. I have one person that works fairly closely with  
3 Joe Kleha in performing the cost of service analysis.

4 Q. When you say you have one person, I take it Mr.  
5 Kleha himself does not report to you?

6 A. No, he does not.

7 Q. Is there some reason why there is this mixed  
8 responsibility for that function?

9 A. Other than that's the organization that exists  
10 at PP&L today, that's the way it is.

11 Q. Have you had occasion to study the allocation of  
12 costs as prepared by Mr. Kleha?

13 A. Not in detail, no.

14 Q. Not in detail. Well, let me ask you just some  
15 general questions; and of course, if you feel that you can't  
16 answer them credibly and would rather I direct my questions  
17 to Mr. Kleha, please advise me.

18 I take it that even though PP&L has enjoyed a captive  
19 market up to this point in time within its service  
20 territory, that it recognizes that it has some customer  
21 acquisition costs, as, for example, if someone moves into  
22 the territory and asks for service.

23 MR. RUSSELL: Your Honor, this is far beyond the  
24 scope of Mr. Kasper's testimony. I really think it would be  
25 better directed to other witnesses.

1 MR. CAPLAN: Your Honor, he has a whole section of  
2 his testimony on the pro forma impact of the proposed rate  
3 unbundled design. I don't see why this is far afield.

4 MR. RUSSELL: That section goes to the impact on the  
5 company's rates, but does not go to the components or the  
6 cost components of those rates; for example, if we have  
7 customer acquisition expenses or not.

8 JUDGE KASHI: I'm going to sustain the objection.

9 MR. CAPLAN: Thank you, Your Honor.

10 BY MR. CAPLAN:

11 Q. Now, let's turn to the various rates that have  
12 been discussed by Mr. Kleppinger in his cross-examination of  
13 you. Would you agree with me that all of these could be  
14 described as quasi-competitive rate structures? What I mean  
15 by that is that obviously they are still regulated, but  
16 there are efforts, if you will, to try to offer some  
17 incentives by way of reducing costs that are, if you will,  
18 transitional towards an unregulated market for electricity,  
19 for energy?

20 A. Would you rephrase that question as to  
21 particularly what rates?

22 Q. Well, all of these; in other words, the  
23 competitive rate rider, the economic industrial development  
24 initiative riders, the demand-free day rate option. Aren't  
25 these all, if you will, departures from the traditional cost

1 of service ratemaking in an effort to try to provide some  
2 economic stimulus or to increase the business development  
3 within the service territory?

4 A. These rates were introduced as part of PP&L's  
5 series of economic development filings since 1983, the  
6 latest one being 1992. They had two basic functions in mind  
7 for all of these. One of them was the economic development  
8 aspects of the rate, and the other was to make use of PP&L's  
9 current generation assets, to increase the utilization of  
10 those.

11 Q. And is it foreseen that these two purposes would  
12 be advanced or satisfied by the continuation of some or all  
13 of these rates going forward?

14 A. If you mean did we continue those rates based on  
15 just our wanting to do that or are you saying -- one of the  
16 reasons we continued these rates going forward, we felt that  
17 under the Act as it was described to us, that we had to  
18 continue those rates to stay within the rate cap.

19 Q. Why is that?

20 A. Well, if we allowed the EDI rate, for instance,  
21 or the rider to start to phase out in 1998, as it is  
22 scheduled to do, that would cause an increase to those  
23 customers on the rate. So in order to avoid that, we just  
24 continued it in Supplement 65 and then continued it out  
25 through Tariff 201 to the year 2005.

1 Q. And this was all designed for what purpose as  
2 far as PP&L was concerned?

3 A. This was to stay within the rate cap  
4 considerations of the Act.

5 Q. In other words, to avoid losing money? Is that  
6 a fair way to say it?

7 A. No. If we allowed the EDI credits to phase out,  
8 that would be an increase in revenues to PP&L.

9 Q. Which the Act forbids?

10 A. It doesn't -- well, the way we interpreted it is  
11 that these provisions, these economic development provisions  
12 and rates, that if we allowed them to phase out, it would  
13 then be a violation of the rate cap.

14 Q. But you could have transferred them, could you  
15 not in your proposal, to your unregulated marketing  
16 subsidiaries? Isn't that true? In other words, you could  
17 say, "We're not going to offer that anymore, but the  
18 unregulated subsidiary can offer that or any other proposal  
19 that he wishes and then buy T&D from us."

20 A. Again, we read the Act as this is a rate cap.  
21 You cannot go above that rate cap. Therefore, these  
22 provisions should not be phased out.

23 Now, if another alternate supplier wants to supply  
24 programs similar to this, that is their prerogative.

25 Q. In answer to an earlier question of mine, you

1 said that there were two functions when these programs were  
2 originally introduced or two purposes that you so far have  
3 articulated. One was economic development in the service  
4 territory and the other was better use or fuller use of your  
5 own generating assets; is that correct?

6 A. Yes.

7 Q. And is that purpose, the second one, better use  
8 of PP&L's generating assets, still a motivation for  
9 continuing these programs up through the transition period  
10 to 2005?

11 A. If you saw from the tariff, again, these  
12 provisions, several of them were scheduled to start phasing  
13 out; and again, to stay within the rate cap is why we  
14 extended them. To continue those programs for a customer  
15 who leaves, the benefits to our generation facilities would  
16 not be there. They would be benefits to somebody else's  
17 generation facilities. Therefore, we believe the credit did  
18 not apply once the customer started to shop.

19 Now, would it cause us to have additional load?  
20 Well, access to that economic development rate is closed as  
21 of the end of this year. It would no longer tend to expand  
22 other than customers that are on the rate.

23 Q. Let me just ask you some generic questions,  
24 because I think Mr. Kleppinger went through a lot of the  
25 details of the rates, and I don't want to burden the record

1 with that repetition.

2 All of these represent economic benefits to the  
3 recipients today; isn't that true? In other words, they are  
4 competitively attractive.

5 A. Yes.

6 Q. And they've already been self-selected by those  
7 applicants who qualify, who said, "Can I get this rate," and  
8 you've already said yes as to the existing customers who are  
9 taking under these rates; true?

10 A. True.

11 Q. And to the extent that they are maintained only  
12 for parties who don't exercise the option of choice of  
13 alternate supplier, they would tend to keep that group of  
14 customers loyal to PP&L as a supplier; true?

15 A. Only if an alternate supplier does not offer  
16 something as beneficial as those rates.

17 Q. Well, that would be true to the extent to which  
18 there were no costs that PP&L itself would extract from the  
19 customer upon exercising choice, which would be higher than  
20 costs that it would incur if it stayed with PP&L as a  
21 captive customer. Do you agree with that? In other words,  
22 some of these programs cause an increase in non-bypassable  
23 charges which would have to be absorbed in order to take  
24 advantage of choice.

25 A. According to our proposal, that's correct.

1 Q. And does that not in effect represent an  
2 economic disincentive to exercise the choice which the  
3 statute is trying to implement?

4 A. Not necessarily. If the competitive market can  
5 offer a program that produces a savings for the customer  
6 even after that has impacted his billing from PP&L, then he  
7 still may make the choice.

8 Q. But that would require that supplier to  
9 undersell PP&L's energy cost; isn't that correct? In other  
10 words, in order to come to the same overall cost, if the CTC  
11 increases by any substantial amount, the energy component  
12 has to decrease; true?

13 A. Energy and capacity.

14 Q. Right. And therefore, what you're saying  
15 basically is that in order to get a customer like this, the  
16 independent producer has to undercut PP&L's energy and  
17 capacity price; isn't that so?

18 A. Under the rate schedules where that applies,  
19 being the interruptible and a couple of the other ones, if  
20 the alternate suppliers find these customers, shall we say,  
21 inexpensive enough to supply by not having to purchase  
22 capacity but offer them also an interruptible rate, they may  
23 not have to undercut the energy.

24 Q. You say they may not, but you recognize that  
25 there are going to be circumstances where they would have to

1 do so; isn't that true?

2 A. They may have to do so, yes, but this, again,  
3 reflects upon the large amount of that credit that is being  
4 given to those customers today in comparison to what they  
5 might be able to find in the open market.

6 Q. Can you give me the philosophical or business  
7 reason why the PR-1 and PR-2 rates will be only available to  
8 customers who are not eligible for retail competition in  
9 1999 and 2000?

10 A. Those rates were due to start phasing out next  
11 year in our original tariff. They were experimental rates  
12 for 25 customers. Again, with the rate cap issues, we  
13 extended those for 1998 and then into the transition period  
14 to get customers out to competition. So they are still  
15 remaining as experimental rates, and we're going to phase  
16 those out as we go into the competition.

17 Q. And that has no effect on the rate cap issue  
18 which you raised in regard to the other rates?

19 A. No.

20 MR. CAPLAN: I have no further questions of the  
21 witness.

22 JUDGE KASHI: Thank you very much, Mr. Caplan.  
23 Mr. Lavelle.

24 MR. LAVELLE: Thank you, Your Honor.

25

## CROSS-EXAMINATION

1  
2 BY MR. LAVELLE:

3 Q. Mr. Kasper, my name is John Lavelle. I  
4 represent New Energy Ventures. Mr. Kasper, I would like to  
5 ask you to take a look at your rebuttal testimony, page 9,  
6 starting at line 15.

7 A. Yes.

8 Q. Mr. Kasper, would you agree with me that in this  
9 section of your rebuttal testimony, you are discussing Mr.  
10 Boonin's suggestion that the various riders and tariffs  
11 discussed in your testimony be unbundled?

12 A. Yes.

13 Q. Starting on line 19, you note that Mr. Boonin  
14 uses the term "unbundled" to mean applying the riders,  
15 provisions and rate schedules to customers, regardless of  
16 the supplier of energy. Do you see that?

17 A. Yes.

18 Q. Does PP&L's proposal permit the application of  
19 the riders, provisions, and rate schedules to customers  
20 regardless of the supplier of energy?

21 A. In our proposal, as we discussed with Mr.  
22 Kleppinger, many of these riders and rate schedules will no  
23 longer be available to customers who shop.

24 Q. So the answer is no; is that correct?

25 A. Yes, that's correct.

1 Q. Now, are you familiar with Mr. Boonin's  
2 testimony that what PP&L has proposed may protect customers  
3 from a rate increase, but also will freeze out competition?  
4 Are you familiar with that?

5 A. Yes.

6 Q. Would you agree that PP&L's proposal with  
7 respect to these particular tariffs would freeze out  
8 competition with respect to the customers who qualify for  
9 it?

10 A. No, not entirely. Many of these customers, such  
11 as under EDI rates, may have qualified for the rate but are  
12 not receiving that much of a credit under the rate  
13 structures. Several of our demand-free day customers are  
14 not really taking advantage of that rate structure that  
15 they're under, have not seen that much of savings, so it  
16 does not really freeze out the competition in those rate  
17 structures.

18 Q. How about for the other ones; do you think that  
19 it would freeze out competition for those?

20 A. If the competitive market can offer a price that  
21 would offset some of the changes to the CTC, no, I don't  
22 believe it would freeze it out.

23 Q. Just so I understand, with respect to these  
24 groups of customers, you're envisioning PP&L being able to  
25 charge a different CTC than any other competitor; is that

1 right?

2 A. I don't understand your question. I didn't  
3 believe competitors were going to be charging CTCs.

4 Q. Well, the customers are going to receive a CTC  
5 or be paying a CTC for getting energy from a competitor that  
6 is different than they would be if they remained with PP&L;  
7 is that right?

8 A. Only under the interruptible rates that we  
9 discussed with Mr. Kleppinger, in RTD and RTS.

10 Q. Now, you stated that the reason that PP&L  
11 proposed to do this is to comply with the rate caps; is that  
12 right?

13 A. Yes. We did it to comply with the rate caps,  
14 yes, as far as extending these rates.

15 Q. Let me just make sure I understand how this  
16 would work. Let's look first at the economic industrial  
17 development initiative riders. Those are currently  
18 structured to phase out over the next several years; is that  
19 right?

20 A. They were, but we extended them -- are proposing  
21 to the extend them in Supplement 65 through 1998 and then  
22 extend them through 2005 in Tariff 201. That is our  
23 proposal.

24 Q. So that under the current existing tariff, they  
25 would be phased out; is that right?

1 A. Yes.

2 Q. So that if nothing else had changed and those  
3 tariffs were still in effect, those customers' rates would  
4 effectively be increasing during the phase-out; is that  
5 correct?

6 A. That's correct.

7 Q. And the way that PP&L is interpreting the rate  
8 cap is to eliminate that phase-in; is that correct?

9 A. That's correct.

10 Q. Is there anything in the rate cap that would  
11 prohibit extending similar treatment to these customers if  
12 they chose another provider of generation?

13 A. One of the things within the law stated that we  
14 must basically treat new and returning customers of the  
15 utility-of-last-resort the same, and if these customers did  
16 leave to another supplier and came back and we continued  
17 with their EDI credits, as they're stated, that would not be  
18 treating them the same as a new customer. They would be  
19 treated differently as a returning customer.

20 Q. I think I missed something, because I think in  
21 the first part of your answer you said something about  
22 treating new and existing customers.

23 A. No. New and returning customers, customers that  
24 have gone to the marketplace and decided to return to the  
25 utility-of-last-resort.

1 Q. So the way that PP&L interprets that provision  
2 that new customers must be treated the same as returning  
3 customers means that existing customers cannot be treated  
4 the same as customers who are leaving PP&L? Is that the way  
5 that PP&L interprets that?

6 A. Customers that remain with PP&L?

7 Q. Yes.

8 A. Cannot be treated the same as customers that  
9 leave?

10 Q. Correct. Actually, let me rephrase it for you.  
11 The way that you have just described it, PP&L interprets the  
12 provision that new customers must be treated the same as  
13 customers returning to the system in a way that means that  
14 customers who are existing customers of PP&L can obtain  
15 advantages over customers who leave PP&L's service; is that  
16 correct?

17 A. Not entirely. The customers that are on the  
18 provisions after, let's say for EDI, 1/1/98, no new  
19 customers will be coming onto that for EDI/IDI, so customers  
20 that remain with us will get those credits going forward.  
21 Customers that leave will lose those credits under the EDI  
22 provisions. So the decision is, do they stay with PP&L or  
23 do they go to the open marketplace if they have a better  
24 offer.

25 Q. Let me come back to the question I started with

1 when I got off on this tangent. Is there anything in the  
2 rate cap that would prohibit extending similar treatment to  
3 those customers who are leaving if they decide to leave?

4 A. You mean allowing those customers to take those  
5 credits with them into the open market?

6 Q. Right.

7 A. Those credits, again, interruptible, EDI, IDI,  
8 we view as generation-related credits relating back to  
9 PP&L's generation as the supplier. Once a customer leaves  
10 into the open market, they are no longer taking service from  
11 PP&L's generation-of-last-resort; therefore, PP&L is not  
12 getting the benefits from those customers. That was one of  
13 the purposes of the economic development initiatives  
14 originally. So when they leave, I don't believe they should  
15 be taking those credits with them into that open market.

16 Q. I understand why, from a business perspective,  
17 PP&L generation may not want them to take those credits. My  
18 question was: is there anything in the rate cap, as defined  
19 in the Act, that you understand would prohibit them from  
20 taking those credits with them?

21 A. Not that I know of.

22 Q. One of the other matters that you had discussed  
23 earlier and in your direct testimony was the demand-free  
24 days option. Just so I understand, that was scheduled to be  
25 eliminated on January 1, 1998; is that right?

1 A. That's correct.

2 Q. And PP&L now proposes to retain it all the way  
3 through the end of the transition period, 2005; is that  
4 correct?

5 A. That's correct.

6 Q. Once again, PP&L's interpretation of the rate  
7 cap is that it should not be eliminated on January 1, 1998  
8 but should be continued all the way through 2005; is that  
9 correct?

10 A. That's correct.

11 Q. And PP&L would prefer, as a business matter,  
12 that that not be extended to customers who are leaving PP&L  
13 generation service; is that correct?

14 A. That's correct.

15 Q. The competitive rate rider, that's currently  
16 also scheduled to end at the end of this year?

17 A. It was in our current tariff. Our proposal is  
18 to extend that.

19 Q. To the end of the transition period?

20 A. Or even beyond that.

21 Q. At least till the end of 2005?

22 A. Yes.

23 Q. And PP&L interprets that that is required in  
24 order to comply with the rate cap?

25 A. For the customers who are taking service under

1 it presently, yes.

2 Q. And PP&L would prefer as a business matter that  
3 those customers, if they decide to get generation service  
4 from someone else, not be able to take those credits with  
5 them; is that right?

6 A. No. As I discussed with Mr. Kleppinger, we're  
7 changing that CRR to allow us to negotiate delivery charges  
8 and CTC components only under the CRR. The customer would  
9 then be able to take service from any supplier of their  
10 choice.

11 MR. LAVELLE: That's all I have. Thank you.

12 JUDGE KASHI: Thank you very much, Mr. Lavelle.

13 Ms. Moury.

14 MS. MOURY: Thank you, Your Honor.

15 **CROSS-EXAMINATION**

16 BY MS. MOURY:

17 Q. Good afternoon, Mr. Kasper.

18 A. Good afternoon.

19 Q. First, I wanted to clarify your oral rejoinder.  
20 When you indicated that PP&L would accept the proposal of  
21 Mr. Knecht with respect to the GS-1 demand charge and the  
22 way that that was being handled, I wanted to clarify whether  
23 you're accepting that as an alternative if your original  
24 position isn't adopted or if that is now part of your --

25 A. That's going to be the position we take.

1 Q. The only other area I have is about your  
2 response on page 12 of your rebuttal testimony to Mr.  
3 Knecht's proposal for a block rather than flat delivery  
4 charge for GS-1 and GS-3 customers. Now, your existing  
5 tariff contains a declining block structure; right?

6 A. That's correct.

7 Q. And you say that you want to move to a flat  
8 delivery charge because it would be simpler; is that  
9 correct?

10 A. That's correct.

11 Q. Now, do you agree that at least one purpose of  
12 declining block structure is to recover customer costs that  
13 are not collected through customer charge?

14 A. Yes, that's true in our residential rates, but  
15 not necessarily true in our commercial rate structures. Our  
16 commercial rate structures were more a declining block  
17 manner to do some of the same things we talked about in  
18 economic development rates, and that's to encourage  
19 utilization of our installed plant, so it does not  
20 necessarily have a declining block rate structure due to  
21 customer service charges.

22 Q. Are you saying that, especially on the GS-1  
23 rate, that all of the customer costs are collected through  
24 the customer charge?

25 A. No, they are not.

1 Q. So some are collected through the first block of  
2 the energy charge?

3 A. And the second.

4 Q. Would you agree, subject to check, that over  
5 half of the bills in the GS-1 class are for consumption less  
6 than 400 kWh?

7 A. I'd have to check that.

8 Q. Do you have Exhibit OGK-5, the bill frequency  
9 analysis, with you?

10 (Witness perusing documents.)

11 A. Okay.

12 Q. I was looking at the 400 kWh step for GS-1. The  
13 number of bills cumulative was about 751,000, and then for  
14 the whole class was 1,470,000-some?

15 A. That's correct.

16 Q. So recognizing that may not necessarily be  
17 exactly half of the customers, would you agree that the  
18 customers who do represent half of those bills are  
19 attracting an allocation of costs to the GS-1 class as a  
20 whole?

21 A. Could you explain that question?

22 Q. Each customer who represents that quantity of  
23 bills, that 50 percent of the bills in the GS-1 class, every  
24 one of those customers is essentially attracting customer  
25 service charges to the GS-1 class as a whole?

1 A. Yes, and so are all other customers.

2 Q. Right. But would you agree that customers who  
3 are using less than 400 kWh in a month are probably not even  
4 businesses, they're probably things like billboards, et  
5 cetera?

6 A. I don't know. I would have to do an analysis of  
7 the rate class. I have no knowledge of that.

8 Q. Well, would you agree that without the declining  
9 block structure, those very small customers in the GS-1  
10 class would provide less revenue than they are under the  
11 declining block structure?

12 A. Well, the way our rates were designed, the CTC  
13 was a fall-out, so those customers, at least through the  
14 transition period, will be supplying the same revenue that  
15 they do today; they would be no change.

16 Q. So you don't have any concerns about the flat  
17 delivery charge then resulting in any kind of intra-class  
18 shifting?

19 A. No.

20 MS. MOURY: That's all I have, Your Honor.

21 Thank you, Mr. Kasper.

22 JUDGE KASHI: Thank you very much.

23 Redirect?

24 MR. RUSSELL: May I have just a minute, Your Honor?

25 JUDGE KASHI: Sure. Off the record.

1 (Discussion off the record.)

2 JUDGE KASHI: Back on the record.

3 Redirect, Mr. Russell?

4 MR. RUSSELL: Thank you, Your Honor. I have  
5 extraordinarily short redirect.

6 **REDIRECT EXAMINATION**

7 BY MR. RUSSELL:

8 Q. Mr. Kasper, in the design of the rates that are  
9 proposed in this filing, was it the company's intent to keep  
10 customers as last resort customers of PP&L?

11 A. No.

12 MR. RUSSELL: I have nothing else, Your Honor.

13 JUDGE KASHI: Thank you very much, sir.

14 You're excused, Mr. Kasper.

15 (Witness excused.)

16 JUDGE KASHI: That which has been marked and  
17 identified as PP&L Statement No. 11 and 11-R are received  
18 into the evidentiary record, without objection?

19 (No response.)

20 JUDGE KASHI: Without objection.

21 (Whereupon, the documents marked as  
22 PP&L Statements Nos. 11 and 11-R  
23 were received in evidence.)

24 JUDGE KASHI: Mr. Kleha.

25 MR. KLEHA: Good afternoon, Your Honor.

1 JUDGE KASHI: Do you wish to call your next witness?

2 MR. RUSSELL: Thank you, Your Honor. I'd like to  
3 call Joseph M. Kleha as PP&L's next witness.

4 JUDGE KASHI: Would you raise your right hand and be  
5 sworn, sir?

6 Whereupon,

7 JOSEPH M. KLEHA

8 having been duly sworn, testified as follows:

9 JUDGE KASHI: Please be seated.

10 MR. RUSSELL: Your Honor, at this time I'd like to  
11 identify Mr. Kleha's testimony and exhibits. PP&L Statement  
12 No. 3 is the direct testimony of Joseph M. Kleha; it  
13 consists of 19 pages, and accompanying that testimony are  
14 Exhibits JMK-1 through JMK-3. PP&L Statement No. 3-R is the  
15 rebuttal testimony of Joseph M. Kleha; it consists of 41  
16 pages and is accompanied by Exhibits JMK-4 through JMK-7.

17 JUDGE KASHI: So marked for purposes of  
18 identification.

19 (Whereupon, the documents were marked  
20 as PP&L Statements Nos. 3 and 3-R  
21 and PP&L Exhibits Nos. JMK-1 through  
22 JMK-7 for identification.)

23 DIRECT EXAMINATION

24 BY MR. RUSSELL:

25 Q. Mr. Kleha, do you have any corrections to your

FORM 2

1 testimony or exhibits?

2 A. I have no corrections to Statement No. 3. I  
3 have some minor editorials to Statement 3-R.

4 The first editorial is on page 21, line number 9. In  
5 front of the number "6" should be the initials "JMK". On  
6 line number 14, before the word "those" should be inserted  
7 "each of," the words "each of".

8 The next editorial is on page 32, line number 20.  
9 Before the word "incurred" should be inserted the word  
10 "are".

11 On page 33, line 8, the word "cost" should be  
12 pluralized.

13 Those are all the corrections I have.

14 MR. RUSSELL: Your Honor, with the foundation laid by  
15 agreement, PP&L moves into the record Statement No. 3,  
16 Statement No. 3-R, and Exhibits JMK-1 through JMK-7.

17 JUDGE KASHI: Subject to any timely motions and/or  
18 objections made pending cross-examination, that which has  
19 been identified and marked will be received into the  
20 evidentiary record.

21 MR. RUSSELL: Finally, Your Honor, Mr. Kleha has some  
22 short oral rejoinder.

23 JUDGE KASHI: Go ahead.

24

25

1 BY MR. RUSSELL:

2 Q. Mr. Kleha, at pages 18 and 19 of his rebuttal  
3 testimony, Dr. Mayo suggests that PP&L's proposed cost  
4 allocations may have resulted in cost shifting because they  
5 are based on your cost of service study. Is he correct?

6 A. Absolutely not. The cost of service study  
7 submitted in this proceeding, Exhibit JMK-1, uses the same  
8 cost allocation factors as that employed in PP&L's most  
9 recent base rate proceeding at Docket R-00943271. Exhibit  
10 JMK-2 provided in this proceeding unbundles the revenue  
11 requirements associated with JMK-1 into the appropriate  
12 functional categories of generation, transmission and  
13 distribution using the same allocation factors as were  
14 adopted by the Commission in the docket number I just gave.  
15 Therefore, PP&L's proposed cost allocation study in this  
16 proceeding does not involve, does not produce and does not  
17 permit any cost shifting to occur.

18 Q. At pages 17 through 23 of her surrebuttal  
19 testimony, Ms. Brockway proposes to shift from a per  
20 customer allocation to a non-production revenue requirements  
21 allocation for costs of universal service. Could you  
22 comment on that proposal?

23 A. Yes. Ms. Brockway's proposal is inconsistent  
24 with the Act. It results in both intra and inter-class cost  
25 shifting. PP&L's proposal, on the other hand, maintains the

1 cost allocation results from the company's most recent base  
2 rate filing which are the basis for existing retail rates,  
3 and, therefore, employs no cost shifting.

4 Q. Ms. Coles suggests at pages 3 and 4 of her  
5 surrebuttal testimony that PP&L's proposed purchased  
6 generation cost rate fails to address the issues of energy  
7 balancing and load reconciliation for customers of  
8 unaffiliated suppliers with only energy meters. Do you  
9 agree with that conclusion?

10 A. No, I do not. The PGCR which PP&L proposed in  
11 this proceeding is designed for PP&L, the regulated  
12 transmission and distribution utility, to recover only those  
13 costs that it will incur to supply generation supply  
14 services to customers who do not choose an alternative  
15 supplier or who do choose an alternative supplier and that  
16 supplier fails to provide service to that customer. PP&L  
17 would be supplying that service under the conditions as a  
18 last resort provider. In that situation, any costs that  
19 PP&L would incur, or any reimbursement for costs incurred,  
20 PP&L would reflect in the PGCR reconciliation component.

21 Q. At pages 19 through 23 of the surrebuttal  
22 testimony of Mr. Kollen, he criticizes your calculation of  
23 unrecovered energy costs. Do you agree?

24 A. No, I do not. The actual balance of unrecovered  
25 energy costs at December 31, 1996 is \$17.2 million. This

1 figure was unchallenged by any party in direct testimony.  
2 However, in his surrebuttal testimony, Mr. Kollen  
3 inexplicably changes that number to \$16.2 million without  
4 any explanation. He also argues that PP&L's claimed under-  
5 recovery amounts for 1997 and 1998 are unsupported. That  
6 completely ignores the data that was supplied in Exhibit  
7 JMK-5 and 6. That data is comparable to the data which this  
8 company, one, submitted to the Commission with its request  
9 to be able to defer those costs, those under-recovered  
10 costs, and, two, it's comparable to the data which this  
11 company and all other utilities in Pennsylvania submitted on  
12 a regular basis to this Commission to support the filing of  
13 their energy cost rates each March of the years under  
14 traditional regulation.

15 Mr. Kollen also ignores the fact that the under-  
16 recovery of energy costs through July 31, 1997 is already  
17 \$33 million, which is higher than the amount in the first  
18 instance that PP&L claimed, the \$31.5 million. He also  
19 argues that PP&L's calculation -- that the level of revenues  
20 is not reflected in PP&L's calculation. This is wrong. The  
21 calculation that PP&L employed in order to demonstrate the  
22 fact that it would be under-recovered by approximately \$31.5  
23 million a year is similar to the data which this company has  
24 traditionally provided to this Commission to support its  
25 energy cost rate filings.

1 Q. Do these comments also address the concerns of  
2 OCA Witness Catlin at pages 3 to 5 of his surrebuttal  
3 testimony?

4 A. Yes, they do. Mr. Catlin makes similar  
5 commentary about the calculations that PP&L makes and the  
6 support provided, and my comments relate to that also.

7 Q. Finally, Mr. Kleha, at page 10 of Mr. Reising's  
8 surrebuttal testimony he states that uncollectible accounts,  
9 customer information and assistance and sales expenses cross  
10 all functional boundaries, therefore, he would allocate some  
11 of these costs of uncollectible accounts, customer  
12 information and assistance and sales expenses to the  
13 generation function. Do you agree?

14 A. No, I do not. These costs will exist with or  
15 without the generation supply function as an element of  
16 PP&L's corporate entity. Uncollectible accounts expense  
17 relates to revenue recovery, it doesn't relate to a  
18 functional activity of the corporation itself. Customer  
19 information and assistance expenses are costs that relate to  
20 instructing customers about the wise and efficient use of  
21 energy --

22 MR. LONGWELL: Your Honor, I object. That's in  
23 response to Dirmeier, is it not?

24 THE WITNESS: No. It's Reising.

25 JUDGE KASHI: Excuse me?

1 MR. LONGWELL: Page 10?

2 MR. RUSSELL: That's right. That's in response to  
3 Enron. Mr. Reising is the witness for Enron; am I correct?

4 MR. LONGWELL: Okay. Reising is referring to  
5 Dirmeier on that particular page.

6 I withdraw my objection, Your Honor.

7 JUDGE KASHI: All right.

8 MR. RUSSELL: And I think Mr. Kleha has concluded his  
9 answer.

10 THE WITNESS: I didn't conclude it. I'm not sure  
11 where I stopped. Let me finish that part of it.

12 Customer information and assistance expenses are  
13 associated with instructing customers about the wise and  
14 efficient use of energy and protecting their health and  
15 safety when involved with electric facilities. These types  
16 of costs and this type of instruction to customers will not  
17 disappear when the generation function becomes unregulated.

18 MR. RUSSELL: With that, Your Honor, Mr. Kleha is  
19 available for cross-examination.

20 JUDGE KASHI: Thank you very much.

21 Mr. Longwell.

22 MR. LONGWELL: Thank you, Your Honor.

23 **CROSS-EXAMINATION**

24 BY MR. LONGWELL:

25 Q. Mr. Kleha, I have some -- first of all, I'm Bob

1 Longwell and I'm here representing Enron today.

2 A. How are you, Bob?

3 Q. Fine. I have some very basic questions in  
4 regard to unbundling, and then a couple of questions in  
5 regard to Dr. Tierney's referral to you yesterday in terms  
6 of the questions in regard to the statute, 2807(e)(3).

7 A. Okay.

8 Q. First of all, in terms of -- currently PP&L has  
9 a bundled rate when it presents a bill to a residential  
10 customer; is that correct?

11 A. That's correct.

12 Q. If a customer does not pay that bill and/or a  
13 portion of that bill, at some point in time, in terms of  
14 accounting, does that not end up in an uncollectible  
15 account?

16 A. There is a provision for uncollectible accounts  
17 as part of the O&M expenses of each utility, and that  
18 provision for uncollectible accounts relates to the fact  
19 that some customers over time will not pay their bills, and,  
20 therefore, the utility would be entitled to recover some  
21 level of cost it incurs for writing off those revenues as  
22 part of its cost of doing business, and, therefore, from all  
23 of the customers.

24 Q. As part of that cost, in terms of what gets  
25 written into the uncollectible account, since we're dealing

1 with a bundled rate, does any of that include generation  
2 costs?

3 A. It could. I mean it all depends on what portion  
4 of the bill -- there's no identification as to what portion  
5 of the bill a customer pays. If he pays zero on a hundred  
6 dollar bill, then obviously it covers both the generation,  
7 transmission and distribution charges, all costs that make  
8 up the rate for that particular customer in whatever rate  
9 schedule he's served under. If he pays 90 percent of his  
10 bill, there's no allocation of that 90 percent -- if he pays  
11 \$90.00 -- there's no allocation of 90 percent of it to all  
12 functional costs of the utility, it's simply that the  
13 utility happened to receive 90 cents on a dollar.

14 Q. In terms of the proposal that is on the board  
15 now in terms of alternate suppliers -- and I'm making a  
16 little jump here; I'll come back, but since we got to this  
17 point -- the proposal in terms of this kind of partial  
18 payment, right now PP&L's proposal is that if there's a  
19 proportion of it paid, then it would first go towards  
20 generation charges, generation, transmission, then supply;  
21 is that correct?

22 A. I don't believe that's PP&L's proposal. I think  
23 PP&L's proposal in this case is that we would expect all  
24 customers to pay their bills in the first instance, and if  
25 customers pay their bill, then they will pay each component

1 of the bill. The only difference is where a customer  
2 chooses to shop or seek energy from an alternative supplier.  
3 In that case I think we fall back to the Act, and the Act  
4 basically says if a customer pays only a partial amount of  
5 its bill, then that partial payment first reverts to pay for  
6 the T&D function, and then pays for whatever remains.

7 Q. So you're saying that the statute says that,  
8 it's not your proposal?

9 A. Right. I mean I haven't made that proposal, no.

10 Q. Back to my -- in terms of the uncollectible  
11 account. Do you recall in your I guess it would be JMK-2, I  
12 think, cost allocation study for the unbundling of costs,  
13 when you looked at that uncollectible account, do you recall  
14 what percentage of that uncollectible account you allocated  
15 to the distribution function?

16 A. I think all of the uncollectible accounts  
17 expense falls in the broad area of distribution or  
18 distribution-related costs. It's not a production-related  
19 function, so you won't find it allocated on a production  
20 allocator.

21 Q. You told me earlier that some of it could be  
22 related to generation.

23 A. It's only related to generation in terms of the  
24 fact that all the costs that the company incurs to provide  
25 service to a customer rolls up into a charge per kilowatt-

1 hour, per kW of demand, and that charge turns into revenue,  
2 and a customer either pays the revenue, partially pays it,  
3 or doesn't pay it. The dollar coming into the company does  
4 not get segregated back to a functional component.

5 Q. In regard to Dr. Tierney's testimony yesterday  
6 in regard to 2807(e)(3) -- I'll just go ahead and read the  
7 section that we were dealing with. "Basically, the electric  
8 distribution company or Commission-approved alternative  
9 supplier shall acquire electric energy at prevailing market  
10 prices to serve that customer and shall recover fully all  
11 reasonable costs." Yesterday there seemed to be, I wouldn't  
12 say a number of answers but there were a number of questions  
13 in regard to the "recover fully all reasonable costs," and I  
14 believe that at some point there was an indication that you  
15 might be able to break out what these reasonable costs are.

16 A. Well, I'll certainly do my best. My  
17 interpretation of this -- can I start with that?

18 Q. Sure.

19 A. My interpretation of what's being stated here  
20 and then what's being proposed in PP&L's PGCR, the Act is  
21 suggesting here that, whether it's PP&L or any other  
22 electric utility, or an alternative supplier who is named as  
23 the supplier-of-last-resort, will go to the open marketplace  
24 and will procure generation supply to meet the needs of  
25 customers who either failed to choose an alternative

1 supplier or whose alternative supplier fails to meet that  
2 customer need. So the T&D company -- we'll use that as the  
3 example. The T&D company will go to the open marketplace  
4 and will procure generation supply at whatever the  
5 prevailing market price is, just like PP&L goes today, in  
6 times of high demand on its system, when it doesn't have  
7 enough available from its own generating facilities, it goes  
8 to the open marketplace and procures energy at prevailing  
9 market prices at that point in time. I think this portion  
10 of the statute is carrying forth with that idea. The T&D  
11 company as provider-of-last-resort will go to the open  
12 marketplace, will procure the generation supply, will  
13 probably incur some costs in order to make that procurement,  
14 and the summation of the generation supply itself, what it  
15 pays in the open marketplace, plus any additional costs that  
16 it would incur to obtain that generation supply for  
17 customers who need it, would then be charged to customers  
18 through its purchased generation cost rate.

19 Those costs, the summation of whatever it pays for  
20 the generation supply, plus whatever costs it would incur  
21 attendant to the procurement of that generation supply, will  
22 be the costs that it will be entitled to recover from  
23 customers. Remember, it's the T&D supplying company who is  
24 going to the generation marketplace to procure this. It is  
25 a regulated entity, and, therefore, as a regulated entity,

1 it can only pass on to customers the costs that it incurs to  
2 provide a certain service to those customers.

3 Q. My question was: do you know what those costs  
4 are right now?

5 A. Well, certainly those costs will be whatever the  
6 T&D company would incur to get the generation supply. For  
7 argument's sake, if PP&L, the T&D company, has to go to the  
8 open marketplace and procure generation supplies, and the  
9 only available generation supply is Allegheny Power System,  
10 then it would purchase from Allegheny Power System if they  
11 had the available capacity and energy at whatever price they  
12 were charging.

13 Now, it's conceivable that if it purchases from  
14 Allegheny or someone else who is in that part of the state  
15 or that area, that ECAR region, it may incur some  
16 transmission fees. They are additional costs that would be  
17 included as part of the procurement of the generation supply  
18 at that point in time. There probably will be some  
19 attendant costs that PP&L itself will incur just to have  
20 people on staff who will seek out generation supply needs at  
21 the time that they're necessary. Those will be additional  
22 costs. I think it was -- I can't remember the individual's  
23 name here -- Ms. Coles was talking about energy imbalance  
24 and load, costs associated with load activities; I can't  
25 remember exactly what it was. If those are costs that are

1 also incurred, they would be part of the costs that would be  
2 passed on to customers as part of that generation supply  
3 requirement.

4 Q. And at this point you would sit down and  
5 develop --

6 A. I don't have a laundry list. What we're talking  
7 about here is a conceptual product that was put forth in the  
8 exhibit here, a conceptual product of the makeup of the  
9 mechanism itself that would be used by the provider, the T&D  
10 company, provider-of-last-resort, to procure generation  
11 supply services for the customer who was in need of those.  
12 It's not a situation where we have a broad laundry list of  
13 things or cost elements that would be included in there, but  
14 rather a conceptual product that would be further developed  
15 as we all come to understand what costs would be incurred in  
16 the procurement of generation supply needs as a provider-of-  
17 last-resort.

18 Q. Also of Dr. Tierney yesterday there were  
19 questions in terms of the carrier-of-last-resort in regard  
20 to the rate cap being exceeded and that if the rate cap was  
21 exceeded, that there would be a refund credited. My  
22 question is: would this be a credit to the CTC, to the  
23 generation rate, or how would the credit --

24 A. I don't think we've fully developed how the  
25 credit would show up on the customer's bill, whether it

1 would simply be a line item or not. I think that's still  
2 open for some study at this point in time. The point was,  
3 again, conceptually, we are, under the Act, required to  
4 adhere to the rate caps established, and PP&L's view is that  
5 if, as provider-of-last-resort, we are required to procure  
6 generation supply requirements for customers, and a  
7 summation of the charges that are already being levied  
8 against those customers plus the cost of that generation  
9 supply need -- if the summation of all of that was in excess  
10 of the cap during the transition period, that PP&L would  
11 apply a credit to the customer's bill so that the customer's  
12 total bill would be no greater than it would be under the  
13 existing rate cap; and that credit would disappear after the  
14 transition period is complete.

15 Q. Let me refer you to your surrebuttal testimony  
16 at page 40.

17 A. I'm sorry, Bob, what page?

18 Q. Page 40 of your surrebuttal.

19 A. Yes.

20 Q. Here I believe you're looking at the PGCR, and  
21 on lines 4 and 6 you indicate that it would be established  
22 on an annual basis on March 1 of each year for the  
23 application beginning April 1 of that year. Are you  
24 following Chapter 13's tariff guidelines in terms of that  
25 recommendation or is that --

1           A. Well, certainly the recommendation here is  
2 consistent with Section 1307, which is applied to automatic  
3 recovery mechanisms in this Commonwealth and is the portion  
4 of the statute that relates to or did relate to the ECR as  
5 it existed prior to the roll-in on 1/1/97.

6           Q. So in that regard, other parties would have had  
7 the opportunity to have an input or to test that finding?

8           A. Absolutely. And, as indicated in the PGCR  
9 itself, there is a reconciliation mechanism, reconciliation  
10 component, and, therefore, as there is today under Section  
11 1307, there is an opportunity for a proceeding on any  
12 over/under-collections that would occur with regard to that  
13 PGCR.

14           MR. LONGWELL: Thank you, Mr. Kleha.

15           I think that's all I have, Your Honor.

16           JUDGE KASHI: Thank you, Mr. Longwell.

17           Mr. Stewart.

18           MR. STEWART: Thank you, Your Honor.

19                           **CROSS-EXAMINATION**

20           BY MR. STEWART:

21           Q. Mr. Kleha, my name is Todd Stewart and I  
22 represent the Mid-Atlantic Power Supply Association. Just a  
23 couple questions.

24                   It's my understanding that your calculation of the  
25 CTC involves a forecast of what the market price of power is

1 going to be in the competitive market; is that generally  
2 correct?

3 A. I don't make the calculation of the CTC, but  
4 PP&L's calculation as performed by Mr. Schadt involves  
5 calculation of the component elements of PP&L's generation-  
6 related assets and costs, and that, compared to the current  
7 market price, the differential becomes stranded costs on a  
8 net present value basis; yes.

9 Q. Tell me if this question should be addressed to  
10 someone else as well. Is it your understanding that the  
11 statute prohibits modification of the CTC once it's set in  
12 this proceeding?

13 MR. RUSSELL: Your Honor, it seems to me that very  
14 clearly requires a legal conclusion. I would object.

15 JUDGE KASHI: Sustained.

16 BY MR. STEWART:

17 Q. I just want to follow up with a question that  
18 you addressed that Mr. Longwell posed to you. Yesterday, in  
19 the response to a question that I posed to Dr. Tierney, she  
20 said that the allocation of how you're going to apply this  
21 credit in the supplier-of-last-resort function, that I  
22 should ask you on how that's going to be applied to the  
23 bill, and I think Mr. Longwell asked the question. My  
24 question is: when do you think you're going to know the  
25 answer to that question? Would you agree that it's

1 important that we know that?

2 A. I think it's important that the customer's bill  
3 during a transition period not exceed the rate cap. Whether  
4 the credit which helps maintain the bill at the rate cap is  
5 applied as a separate line item, is applied as a direct  
6 deduction to the generation supply charge on that bill, I  
7 think is irrelevant. I think the overriding concern is that  
8 the customer's bill should not be greater than what it is  
9 required to be under the rate cap, and how that credit is  
10 applied ultimately to the customer's bill I think at this  
11 point is somewhat irrelevant.

12 But I agree with you, it would be nice to know  
13 exactly how it will be applied, and if I had my choice at  
14 this point in time, I would assume that it's going to be a  
15 separate line item on the bill.

16 Q. So your guess is that it's probably just going  
17 to be a line item that says credit of some sort, and that's  
18 going to be it?

19 A. Yes. And it's conceivable it may be applied to  
20 the CTC as a separate line item, say credit, CTC credit.  
21 I'm not sure what the correct wording would be, or the  
22 applicable wording, at this point in time.

23 MR. STEWART: I have nothing further, Your Honor.

24 JUDGE KASHI: Thank you.

25 Mr. Lavelle.

1 MR. LAVELLE: Thank you, Your Honor.

2 CROSS-EXAMINATION

3 BY MR. LAVELLE:

4 Q. Mr. Kleha, my name is John Lavelle. I represent  
5 New Energy Ventures. I have a couple of general questions  
6 for you that I think were raised by your commentary on Mr.  
7 Boonin's proposal.

8 Would you agree, Mr. Kleha, that there is a  
9 relationship between the prevailing market price for  
10 generation and stranded costs?

11 A. There is, and I think we will establish what  
12 that is in this proceeding.

13 Q. Wouldn't you agree that, all other things being  
14 equal, that as the market price for generation increases,  
15 stranded costs decrease?

16 A. No.

17 Q. You wouldn't agree with that?

18 A. No.

19 Q. Can you explain why?

20 A. As I just indicated in my answer, we will decide  
21 what the relationship is in this proceeding. We will  
22 establish it one time. We won't seek to relitigate it and  
23 reestablish it every year thereafter.

24 Q. I understand that what you're saying is the CTC  
25 is going to be set in this proceeding. I think I'm asking a

1 different question. The question that I'm asking is: if  
2 everything else is equal, as the market price of generation  
3 increases, wouldn't that mean that stranded costs decrease?

4 A. If we were making an individual calculation each  
5 year --

6 Q. Yes.

7 A. -- yes, that would occur. That's not what we  
8 propose to do, it's not what the statute calls for.

9 Q. Let's talk about that. You stated just now, and  
10 you also stated in your rebuttal testimony I think on page  
11 24 or 25, that you think the statute does not call for  
12 calculating the CTC reconciliation the way Mr. Boonin has  
13 proposed.

14 A. That's correct.

15 Q. Does the Act prohibit the kind of calculation  
16 that Mr. Boonin has proposed?

17 A. I don't believe that it specifically prohibits  
18 that kind of activity; however, given the comprehensive  
19 nature of the statute itself, if the statute itself had  
20 contemplated that that was an alternative calculation, I  
21 believe it would have been stated in there.

22 Q. So you're arguing that that should not be read  
23 in, but you would concede that the statute is silent on that  
24 issue?

25 A. The statute is silent on the prohibition. I

1 think the statute is pretty clear as to what it is  
2 suggesting that we do, and that is to establish the CTC in  
3 this proceeding.

4 Q. Are you aware of any -- let me take a step back.  
5 Looking at your rebuttal testimony starting on page 24, line  
6 19, you're describing the approach that PP&L has advocated  
7 here. I'll wait till you get to that.

8 A. What line was that now?

9 Q. Page 24 of your rebuttal testimony, starting at  
10 line 19. You state, "This approach" -- and I believe you're  
11 referring to the PP&L advocated approach -- "which is  
12 relatively simple to implement, will not require  
13 relitigation of the other complex restructuring issues that  
14 will be decided by the PUC in this proceeding." Do you see  
15 that?

16 A. That's correct.

17 Q. Are you suggesting that Mr. Boonin's proposal  
18 would require relitigation of those issues?

19 A. The way I read Mr. Boonin's proposal, and in my  
20 opinion, yes. We would have relitigation because we would  
21 be arguing over market prices consistently.

22 Q. Can you explain to me what specific issues it is  
23 that you think you would be relitigating?

24 A. I think we would be relitigating the issue of  
25 market price. I think we would be relitigating the issue of

1 what is the appropriate level of stranded costs to include  
2 as the comparison portion. I think once you go beyond what  
3 the statute requires and establish more proceedings, the  
4 general tendency is that they are not limited to a small and  
5 single item, they usually evolve into much greater  
6 litigation and, therefore, more issues are subjected to  
7 review than would be the case otherwise.

8 Q. So I understand, you envision a yearly  
9 calculation, which you refer to as a true-up?

10 A. That's correct.

11 Q. And you don't envision that a cause for  
12 litigation?

13 A. I think it will not subject itself to litigation  
14 because the procedures will be established, it will be more  
15 of a perfunctory nature, it will be subject to audit and  
16 review by this Commission, obviously, but that audit and  
17 review is a function that this Commission carries on on a  
18 daily basis, and, therefore, is well-equipped to do. I  
19 think from that standpoint, the 1307(e) type proceedings  
20 that will accompany that will be somewhat mundane.

21

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25

1 Q. Is it your contention this Commission is not  
2 capable of determining what the market price for generation  
3 would be?

4 A. I didn't suggest that.

5 Q. Is there any other issue that you think is one  
6 of these complex issues that you believe --

7 A. I think the ones that I named are significant  
8 enough.

9 Q. Are you aware of any reason that those  
10 calculations couldn't be done? Is it possible to do?

11 A. Certainly it is.

12 Q. Would you agree that the CTC adjustment to  
13 reflect market generation rates Mr. Boonin has proposed  
14 would produce consistent, more consistent rates for  
15 customers?

16 A. I have not made a calculation of that. I can't  
17 express an opinion as to whether or not his approach would  
18 be more consistent or less consistent.

19 Q. Do you have an opinion as to whether calculating  
20 the CTC in the manner Mr. Boonin has propose would be a more  
21 accurate way of calculating it?

22 A. It depends on one's view of accuracy. The  
23 elusive exactitude sometimes comes to mind. I don't know  
24 what things would produce his calculation.

25 Q. So I understand, you believe it would be

1 possibly equally accurate to make a forecast now through the  
2 year 2005 as it would be to go back year by year and make a  
3 comparison based upon the rates?

4 A. It depends on who the forecaster is, yes.

5 MR. LAVELLE: That's all I have. Thank you.

6 JUDGE KASHI: Thank you very much, sir.

7 Ms. Swanstrom?

8 MS. SWANSTROM: Thank you, Your Honor.

9 CROSS-EXAMINATION

10 BY MS. SWANSTROM:

11 Q. I'm Debbie Swanstrom. I represent Allegheny  
12 Power. Is it fair to say that it is PP&L's goal in this  
13 proceeding to have the Judge and ultimately the Commission  
14 approve PP&L's restructuring proposal?

15 A. Absolutely.

16 Q. Is it also fair to say that it is not PP&L's  
17 intent or purpose in this proceeding to preclude West Penn  
18 Power Company from having its own restructuring proposal  
19 approved in its own proceeding?

20 A. No. Each utility is individual and unique, and  
21 I think the circumstances that relate to each utility ought  
22 to be determined on their own merits.

23 Q. In your opinion, is it a better regulatory  
24 policy for the Commission to approve an excessive rate that  
25 remains stable and in place for a period of seven years or

1 to approve a rate that accurately reflects a utility's costs  
2 but may fluctuate on a yearly basis?

3 A. My preference would not be to have a fluctuating  
4 rate because I don't believe that that's appropriate.  
5 However, your question is premised on an excessive rate.

6 Q. That's correct.

7 A. And given that choice and that choice only, I  
8 would prefer the annual review.

9 MS. SWANSTROM: Thank you. That's all the questions  
10 I have.

11 JUDGE KASHI: Mr. Kleppinger?

12 MR. KLEPPINGER: Thank you, Your Honor.

13 CROSS-EXAMINATION

14 BY MR. KLEPPINGER:

15 Q. Good afternoon, Mr. Kleha.

16 A. Good afternoon.

17 Q. I don't know if you're going to make 5:00.

18 A. Well, we'll try.

19 Q. In your rejoinder testimony, you have made  
20 reference to your rebuttal exhibits JMK-5 and 6 as support  
21 for the inclusion of a forecasted fuel cost undercollection  
22 for the period 1997 to 1998 in your CTC; is that correct?

23 A. That's correct.

24 Q. And you noted Mr. Kollen's disagreement with  
25 that as the witness for PPLICA. I'd just like to verify

1 whether or not some of the criticisms he had included in his  
2 prior testimony are still factually correct in terms of the  
3 attachments to your testimony today.

4 And one of his criticisms was that when we rolled in  
5 the 1996 undercollection of \$17 million or thereabouts, we  
6 used 1996 actual sales data, did we not?

7 A. No. When we rolled in the information effective  
8 1/1/97, we rolled in an overall level of energy costs in  
9 terms of dollars.

10 We didn't roll in a mills per kilowatt-hour. We  
11 didn't roll in a sales level. We rolled in what was the  
12 level of --

13 Q. I misstated the question. The \$17 million  
14 undercollection was a calendar year undercollection for  
15 1996?

16 A. That's correct.

17 Q. And that undercollection was generated partially  
18 because of the amount of sales that occurred in 1996 in  
19 comparison to what was originally forecast for 1996?

20 A. That's correct, because during 1996, the energy  
21 cost rate did apply.

22 Q. That's right.

23 A. And therefore the energy cost rate itself had  
24 the reconciliation provision that required annual true-ups  
25 as we were discussing a few moments ago under 1307.

1           And this utility as well as other utilities, upon the  
2 passage of the Act, knowing that rates would be capped as of  
3 1/1/97, filed with this Commission a request to have their  
4 underrecovered balances as of 12/31/96 calculated under the  
5 same conditions as the ECR reconciliation provision had  
6 always calculated them, to have those declared as regulatory  
7 assets for recovery in the restructuring proceeding.

8           Q.    And you will agree with me that as PP&L's sales  
9 vary from year to year, the incurrence of fuel costs will  
10 vary or energy costs will vary from year to year?

11           A.    Certainly.

12           Q.    Now, in your forecast for 1997, am I correct  
13 that if we compare Exhibit JMK-5, page 6 to JMK-6, page 2,  
14 that you are forecasting a decline in actual sales from  
15 33.6 million megawatt-hours to 32.9 million megawatt-hours?

16           A.    Yes.

17           Q.    And then moving into 1998, the forecast is then  
18 on page 15 of Exhibit JMK-6 that sales will increase back to  
19 34 million megawatt-hours?

20           A.    That's correct.

21           Q.    Do you agree with at least -- it's something you  
22 didn't address in your rebuttal, so I'm just trying to probe  
23 whether you disagree with Mr. Kollen's comment -- that  
24 1998's purchased power cost assumption that's included in  
25 Exhibit JMK-6, that the purchased power costs PP&L plans to

1 make in 1998 are about 20 percent higher than what the  
2 purchased power costs were in 1996?

3 A. If I might just caution you and point you to  
4 page 15 of JMK-6, just so we don't get on the wrong track  
5 here, as you can see, there is a footnote and it indicates  
6 that at least with regard to purchases and sales from PJM or  
7 PJM interchange type transactions, the sales and purchases  
8 are combined on this page because we did not have enough  
9 detail to break them out separately. So I don't think we  
10 can make the specific comparison that you're asking for.

11 Q. Okay. And in the prior filing --

12 A. In prior filings of the ECR as well as in the  
13 data that was provided as support for the company's request  
14 to the Commission, they were separated.

15 Q. They were always separated out?

16 A. Yes.

17 Q. Now, in terms of off-system sales volumes, on  
18 JMK-6, page 15, there you have broken out off-systems sales  
19 volume, although the PJM component of that would be a net  
20 number; is that correct?

21 A. That's correct.

22 Q. So we can't tell from this whether your  
23 off-system sales are actually lower than the off-system  
24 sales that appear for the actual year ended 1996?

25 A. That's correct. That's the 1998 data because

1 that's preliminary budget type information. But if you go  
2 back to JMK-5 and look at the five years that are included  
3 in JMK-5 and look at the off-system sales figure, you will  
4 see a continual decline with regard to a major portion,  
5 which is the PJM component.

6 And that's due in fact to, one, the tightening of  
7 sales on the interconnection because of increased  
8 availability of generating units, and two, the shrinking of  
9 the split savings margin and eventually the disappearance of  
10 the split savings margin that previously existed in the PJM  
11 pricing.

12 Q. Now at least with respect to 1996, the PJM  
13 interchange purchases and the PJM interchange sales that are  
14 separately designated are not significantly different? They  
15 are close to a wash; would you agree with that?

16 A. Yes.

17 Q. And in 1997 as forecasted where they are again  
18 broken out on JMK-6, page 2, PJM purchases and PJM sales are  
19 relatively close? They're not going to sway the total  
20 purchases and sales one way or the other. Would you agree  
21 with that?

22 A. Yes.

23 Q. If that relationship were to continue into 1998,  
24 the net number that then appears on Exhibit JMK-6, page 15  
25 would not be significant enough to prevent us from reaching

1 the conclusion that PP&L is in fact forecasting a decrease  
2 in off-system sales; is that correct?

3 A. I think that's correct.

4 Q. And while we can't precisely quantify what that  
5 is, the totals that existed in 1996 of almost, well, let's  
6 call it 12.9 million megawatt-hours for 1998 would go down  
7 to 7.5 million megawatt-hours?

8 A. Yes.

9 Q. And as far as off-system sales relate to PP&L's  
10 fuel costs, the lower those sales, the lower of an offset to  
11 PP&L's fuel costs?

12 A. That's correct, and therefore the increasing  
13 nature of PP&L's total energy cost.

14 Q. And likewise, if those off-system sales do not  
15 decline that much, PP&L's fuel costs will not be as high as  
16 forecast?

17 A. That's correct.

18 Q. Turning to nuclear decommissioning, on page 29,  
19 I believe with this clarification, the apparent disagreement  
20 between PPLICA and PP&L may be eliminated.

21 Currently in your stranded costs estimate, PP&L has  
22 included its nuclear decommissioning costs for presentation  
23 purposes, correct?

24 A. That's correct.

25 Q. And yet, PP&L is proposing that at the end of

1 the case, its nuclear decommissioning be broken out and  
2 collected through distribution charges for the life of the  
3 nuclear unit?

4 A. That's correct.

5 Q. That will require an adjustment then to the  
6 total stranded cost claim?

7 A. It would, yes.

8 Q. So now we're back to the \$4.6 billion number,  
9 and is it fair to say that the Commission will need to be  
10 cognizant of this breaking out of the nuclear  
11 decommissioning when it decides what total stranded costs  
12 PP&L is going to get --

13 A. That's correct.

14 Q. -- in order to avoid the double-collection  
15 potential that at least was alleged in PPLICA's testimony?

16 A. That's correct.

17 Q. And we will all be vigilant to make sure the  
18 Commission is aware of that, right, Mr. Kleha?

19 A. We all will be.

20 Q. Finally, just in an attempt to maybe short  
21 circuit a data request and maybe not, I believe Mr. Caplan  
22 had asked Mr. Kasper for a data request on CTC calculations.

23 Is that in your bailiwick to end up doing that?

24 A. No, it is not.

25 Q. So you have not done a CTC comparison

1 calculation on RTS versus RS and the difference?

2 A. No, I have not.

3 Q. That's not yours, okay. Then we'll wait for  
4 Mr. Kasper's response.

5 MR. KLEPPINGER: Thank you, Mr. Kleha. That's all I  
6 have.

7 JUDGE KASHI: Thank you very much.

8 Mr. Caplan?

9 MR. CAPLAN: Thank you, Your Honor.

10 CROSS-EXAMINATION

11 BY MR. CAPLAN:

12 Q. Mr. Kleha, my name is Richard Caplan and I  
13 represent a group of independent power producers and  
14 potential competitors in PP&L's service territory. I have a  
15 number of questions for you, and I'm going to try to focus  
16 on the forest in lieu of the trees.

17 Would you admit, sir, that the new Act, in requiring  
18 the unbundling of PP&L's current bundled rates, recognizes  
19 that to be a substantially important step in facilitating  
20 competition in the supply of electric energy?

21 A. I think that is the contemplation of the Act  
22 itself, yes.

23 Q. And therefore, the accuracy of that unbundling  
24 effort would be of some concern to the Commission; would you  
25 agree with that?

1 A. I would hope so.

2 Q. Now, it's interesting to note that at the  
3 present time, the Act requires the unbundling of generation,  
4 transmission and distribution components of the bundled  
5 rates. Do you recognize that to be true?

6 A. Absolutely.

7 Q. That's set forth in Section 2804(3) of the  
8 statute. That section also includes the statement that the  
9 Commission may require the unbundling of other services.  
10 You are familiar with that, right?

11 A. Yes, I am.

12 Q. Now, would you admit that that discretion would  
13 presumably be exercised if the Commission believed that such  
14 an unbundling would facilitate a robust competitive electric  
15 energy market?

16 A. I don't presume to think for the Commission, but  
17 my presumption would be that if the Commission really  
18 believed that that was important, it would have instructed  
19 the utilities in their restructuring filing to follow that  
20 type of activity, and that is to unbundle beyond the  
21 generation and transmission and distribution component. It  
22 did not do that.

23 Q. Now, those components, generation, transmission  
24 and distribution, are indicating of the division of activity  
25 within a regulated utility traditionally; would you agree

1 with that?

2 A. Yes.

3 Q. Now, would you say that that was the same for a  
4 company that was going to be supplying power as an  
5 alternative supplier and own no generation at all, in other  
6 words was going to acquire generation and provide it to  
7 customers? Would you consider that those three divisions  
8 would apply with equal import to the operations of that  
9 business?

10 A. No.

11 Q. All right. Since you don't agree that that  
12 would be the case, how did PP&L undertake to divide or to  
13 partition its costs in these rates to try to emulate what  
14 the independent producer might do if it was required to do  
15 the same thing?

16 In other words, you understand what I'm driving at?  
17 I'm saying --

18 A. I understand your question.

19 Q. Fine. What effort if any did PP&L apply to try  
20 to divide its costs within its rates in the same way that an  
21 independent producer might?

22 A. It did not, and it should not. It could not.

23 Q. All right. Now, if it could not -- let me start  
24 asking you some hypothetical questions.

25 I assume that for PP&L, in its own service territory,

1 it incurs expenses when it acquires a customer, regardless  
2 of the fact that customers are all captive for the time  
3 being.

4 In other words, if I move into the service territory  
5 and I pick up the telephone and I call PP&L's local office  
6 and I say I want service, that begins the process of finding  
7 out what kind of service I qualify for or I want, telling me  
8 what the options are, perhaps coming out and looking to see  
9 if I have a hook-up and if not hooking me up properly and  
10 installing a transformer if I don't have one, and running  
11 lines if I don't have them, and going through a whole  
12 process before in fact the first kilowatt-hour is delivered;  
13 isn't that true?

14 A. Most of that is physical facilities, yes.

15 Q. Well, but there are interactions with people on  
16 the telephone.

17 A. But they are not incremental costs.

18 Q. Well, I didn't ask you about that.

19 A. Well, I mean, you're asking are we going to  
20 incur costs. My answer is no. We already have those costs  
21 incurred. We're not going to incur additional costs.

22 Q. I didn't mean additional. I'm just talking in  
23 the absolute sense of a cost that has to be put in one of  
24 three boxes right now, one box that's called transmission,  
25 one box that's called generation and so on. I mean, in

1 other words, you have a multiplicity of --

2 A. Okay. I understand where you're going now. All  
3 right.

4 Q. You would incur costs, correct, to acquire the  
5 customer?

6 A. My costs associated with any distribution  
7 function would be in the distribution function box.

8 Q. So would it be fair to say that the equivalent  
9 of the independent producers' marketing costs are in your  
10 distribution box right now?

11 A. Would it be fair to say that the --

12 Q. That the equivalent of the costs that an Enron  
13 or Schuylkill Energy or XYZ Supplier would incur, that the  
14 costs -- if you will, we call them cost of sales -- they're  
15 included in your distribution allocation; is that true?

16 A. I don't think you can equate our costs with the  
17 costs of an independent supplier. As I indicated to you, we  
18 have functional areas within a regulated utility:  
19 generation, transmission, distribution.

20 Those costs are apportioned to the various activities  
21 that occur within those functions. If you're asking me,  
22 does Enron, does Mr. Longwell as Enron, if he were out  
23 securing a customer, does he have a functional area called  
24 distribution, my answer is no, he doesn't.

25 He doesn't have to follow the Uniform System of

1 Accounts. He is an independent entity. He is not a  
2 regulated entity. He doesn't follow the Uniform System of  
3 Accounts. Therefore, he doesn't have a bucket called  
4 "distribution."

5 Q. But he has a bucket called marketing and  
6 customer service, does he not? I mean, he has to interact  
7 with the customer just like PP&L does.

8 A. I don't know where he puts his costs.

9 Q. What I am asking you to do is to tell me --  
10 well, let me try to ask you some specifics.

11 JUDGE KASHI: Mr. Caplan, just for the sake of  
12 helping me here, you're losing me. The first answer that  
13 Mr. Kleha gave you when you started this question of cost  
14 was that he did not, could not and should not have  
15 considered those costs. Where are we going?

16 MR. CAPLAN: Let me see if I can get us back on track  
17 then, Your Honor. I'll try to clarify where I'm going.

18 BY MR. CAPLAN:

19 Q. It is in PP&L's long-term economic interest, is  
20 it not, for the bulk of its cost of service to be in those  
21 portions which are transmission and distribution, isn't it  
22 so, in a competitive environment?

23 A. It's going to be a long answer, Your Honor.

24 PP&L today is a regulated entity. It must follow,  
25 under the Federal Energy Regulatory Commission and under

1 this Commission, it must follow the Uniform System of  
2 Accounts.

3 Therefore, it must record its costs in specific  
4 functional areas. When the electric industry in  
5 Pennsylvania is restructured and the generation supply  
6 function moves to an unregulated environment, then the costs  
7 associated with that function will move with it.

8 The costs that are associated with transmission and  
9 distribution related activities will remain in the regulated  
10 entity and will still be subject to the Uniform System of  
11 Accounts.

12 Q. What are the costs that will move with it?

13 A. What are the costs that will move with it?

14 Q. That's what I want to know.

15 A. Let's see if I can try to tick them off off the  
16 top of my head. You will have all facilities related to the  
17 generation, direct facilities associated with the generation  
18 component.

19 You will have those overheads that are incurred that  
20 pass with the personnel and operating costs associated with  
21 the production function, that is if there are fixed  
22 facilities that are used to house in terms of offices, fixed  
23 facilities in terms of storage facilities for fuel stocks  
24 and things of that nature or power plant equipment, all of  
25 that would move over to the generation supply function.

1 Q. What about advertising? Does PP&L do any  
2 advertising?

3 A. Sure it does.

4 Q. And would advertising move over with the  
5 unregulated division?

6 A. To the extent that it is production related  
7 advertising, then it should move with the production  
8 function.

9 Q. I don't understand. What is production related  
10 advertising?

11 A. I haven't seen any, so I don't know what it is.

12 Q. My question is, if PP&L puts in bill inserts at  
13 the present time which champion some kind of new, improved  
14 service rate, let's say -- in other words, you get the  
15 approval of some kind of experimental rate or some kind of  
16 program, and you want to promote that within the service  
17 territory and get ratepayers to avail themselves of this  
18 service, I assume you do something that's the equivalent of  
19 an unregulated entity's advertising, maybe do it through  
20 bill inserts, maybe do it through some other program.

21 A. If we have a new rate, if we get a new rate  
22 approved by this Commission, we don't have a choice. The  
23 regulations of this Commission dictate that we must put a  
24 bill insert in there and advise customers as to what that  
25 rate is.

1           It is the customer him- or herself who then, if they  
2 wish to avail themselves of that, will contact PP&L directly  
3 and make inquiries. That's not advertising.

4           Q.    That's not advertising?

5           A.    That's certainly not advertising.

6           Q.    What is that, then?

7           A.    It's a requirement of regulation.

8           Q.    But if regulation were gone, what would that be?

9           A.    It wouldn't exist if the regulation were gone.

10          Q.    In other words, PP&L, if it were completely  
11 unregulated right now, today, would not tell its potential  
12 customers or existing customers about products and services  
13 that it had for sale?

14          A.    I didn't say that. You're asking me about  
15 rates. If I have a new rate, I am required by this  
16 Commission to put a bill insert out to my customers.

17          Q.    I want you to stop thinking about yourself as a  
18 utility for the time being and think about PP&L as a private  
19 entity, unregulated.

20          JUDGE KASHI: That's going to be hard for Mr. Kleha.

21          (Laughter.)

22          MR. CAPLAN: Your Honor, I'm finding that out.

23          BY MR. CAPLAN:

24          Q.    I want you for the purpose of this question to  
25 think of PP&L as totally unregulated, assuming that the

1 statute didn't just say we're going to deregulate the energy  
2 component, we're going to deregulate the whole nine years,  
3 and in 2001 PP&L can operate like anybody else.

4 Would you not concede that the costs incurred in  
5 sending out those bill inserts are an advertising cost, a  
6 business development cost?

7 MR. RUSSELL: Your Honor, could I just intercede for  
8 a minute here? It seems to me that Mr. Kleha has answered  
9 that question from two different angles. One is, he cannot,  
10 should not and will not be able to think about the question  
11 in that way, and the other answer that I heard a couple  
12 minutes ago is, the bill inserts wouldn't have existed but  
13 for regulation. It seems to me we're far afield and late in  
14 the day.

15 JUDGE KASHI: Not only are we far afield, I'm still  
16 missing the point.

17 THE WITNESS: We're both together, Your Honor.

18 MR. CAPLAN: If you want a proffer, Your Honor, I'll  
19 try to give you a proffer. What I am driving at is that if  
20 in fact costs that are normally incurred by an unregulated  
21 entity selling electricity to PP&L's ratepayers are now  
22 bundled in distribution, what happens is that that provides  
23 a subsidy to PP&L and requires the customer to pay for those  
24 charges twice.

25 And the reason for that is that the unregulated

1 supplier charges for those things when it puts out a retail  
2 price. In other words, Enron is going to include its  
3 advertising cost, its customer acquisition costs, its  
4 hook-up costs for connecting a meter if it's going to do  
5 that. All of those things are built into its retail price.

6 If PP&L does its division of cost in such a way for  
7 unbundling purposes that those costs are now part of an  
8 unbypassable charge, in other words for distribution, that  
9 you can't get out of it, and at the same time Enron charges  
10 for them, the customer is paying for them twice.

11 They are paying PP&L a piece of it and they are  
12 paying Enron a piece of it, and there is no regulatory way  
13 of splitting that apart. I mean, there's no way we can deal  
14 with that, in my humble opinion, unless I misunderstand the  
15 way the system is going to work.

16 JUDGE KASHI: That sounds like a marvelous argument  
17 for your brief.

18 MR. CAPLAN: Your Honor, I think I have a right with  
19 this gentleman who does the cost analysis to see if in fact  
20 costs which an Enron would be charging the customer in the  
21 retail price are also being charged by PP&L in transmission  
22 and distribution.

23 JUDGE KASHI: Maybe then you should just use a  
24 different hypothetical as opposed to those bill inserts.

25 MR. CAPLAN: All right.

1 BY MR. CAPLAN:

2 Q. In the current division of costs between  
3 generation, transmission and distribution, would it be fair  
4 to say that the only things reflected in generation now are  
5 the direct generation costs, in other words the cost of the  
6 generation units and the cost of the acquisition of power if  
7 any and the cost of the personnel who run those generation  
8 units? Is that in rough terms what's there?

9 A. The production function itself -- again, I have  
10 to go back to the Uniform System of Accounts, because you're  
11 asking a regulated entity where it puts its costs.

12 The production function reflects the direct costs  
13 associated with the fixed facilities and the personnel at  
14 the power plants.

15 It also reflects the fuel inventories, the materials  
16 and supplies that are necessary to continue the operation of  
17 those plants.

18 What it doesn't do is, it doesn't reflect the  
19 indirect costs. For instance, if I, Joe Kleha, were a power  
20 plant employee, the cost or the expense associated with my  
21 salary would be reflected in the production function, but my  
22 benefit costs would not be.

23 Under the Uniform System of Accounts, they are  
24 required to be charged to Account 926 or 928 -- I can't  
25 remember exactly which one -- which is an A&G account.

1           So therefore, in order to get it to the production  
2 function, when we unbundled the costs, we had to assign the  
3 appropriate amount of A&G costs to the production function.

4           So it's not fair to say it's only the direct costs.  
5 It's also the applicable production related indirect costs.

6           Q.    But it does not include the cost of acquiring  
7 the customer, which right now in the system of accounts that  
8 is used by PP&L would be a distribution attribution? In  
9 other words, that would be part of distribution, correct?  
10 In other words, the customer relations, customer  
11 acquisition, customer handling, billing, all of those things  
12 are now in distribution, correct?

13          A.    I'm not quite sure how you're using the term  
14 "acquisition." We don't go out and acquire customers. We  
15 have to serve everybody who comes to us.

16          Q.    Right.

17          A.    So from that standpoint --

18          Q.    Customer service, then, all the customer  
19 service.

20          A.    Customer service activities are distribution  
21 related.

22          Q.    Are all in distribution?

23          A.    Absolutely.

24          Q.    That would include --

25          A.    If there were any of those costs that would be

1 related to the production function, they are assigned to the  
2 production function.

3 Q. I understand.

4 A. But there are none that are related to the  
5 production function.

6 Q. All right. So they're all in distribution right  
7 now?

8 A. Right.

9 Q. Now, I want to address -- I'm almost done here  
10 -- I have one last question on this subject here.

11 In light of the fact that the Commission has the  
12 authority under the Act to require unbundling of other  
13 services, you don't see any problem, do you, if the  
14 Commission decided to take some of the customer service  
15 functions that are in distribution and place them in energy?  
16 I mean, you don't see any impediment to the Commission  
17 deciding that that might be a fair division for purposes of  
18 allowing --

19 A. Only that it would be absolutely improper to do  
20 so. I mean, if it chose to do that, I can't stop the  
21 Commission from doing it, but it would be improper because  
22 there are no production related costs within those areas.

23 Q. Well, there's nothing in here in the Act, in the  
24 section that I read, 2804(3), that says that the unbundling  
25 has to follow the standard of accounts.

1 A. Or that it even has to follow reality.

2 Q. Right. So they could do that, and there's  
3 nothing in the Act that would prohibit that; isn't that  
4 correct?

5 A. Nothing would prohibit them from doing it except  
6 common sense.

7 JUDGE KASHI: Now, let's not blame the Commission for  
8 having common sense.

9 (Laughter.)

10 THE WITNESS: Sorry for that attribution.

11 BY MR. CAPLAN:

12 Q. I want to turn your attention to this business  
13 of provider of last resort, because I find that to be a very  
14 interesting area.

15 You would agree, would you not, that the provider of  
16 last resort should not be in a position under the Act to  
17 provide the lowest cost service of all the services  
18 available to anyone in the competitive market; would you  
19 agree with that?

20 MR. RUSSELL: Your Honor, I'd like to object for two  
21 reasons. It requires a legal conclusion, and it's outside  
22 Mr. Kleha's testimony.

23 JUDGE KASHI: Sustained.

24 BY MR. CAPLAN:

25 Q. You will note that the provision of the statute

1 which defines the duties of electric distribution companies,  
2 which is Section 2807 under (e)(3) says that this last  
3 resort -- I'm sorry.

4 (Document handed to the witness.)

5 A. Okay, go ahead.

6 Q. That the last resort provider -- it doesn't use  
7 those words per se -- that the provider of energy on a last  
8 resort basis to ones who do not choose an alternative  
9 electric generation supplier or whose alternate supplier  
10 fails to deliver or perform, can be a distribution company  
11 such as PP&L, but it can also be a Commission approved  
12 alternative supplier. Do you see that?

13 A. Yes.

14 Q. Now, what do you think the costs of a company  
15 like an Enron would be if Enron qualified for that? In  
16 other words, right now, that section says that the energy  
17 has to be acquired at prevailing market price and the entity  
18 that acquires that ultimately to supply these customers of  
19 last resort shall recovery fully all reasonable costs.

20 What would the reasonable costs of an Enron be in  
21 that circumstance? Because you described them for PP&L.  
22 I'd like to see if you can do that for an Enron.

23 A. Again, there is a distinction between and Enron  
24 and a PP&L, because Enron is, one, not subject to the  
25 regulation of this Commission or is not required to follow

1 the Uniform System of Accounts.

2 And therefore, I believe what Enron would do --  
3 sorry, guys -- is it would procure generation supply. First  
4 of all, I think that that alternate supplier would have to  
5 agree that it would want to and would be able to go out and  
6 be that last resort provider.

7 I think Enron, from their perspective, would go out  
8 and procure energy or generation supply needs at prevailing  
9 market prices. Perhaps they can do it at something other  
10 than a last minute purchase. They may have some long-term  
11 contracts. And to that, they will put an adder for profit,  
12 and then they will give it to the customer, which will be  
13 different than PP&L.

14 Q. And that profit that they would be allowed to  
15 add would be, as far as you read the section that we're  
16 talking about, properly recoverable under the Act; isn't  
17 that true?

18 A. Yes.

19 Q. And when you say "profit," would that adder also  
20 include their general and administrative overhead, in other  
21 words some attribution of their cost of doing business?

22 A. I don't think so.

23 Q. Why not?

24 A. Because my view of profit is not that they would  
25 add on some cost to cover some cost. They're going to add

1 on a profit margin, and the profit margin is going right to  
2 the bottom line.

3 Q. How could that possibly be if they have to serve  
4 a customer and buy their energy at let's say two cents a  
5 kilowatt-hour, penny and a half, whatever, and they sell it  
6 with a margin and all of that goes to the bottom line, in  
7 other words they have none of the costs that you described  
8 in supplying --

9 A. No incremental cost.

10 Q. None whatsoever?

11 A. Not one dollar of incremental cost.

12 Q. Why is that?

13 A. Because they probably got it off an already  
14 existing contract or they went out and got the contract in  
15 the first place, or just upped their take from a particular  
16 contract.

17 So the only additional cost to them is the cost of  
18 that generation supply. And when they put a profit margin  
19 on it, it goes right to the bottom line.

20 Now, we've picked on Enron and that's unfair, because  
21 that may not be what they as a company would do. But that's  
22 what an entity that is unregulated can do and probably will  
23 do.

24 Q. And the question I have for you is, if PP&L  
25 can't do that by law or regulation as you contend, that is

1 to say it can't add either an overhead margin or a profit  
2 margin and therefore is going to sell that basically at  
3 cost, is it not offering to the customer who does not choose  
4 to leave PP&L virtually the cheapest energy available to  
5 anyone else within its service territory?

6 A. I don't believe so.

7 Q. Why not?

8 A. Because my belief is that when we're all said  
9 and done under regulation and the conceptual outline that we  
10 have placed before this service in the purchased generation  
11 cost rate, when all of the costs are summed up and we go  
12 through all the regulatory proceedings and incur all of the  
13 costs associated with that, our fully allocated costs that  
14 will go towards that particular function will be at a higher  
15 level than what an independent supplier will be able to  
16 procure and provide to the customer. So therefore, we don't  
17 have the lowest cost generation.

18 Q. Why is that? I mean, you're going to buy at  
19 wholesale, right?

20 A. Right.

21 Q. At the spot market price?

22 A. Right.

23 Q. And you're going to only add to it, according to  
24 your testimony in someone else's cross, the little bit of  
25 cost associated with actually getting that power into your

1 grid, right?

2 A. There's more costs than that.

3 Q. What are they? You haven't told us that.

4 A. I don't know what they all are right now. I  
5 tried to explain that earlier, that there will be a long  
6 laundry list of items I'm sure that will be involved in  
7 there and we will all sit around a table like we're doing  
8 right now and fight over whether or not they should be  
9 included in there or not.

10 Mr. Kleppinger is smiling because he knows exactly  
11 what I'm talking about.

12 Q. Mr. Kleha, my concern is that -- would you not  
13 agree with me that if it turns out by some freaky  
14 possibility that those extra costs don't materialize and  
15 that in fact PP&L is authorized and able to sell this power  
16 to the non-choosers, those who stay with PP&L, at wholesale  
17 plus virtually the most negligible mark-up that is possible,  
18 that for all intents and purposes that would in fact  
19 dissuade other vendors from capturing that customer base?

20 A. My answer is no.

21 MR. RUSSELL: Your Honor, I would object for two  
22 reasons. There's no foundation for the facts in the  
23 question, and in fact Mr. Kleha has testified that he  
24 believes there will be a long laundry list of costs that  
25 will be incurred.

1 JUDGE KASHI: I have a problem, Mr. Caplan, because  
2 of the costs Mr. Kleha has testified to that he is sure are  
3 there, and you're saying, "Well, let's take it off the wall  
4 and assume that none of that happens."

5 If you want to lay a foundation or you want to put a  
6 witness on that says in fact they don't know what they're  
7 talking about, they're going to be putting in wholesale plus  
8 that tiny bit of cost, well, then, do it.

9 MR. CAPLAN: Your Honor, I understand. My only  
10 concern -- and I will ask the question one more time and  
11 then I'm done -- is, if in fact PP&L is able to say in this  
12 proceeding that its costs of supplying that power which it's  
13 going to buy at wholesale is going to exceed what the  
14 outside competitor might be able to sell that power for, it  
15 should be able to articulate the costs.

16 And all I would ask you is, can you identify, other  
17 than the one that you've identified in cross which had to do  
18 with acquiring the power by transmission expense or  
19 whatever, and the marginal cost of the person who makes the  
20 telephone call to acquire the power in the spot market, what  
21 other costs are going to increase that amount to the point  
22 where it is not in fact the lowest price available in the  
23 entire market.

24  
25

1 MR. RUSSELL: Your Honor, I think Mr. Kleha has  
2 answered that question in many forms during his cross  
3 examination and has talked about a laundry list, has talked  
4 about his inability to predict that kind of market at this  
5 point in time. I think it's been asked and answered  
6 repeatedly, and I don't think we're making any progress at  
7 this point.

8 MR. CAPLAN: Your Honor, this is a very critical  
9 concern.

10 JUDGE KASHI: I understand.

11 MR. CAPLAN: It is extraordinarily important to find  
12 out if, in fact, the price that PP&L proposes to sell to the  
13 default customers, those that don't choose to choose, turns  
14 out to be basically a wholesale price. Because if that is  
15 the case --

16 JUDGE KASHI: You're making argument.

17 MR. CAPLAN: All right.

18 JUDGE KASHI: But I understand where you're coming  
19 from. What I'm saying is that the witness has said he knows  
20 there's a whole bunch of them, but he doesn't know what they  
21 are.

22 MR. CAPLAN: I'll accept that answer. Thank you,  
23 Your Honor.

24 JUDGE KASHI: What are we going to do?

25 MR. CAPLAN: Nothing more. I have no further

1 questions. Thank you.

2 JUDGE KASHI: Thank you.

3 We're going to take a fifteen-minute break at this  
4 particular time, and we'll come to the conclusion of  
5 Mr. Kleha. We will take in order when we come back, we will  
6 have Mr. Zalcman. And Mr. Epstein has not shown up yet, I  
7 guess. And is it Mr. Mullins or Mr. Burgraff for OCA?

8 MR. BURGRAFF: It will be me, Your Honor.

9 JUDGE KASHI: All right. And then we conclude with  
10 the redirect. We'll take a fifteen-minute recess.

11 (Recess.)

12 JUDGE KASHI: We'll have cross examination by  
13 Mr. Zalcman.

14 MR. ZALCMAN: Thank you, Your Honor.

15 **CROSS EXAMINATION**

16 BY MR. ZALCMAN:

17 Q. Good afternoon, Mr. Kleha.

18 A. Good afternoon.

19 Q. My name is Fred Zalcman, and I represent the  
20 Environmentalists in this case.

21 Now, sir, beginning on page 12 of your direct  
22 testimony, you expressed --

23 (Pause.)

24 A. Page 12; do you have a line item?

25 Q. Beginning on line 17. You express the concern

1 there that the unbundling of the generation function from  
2 T & D could trigger a finding by the NRC that the company  
3 would no longer be considered an electric utility; is that  
4 correct?

5 A. That's correct.

6 Q. And that in turn would invoke substantial  
7 financial qualification requirements related to the  
8 decommissioning of Susquehanna; is that correct?

9 A. That's correct.

10 Q. Can you tell me what the company has done to  
11 ascertain whether your concerns are well founded?

12 A. I think what the company has done is made a  
13 proposal within this proceeding which provides for PP&L to  
14 continue to recover its nuclear decommissioning costs  
15 through the regulated portion of its business. Therefore  
16 those costs would remain under the regulation of this Public  
17 Utility Commission and under the FERC, and therefore would  
18 allow PP&L to continue to be an electric utility as defined  
19 under the Code of Federal Regulations and the NRC.

20 Q. I don't believe that was responsive to my  
21 question. I was asking what the company has done to  
22 ascertain from the NRC whether your concerns are well  
23 founded, whether your interpretation of whether this  
24 unbundling would result in a finding by the NRC that you're  
25 no longer an electric utility for purposes of nuclear --

1 A. Are you asking me whether, in fact, PP&L went to  
2 the NRC and asked whether or not --

3 Q. That's my question, yes.

4 A. Okay. PP&L did not go to the NRC because it did  
5 not feel it was necessary given the proposal that it made in  
6 this proceeding. And PP&L's view is that that proposal is  
7 extremely reasonable, and will maintain PP&L's status under  
8 the NRC's requirements as that of an electric utility.

9 JUDGE KASHI: Does the NRC issue advisory opinions?

10 THE WITNESS: I'm not quite sure.

11 MR. RUSSELL: I don't know, Your Honor.

12 BY MR. ZALCMAN:

13 Q. Do you know whether the NRC is currently  
14 considering the issue either generically or specifically  
15 with respect to PP&L?

16 A. I don't know that.

17 Q. Now, you identify nuclear decommissioning costs  
18 as a special category of stranded costs; is that correct?

19 A. Yes, sir.

20 Q. And that's because of the important public health  
21 and safety concerns related to nuclear decommissioning?

22 A. Yes.

23 Q. And could you elaborate a little bit on what  
24 public health and safety risks you're referring to in your  
25 testimony?

1           A. I think what I'm referring to is the fact that  
2 PP&L and this Commission have viewed nuclear decommissioning  
3 as a necessary cost of doing business that should have some  
4 assurance of recovery.

5           And with that in mind, this Commission established,  
6 going back to 1978, in a proceeding involving Pennsylvania  
7 Electric Company, this Commission established a procedure  
8 under which it would grant a utility the opportunity to  
9 begin recovering costs associated with decommissioning prior  
10 to the decommissioning of that facility, or the expiration  
11 of its service life, and with the proviso that those funds  
12 be placed in a special trust fund to be used for no other  
13 purpose than nuclear decommissioning.

14           So I think that what I'm suggesting is that this  
15 Commission, as well as the utilities in the state, have long  
16 recognized that there are special health concerns, special  
17 public safety concerns with facilities that are nuclear-  
18 fueled in nature, and therefore there need to be special  
19 provisions set forth to deal with that.

20           Q. And I'm asking what are those special health and  
21 safety concerns.

22           A. Well, I think there are requirements that there  
23 be a certain level of security at a nuclear facility that  
24 perhaps is not the same level of security that would be  
25 necessary at, for argument's sake, a hydro station or a

1 solar installation.

2           There are concerns over the spent fuel that is housed  
3 on site until it can be sent to the federal repository, that  
4 as of this date is still not complete. Those kinds of  
5 concerns.

6           Q. Should we be concerned that as generators are  
7 forced to compete in the market there will be pressure on  
8 the plant operators to focus on short-term cost  
9 consideration and perhaps not to the same extent on long-  
10 term health and safety issues?

11           A. I think there is always that concern. I  
12 personally don't believe it would be a concern with PP&L.  
13 But I can't speak for every utility.

14           Q. Is there a concern that there will be a  
15 financially responsible entity around when the plant is  
16 ultimately retired?

17           A. Certainly.

18           Q. You're not suggesting, are you, that without  
19 approval of the CTC extension, as embodied in the PP&L  
20 proposal, nuclear decommissioning costs would go  
21 inadequately funded; are you?

22           A. No, I'm not suggesting that that would occur.  
23 However, there could be additional costs over and above  
24 those costs expected for nuclear decommissioning which could  
25 be required if an electric utility were to lose its status

1 as an electric utility under the NRC's requirements.

2 Q. And have you quantified what those costs would  
3 be?

4 A. I have not.

5 Q. Now, absent approval of the CTC extension, does  
6 the company have an alternative backup plan for adequately  
7 funding its decommissioning obligations?

8 A. I think the level of recovery that PP&L is  
9 currently authorized by this Commission provides for the  
10 funding level that the Commission approved for PP&L in its  
11 last base rate proceeding.

12 Now, for purposes of presentation, as I discussed  
13 with Mr. Kleppinger earlier, PP&L has included nuclear  
14 decommissioning costs in its overall level of stranded  
15 costs, to be removed if the Commission approves PP&L's  
16 proposal with regard to moving that to the T & D function.

17 So I think we already have an alternative proposal in  
18 place, and that is to include it as a stranded cost element.

19 Q. Now, another justification you give for the  
20 proposed CTC extension is that -- I'm referring to page 15,  
21 line 11 of your testimony. You give some numbers there.  
22 And you indicate that PP&L is currently collecting  
23 approximately \$9.5 million per year in jurisdictional rates  
24 for nuclear decommissioning.

25 A. That's correct.

1 Q. Now, is it PP&L's proposal to continue to collect  
2 at this level over the life of the Susquehanna plant; that  
3 is, \$9.5 million per year?

4 A. If PP&L were to collect \$9.5 million per year  
5 from jurisdictional customers, coupled with the amount that  
6 it recovers from federal jurisdiction customers, then PP&L  
7 would recover the amount of decommissioning costs that it  
8 sought in its last base rate proceeding.

9 Q. And are you proposing to live by that estimate?  
10 In other words, if later decommissioning cost studies were  
11 performed and it turned out that the initial estimates for  
12 decommissioning costs were low, would the company propose to  
13 increase funding through the CTC? And is that envisioned in  
14 the current proposal?

15 A. I think what's envisioned is that it will be --  
16 and it has to be reviewed from time to time under the NRC's  
17 requirements. And if that review indicates a substantial  
18 change from where the funding level is at this point in  
19 time, then I think the company will at that point make some  
20 decision as to whether or not it should seek some assistance  
21 from this Commission.

22 Q. And at the \$9.5 million per year level, will  
23 there be sufficient revenues generated over the life of the  
24 Susquehanna plant to meet decommissioning costs based on  
25 current projections of what those decommissioning costs will

1 be?

2 A. Yes.

3 Q. Is there anything in the existing proposal to  
4 indicate what threshold amount would constitute the  
5 substantial level that would have to be revisited by the NRC  
6 or by this Commission?

7 A. No.

8 Q. Now, would you agree that nuclear decommissioning  
9 cost recovery should be on the basis of the best available  
10 cost estimate?

11 A. Yes.

12 Q. Would you also agree that utility management  
13 should be aggressive in mitigating its future nuclear  
14 decommissioning cost obligations?

15 A. I'm sorry, I lost the middle part of that.

16 Q. Would you agree that utility management should be  
17 aggressive in mitigating its future nuclear decommissioning  
18 cost obligations?

19 A. I think that any management of a nuclear utility  
20 should be prudent in mitigating all of its -- or reducing  
21 all of its costs to the most reasonable level possible.

22 Q. And would it be reasonable in your opinion for  
23 the Commission to require a plan for mitigation of the  
24 company's nuclear decommissioning costs before those costs  
25 are charged to customers?

1           A. I don't believe this Commission needs to  
2 implement a specific plan. This Commission reviews the  
3 overall cost studies that are involved with regard to the  
4 company's claim for nuclear decommissioning, and either  
5 approves them, modifies them, or rejects them, as this  
6 Commission did in the company's most recent base rate  
7 proceeding.

8           So I think the Commission is already exercising its  
9 level of oversight that is necessary, the same as it does  
10 for any other cost element of a utility in Pennsylvania.

11           In addition to that, the utilities in Pennsylvania  
12 are required to submit annual reports to this Commission  
13 with regard to level of funding and its trust fund  
14 activities.

15           So I think this Commission is already at a level of  
16 oversight that is fairly rigid. I'm not sure it would need  
17 an additional oversight activity.

18           Q. Well, absent the company coming in for additional  
19 cost recovery related to nuclear decommissioning, in other  
20 words, if the company lived by its CTC extension proposal,  
21 would there be an opportunity, in your mind, for the company  
22 to review whether the company was adequately litigating its  
23 nuclear decommissioning costs?

24           A. For the company to review it?

25           Q. For the Commission to review it.

1           A. For the Commission to review it? Surely. The  
2 Commission does management efficiency audits of every  
3 utility, I believe, under statute, every eight years. I  
4 think at that point in time one of the elements they have  
5 consistently looked at is the nuclear decommissioning.

6           Q. Now, should regulation be designed to encourage  
7 utility management to minimize its nuclear decommissioning  
8 costs?

9           A. I think regulation, traditional utility  
10 regulation as we've known it, already encourages utility  
11 management to reduce its costs to the most reasonable level.

12           Q. Mr. Kleha, on page 30 of your rebuttal  
13 testimony --

14           A. Rebuttal testimony?

15           Q. Yes. There you refer to Environmentalists  
16 Witness Biewald's recommendation, as you describe it, that  
17 the Commission not permit recovery of nuclear  
18 decommissioning costs over the life of the Susquehanna  
19 plant. Now, do you understand Mr. Biewald's recommendation  
20 to only relate to -- nuclear decommissioning costs only  
21 relate to whether the CTC should be extended for nuclear  
22 decommissioning cost recovery?

23           A. When I read Mr. Biewald's testimony I was not  
24 that clear as to what his ultimate recommendation was. He  
25 started out saying that he was opposed to the extension, but

1 he also stated that he was not recommending that the company  
2 be permitted to extend the recovery of the nuclear  
3 decommissioning costs. So it was hard for me to identify  
4 exactly what he was saying.

5 Q. Did you understand Mr. Biewald to recommend that  
6 before nuclear decommissioning costs are allowed to be  
7 recovered that there be some investigation of how to  
8 allocate those costs between the competitive generation  
9 plant and the distribution system?

10 A. I don't recall that element of his testimony.  
11 But nuclear decommissioning costs are production related,  
12 and therefore, as shown in PP&L's stranded cost  
13 presentation, they are included with the generation cost  
14 section. And it is only PP&L's proposal to remove from that  
15 section and place them into the T & D category for recovery  
16 over the continued life of Susquehanna that would eliminate  
17 them from the generation piece. There is no allocation  
18 between production and T & D. I mean, it is production  
19 simply being removed for purposes of this proposal.

20 Q. But did you understand Mr. Biewald to -- let me  
21 rephrase that. Did you not interpret Mr. Biewald's  
22 testimony to recommend the Commission to make a policy  
23 determination as to whether cost recovery related to  
24 decommissioning should be through a wires charge, or through  
25 the generation?



1 A. Good evening.

2 Q. Very quickly, I'd like to take you back to the  
3 proposed purchased generation cost rate, if I could.

4 A. Sure.

5 Q. Kind of a son and daughter of ECR, I suppose.

6 A. Brother.

7 Q. What?

8 A. Brother.

9 Q. Brother, okay.

10 Mr. Kleha, I believe you were here yesterday when  
11 Dr. Tierney testified.

12 A. For a portion. I did not hear all of her cross  
13 examination.

14 Q. Dr. Tierney stated, as I recall, that any credit  
15 that will be applied to a last resort customer's bill will  
16 not be subject to the reconciliation under the PGCR. Is  
17 that your understanding?

18 A. That's my understanding.

19 Q. All right. However, if one looks at Exhibit  
20 JMK-7, the E-factor definition doesn't exactly state that;  
21 does it? In other words, it essentially says any experience  
22 net over or under collection of purchased generation costs  
23 could be in the E-factor?

24 A. My view is the E-factor is pretty specific. And  
25 when we're talking about purchased generation costs, we're

1 talking about those elements that would be included under  
2 the PGC, and we're not talking about the one-cent -- or, I  
3 say one-cent; but whatever the credit is to keep the  
4 customer under the cap. That would not be an E-factor.  
5 That's in the data, or the explanatory data that follows the  
6 elements of the PGCR.

7 Q. All right. But that is the company's intention?

8 A. Right.

9 Q. All right. What about a deferral of price? Does  
10 the company intend to defer them for accounting purposes?

11 A. No.

12 Q. So after the transition period the company  
13 intends to make no claim for accumulated credits at that  
14 point either?

15 A. Not unless you propose we do.

16 Q. By the way, Mr. Kleha, what type of procedure do  
17 you envision for the PGCR process, similar to the ECR  
18 process today?

19 A. Yes. I think we were being a little facetious  
20 when we called it the brother or son or daughter of the ECR.  
21 I think those of us who have been involved with the ECR will  
22 recognize that an awful lot of the structure of the ECR has  
23 simply been transferred over to the PGCR.

24 And today this same type of clause could be used for  
25 those electric utilities that have none of their own

1 generation, that simply purchase energy in the open market,  
2 or purchase it from another utility.

3 So it's not dissimilar from the ECR in any way, shape  
4 or form, except that the type of elements would be slightly  
5 different.

6 Q. Well, they certainly would. And I don't  
7 necessarily think that it would be more or less proforma  
8 than what we've already experienced. But that's not the  
9 question.

10 Mr. Kleha, I don't recall in the old ECR the  
11 treatment of interest. Was that simply done on a monthly  
12 basis, and that if there was a net total over or under  
13 collection, then interest was reflected on the over  
14 collection; is that correct?

15 A. Yes, and under the old ECR and all the old energy  
16 and fuel clauses that preceded it, energy was calculated on  
17 a -- excuse me; interest was calculated on a monthly basis,  
18 both positive and negative. However, the only interest that  
19 was ever reflected in the going-forward E-factor was that  
20 interest which was a credit to customers. In other words,  
21 the utility could not recover interest. That interest could  
22 simply be used to offset the interest accruing in the other  
23 periods, the application period.

24 Q. And is that the interest application that's  
25 proposed on Exhibit JMK-7?

1 A. No, it's not.

2 Q. And as I recall reading Exhibit JMK-7, you simply  
3 will have the monthly application of interest on a going-  
4 forward basis?

5 A. That's correct. And the reason --

6 Q. Under or over?

7 A. Yes. And the rationale for that is that last  
8 resort service is not going to be, as some might  
9 characterize it, as an area for seeking customers. This is  
10 certainly an obligation that the utility incurs under the  
11 act. And it's going to be incurred because customers who  
12 have failed to have an alternative supplier, or an  
13 alternative supplier fails to provide them service, in that  
14 situation you're probably going to have customers that the  
15 failure occurs at peak periods, winter peak, summer peak  
16 periods, or it occurs with customers who for one reason or  
17 another are not the cream of the crop, so to speak. And  
18 therefore it's going to be fairly costly.

19 And so, because the T & D utility, as the provider of  
20 last resort, will be incurring these costs, fairly risky  
21 costs, because of the uncertainty of when customers are  
22 going to require this service, the provision of interest  
23 seems to be an appropriate way to have some remuneration for  
24 that.

25 Q. So the company views the non-reflection of

1 interest on net over collection in a reconciliation as being  
2 a necessary offset to the potentiality of absorbing credits?

3 A. A very, very small offset.

4 Q. But you're answering yes?

5 A. Yes.

6 Q. But as far as the purchasing function is  
7 concerned, there really is no difference, is there, between  
8 your classic purchasing function under regulation and your  
9 purchasing function for a last resort customer?

10 A. Not really. Except that a purchasing function  
11 under a regulated environment as we know it today is an  
12 activity that would be taking place continually. There is  
13 not the uncertainty of customers needing it or not needing  
14 it in a particular application period time frame. Customers  
15 today need the energy, and we have to supply it 24 hours a  
16 day at all times.

17 Q. But you have a duty to supply today.

18 A. Yes.

19 Q. In like fashion, you will have established a duty  
20 to supply last resort customers in the future.

21 A. That's right.

22 Q. Can I direct you to page 1 of Exhibit JMK-7,  
23 please?

24 A. Sure.

25 Q. Now, perhaps you can help me out here, Mr. Kleha.

1 I'm a little confused with the formula. And that confusion  
2 is principally this.

3 A. The brackets aren't there.

4 (Laughter.)

5 Q. No, even I can figure that out, probably.

6 PGCR, purchased generation cost rate, based on mills  
7 per kilowatt hour, divided by the company's total kilowatt  
8 hour sales to customers taking generation service under this  
9 tariff.

10 A. Right.

11 Q. The E-factor, however, is divided by the  
12 company's retail kilowatt hour sales to which the PGCR  
13 apply. What is the distinction under this service between  
14 total kilowatt hour sales and retail kilowatt hours?

15 A. Okay. The formula designations here are taken  
16 right from the ECR itself. And what, in fact, occurs is  
17 that the entity will incur total costs to provide generation  
18 supply service. It will divide those total costs by its  
19 total system sales, so that in those instances where it is  
20 still providing service to non-jurisdictional customers, the  
21 applicable portion of its recorded costs will be assigned to  
22 those non-jurisdictional customers, and only the remaining  
23 portion, or that which is applicable to the retail  
24 customers, will be included in the PGCR.

25 Q. But it was my assumption, and perhaps I'm wrong,

1 that the last resort service only applies to retail -- it is  
2 a retail service.

3 A. That's correct.

4 Q. So whom else to you purchase last resort energy  
5 for?

6 A. Again, we're talking about regulated entities  
7 purchasing here. And to the extent that as part of the  
8 recording of costs those costs are recorded to account 555  
9 for the purchase of generation supply, the utility can be --  
10 can be, may not be, but can be -- incurring and recording  
11 costs associated with off system sales, or non-  
12 jurisdictional sales.

13 Q. So you may go out and purchase a block of energy,  
14 part of which can be non-jurisdictional, most of which could  
15 be for last resort customers?

16 A. That's correct.

17 Q. You will determine the PGCR based upon that  
18 estimate?

19 A. Right.

20 Q. The E-factor will fall out of that result;  
21 however, the E-factor will only flow to the last resort  
22 customer?

23 A. That's correct.

24 Q. And it will not flow to the non-jurisdictional  
25 customer?

1           A. That's right. Because the E-factor will only be  
2 related to the PGCRC itself, not to the aggregation of costs  
3 related to generation supply purchases.

4           I might add that the ST and the SR could, in fact, be  
5 the same number. But in order to assure the regulators that  
6 there would not be any attempt to include costs that were  
7 not related to the jurisdictional application, the ST isn't  
8 fluid.

9           Q. Can I refer you to page 6 of your rebuttal  
10 statement?

11          A. Yes.

12          Q. Now, there you say that Mr. LaCapra's proposed  
13 methodology for estimating PP&L's overall level of stranded  
14 cost fails to calculate accurately the overall level of  
15 PP&L's known and measurable generation of stranded costs; is  
16 that correct?

17          A. That's correct.

18          Q. Parenthetically, could I assume then that you  
19 believe that the company's methodology, the revenue  
20 requirement methodology, does accurately calculate those  
21 costs?

22          A. Yes, you can.

23          Q. Now, does an accurate calculation mean then that  
24 the company would actually collect every penny of costs  
25 associated with its generation asset?

1           A. No, it does not. The accurate calculation that  
2 I'm referring to there is the fact that Mr. LaCapra, in his  
3 proposal on behalf of the consumer advocate, used one type  
4 of valuation technique for generation assets and a second  
5 technique for regulatory assets. And my view is the statute  
6 itself requires the application of a consistent methodology  
7 for all elements of a utility's generation-related assets  
8 and operating costs.

9           Q. All right. So your testimony is more concerned  
10 with consistency than accuracy; is that correct?

11          A. Well, you won't produce an accurate result if you  
12 don't have consistency.

13          Q. Well, all right, we won't quibble over that. Let  
14 me ask you this question, Mr. Kleha. Does the company's  
15 revenue requirement methodology make the assumption that the  
16 company collects every year the revenue requirement it is  
17 entitled to on a going-forward basis?

18          A. I think what the company's methodology does is it  
19 shows over the life of the asset or liability involved what  
20 the revenue requirements of that asset or liability would be  
21 in each year of its life.

22          Q. And doesn't it assume that the company collects  
23 that revenue requirement every year?

24          A. It assumes that the utility would have that  
25 revenue requirement in that particular period. In order to

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1 assume full recovery, one would also presume that you would  
2 have to have a proceeding to determine whether or not the  
3 Commission would permit that.

4 Q. But for revenue purposes, doesn't it assume the  
5 collection of those revenues every year?

6 A. It assumes that the revenue requirement is  
7 whatever the number is in that particular year.

8 Q. And the company collects that revenue  
9 requirement?

10 A. Would like to collect that in that year.

11 Q. No, it does collect it; would collect it. That's  
12 the revenue stream; isn't that correct?

13 A. Fine.

14 Q. All right. So, essentially then, the revenue  
15 requirement methodology assumes there will be no regulatory  
16 lag in the future; is that correct?

17 A. That's correct.

18 Q. Now, in a regulated environment, didn't or  
19 doesn't the collection of costs depend primarily on actual  
20 cost incurrence?

21 A. No.

22 Q. And why not?

23 A. Regulatory jurisdictions use future test years to  
24 determine costs. Those future test years are based upon  
25 estimates, forecasts.

1 Q. Sure. The closer you come to those estimates,  
2 the better chance you have of achieving your opportunity  
3 rate of return; isn't that correct?

4 A. That's correct.

5 Q. And the farther you are away from those cost  
6 estimates, the less you have collecting that?

7 A. Yes.

8 Q. Mr. Kleha, if the entire generation market were  
9 deregulated, would you expect the potential buyer of a  
10 generating asset to decide what to offer for that unit by  
11 determining future profits to be earned from the unit, or by  
12 making a revenue requirement calculation?

13 A. Is your question predicated on the assumption  
14 that we're talking about someone purchasing a generation  
15 asset, or are we talking about a calculation required under  
16 the act to determine what a utility's stranded costs are?

17 Q. No, a potential buyer; purchase situation.

18 A. A purchaser would not do a revenue requirements  
19 calculation.

20 MR. BURGRAFF: I believe that's all I have, Your  
21 Honor.

22 Thank you, Mr. Kleha.

23 THE WITNESS: You're welcome.

24 JUDGE KASHI: Thank you very much, Mr. Burgraff.

25 Redirect?

1 MR. RUSSELL: Could I have just one minute?

2 JUDGE KASHI: Sure.

3 (Discussion off the record.)

4 JUDGE KASHI: Back on the record.

5 MR. RUSSELL: We have short redirect, Your Honor.

6 JUDGE KASHI: Redirect, Mr. Russell.

7 REDIRECT EXAMINATION

8 BY MR. RUSSELL:

9 Q. Mr. Kleha, there was some discussion during your  
10 cross-examination of the company's proposal to place a  
11 credit against rates to avoid exceeding the rate cap.

12 Could you clarify the company's proposal in that  
13 regard?

14 A. The company's proposal at this point in time  
15 would be that the credit which would be applied to a  
16 customer's bill, a last resort customer, would be a line  
17 item at the bottom of the bill on a kilowatt-hour basis to  
18 show what the credit would be to keep the customer in line  
19 with the rate cap.

20 Q. In response to a question, you indicated that  
21 there was an inverse relationship between market price and  
22 stranded costs. Is that relationship a perfect  
23 relationship?

24 A. No, it is not, because if the fuel prices were  
25 the driving factor in market price, that would not hold in

1 that relationship. There would not be an increase in the  
2 CTC associated with that.

3 Q. And finally, would you clarify the issue of  
4 allocation of customer service costs to the distribution  
5 function?

6 A. Certainly. The regulated distribution utility  
7 will continue to have costs associated with customer  
8 service, customer information, customer accounts, and  
9 therefore those costs properly will remain with the  
10 distribution utility.

11 To the extent that an unregulated affiliate of PP&L  
12 incurs costs in the generation supply area associated with  
13 advertising or customer acquisition, those costs will follow  
14 that generation supply function and that unregulated  
15 affiliate.

16 MR. RUSSELL: I have nothing else, Your Honor.

17 JUDGE KASHI: Thank you.

18 MR. KOHLER: One question on recross, Your Honor?

19 JUDGE KASHI: Mr. Kohler, on that very limited --

20 MR. KOHLER: Do you want me to move?

21 THE WITNESS: No, I --

22 JUDGE KASHI: Very limited.

23 RECROSS-EXAMINATION

24 BY MR. KOHLER:

25 Q. Does your last answer also apply to

1 uncollectibles?

2 A. Uncollectibles themselves are related to the  
3 revenue, not to a functional activity, so that to the extent  
4 that the T&D company will be collecting revenues for its T&D  
5 function, it's still going to have uncollectibles.

6 If we're talking about a generation supply function  
7 that is unregulated and it has its own uncollectibles, then  
8 its own uncollectibles should follow it.

9 Q. And assuming PP&L loses some market share, some  
10 level of market share in a competitive environment, do you  
11 believe PP&L's delivery group's uncollectibles will remain  
12 constant?

13 A. No.

14 Q. How will they be affected?

15 A. How will the delivery group's? Are you asking  
16 me if I'm going to separate --

17 Q. Are they going to increase or decrease?

18 A. I think the overall level of uncollectibles for  
19 PP&L will decrease, but the delivery group associated with  
20 the delivery function will not change.

21 Q. Just so I understand your answer, if PP&L's  
22 uncollectibles today are X for all of its customers, do you  
23 believe the uncollectibles associated with that same group  
24 of customers will remain relatively constant in a  
25 competitive environment?

1 A. If all of those customers remain with PP&L, yes.

2 Q. Or even if they don't?

3 A. I think at that point there might be a slight  
4 decline, but I don't know what I would necessarily attribute  
5 it to.

6 Q. And would a portion of those uncollectibles, for  
7 example those related to service that was picked up by  
8 another entity, would a portion of those uncollectibles also  
9 be, for lack of a better word, transferred to those other  
10 entities?

11 A. I'm not sure I understand the question.

12 Q. It was probably a bad question.

13 A. If customers were to take service from an  
14 alternative supplier and did not pay the alternate supplier,  
15 the alternate supplier would incur uncollectibles, it will  
16 incur bad debts.

17 Q. And isn't that bad debt one that's incurred by  
18 PP&L today? Is it not that exact bad debt? Do you  
19 understand my question?

20 A. I think there's a distinction between what it is  
21 for a regulated entity versus an unregulated entity, and I  
22 think that what we're talking about here is, if it were \$100  
23 today, will it be \$100 tomorrow.

24 And my answer is, it may be, but it might be \$101 or  
25 it might be \$99, and I'm not sure what I would attribute the

1 \$1 swing to.

2 Q. Just one more question: Would you agree on a  
3 forward-looking basis that, assuming loss of market share,  
4 that the delivery group's uncollectibles will decline in a  
5 competitive environment in proportion to the amount of  
6 business they lose?

7 A. I don't think I could necessarily make that  
8 statement.

9 Q. Why not? How could it not be true?

10 A. Because I believe that PP&L's overall level of  
11 uncollectibles may remain the same or may not, but I don't  
12 know what to attribute it to.

13 I mean, you have an overall level of uncollectible  
14 expense that is associated with historic writeoffs that are  
15 in --

16 Q. But my question was on a forward-looking basis.

17 MR. KOHLER: I have no further questions.

18 JUDGE KASHI: Thank you very much, sir.

19 (Witness excused.)

20 JUDGE KASHI: Anything further this evening?

21 (No response.)

22 JUDGE KASHI: If not, we will recess until 9:30  
23 tomorrow morning and we will be in Hearing Room No. 2. For  
24 the purposes of the record, I have a bit of housekeeping to  
25 do.

1           That which has been marked and identified as PP&L  
2 Statement No. 3 and 3-R, together with Exhibits JMK-1  
3 through 7 are received into the evidentiary record, without  
4 objection?

5           (No response.)

6           JUDGE KASHI: Without objection.

7                                 (Whereupon, the documents marked  
8 as PP&L Statements Nos. 3 and 3-R  
9 and PP&L Exhibits Nos. JMK-1  
10 through 7 were received in  
11 evidence.)

12           JUDGE KASHI: Thank you very much.

13                                 (Whereupon, at 6:40 p.m., the hearing was adjourned,  
14 to be reconvened at 9:30 a.m., Thursday, August 21, 1997, in  
15 Harrisburg, Pennsylvania.)

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C E R T I F I C A T E

I hereby certify, as the stenographic reporter, that the foregoing proceedings were taken stenographically by me and thereafter reduced to typewriting by me or under my direction, and that this transcript is a true and accurate record to the best of my ability.

COMMONWEALTH REPORTING COMPANY, INC.

By: John A. Kelly

John A. Kelly

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