

BEFORE THE

8/25/97

PENNSYLVANIA PUBLIC UTILITY COMMISSION

1/16

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PENNSYLVANIA PUBLIC UTILITY
COMMISSION, ET. AL.

V.

PENNSYLVANIA POWER & LIGHT COMPANY

DOCKET NO. R-00973954

APPLICATION OF PENNSYLVANIA
POWER & LIGHT COMPANY FOR
APPROVAL OF ITS
RESTRUCTURING PLAN UNDER
SECTION 2806 OF THE
PUBLIC UTILITY CODE

DIRECT TESTIMONY
AND EXHIBITS
OF
LANE KOLLEN

DOCKETED

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ON BEHALF OF THE

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J. KENNEDY AND ASSOCIATES, INC.
ATLANTA, GEORGIA

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JULY 1997

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PENNSYLVANIA PUBLIC UTILITY COMMISSION

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POWER & LIGHT COMPANY FOR)
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1 Q. Please describe your education and professional experience.

2

3 A. I received my Bachelor of Business Administration in Accounting from the
4 University of Toledo. I also received a Master of Business Administration from the
5 University of Toledo. I am a Certified Management Accountant ("CMA") and a
6 Certified Public Accountant ("CPA").

7

8 Since 1986, I have held various positions with Kennedy and Associates. I specialize
9 in revenue requirements analyses, taxes, the evaluation of rate and financial impacts
10 of traditional and non-traditional ratemaking, and other utility strategic, operational,
11 financial, and accounting issues.

12

13 From 1983 to 1986, I held various positions with the consulting group at Energy
14 Management Associates. I specialized in utility finance, utility accounting issues, and
15 computer financial modeling. I also directed consulting and software projects
16 utilizing PROSCREEN II and ACUMEN proprietary software products to support
17 utility rate case filings, budgets, internal management and external reporting, and
18 strategic and financial analyses.

19

20 From 1976 to 1983, I held various positions with The Toledo Edison Company in the
21 Accounting and Corporate Planning Divisions. From 1980 to 1983, I was responsible

1 for the Company's financial modeling and financial evaluation of the Company's
2 strategic plans. In addition, I was responsible for the preparation of the capital
3 budget, various forecast filings with regulatory agencies, and assistance in rate and
4 other strategy formulation. I utilized the strategic planning model PROSCREEN II,
5 the production costing model, PROMOD III, and other software products to evaluate
6 capacity swaps, sales, sale/leasebacks, cancellations, write-offs, unit power sales, and
7 long term system sales, among other strategic options. From 1976 to 1980, I held
8 various other positions in the Budget and Accounting Reports, Property Accounting,
9 Tax Accounting, and Internal Audit sections of the Accounting Division.

10
11 I have appeared as an expert witness on regulatory accounting, finance, and planning
12 issues before regulatory commissions and courts in numerous states on more than one
13 hundred occasions. I have appeared as an expert witness before the Pennsylvania
14 Public Utility Commission in Docket Nos. M-87017-1C001, M-87017-2C005, R-
15 891364, P-910511, P-910512, R-922314, R-922378, R-922479, R-943271, and R-
16 973877. In addition, I have developed and presented papers at various industry
17 conferences on utility rate, accounting, and tax issues. My qualifications and
18 regulatory appearances are further detailed in my Exhibit ____ (LK-1).

19
20 **Q. Please describe the firm of Kennedy and Associates.**

1 A. Kennedy and Associates provides consulting services in the electric, gas, and
2 telecommunications utilities industries. The firm provides expertise in utility industry
3 restructuring and transition issues, financial analysis, revenue requirements, cost of
4 service, rate design, system planning and load forecasting. Clients include industrial
5 electricity and gas consumers and state government agencies.

6

7 **Q. On whose behalf are you testifying in this proceeding?**

8

9 A. I am testifying on behalf of the PP&L Industrial Customer Alliance ("PPLICA"), a
10 group of large industrial customers taking service on the Pennsylvania Power & Light
11 Company ("PP&L" or "Company") system.

12

13 **Q. What is the purpose of your testimony?**

14

15 A. The purpose of my testimony is:

16

- 17 • To address and make recommendations regarding the treatment of regulatory
18 assets and liabilities included by PP&L in its filing and those that it failed to
19 include in its filing as stranded cost components of the competitive transition
20 charge ("CTC").
21
- 22 • To address and make recommendations regarding the appropriate level of
23 fossil decommissioning includable in the generation stranded cost component
24 of the CTC.
25
- 26 • To address and make recommendations regarding the appropriate level of
27 nuclear decommissioning and the related tax effects includable in the
28 generation stranded cost component of the CTC.

1 Q. Please summarize your testimony.

2

3 A. The following table summarizes the PPLICA recommendations compared to PP&L's
4 request in this proceeding for recovery by PP&L through the CTC of its regulatory
5 assets and liabilities. These amounts were also provided to PPLICA witness Mr.
6 Baron for his summary and computations related to the complete quantification of
7 PP&L stranded costs and the structure and timing of recovery. The PPLICA amounts
8 represent the net present value at December 31, 1998 of each properly claimable and
9 recoverable cost.

10

11

**PENNSYLVANIA POWER AND LIGHT COMPANY
REGULATORY ASSETS (LIABILITIES)
SUMMARY
(\$000)**

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	<u>PP&L</u>	<u>Industrial Alliance</u>	
Taxes Recoverable SFAS 109	261,293	261,293	
Regulatory Liabilities - Investment Tax Cr	(42,573)	(42,573)	
Pension Overfunding	0	(253,832)	
Unrecovered Energy Costs	76,815	15,649	
Employee Transition Costs	17,106	0	
DOE Assessment	16,361	0	
1994 Early Retirement Program	14,085	14,085	(1)
Recoverable Susquehanna Operating Costs -	9,830	9,830	(1)
Postretirement Benefits - SFAS 106	8,730	(45,260)	
SSES Deferred Refueling Costs	7,996	0	
Common Plant Adjustment	7,783	7,783	(1)
Retired Miners Health Care Costs	6,308	6,308	(1)
1994 Rate Case Expense	177	177	(1)
Total Regulatory Assets (Liabilities)	383,911	(26,540)	

21

22

23

Notes: (1) PPLICA has not addressed these issues and does not affirmatively support these PP&L issues or PP&L's quantifications.

1 Q. What general principles guided your evaluation of PP&L's request for stranded
2 regulatory assets and liabilities?

3

4 A. The following general principles, grounded in regulatory theory and incorporated in
5 the Electricity Generation Customer Choice and Competition Act (the "Competition
6 Act") guided my evaluation.

7

- 8 • The costs must represent those that would otherwise be recoverable as a cost
9 of service under traditional regulation.
10
11 • The costs must be known and measurable.
12
13 • Only the net of regulatory assets and liabilities is recoverable.
14
15 • The net regulatory assets must be stated on a net present value basis.
16
17 • The resulting rates must be just and reasonable.

18

19 The provisions of the Competition Act that I have relied upon for these principles are
20 as follows:

21

22 **2803. Definitions. " 'Transition or stranded costs.' An electric**
23 **utility's known and measurable net electric generation-related**
24 **costs, determined on a net present value basis over the life of the**
25 **asset or liability as part of its restructuring plan, which**
26 **traditionally would be recoverable under a regulated environment**
27 **but which may not be recoverable in a competitive electric**
28 **generation market and which the Commission determines will**
29 **remain following mitigation by the electric utility. This term**
30 **includes:**

1 (1) Regulatory assets and other deferred charges typically
2 recoverable under current regulatory practice, the
3 unfunded portion of the utility's projected nuclear
4 generating plant decommissioning costs and cost obligations
5 under contracts with nonutility generating projects which
6 have received a Commission order, the recoverability of
7 which shall be determined under §2808(C)(1) (relating to
8 Competitive Transition Charge)."
9

10 §2804(13). "Consistent with §2808 (relating to Competitive
11 Transition Charge), the Commission has the power and duty to
12 approve a Competitive Transition Charge for the recovery of
13 transition or stranded costs it determines to be just and
14 reasonable to recover from ratepayers."
15

16 §2808(C). Determination of Competitive Transition Charge. "In
17 determining the level of transition or stranded costs that an
18 electric utility may recover through the Competitive Transition
19 Charge, the Commission shall apply the following principles:
20

21 (1) The Commission shall allow recovery of regulatory
22 assets and other deferred charges typically recoverable
23 under current regulatory practice . . .
24

25 (3) The Commission shall determine the level of other
26 generation-related transition or stranded costs that may be
27 recovered through the Competitive Transition Charge."
28

29 Q. How is the remainder of your testimony structured?
30

31 A. The remainder of my testimony follows the sequence of the issues listed on the
32 summary table comparing the PPLICA recommendations to those in PP&L's filing.
33 However, PPLICA has not addressed the following regulatory assets, although it

1 should be noted that PPLICA does not affirmatively support the recognition or
2 PP&L's quantification of these regulatory assets.

- 3
- 4 • 1994 Early Retirement Program.
 - 5
 - 6 • Recoverable Susquehanna Operating Costs - Net.
 - 7 • Common Plant Adjustment.
 - 8 • Retired Miners Health Care Costs.
 - 9 • 1994 Rate Case Expense.

10

11 Finally, I address the future fossil decommissioning payments and nuclear
12 decommissioning accruals reflected in the Company's market value and generation
13 stranded cost quantifications.

1 **II. TAXES RECOVERABLE (SFAS 109) AND**
2 **INVESTMENT TAX CREDIT (REGULATORY LIABILITY)**
3

4 **Q. Please describe the requirements of SFAS 109 and PP&L's implementation of**
5 **that accounting standard.**

6
7 A. SFAS 109 is an accounting requirement that requires companies, including PP&L,
8 to recognize its future income tax payments as a deferred income tax liability on its
9 accounting books and balance sheet. To the extent that PP&L had not previously
10 recovered and recognized its accumulated deferred tax liability for temporary
11 differences between book and tax accounting, SFAS 109 required PP&L to create a
12 second balance of accumulated deferred income taxes. SFAS 109 also required that
13 regulated utilities such as PP&L record a third balance of accumulated deferred
14 income taxes recognizing the income tax gross up on the second balance that would
15 be necessary for it to collect in future revenues to make the tax payments represented
16 by the second balance.

17
18 PP&L then created a SFAS 109 regulatory asset equivalent to the sum of the newly
19 recognized second and third accumulated deferred tax liabilities required by SFAS
20 109. That SFAS 109 regulatory asset is stated on a revenue requirement basis.

21
22 **Q. Please describe the SFAS 109 regulatory asset included by the Company in its**
23 **computation of stranded costs.**

1 A. The Company has included \$261.293 million the gross SFAS 109 deferred asset on
2 a net present value basis at December 31, 1998. The Company's quantification of
3 the SFAS 109 regulatory asset is detailed on PP&L Exhibit JRS-1, pages 40, 42, and
4 44. Page 11 provides the net present value at December 31, 1998 of these future
5 amortizations and collections. The latter three pages provide the annual future
6 amortizations representing future collections from customers under transitional
7 regulation. On these pages and in its testimony, the Company refers to the gross
8 SFAS 109 regulatory asset as "unrecovered taxes."

9
10 **Q. Please describe the item included by the Company in its regulatory assets**
11 **computation described as "investment tax credit (regulatory liability)."**

12
13 A. The Company has included \$42.573 million as a regulatory liability reflecting the
14 gross up for income taxes effect of the investment tax credit balance on a net present
15 value basis at December 31, 1998. The investment tax credit balance itself is
16 returned to ratepayers on a net present value basis through the Company's
17 quantifications of the market value and generation stranded costs.

18
19 This item is actually a component of the SFAS 109 computation. However, the
20 Company chose to separate the regulatory asset portion of the SFAS 109 computation
21 as "taxes recoverable" from the offsetting regulatory liability portion due to
22 investment tax credits.

1 Q. Do you agree with the methodology employed by PP&L to compute the net
2 present value at December 31, 1998 of the SFAS 109 and investment tax credit
3 regulatory assets?
4

5 A. Yes. First, the quantification of the regulatory asset and liability is on a net present
6 value basis at December 31, 1998, in accordance with the statutory requirements.
7 Second, the quantifications represent both the regulatory asset and liability portions
8 of future taxes recoverable and returnable, in accordance with the statutory
9 requirements to state the regulatory assets net of regulatory liabilities. Third, the
10 amortizations and thus, the net present values of each of the two items, are computed
11 based upon traditional regulation, also in accordance with the statutory requirements.
12

13 Q. Does the PP&L methodology for computing the net present value of the SFAS
14 109 regulatory assets and liabilities at December 31, 1998 differ from that
15 employed by PECO Energy ("PECO") in its Restructuring filing?
16

17 A. Yes. PP&L properly and correctly complied with the three statutory requirements
18 previously mentioned. In contrast, PECO did not compute its net SFAS 109
19 regulatory asset on a net present value basis, and asserted that a net present value
20 computation should be based upon an amortization of the nominal SFAS 109
21 regulatory asset over the seven year CTC recovery period.
22

1 Q. Why have you addressed PECO's methodology for quantifying its SFAS 109
2 regulatory asset in this PP&L proceeding?

3

4 A. I have included this discussion to highlight these methodological differences and to
5 strongly urge the Commission to adopt the PP&L methodology for quantifying the
6 SFAS 109 net regulatory asset as proper and correct in all proceedings pursuant to
7 the Competition Act.

8

9 Q. Why is it appropriate to utilize the remaining lives of the underlying generating
10 units to compute the net present value of the SFAS 109 regulatory asset and
11 liability?

12

13 A. First, it is important to recognize that the objective in the stranded cost quantification
14 is to determine the valuation of the regulatory asset on a net present value basis and
15 under traditional regulation, both statutory requirements. As such, the entitlement to
16 specific levels and patterns of future recovery (or return to ratepayers in the case of
17 the investment tax credit) are specifically tied to the remaining operating lives of the
18 generating units, the same periods over which the generating units would be
19 depreciated under traditional regulation.

20

21 Second, the CTC recovery period should have no impact on the quantification of the
22 SFAS 109 regulatory asset and liability. It clearly would be an incorrect result to
23 increase the valuation of the regulatory asset on a net present value basis by tying the

1 valuation to the accelerated CTC seven year recovery period. The SFAS 109
2 regulatory asset on the accounting books simply represents the nominal value of
3 future collections necessary from ratepayers. Since there have been no expenditures
4 by the utility, there are no carrying charges on the unamortized accounting balance.
5 Thus, the entitlement to specific levels and patterns of future recovery significantly
6 affect the valuation of the regulatory asset and liability on a net present value basis
7 for purposes of the stranded cost quantification.

8
9 **Q. Is consistency important in the valuation of regulatory assets, liabilities, and**
10 **generation stranded costs?**

11
12 **A.** Yes. PP&L has been consistent in its computations of the SFAS 109 regulatory asset
13 and liability and the amortization (return) to the ratepayers of investment tax credit
14 in its market value computation at the levels and in the patterns specifically tied to
15 the remaining lives of its generating units under traditional regulation, and as required
16 under the Competition Act.

1 excess, I utilized the generation allocation percentage of 66.1% detailed on PP&L
2 Exhibit JRS-1, page 40 and a PUC jurisdictional allocation percentage of 96.88%.

3

4 **Q. Why is it appropriate to treat the excess pension funding as a regulatory liability**
5 **for purposes of the stranded cost quantification?**

6

7 A. This overfunding represents a "savings account" that can be utilized by the Company
8 to either offset future pension expense or to withdraw in some manner, albeit with
9 certain limitations and penalties. Nevertheless, this savings account represents a
10 prepayment by ratepayers through past revenue recovery of pension expense by
11 PP&L for which ratepayers are entitled to full credit in the stranded cost
12 quantification.

13

14 **Q. Does this regulatory liability actually exist?**

15

16 A. Yes. The overfunding is a reality, as measured by accounting and actuarial
17 professionals, and as disclosed in its financial statements and notes.

18

19 **Q. Does the PPLICA quantification reflect a conservative approach to the excess**
20 **pension funding issue?**

21

1 A. Yes. This regulatory liability would be even greater than the amount I have
2 quantified if I had also incorporated the past amounts collected and which PP&L will
3 continue to collect for pension expense through base rates that have not been and will
4 not be deposited into the pension trust fund. Instead, PP&L has retained since 1989
5 and will retain the entirety of its pension ratemaking collections for its own benefit,
6 according to its response to PPLICA-II-27(d). The earnings on these amounts not
7 deposited into the trust fund but collected from ratepayers will never inure to the
8 benefit of the ratepayers. Thus, the PPLICA quantification of the excess pension
9 funding is conservative.

10

11 **Q. Does the pension overfunding represent a net present value amount?**

12

13 A. Yes. Consequently, no discounting is necessary to state the amount on a net present
14 value basis at December 31, 1998 for purposes of the stranded cost quantification.

1 after December 31, 1996 would be deferred to and determined in the Company's
2 restructuring proceeding.

3

4 **Q. Is it appropriate to include the first component of the Company's unrecovered**
5 **fuel regulatory asset in the CTC stranded cost quantification?**

6

7 A. Yes. The Company's computation for this first component of \$17.2 million was based
8 upon actual underrecoveries at December 31, 1996. It is properly stated on a net
9 present value basis at December 31, 1998.

10

11 **Q. Is it appropriate to include the second component of the Company's unrecovered**
12 **fuel regulatory asset in the CTC stranded cost quantification?**

13

14 A. No. First, the burden is upon the Company to establish that it will actually
15 undercollect its fuel costs compared to the recovery through the rollin to base rates.
16 The Company has not done so in its filing, instead relying upon the five year historic
17 fuel cost average utilized to support its request for prospective accounting deferral in
18 Docket Nos. P-961131 and R-963842. The Company has the burden to demonstrate
19 the "prudence and reasonableness of the accuracy and propriety of these
20 undercollections," according to the Commission's Order. The burden is not on other
21 parties to demonstrate the contrary.

1 Second, there is no valid quantification of this component of the Company's
2 unrecovered fuel regulatory asset, if this component exists or will exist at all. The
3 Company's quantification of \$31.5 million annually is not based upon actual or
4 estimated underrecoveries for the years 1997 and 1998. Instead, it is based upon a
5 1992-1996 five year average of ECR costs compared to the amount recognized as
6 rolled into base rates, and also is based upon 1996 revenues and billing determinants.
7 That historic average does not comport with the manner in which the ECR
8 undercollections would have been computed in 1997 and 1998 absent the rollin. I
9 have replicated the Company's computation of the \$31.5 million as my Exhibit
10 ____ (LK-2).

11
12 **Q. Has the Company provided a quantification of the fuel undercollections for 1997**
13 **and 1998?**

14
15 **A.** Yes. The Company provided a quantification in response to PPLICA-II-6, which I
16 have replicated as my Exhibit ____ (LK-3).

17
18 **Q. What is your assessment of the Company's quantifications for 1997 and 1998**
19 **provided in response to discovery?**

1 A. The computations are substantially flawed, biased, speculative, and uncertain. First,
2 the Company's quantifications of the 1997 and 1998 fuel undercollections rest upon
3 numerous assumptions and the methodologies employed in the Company's
4 quantifications. The referenced discovery requested "all assumptions, data,
5 computations, workpapers, and spreadsheets with the cell formulas left intact."
6 However, PP&L provided no assumptions or descriptions of its methodologies, other
7 than those evident from a review of the three pages provided in the response. For
8 example, there were no assumptions stated regarding the projections of fuel prices,
9 projections of off-system sales, projections of line losses, or the projected operation
10 of the generating units. Thus, even when specifically requested to provide a
11 demonstration that its computations of unrecovered 1997 and 1998 fuel costs were
12 "prudent and reasonable," PP&L failed to make that demonstration.

13
14 Second, a review of the computations underlying the actual 1996 rollin computation
15 compared to the projections for 1997 and 1998 reveal that the Company failed to
16 recognize that the amount of the revenue recovery due to the ECR rolled into base
17 rates would grow in proportion to its sales growth. Instead, it assumed that the
18 amount rolled into base rates was fixed while concurrently assuming that the
19 projected ECR fuel costs would vary with sales. Specifically, the actual 1996 retail
20 sales utilized by PP&L before line losses were 33.699 mmkwh, while the projected
21 sales were 32.998 mmkwh and 33.984 mmkwh for 1997 and 1998, respectively.

1 Third, the results of the Company's assumptions and methodologies appear
2 unreasonable compared to 1996 actuals. While the Company's projected fuel costs
3 per kWh from its own generation declined in 1997 and again in 1998 compared to
4 1996 actual, its purchased power costs per kWh increased by nearly 20% in 1998
5 compared to 1996 actual. In addition, its off-system sales revenues per kWh
6 decreased by nearly 20% in 1998 compared to 1996 actual. To compound the
7 decrease in the off-system sales revenue per kWh, its off-system sales volume
8 projection declined by nearly 50% in 1998 compared to 1996 actual. In addition, its
9 line losses increased to 6.8% in 1998 compared to 1996. These results of the
10 Company's assumptions and methodologies had the direct effect of resulting in higher
11 projected ECR costs and higher "unrecovered" fuel costs.

12

1 **V. EMPLOYEE TRANSITION COSTS**

2

3 **Q. Please describe the Company's request for recovery of employee transition costs**
4 **as a regulatory asset.**

5

6 **A.** The Company has claimed a regulatory asset of \$17.106 million on a net present
7 value basis at December 31, 1998. PP&L estimated severance and incremental
8 pension costs for the years 1997 through 2001, amortized these costs over five years
9 and discounted the amortizations to December 31, 1998.. The annual estimated
10 severance and incremental pension costs and the annual amortizations are detailed on
11 PP&L Exhibit JRS-1 page 40. Supporting computations were provided in response
12 to OCA-I-19.

13

14 **Q. Are these projected employee transition costs appropriate for recovery as a**
15 **regulatory asset?**

16

17 **A.** No. First, the projected costs are highly speculative. The Company has no specific
18 future plans for employee reductions, according to its responses to OCA-I-12 and
19 OCA-III-27. Thus, the claim underlying this regulatory asset that it will reduce its
20 employee count by 381 could just as well have been 100 or 500.

1 Second, the Company failed to properly incorporate normal employee attrition into
2 its computations. PP&L assumed 5% attrition in its computation of the employee
3 transition costs, which was provided in response to OCA-I-19. However, rather than
4 reducing the claimed transition employee costs by the total normal employee attrition,
5 it only reduced the transition costs by 5%. If PP&L had properly reflected the total
6 normal employee attrition, there would have been no incremental projected "employee
7 transition" reductions. At April 1997, the Company had 6,684 employees including
8 part-time and temporary employees, according to its response to OCA-I-13. A
9 reduction of 381 employees over a five year period represents an average of 76
10 employees per year, or an attrition rate of slightly more than 1%, well below the
11 Company's assumption of a 5% attrition rate. Thus, there are no special incremental
12 "employee transition" reductions that should be recognized.

13
14 Third, if this regulatory asset is adopted conceptually by the Commission, then the
15 valuation of the asset should be the net present value of the future cash outlays by
16 the Company. The cash costs associated with the employee reductions are
17 substantially less than the accrual costs projected by the Company. The difference
18 is due to accounting recognitions of future pension and other postretirement benefits
19 expense. The net present value of the cash costs associated with the projected
20 employee reductions is \$5.502 million at December 31, 1998, according to the
21 Company's response to PPLICA-II-12(d), compared to the \$17.106 million sought
22 by the Company for this regulatory asset.

VI. DOE ASSESSMENT

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21

Q. Please describe the Company's request for the DOE assessment as a regulatory asset.

A. The Company has included the net present value at December 31, 1998 of its future payment obligations to the DOE, under the terms of the 1992 Energy Policy Act. The assessments are to provide funds for the decontamination and decommissioning of the DOE's uranium enrichment facilities.

Q. Are the future payment obligations under the DOE assessment appropriate for recovery as a regulatory asset?

A. No. The Company has also included these same future annual payment obligations under the DOE assessment in its projected nuclear fuel costs for its market value quantifications. Thus, the inclusion of these future costs as a regulatory asset clearly would result in an improper double recovery. The Company confirmed that it was in error and had included the DOE assessment in both its fuel costs and as a regulatory asset, according to its response to PPLICA-II-10(b). In that response, PP&L stated.

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8

"Total fuel for 1999 and subsequent years through 2007 does include the amortization of the DOE assessment to PP&L for decommissioning and decontamination of certain DOE enrichment facilities. The Company will make an appropriate adjustment in its rebuttal case."

Thus, there is no DOE assessment regulatory asset.

1 the December 31, 1998 unamortized balance at \$8.730 million on a net present basis,
2 which is \$14.469 million on a nominal basis.

3
4 **Q. Is it appropriate to include the SFAS 106 regulatory asset in the CTC stranded**
5 **cost quantification?**

6
7 A. Yes. This SFAS 106 regulatory asset is appropriate to include in the stranded cost
8 computation since it was the result of deferrals authorized by the Commission,

9
10 **Q. Is there another issue associated with SFAS No. 106 that should be considered**
11 **in the stranded cost quantification?**

12
13 A. Yes. Since 1995, the Company has been collecting \$13.415 million in rates for
14 SFAS 106 costs in excess of its cash payment requirements. The generation portion
15 is \$8.867 million based upon the 66.1% generation allocation factor utilized by Mr.
16 Stradt for SFAS 106 costs on Exhibit JRS-1. The Commission required the Company
17 to place the accrued amounts in excess of cash payments into an external trust fund.
18 The amounts in the trust fund have been earning a return that annually reduces the
19 Company's SFAS 106 expense and which will continue to do so in the future by
20 even greater amounts. The Company will have recovered \$28.818 million by
21 December 31, 1998 related to generation which will continue to grow as additional

1 amounts are collected through base rates in excess of cash payments. In addition, the
2 earnings on the trust funds will continue to grow.

3
4 **Q. How has the Company reflected these continued SFAS 106 recoveries in excess**
5 **of cash payments in its quantification of stranded costs?**

6
7 A. The Company has included the continued SFAS 106 recoveries as a component of
8 O&M expense in its market value and generation stranded cost quantifications. Thus,
9 the net present value of these overrecoveries compared to cash payments is reflected
10 by PP&L in a lower market value and a higher generation stranded cost than if it had
11 reflected only the cash payments in those quantifications.

12
13 **Q. Should the Commission recognize a regulatory liability for the SFAS 106 trust**
14 **fund earnings?**

15
16 A. Yes. The present value of the earnings on the trust fund related to generation should
17 be treated as a regulatory liability since it represents amounts recovered from
18 ratepayers prior to the Company's requirement to pay these retiree costs. At some
19 date in the future, the SFAS 106 costs will be less than the cash payments. However,
20 the ratepayers will never reap the benefit of their overpayments since the generation
21 function will be unbundled prior to this future crossover date. Since these are

1 prepayments by ratepayers, ratepayers are entitled to a return on these amounts,
2 consistent with the recognition of these trust fund earnings under traditional
3 regulation.

4
5 **Q. Have you quantified the present value of the future SFAS 106 trust fund**
6 **earnings related to generation?**

7
8 **A.** Yes. The regulatory liability is at least \$53.990 million. I have assumed recoveries
9 of SFAS 106 expenses in excess of cash payments for the next fourteen years, the
10 residual of the transition obligation amortization period, followed by a ten year period
11 over which the cumulative excess recoveries in the fund are paid out to retirees on
12 an annual uniform basis. I have utilized the 7.5% return on trust fund assets assumed
13 by PP&L to compute the annual savings and discounted the earnings by the 7.92%
14 after tax cost of capital utilized by PP&L. The computations are detailed on my
15 Exhibit ____ (LK-4).

16

1 **VIII. FOSSIL DECOMMISSIONING**

2

3 **Q. Please describe the Company's request for recovery of fossil decommissioning**
4 **costs.**

5

6 A. The Company has included the projected costs of decommissioning its fossil
7 generating units in the market valuation and generation stranded cost quantifications.
8 It has done so by relying upon two studies, the first performed for PP&L by TLG
9 Services for the fossil generating units operated by the Company, the second
10 performed for PECO by TLG Services for the fossil units operated by PECO in
11 which PP&L has an ownership interest. PP&L witness Joseph Schadt extrapolated
12 the cost estimates from these studies to the years of retirement and disbursement. Mr.
13 Schadt assumed that the decommissioning activities would occur and the related
14 disbursements made over a three year period for each unit, 40% in the year of
15 retirement, 40% in the second year, and 20% in the third year.

16

17 **Q. Are fossil decommissioning studies, such as the ones performed by TLG Services**
18 **and relied upon by the Company, objective studies of certain future costs?**

19

20 A. No. To the contrary, fossil decommissioning studies are the result of assumptions
21 premised upon assumptions. As such, they are inherently speculative and uncertain.

1 One fundamental assumption underlying such studies, and upon which are premised
2 other assumptions, is that the Company's generating facilities actually will be retired
3 permanently, dismantled, and the sites restored while under the ownership and control
4 of the utility. PP&L has made no such commitments in this proceeding. TLG
5 Services simply has taken this assumption, along with others, to compute the "what-
6 if" costs of decommissioning. The result is illusory at best.

7
8 A second fundamental assumption is that the Company's generating facilities actually
9 will be retired at the dates indicated in the study. Historical experience throughout
10 the utility industry has demonstrated that appropriate maintenance policies, capital
11 expenditures for replacements and life extension, and repowering result in extended
12 operating lives for generating facilities. In addition, PP&L has made no
13 commitments in this proceeding actually to retire its units on the study's assumed
14 schedule in this proceeding. To the contrary, and discussed by PPLICA witness
15 Randall J. Falkenberg, PP&L has assumed in its market valuation studies that the
16 Keystone 1 and 2 units and the Conemaugh 1 and 2 units, which are operated by
17 PECO Energy, will be retired years earlier than assumed by PECO in its
18 Restructuring filing. PP&L assumed that the Keystone units would be retired in 2007
19 and the Conemaugh units in 2010 compared to the 2018 and 2021 retirement dates
20 utilized by PECO. It also should be noted that the fossil decommissioning study by
21 TLG Services and relied upon by PP&L utilized retirement dates of 2008 and 2011

1 for the two plants, respectively. Thus, despite the absurdity of PP&L's premature
2 retirement assumptions for the Keystone and Conemaugh units, and the uncertainty
3 of the retirement dates of the other units, TLG Services simply has utilized these
4 assumptions in order to compute the "what-if" costs of decommissioning, costs that
5 are simply incorrect.

6
7 A third fundamental assumption is the projection of the costs necessary to fully
8 dismantle the generating facilities and to restore the sites to greenfield condition. It
9 is clear that this is a matter of significant uncertainty, completely dependent upon
10 numerous assumptions of the need for and extent of dismantling, along with the
11 technology that will be available and the related individual costs projected ("guessed
12 at") for decades into the future. To "address" the uncertainty in this third
13 fundamental assumption, TLG Services apparently felt compelled to add a series of
14 "contingency" factor, to its base estimates ("guesses"). Even casual observers would
15 note that adding amounts to already uncertain amounts does nothing to decrease the
16 inherent uncertainty, but rather does everything to increase the projected recovery
17 amounts to even higher levels, the latter with certainty.

18
19 The Company's fossil decommissioning request and the underlying studies cannot be
20 considered an objective and certain projection of future costs. Instead, it is highly
21 speculative and uncertain by its very nature.

1 Q. Has the Commission recognized the speculative and uncertain nature of
2 projected fossil decommissioning costs in rejecting these costs in previous
3 ratemaking proceedings?

4

5 A. Yes. The Commission has consistently rejected projected fossil decommissioning
6 costs based upon the argument that such costs are inherently speculative and
7 uncertain. Thus, because the costs are not known and measurable, they are not
8 recoverable. Fossil decommissioning costs have not been allowed by the Commission
9 unless and until they are actually incurred, thereby meeting the known and
10 measurable criterion.

11

12 In its Docket No. R-942986 Order dated December 29, 1994 (West Penn base
13 ratemaking proceeding), the Commission articulated this argument very clearly as
14 follows.

15

16 **"Consequently, we reject the Company's claim because of**
17 **its uncertain and speculative nature and because this claim**
18 **is patently counter to existing precedent." (page 63)**

19

20 Q. Has the issue of ratemaking recovery of prospective decommissioning costs been
21 addressed by the courts?

22

1 A. Yes. Although I am not offering a legal opinion, it is clear that the Commission has
2 consistently relied upon the Penn-Sheraton court case in its ratemaking orders on the
3 issue of projected fossil decommissioning costs. Thus, the Commission legally may
4 be precluded from allowing recovery of projected fossil decommissioning costs.

5

6 The court in the Penn-Sheraton case stated the following.

7

8 **"It is clear in our law that 'In no event will a utility be permitted**
9 **to recover by annual allowances for depreciation a total amount**
10 **in excess of the original cost, since annual depreciation is**
11 **computed on original cost and not upon fair value or reproduction**
12 **cost.'"**

13

14 **". . . Negative salvage attributed to existing plant is purely**
15 **prospective; it is a cost which has not yet been incurred; it is**
16 **uncertain when and if it will be incurred; and it is not a part of**
17 **the original cost of construction of the facilities when first devoted**
18 **to public service. To permit the recovery of prospective negative**
19 **salvage is to permit the recovery of a total amount in excess of the**
20 **original cost of construction prior to the actual expenditure of**
21 **those costs and, in our opinion, represents the recovery of**
22 **something in the nature of a future reproduction cost. The**
23 **established law in this Commonwealth does not permit the**
24 **recovery by annual depreciation of any such prospective excess."**

25

26 Q. **What is your recommendation regarding the projected fossil decommissioning**
27 **costs included by the Company in its stranded cost quantification?**

28

1 A. I recommend that the Commission not allow this claim. PP&L's claim fails to meet
2 the statutory requirements for regulatory assets, although the Company was careful
3 not to characterize its request for projected fossil decommissioning as a regulatory
4 asset. Nevertheless, the projected costs are not known and measurable with even a
5 modicum of certainty. Second, the costs would not be recoverable under traditional
6 regulation unless and until actually incurred, and then in arrears based on a five year
7 historical average.

8

9 **Q. How has PPLICA reflected your recommendation in its quantification of**
10 **stranded costs?**

11

12 A. PPLICA witness Mr. Falkenberg has relied upon my recommendation and reflected
13 no future annual fossil decommissioning cost accruals in his quantifications of market
14 value and generation stranded costs.

1 **IX. DEFERRED SUSQUEHANNA REFUELING COSTS**

2
3 **Q. Please describe the Company's request for recovery of deferred Susquehanna**
4 **refueling costs as a regulatory asset.**

5
6 **A. The Company has included \$7.996 million on a net present value basis at December**
7 **31, 1998 for this issue. These costs represent specifically identified amounts that are**
8 **incurred during refueling outages that are subsequently amortized to expense from the**
9 **end of that outage through the end of the subsequent outage. The Company's request**
10 **is based upon a one year amortization of the December 31, 1998 projected balance.**

11
12 **Q. Is it appropriate to include as a regulatory asset the deferred Susquehanna**
13 **refueling costs?**

14
15 **A. No. The Company's request is premised upon a change in accounting for outage**
16 **costs "subsequent to 1999" as the result of its change to a 24 month refueling cycle**
17 **for Susquehanna 1 in 1997 and for Susquehanna 2 in 1998. With the change to the**
18 **24 month refueling outage cycles, the Company simply will expense annually the**
19 **actual outage costs incurred in each outage year since two units, one from each plant,**
20 **will undergo a refueling outage annually. There no longer will be any deferrals or**
21 **amortizations.**

1 Despite the operational changes in 1997 and 1998 and the intent to change its
2 accounting tied directly to those operational changes, the Company actually has not
3 changed nor does it plan to change its accounting in 1997 or 1998 to discontinue the
4 deferrals and amortizations accounting. Instead, the Company simply has assumed
5 that it can defer the accounting recognition of the effects of those changes into the
6 "subsequent to 1999" period, although it had no accounting order from the
7 Commission that authorized such a deferral. Normally, such changes in accounting
8 must be implemented when the decision has been made in accordance with generally
9 accepted accounting principles and in order to avoid misleading investors.

1 Q. Will the Company's recommendation to treat the future annual nuclear
2 decommissioning expense accruals as a T&D wires charge result in double
3 recovery of these costs?

4

5 A. Yes. The Company's recommendations currently provide for recovery of these costs
6 both through the generation stranded cost quantification and through the T&D wires
7 charge. The Company should only be allowed recovery once. If the Commission
8 agrees that the future accruals should be treated as a T&D wires charge, then the
9 market value and generation stranded costs should be reduced to remove the effects
10 currently included in the Company's quantifications of those amounts. If the
11 Commission agrees that the future accruals should be treated as an increase to market
12 value and generation stranded costs, then there should be no recovery through a
13 separate T&D wires charge.

14

15 Q. Do the PPLICA market value and generation stranded cost quantifications
16 incorporate the net present value of the future annual nuclear decommissioning
17 expense accruals?

18

19 A. Yes. Consequently, if the Commission adopts PP&L's recommendation to treat the
20 future accruals as a T&D wires charge, then the PPLICA market value quantification

1 should be increased and the generation stranded cost quantification should be reduced
2 by the net present value of the future accruals.

3

4 **Q. If the Company's concerns regarding the tax deductibility of future annual**
5 **nuclear decommissioning accruals or the taxability of accelerated recoveries**
6 **through the CTC prove to be a problem in the future, what is your**
7 **recommendation?**

8

9 A. If the potential tax issues become reality, PPLICA believes PP&L can petition the
10 Commission for additional relief under §2804(III)(C) or (F) of the Competition Act.

11

12 **Q. Does this complete your testimony?**

13

14 A. Yes.

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

**PENNSYLVANIA PUBLIC UTILITY
COMMISSION, ET. AL.**

V.

PENNSYLVANIA POWER & LIGHT COMPANY

**APPLICATION OF PENNSYLVANIA
POWER & LIGHT COMPANY FOR
APPROVAL OF ITS
RESTRUCTURING PLAN UNDER
SECTION 2806 OF THE
PUBLIC UTILITY CODE**

DOCKET NO. R-00973954

<p>EXHIBITS</p> <p>OF</p> <p>LANE KOLLEN</p>

ON BEHALF OF THE

PP&L INDUSTRIAL CUSTOMER ALLIANCE

**Air Products and Chemicals, Inc.
Alumax
Appleton Papers Inc.
Armstrong World Industries
Bethlehem Steel Corporation
CertainTeed Corporation
Hercules Cement Company
Hershey Foods Corporation
Horsehead Resource Development Co., Inc.**

**Lafarge Corporation Whitehall Plant
Lucent Technologies
Magee Carpet Company
Praxair, Inc.
R. R. Donnelley & Sons Company
The Stroh Brewery Company
Thomson Consumer Electronics, Inc.
Victaulic Company of America
WEA Manufacturing**

**J. KENNEDY AND ASSOCIATES, INC.
ATLANTA, GEORGIA**

JULY 1997

RESUME OF LANE KOLLEN, VICE PRESIDENT

EDUCATION

University of Toledo, BBA
Accounting

University of Toledo, MBA

PROFESSIONAL CERTIFICATIONS

Certified Public Accountant (CPA)

Certified Management Accountant (CMA)

DUCKETED
AUG 29 1997

PROFESSIONAL AFFILIATIONS

American Institute of Certified Public Accountants

Georgia Society of Certified Public Accountants

Institute of Certified Management Accountants

Institute of Management Accountants

**DOCUMENT
FOLDER**

Seventeen years utility industry experience in the financial, rate, and planning areas. Specialization in revenue requirements analyses, taxes, evaluation of rate and financial impacts of traditional and nontraditional ratemaking, utility mergers/acquisition diversification. Expertise in proprietary and nonproprietary software systems used by utilities for budgeting, rate case support and strategic and financial planning.

J. KENNEDY AND ASSOCIATES, INC.

RESUME OF LANE KOLLEN, VICE PRESIDENT

EXPERIENCE

1986 to
Present:

Kennedy and Associates: Vice President and Principal. Responsible for utility revenue requirements analysis, cash flow projections and solvency, financial and cash effects of traditional and nontraditional ratemaking, and research, speaking and writing on the effects of tax law changes. Testimony before Connecticut, Florida, Georgia, Indiana, Louisiana, Kentucky, Minnesota, North Carolina, Ohio, Pennsylvania, Texas, and West Virginia Public Service Commissions and the Federal Energy Regulatory Commission.

1983 to
1986:

Energy Management Associates: Lead Consultant.

Consulting in the areas of strategic and financial planning, traditional and nontraditional ratemaking, rate case support and testimony, diversification and generation expansion planning. Directed consulting and software development projects utilizing PROSCREEN II and ACUMEN proprietary software products. Utilized ACUMEN detailed corporate simulation system, PROSCREEN II strategic planning system and other custom developed software to support utility rate case filings including test year revenue requirements, rate base, operating income and pro-forma adjustments. Also utilized these software products for revenue simulation, budget preparation and cost-of-service analyses.

1976 to
1983:

The Toledo Edison Company: Planning Supervisor.

Responsible for financial planning activities including generation expansion planning, capital and expense budgeting, evaluation of tax law changes, rate case strategy and support and computerized financial modeling using proprietary and nonproprietary software products. Directed the modeling and evaluation of planning alternatives including:

- Rate phase-ins.
- Construction project cancellations and write-offs.
- Construction project delays.
- Capacity swaps.
- Financing alternatives.
- Competitive pricing for off-system sales.
- Sale/leasebacks.

RESUME OF LANE KOLLEN, VICE PRESIDENT

CLIENTS SERVED

Industrial Companies and Groups

Air Products and Chemicals, Inc.	Lehigh Valley Power Committee
Airco Industrial Gases	Maryland Industrial Group
Alcan Aluminum	Multiple Intervenors (New York)
Armco Advanced Materials Co.	National Southwire
Armco Steel	North Carolina Industrial
Bethlehem Steel	Energy Consumers
Connecticut Industrial Energy Consumers	Occidental Chemical Corporation
ELCON	Ohio Industrial Energy Consumers
Enron Gas Pipeline Company	Ohio Manufacturers Association
Florida Industrial Power Users Group	Philadelphia Area Industrial Energy
General Electric Company	Users Group
GPU Industrial Intervenors	PSI Industrial Group
Indiana Industrial Group	Smith Cogeneration
Industrial Consumers for	Taconite Intervenors (Minnesota)
Fair Utility Rates - Indiana	West Penn Power Industrial Intervenors
Industrial Energy Consumers - Ohio	West Virginia Energy Users Group
Kentucky Industrial Utility Consumers	Westvaco Corporation

Regulatory Commissions and Government Agencies

Georgia Public Service Commission Staff
Kentucky Attorney General's Office, Division of Consumer Protection
Louisiana Public Service Commission Staff
New York State Energy Office
Office of Public Utility Counsel (Texas)

RESUME OF LANE KOLLEN, VICE PRESIDENT

Utilities

Allegheny Power System
Atlantic City Electric Company
Carolina Power & Light Company
Cleveland Electric Illuminating Company
Delmarva Power & Light Company
Duquesne Light Company
General Public Utilities
Georgia Power Company
Middle South Services
Nevada Power Company
Niagara Mohawk Power Corporation

Otter Tail Power Company
Pacific Gas & Electric Company
Public Service Electric & Gas
Public Service of Oklahoma
Rochester Gas and Electric
Savannah Electric & Power Company
Seminole Electric Cooperative
Southern California Edison
Talquin Electric Cooperative
Tampa Electric
Texas Utilities
Toledo Edison Company

**Expert Testimony Appearances
of
Lane Kollen
As of June 1997**

Date	Case	Jurisdct.	Party	Utility	Subject
10/86	U-17282 Interim	LA	Louisiana Public Service Commission Staff	Gulf States Utilities	Cash revenue requirements financial solvency.
11/86	U-17282 Interim Rebuttal	LA	Louisiana Public Service Commission Staff	Gulf States Utilities	Cash revenue requirements financial solvency.
12/86	9613	KY	Attorney General Div. of Consumer Protection	Big Rivers Electric Corp.	Revenue requirements accounting adjustments financial workout plan.
1/87	U-17282 Interim 19th Judicial District Ct.	LA	Louisiana Public Service Commission Staff	Gulf States Utilities	Cash revenue requirements, financial solvency.
3/87	General Order 236	WV	West Virginia Energy Users' Group	Monongahela Power Co.	Tax Reform Act of 1986.
4/87	U-17282 Prudence	LA	Louisiana Public Service Commission Staff	Gulf States Utilities	Prudence of River Bend 1, economic analyses, cancellation studies.
4/87	M-100 Sub 113	NC	North Carolina Industrial Energy Consumers	Duke Power Co.	Tax Reform Act of 1986.
5/87	86-524-E-	WV	West Virginia Energy Users' Group	Monongahela Power Co.	Revenue requirements. Tax Reform Act of 1986.
5/87	U-17282 Case In Chief	LA	Louisiana Public Service Commission Staff	Gulf States Utilities	Revenue requirements, River Bend 1 phase-in plan, financial solvency.
7/87	U-17282 Case In Chief Surrebut	LA	Louisiana Public Service Commission Staff	Gulf States Utilities	Revenue requirements River Bend 1 phase-in plan, financial solvency.
7/87	U-17282 Prudence Surrebut	LA	Louisiana Public Service Commission Staff	Gulf States Utilities	Prudence of River Bend 1, economic analyses, cancellation studies.
7/87	86-524 E-SC Rebuttal	WV	West Virginia Energy Users' Group	Monongahela Power Co.	Revenue requirements, Tax Reform Act of 1986.
8/87	9885	KY	Attorney General Div. of Consumer Protection	Big Rivers Electric Corp.	Financial workout plan.
8/87	E-015/GR- 87-223	MN	Taconite Intervenors	Minnesota Power & Light Co.	Revenue requirements, O&M expense, Tax Reform Act of 1986.

J. KENNEDY AND ASSOCIATES, INC.

**Expert Testimony Appearances
of
Lane Kollen
As of June 1997**

Date	Case	Jurisdct.	Party	Utility	Subject
10/87	870220-EI	FL	Occidental Chemical Corp.	Florida Power Corp.	Revenue requirements, O&M expense, Tax Reform Act of 1986.
11/87	87-07-01	CT	Connecticut Industrial Energy Consumers	Connecticut Light & Power Co.	Tax Reform Act of 1986.
1/88	U-17282	LA 19th Judicial District Ct.	Louisiana Public Service Commission Staff	Gulf States Utilities	Revenue requirements, River Bend 1 phase-in plan, rate of return.
2/88	9934	KY	Kentucky Industrial Utility Customers	Louisville Gas & Electric Co.	Economics of Trimble County completion.
2/88	10064	KY	Kentucky Industrial Utility Customers	Louisville Gas & Electric Co.	Revenue requirements, O&M expense, capital structure, excess deferred income taxes.
5/88	10217	KY	Alcan Aluminum National Southwire	Big Rivers Electric Corp.	Financial workout plan.
5/88	M-87017-1C001	PA	GPU Industrial Intervenors	Metropolitan Edison Co.	Nonutility generator deferred cost recovery.
5/88	M-87017-2C005	PA	GPU Industrial Intervenors	Pennsylvania Electric Co.	Nonutility generator deferred cost recovery.
6/88	U-17282	LA 19th Judicial District Ct.	Louisiana Public Service Commission Staff	Gulf States Utilities	Prudence of River Bend 1 economic analyses, cancellation studies, financial modeling.
7/88	M-87017-1C001 Rebuttal	PA	GPU Industrial Intervenors	Metropolitan Edison Co.	Nonutility generator deferred cost recovery, SFAS No. 92
7/88	M-87017-2C005 Rebuttal	PA	GPU Industrial Intervenors	Pennsylvania Electric Co.	Nonutility generator deferred cost recovery, SFAS No. 92
9/88	88-05-25	CT	Connecticut Industrial Energy Consumers	Connecticut Light & Power Co.	Excess deferred taxes, O&M expenses.
9/88	10064 Rehearing	KY	Kentucky Industrial Utility Customers	Louisville Gas & Electric Co.	Premature retirements, interest expense.
10/88	88-170-EL-AIR	OH	Ohio Industrial Energy Consumers	Cleveland Electric Illuminating Co.	Revenue requirements, phase-in, excess deferred taxes, O&M expenses, financial considerations, working capital.

**Expert Testimony Appearances
of
Lane Kollen
As of June 1997**

Date	Case	Jurisdic.	Party	Utility	Subject
10/88	88-171-EL-AIR	OH	Ohio Industrial Energy Consumers	Toledo Edison Co.	Revenue requirements, phase-in, excess deferred taxes, O&M expenses, financial considerations, working capital.
10/88	8800 355-EI	FL	Florida Industrial Power Users' Group	Florida Power & Light Co.	Tax Reform Act of 1986, tax expenses, O&M expenses, pension expense (SFAS No. 87).
10/88	3780-U	GA	Georgia Public Service Commission Staff	Atlanta Gas Light Co.	Pension expense (SFAS No. 87).
11/88	U-17282 Remand	LA	Louisiana Public Service Commission Staff	Gulf States Utilities	Rate base exclusion plan (SFAS No. 71)
12/88	U-17970	LA	Louisiana Public Service Commission Staff	AT&T Communications of South Central States	Pension expense (SFAS No. 87).
12/88	U-17949 Rebuttal	LA	Louisiana Public Service Commission Staff	South Central Bell	Compensated absences (SFAS No. 43), pension expense (SFAS No. 87), Part 32, income tax normalization.
2/89	U-17282 Phase II	LA	Louisiana Public Service Commission Staff	Gulf States Utilities	Revenue requirements, phase-in of River Bend 1, recovery of canceled plant.
6/89	881602-EU 890326-EU	FL	Talquin Electric Cooperative	Talquin/City of Tallahassee	Economic analyses, incremental cost-of-service, average customer rates.
7/89	U-17970	LA	Louisiana Public Service Commission Staff	AT&T Communications of South Central States	Pension expense (SFAS No. 87), compensated absences (SFAS No. 43), Part 32.
8/89	8555	TX	Occidental Chemical Corp.	Houston Lighting & Power Co.	Cancellation cost recovery, tax expense, revenue requirements.
8/89	3840-U	GA	Georgia Public Service Commission Staff	Georgia Power Co.	Promotional practices, advertising, economic development.
9/89	U-17282 Phase II Detailed	LA	Louisiana Public Service Commission Staff	Gulf States Utilities	Revenue requirements, detailed investigation.
10/89	8880	TX	Enron Gas Pipeline	Texas-New Mexico Power Co.	Deferred accounting treatment, sale/leaseback.
10/89	8928	TX	Enron Gas Pipeline	Texas-New Mexico Power Co.	Revenue requirements, imputed capital structure, cash working capital.

J. KENNEDY AND ASSOCIATES, INC.

**Expert Testimony Appearances
of
Lane Kollen
As of June 1997**

Date	Case	Jurisdiction	Party	Utility	Subject
10/89	R-891364	PA	Philadelphia Area Industrial Energy Users Group	Philadelphia Electric Co.	Revenue requirements.
11/89 12/89	R-891364 Surrebuttal (2 Filings)	PA	Philadelphia Area Industrial Energy Users Group	Philadelphia Electric Co.	Revenue requirements, sale/leaseback.
1/90	U-17282 Phase II Detailed Rebuttal	LA	Louisiana Public Service Commission Staff	Gulf States Utilities	Revenue requirements, detailed investigation.
1/90	U-17282 Phase III	LA	Louisiana Public Service Commission Staff	Gulf States Utilities	Phase-in of River Bend 1, deregulated asset plan.
3/90	890319-EI	FL	Florida Industrial Power Users Group	Florida Power & Light Co.	O&M expenses, Tax Reform Act of 1986.
4/90	890319-EI Rebuttal	FL	Florida Industrial Power Users Group	Florida Power & Light Co.	O&M expenses, Tax Reform Act of 1986.
4/90	U-17282	LA 19th Judicial District Ct.	Louisiana Public Service Commission Staff	Gulf States Utilities	Fuel clause, gain on sale of utility assets.
9/90	90-158	KY	Kentucky Industrial Utility Customers	Louisville Gas & Electric Co.	Revenue requirements, post-test year additions, forecasted test year.
12/90	U-17282 Phase IV	LA	Louisiana Public Service Commission Staff	Gulf States Utilities	Revenue requirements.
3/91	29327, et. al.	NY	Multiple Intervenors	Niagara Mohawk Power Corp.	Incentive regulation.
5/91	9945	TX	Office of Public Utility Counsel of Texas	El Paso Electric Co.	Financial modeling, economic analyses, prudence of Palo Verde 3.
9/91	P-910511 P-910512	PA	Allegheny Ludlum Corp., Armco Advanced Materials Co., The West Penn Power Industrial Users' Group	West Penn Power Co.	Recovery of CAAA costs, least cost financing.
9/91	91-231 -E-NC	WV	West Virginia Energy Users Group	Monongahela Power Co.	Recovery of CAAA costs, least cost financing.
11/91	U-17282	LA	Louisiana Public Service Commission Staff	Gulf States Utilities	Asset impairment, deregulated asset plan, revenue requirements.

**Expert Testimony Appearances
of
Lane Kollen
As of June 1997**

Date	Case	Jurisdict.	Party	Utility	Subject
12/91	91-410-EL-AIR	OH	Air Products and Chemicals, Inc., Armco Steel Co., General Electric Co., Industrial Energy Consumers	Cincinnati Gas & Electric Co.	Revenue requirements, phase-in plan.
12/91	10200	TX	Office of Public Utility Counsel of Texas	Texas-New Mexico Power Co.	Financial integrity, strategic planning, declined business affiliations.
5/92	910890-EI	FL	Occidental Chemical Corp.	Florida Power Corp.	Revenue requirements, O&M expense, pension expense, OPEB expense, fossil dismantling, nuclear decommissioning.
8/92	R-00922314	PA	GPU Industrial Intervenors	Metropolitan Edison Co.	Incentive regulation, performance rewards, purchased power risk, OPEB expense.
9/92	92-043	KY	Kentucky Industrial Utility Consumers	Generic Proceeding	OPEB expense.
9/92	920324-EI	FL	Florida Industrial Power Users' Group	Tampa Electric Co.	OPEB expense.
9/92	39348	IN	Indiana Industrial Group	Generic Proceeding	OPEB expense.
9/92	910840-PU	FL	Florida Industrial Power Users' Group	Generic Proceeding	OPEB expense.
9/92	39314	IN	Industrial Consumers for Fair Utility Rates	Indiana Michigan Power Co.	OPEB expense.
11/92	U-19904	LA	Louisiana Public Service Commission Staff	Gulf States Utilities/Entergy Corp.	Merger.
11/92	8649	MD	Westvaco Corp., Eastalco Aluminum Co.	Potomac Edison Co.	OPEB expense.
11/92	92-1715-AU-COI	OH	Ohio Manufacturers Association	Generic Proceeding	OPEB expense.
12/92	R-00922378	PA	Armco Advanced Materials Co., The WPP Industrial Intervenors	West Penn Power Co.	Incentive regulation, performance rewards, purchased power risk, OPEB expense.
12/92	U-19949	LA	Louisiana Public Service Commission Staff	South Central Bell	Affiliate transactions, cost allocations, merger.

**Expert Testimony Appearances
of
Lane Kollen
As of June 1997**

Date	Case	Jurisdct.	Party	Utility	Subject
12/92	R-00922479	PA	Philadelphia Area Industrial Energy Users' Group	Philadelphia Electric Co.	OPEB expense.
1/93	8487	MD	Maryland Industrial Group	Baltimore Gas & Electric Co., Bethlehem Steel Corp.	OPEB expense, deferred fuel, CWIP in rate base
1/93	39498	IN	PSI Industrial Group	PSI Energy, Inc.	Refunds due to over-collection of taxes on Marble Hill cancellation.
3/93	92-11-11	CT	Connecticut Industrial Energy Consumers	Connecticut Light & Power Co.	OPEB expense.
3/93	U-19904 (Surrebuttal)	LA	Louisiana Public Service Commission Staff	Gulf States Utilities/Entergy Corp.	Merger.
3/93	93-01 EL-EFC	OH	Ohio Industrial Energy Consumers	Ohio Power Co.	Affiliate transactions, fuel.
3/93	EC92-21000 ER92-806-000	FERC	Louisiana Public Service Commission Staff	Gulf States Utilities/Entergy Corp.	Merger.
4/93	92-1464- EL-AIR	OH	Air Products Armco Steel Industrial Energy Consumers	Cincinnati Gas & Electric Co.	Revenue requirements, phase-in plan.
4/93	EC92-21000 ER92-806-000 (Rebuttal)	FERC	Louisiana Public Service Commission Staff	Gulf States Utilities/Entergy Corp.	Merger.
9/93	93-113	KY	Kentucky Industrial Utility Customers	Kentucky Utilities	Fuel clause and coal contract refund.
9/93	92-490, 92-490A, 90-360-C	KY	Kentucky Industrial Utility Customers and Kentucky Attorney General	Big Rivers Electric Corp.	Disallowances and restitution for excessive fuel costs, illegal and improper payments, recovery of mine closure costs.
10/93	U-17735	LA	Louisiana Public Service Commission Staff	Cajun Electric Power Cooperative	Revenue requirements, debt restructuring agreement, River Bend cost recovery.
1/94	U-20647	LA	Louisiana Public Service Commission Staff	Gulf States Utilities Co.	Audit and investigation into fuel clause costs.

**Expert Testimony Appearances
of
Lane Kollen
As of June 1997**

Date	Case	Jurisdic.	Party	Utility	Subject
4/94	U-20647 (Surrebuttal)	LA	Louisiana Public Service Commission Staff	Gulf States Utilities	Nuclear and fossil unit performance, fuel costs, fuel clause principles and guidelines.
5/94	U-20178	LA	Louisiana Public Service Commission	Louisiana Power & Light Co.	Planning and quantification issues of least cost integrated resource plan.
9/94	U-19904 Initial Post- Merger Earnings Review	LA	Louisiana Public Service Commission	Gulf States Utilities Co.	River Bend phase-in plan, deregulated asset plan, capital structure, other revenue requirement issues.
9/94	U-17735	LA	Louisiana Public Service Commission	Cajun Electric Power Cooperative	G&T cooperative ratemaking policies, exclusion of River Bend, other revenue requirement issues.
10/94	3905-U	GA	Georgia Public Service Commission	Southern Bell Telephone Co.	Incentive rate plan, earnings review.
10/94	5258-U	GA	Georgia Public Service Commission	Southern Bell Telephone Co.	Alternative regulation, cost allocation.
11/94	U-19904 Initial Post- Merger Earnings Review (Rebuttal)	LA	Louisiana Public Service Commission	Gulf States Utilities Co.	River Bend phase-in plan, deregulated asset plan, capital structure, other revenue requirement issues.
11/94	U-17735 (Rebuttal)	LA	Louisiana Public Service Commission	Cajun Electric Power Cooperative	G&T cooperative ratemaking policy, exclusion of River Bend, other revenue requirement issues.
4/95	R-00943271	PA	PP&L Industrial Customer Alliance	Pennsylvania Power & Light Co.	Revenue requirements. Fossil dismantling, nuclear decommissioning.
6/95	3905-U	GA	Georgia Public Service Commission	Southern Bell Telephone Co.	Incentive regulation, affiliate transactions, revenue requirements, rate refund.
6/95	U-19904 (Direct)	LA	Louisiana Public Service Commission	Gulf States Utilities Co.	Gas, coal, nuclear fuel costs, contract prudence, base/fuel realignment.
10/95	95-02614	TN	Tennessee Office of the Attorney General Consumer Advocate	BellSouth Telecommunications, Inc.	Affiliate transactions.
10/95	U-21485 (Direct)	LA	Louisiana Public Service Commission	Gulf States Utilities Co.	Nuclear O&M, River Bend phase-in plan, base/fuel realignment, NOL and AltMin asset deferred taxes, other revenue requirement issues.

J. KENNEDY AND ASSOCIATES, INC.

**Expert Testimony Appearances
of
Lane Kollen
As of June 1997**

Date	Case	Jurisdct.	Party	Utility	Subject
11/95	U-19904 (Surrebuttal)	LA	Louisiana Public Service Commission Division	Gulf States Utilities Co.	Gas, coal, nuclear fuel costs, contract prudence, base/fuel realignment.
11/95	U-21485 (Supplemental Direct)	LA	Louisiana Public Service Commission	Gulf States Utilities Co.	Nuclear O&M, River Bend phase-in plan, base/fuel realignment, NOL and AltMin asset deferred taxes, other revenue requirement issues.
12/95	U-21485 (Surrebuttal)				
1/96	95-299- EL-AIR 95-300- EL-AIR	OH	Industrial Energy Consumers	The Toledo Edison Co. The Cleveland Electric Illuminating Co.	Competition, asset writeoffs and revaluation, O&M expense, other revenue requirement issues.
2/96	PUC No. 14967	TX	Office of Public Utility Counsel	Central Power & Light	Nuclear decommissioning.
5/96	95-485-LCS	NM	City of Las Cruces	El Paso Electric Co.	Stranded cost recovery, municipalization.
7/96	8725	MD	The Maryland Industrial Group and Redland Genstar, Inc.	Baltimore Gas & Electric Co., Potomac Electric Power Co. and Constellation Energy Corp.	Merger savings, tracking mechanism, earnings sharing plan, revenue requirement issues.
9/96 11/96	U-22092 U-22092 (Surrebuttal)	LA	Louisiana Public Service Commission	Entergy Gulf States, Inc.	River Bend phase-in plan, base/fuel realignment, NOL and AltMin asset deferred taxes, other revenue requirement issues, allocation of regulated/nonregulated costs.
10/96	96-327	KY	Kentucky Industrial Utility Customers, Inc.	Big Rivers Electric Corp.	Environmental surcharge recoverable costs.
2/97	R-00973877	PA	Philadelphia Area Industrial Energy Users Group	PECO Energy	Stranded cost recovery, regulatory assets and liabilities, intangible transition charge, base revenue requirements.
3/97	96-489	KY	Kentucky Industrial Utility Customers, Inc.	Kentucky Power Co.	Environmental surcharge recoverable costs, system agreements, allowance inventory, jurisdictional allocation.

J. M. Kleha

**Pennsylvania Power & Light Company
Response to Interrogatories
of the Office of Consumer Advocate, Set I
Dated April 14, 1997
Docket No. R-00973954**

Q.7. Please provide all workpapers supporting documentation for the \$31.5 million per year excess of ongoing energy costs in excess of the level of energy costs rolled into base rates.

A.7. See Attachment 1.

ATTACHMENT 1

Calculation of Normalized
Energy Cost Level and Deferral Amount
(\$000)

<u>Calendar Year Period</u>	<u>Total System</u>	<u>PUC Jurisdiction</u>
1992	\$585,266	\$558,031
1993	567,436	541,261
1994	592,383	564,855
1995	569,125	543,337
1996	579,864	554,070
Normalized Level (5-yr. Avg.)	\$578,815	\$552,311
Less: Amount in Base Rates After Roll-in	<u>545,120</u>	<u>520,838</u>
Deferral Amount	<u>\$33,695</u>	<u>\$31,473</u>

Pennsylvania Power & Light Company
Detailed Summary of Actual Energy Costs
For the Year Ended December 31, 1992

	<u>MWH</u>	<u>Cost in thousands</u>	<u>Mil/KWH</u>
Generation			
Nuclear (Includes D&D and Spent Fuel Expense)	12,216,273	\$ 74,476	6.10
Coal (Includes Retired Miners Health Care)	25,152,636	438,572	17.44
Oil (incl. Sun Oil Adj.)	1,057,432	39,486	37.34
CTs and Diesels	9,696	727	74.98
Hydro	750,388	-	0.00
Total Generation	<u>39,186,425</u>	<u>553,261</u>	<u>14.12</u>
Purchased Power			
Other Utilities	980,537	23,894	24.37
Interchange - PJM	482,316	13,925	28.87
Qualified Facilities	3,884,190	237,679	61.19
Total Purchased Power	<u>5,347,043</u>	<u>275,498</u>	<u>51.52</u>
Less Off System Sales			
Interchange - PJM	5,160,278	110,677	21.45
Other Utilities	1,349,864	32,155	23.82
Atlantic Electric	746,052	14,371	19.26
Jersey Central Power & Light	4,361,328	59,292	13.59
Baltimore Gas & Electric	792,471	4,350	5.49
GPU Service Corporation	77,130	4,859	63.00
Total Off System Sales	<u>12,487,123</u>	<u>225,704</u>	<u>18.07</u>
System Cost of Power	<u>32,046,345</u>	<u>603,055</u>	<u>18.82</u>
Less Adjustments			
Sun Oil Adjustment		6,721	
Safe Harbor		9,415	
Borderline/Waste Heat		91	
Foregone Interchange Savings- Trans.Ent'mnts/Output Reserv.		1,562	
Total Adjustments		<u>17,789</u>	
Cost of Energy - "Fc"		<u>\$ 585,266</u>	<u>19.59</u>
Net Energy Available	<u>32,046,345</u>		
Less: Line Losses	2,174,765		
Net Unbilled Sales	(607)		
Actual Sales - "St"	<u>29,872,187</u>		
Line Loss Percentage	<u>6.8%</u>		
Retail Sales	<u>28,482,112</u>		

Pennsylvania Power & Light Company
Detailed Summary of Actual Energy Costs
For the Year Ended December 31, 1993

	<u>MWH</u>	<u>Cost in thousands</u>	<u>MillKWH</u>
Generation			
Nuclear (Includes D&D and Spent Fuel Expense)	12,181,133	\$ 78,628	6.29
Coal (Includes Retired Miners Health Care)	24,960,252	378,852	15.18
Oil (incl. Sun Oil Adj.)	1,451,849	56,525	38.93
CTs and Diesels	15,924	1,119	70.27
Hydro	638,677	-	0.00
Total Generation	39,245,835	513,124	13.07
Purchased Power			
Other Utilities	1,258,695	33,146	28.33
Interchange - PJM	603,736	16,543	27.40
Qualified Facilities	3,748,630	229,111	61.12
Total Purchased Power	5,611,061	278,800	49.89
Less Off System Sales			
Interchange - PJM	4,141,470	96,610	23.33
Other Utilities	1,121,557	26,171	23.33
Atlantic Electric	754,463	11,196	14.84
Jersey Central Power & Light	4,400,057	53,902	12.25
Baltimore Gas & Electric	790,174	4,309	5.45
GPU Service Corporation	75,938	4,784	63.00
Total Off System Sales	11,283,659	196,972	17.46
System Cost of Power	33,573,237	594,952	17.72
Less Adjustments			
Sun Oil Adjustment		6,864	
Safe Harbor		9,860	
Bordertine/Waste Heat		56	
Foregone Interchange Savings- Trans. Ent'mnts/Output Reserv.		(181)	
Prior Period Cr. Incl in pur power - other		(72)	
Retired Miners Health Care Adj.		10,989	
Total Adjustments		27,516	
Cost of Energy - "Fc"		\$ 567,436	18.20
Net Energy Available	33,573,237		
Less: Line Losses	2,149,239		
Net Unbilled Sales	250,985		
Actual Sales - "St"	31,173,013		
Line Loss Percentage	8.4%		
Retail Sales	29,735,045		

Pennsylvania Power & Light Company
Detailed Summary of Actual Energy Costs
For the Year Ended December 31, 1994

	<u>MWH</u>	<u>Cost in thousands</u>	<u>Mill/KWH</u>
Generation			
Nuclear (Includes D&D and Spent Fuel Expense)	13,779,160	\$ 81,406	5.91
Coal (Includes Retired Miners Health Care)	21,537,071	318,796	14.80
Oil (incl. Sun Oil Adj.)	1,764,056	69,092	39.17
CTs and Diesels	40,375	2,556	63.31
Hydro	753,100	-	0.00
Total Generation	<u>37,873,762</u>	<u>471,850</u>	<u>12.46</u>
Purchased Power			
Other Utilities	1,526,474	39,436	25.83
Interchange - PJM	1,016,888	29,706	29.21
Qualified Facilities	3,519,702	218,174	61.99
Total Purchased Power	<u>6,063,064</u>	<u>287,316</u>	<u>47.39</u>
Less Off System Sales			
Interchange - PJM	3,158,227	75,756	23.99
Other Utilities	425,000	9,154	21.54
Atlantic Electric	651,930	9,754	14.96
Jersey Central Power & Light	4,265,165	50,999	11.96
Baltimore Gas & Electric	893,893	4,524	5.06
GPU Service Corporation	71,427	4,500	63.00
Total Off System Sales	<u>9,465,642</u>	<u>154,687</u>	<u>16.34</u>
System Cost of Power	<u>34,471,184</u>	<u>604,479</u>	<u>17.54</u>
Less Adjustments			
Sun Oil Adjustment		6,003	
Safe Harbor		9,623	
Borderline/Waste Heat		113	
Retired Miners Health Care Adj.		(3,643)	
Total Adjustments		<u>12,096</u>	
Cost of Energy - "Fc"		<u>\$ 592,383</u>	<u>18.26</u>
Net Energy Available	34,471,184		
Less: Line Losses	2,160,381		
Net Unbilled Sales	(127,737)		
Actual Sales - "St"	<u>32,438,540</u>		
Line Loss Percentage	<u>6.3%</u>		
Retail Sales	<u>30,931,132</u>		

Pennsylvania Power & Light Company
Detailed Summary of Actual Energy Costs
For the Year Ended December 31, 1995

	MWH	Cost in thousands	MIL/KWH
Generation			
Nuclear (Includes D&D and Spent Fuel Expense)	14,056,497	\$ 71,155	5.06
Coal (Includes Retired Miners Health Care)	23,110,942	336,080	14.54
Oil (incl. Sun Oil Adj.)	1,032,761	41,114	39.81
CTs and Diesels	24,726	1,524	61.64
Hydro	600,358	-	0.00
Emission Allowances Consumed	0	1,063	N/A
Total Generation	38,825,284	450,936	11.61
Purchased Power			
Other Utilities	2,246,981	55,946	24.90
Interchange - PJM	846,375	19,343	22.85
Qualified Facilities	3,508,292	216,779	61.83
Total Purchased Power	6,599,648	292,068	44.26
Less Off System Sales			
Interchange - PJM	2,358,134	52,003	22.05
Other Utilities	1,667,120	39,417	23.64
Atlantic Electric	698,720	10,240	14.66
Jersey Central Power & Light	4,367,830	48,365	11.07
Baltimore Gas & Electric	911,886	4,025	4.41
GPU Service Corporation	30,544	1,924	62.99
Total Off System Sales	10,034,234	155,974	15.54
System Cost of Power	35,390,698	587,030	16.59
Less Adjustments			
Sun Oil Adjustment		7,397	
Safe Harbor		9,433	
Borderline/Waste Heat		96	
Foregone Interchange Savings- Trans.Ent'mnts/Output Reserv.		651	
Price Response Service Adjustment		328	
Total Adjustments		17,905	
Cost of Energy - "Fc"		\$ 569,125	17.38
Net Energy Available	35,390,698		
Less: Line Losses	2,361,231		
Net Unbilled Sales	234,731		
Company Use	29,718		
Price Response Service Adjustment	18,615		
Actual Sales - "St"	32,746,403		
Line Loss Percentage		6.7%	
Retail Sales	31,262,590		

Pennsylvania Power & Light Company
Detailed Summary of Actual Energy Costs
For the Year Ended December 31, 1996 *

	MWH	Cost in thousands	Mill/KWH
Generation			
Nuclear (Includes D&D and Spent Fuel Expense)	15,023,254	\$ 75,832	5.05
Coal (Includes Retired Miners Health Care)	22,556,359	329,438	14.61
Oil (incl. Sun Oil Adj.)	1,004,482	42,848	42.48
CTs and Diesels	18,015	1,227	68.11
Hydro	744,356	-	0.00
Emission Allowances Consumed	0	1,132	N/A
Fuel Oil Litigation Settlement	0	(1,742)	N/A
Total Generation	39,348,448	448,533	11.40
Purchased Power			
Other Utilities	4,147,178	87,590	21.12
Interchange - PJM	1,499,235	39,658	26.45
Qualified Facilities (a)	3,343,001	207,508	62.07
Total Purchased Power	8,989,414	334,756	37.24
Less Off System Sales			
Interchange - PJM	1,480,431	30,945	20.90
Other Utilities	5,855,824	111,128	19.65
Atlantic Electric	659,105	9,888	14.70
Jersey Central Power & Light	3,526,956	39,355	11.16
Baltimore Gas & Electric	984,785	4,954	5.13
Total Off System Sales	12,287,081	196,070	15.98
System Cost of Power	36,048,779	587,219	16.29
Less Adjustments			
Sun Oil Adjustment		5,334	
Safe Harbor		9,958	
Borderline/Waste Heat		103	
PJM - Installed Capacity		(29)	
Foregone Interchange Savings-			
Trans. Ent'mnts/Output Reserv.		378	
Price Response Service Adjustment (A)		2,954	
Retired Miners Health Care Adj.		(1,377)	
Energy Savings Associated with Phase Out of Expiring Bulk Power Agreement		(9,968)	
Total Adjustments		7,355	
Cost of Energy - "Fc"		\$ 579,864	17.28
Net Energy Available	36,048,779		
Less: Line Losses	2,206,989		
Net Unbilled Sales	(43,046)		
Company Use	125,830		
Price Response Service Adjustment	160,268		
Actual Sales - "ST"	33,598,738		
Line Loss Percentage	6.1%		
Retail Sales	32,104,191		

* December 1996 estimated

J. R. Schadt
J. M. Kleha

Pennsylvania Power & Light Company
Response to Interrogatories
of PP&L Industrial Customer Alliance, Set II
Dated April 30, 1997

Docket No. R-00973954

- Q. 6. a. Refer to the Unrecovered Energy Costs on page 39 of 117 of Exhibit JRS1. Please provide all documentation of the computations to quantify the annual underrecoveries claimed by the Company due to the ECR roll-in to base rates at the beginning of 1997. Provide all assumptions, data, computations, workpapers, and spreadsheets with the cell formulas left intact.
- b. Please provide all documentation that the Company will underrecover its fuel and purchased power costs in 1997 and 1998 compared to the ECR amounts rolled into base rates.
- c. Please provide the Company's rationale for the assumption of a one-year amortization of \$80,150(000) due to the Unrecovered Energy Costs.
- A. 6. a. See the response to Question 7 of Interrogatories of the Office of Consumer Advocate, Set I, Dated April 14, 1997, and Question 30 of Interrogatories of the Office of Consumer Advocate, Set V, Dated April 22, 1997.
- b. See Attachment 1.
- c. See the response to Question 25 of Interrogatories of the Office of Consumer Advocate, Set II, Dated April 16, 1997.

ATTACHMENT 1

Pennsylvania Power and Light Company
Calculation of Estimated Unrecovered Energy Costs
For the Years 1997 and 1998

	1997	1998
A. Total System Sales (MWH)	32,998,156	33,984,000
B. PUC Jurisdiction Sales (MWH)	31,788,287	32,809,000
C. Jurisdictional Ratio (B/A)	0.963	0.965
D. Total System Energy Costs (\$000)	\$ 574,376	\$ 583,900
E. PUC Jurisdiction Energy Costs (\$000) (DxC)	553,317	563,712
F. Amount of Energy Costs in Base Rates After Roll-in	521,892	521,892
Unrecovered Energy Costs (E-F) (\$000)	\$ 31,426	\$ 41,821

Pennsylvania Power & Light Company
Detailed Summary of Actual/Estimated Energy Costs
For the Year Ended December 31, 1997 *

	<u>MWH</u>	<u>Cost in thousands</u>	<u>Mill/KWH</u>
Generation			
Nuclear (Includes D&D and Spent Fuel Expense)	14,450,174	\$ 74,011	5.12
Coal (Includes Retired Miners Health Care)	23,033,471	335,950	14.59
Oil/Gas	820,275	26,642	32.48
CTs and Diesels	12,471	474	38.01
Hydro	657,177	-	0.00
Emission Allowances Consumed	0	2,277	N/A
Total Generation	<u>38,973,568</u>	<u>439,354</u>	<u>11.27</u>
Purchased Power			
Other Utilities	4,159,662	98,179	23.60
Interchange - PJM	1,185,058	27,955	23.59
Qualified Facilities	2,708,215	191,366	70.66
Total Purchased Power	<u>8,052,935</u>	<u>317,500</u>	<u>39.43</u>
Less Off System Sales			
PJM	801,900	16,572	20.67
Other Utilities	5,517,597	110,765	20.07
Atlantic City Electric	667,554	10,103	15.13
Jersey Central Power & Light	3,279,000	35,775	10.91
Baltimore Gas & Electric	938,152	4,885	5.21
Total Off System Sales	<u>11,204,203</u>	<u>178,100</u>	<u>15.90</u>
System Cost of Power	<u>35,822,300</u>	<u>578,754</u>	<u>16.16</u>
Less Adjustments			
Safe Harbor		10,010	
Borderline/Waste Heat		114	
Price Response Service Adjustment		4,611	
Energy Savings Associated with Phase Out of Expiring Bulk Power Agreement		(10,357)	
Total Adjustments		<u>4,378</u>	
Cost of Energy - "Fc"		<u>\$ 574,376</u>	<u>17.41</u>
Net Energy Available	35,822,300		
Less: Line Losses	2,259,262		
Net Unbilled Sales	191,850		
Company Use	163,202		
Price Response Service Adjustment	209,830		
Actual Sales - "St"	<u>32,998,156</u>		
Line Loss Percentage	<u>6.3%</u>		
Retail Sales	<u>31,788,287</u>		

* Four months actual, 8 months estimate

Pennsylvania Power & Light Company
Detailed Summary of Estimated Energy Costs
For the Year Ended December 31, 1998

	MWH	Cost in thousands	Mil/KWH
Generation			
Nuclear (Includes D&D and Spent Fuel Expense)	13,530,000	\$ 71,266	5.27
Coal (Includes Retired Miners Health Care)	23,676,000	334,689	14.14
Oil/Gas	610,000	15,647	25.65
CTs and Diesels	2,000	98	49.00
Hydro	672,000	-	0.00
Emission Allowances Consumed	0	2,703	N/A
Total Generation	38,490,000	424,403	11.03
Purchased Power			
Other Utilities	3,310,000	73,924	22.33
Qualified Facilities	2,583,000	188,052	72.80
Total Purchased Power	5,893,000	261,976	44.46
Less Off System Sales			
PJM	961,000	10,291	10.71
Other Utilities	3,746,000	66,317	17.70
Atlantic City Electric	138,000	2,071	15.01
Jersey Central Power & Light	1,721,000	16,272	9.45
Baltimore Gas & Electric	893,000	4,704	5.27
Total Off System Sales	7,459,000	99,655	13.36
System Cost of Power	36,924,000	586,724	15.89
Less Adjustments			
Safe Harbor		10,098	
Borderline/Waste Heat		126	
Price Response Service Adjustment		3,600	
Energy Savings Associated with Phase Out of Expiring Bulk Power Agreement		(11,000)	
Total Adjustments		2,824	
Cost of Energy - "Fc"		\$ 583,900	17.18
Net Energy Available	36,924,000		
Less: Line Losses	2,523,000		
Net Unbilled Sales	(11,000)		
Company Use	200,000		
Price Response Service Adjustment	228,000		
Actual Sales - "Sr"	33,984,000		
Line Loss Percentage		6.8%	
Retail Sales	32,809,000		

SFAS 106 REGULATORY LIABILITY

	Beginning Balance (\$000)	Change (\$000)	Ending Balance (\$000)	Earnings on Avg Bal (\$000)	Pres Value @12/31/98 (\$000)
1999	28,818	8,867	37,685	2,161	1,990
2000	37,685	8,867	46,553	2,738	2,336
2001	46,553	8,867	55,420	3,314	2,620
2002	55,420	8,867	64,287	3,890	2,850
2003	64,287	8,867	73,155	4,467	3,032
2004	73,155	8,867	82,022	5,043	3,172
2005	82,022	8,867	90,889	5,620	3,275
2006	90,889	8,867	99,757	6,196	3,346
2007	99,757	8,867	108,624	6,772	3,389
2008	108,624	8,867	117,491	7,349	3,408
2009	117,491	8,867	126,358	7,925	3,405
2010	126,358	8,867	135,226	8,501	3,385
2011	135,226	8,867	144,093	9,078	3,349
2012	144,093	8,867	152,960	9,654	3,300
2013	152,960	(15,296)	137,664	9,445	2,992
2014	137,664	(15,296)	122,368	8,451	2,481
2015	122,368	(15,296)	107,072	7,457	2,028
2016	107,072	(15,296)	91,776	6,463	1,629
2017	91,776	(15,296)	76,480	5,468	1,277
2018	76,480	(15,296)	61,184	4,474	968
2019	61,184	(15,296)	45,888	3,480	698
2020	45,888	(15,296)	30,592	2,486	462
2021	30,592	(15,296)	15,296	1,491	257
2022	15,296	(15,296)	0	497	79
Total SFAS 106 Regulatory Liability					55,729
Juris Allocation					96.88%
Juris SFAS 106 Regulatory Liability					53,990
Unamortized SFAS 106 Deferrals					(8,730)
Net Juris SFAS 106 Regulatory Liability					45,260

BEFORE THE

8/25/97

PENNSYLVANIA PUBLIC UTILITY COMMISSION

176g
Jan

PENNSYLVANIA PUBLIC UTILITY)
COMMISSION, ET. AL.)

V.)

PENNSYLVANIA POWER & LIGHT COMPANY)

) DOCKET NO. R-00973954

APPLICATION OF PENNSYLVANIA)
POWER & LIGHT COMPANY FOR)
APPROVAL OF ITS)
RESTRUCTURING PLAN UNDER)
SECTION 2806 OF THE)
PUBLIC UTILITY CODE)

DOCKETED

AUG 29 1997

SURREBUTTAL TESTIMONY
AND EXHIBITS
OF
LANE KOLLEN

PROTHONOTARY'S OFFICE

97 AUG 27 AM 9:53

RECEIVED

ON BEHALF OF THE

PP&L INDUSTRIAL CUSTOMER ALLIANCE

**DOCUMENT
FOLDER**

Air Products and Chemicals, Inc.
Alumax
Appleton Papers Inc.
Armstrong World Industries
Bethlehem Steel Corporation
CertainTeed Corporation
Hercules Cement Company
Hershey Foods Corporation
Horsehead Resource Development Co., Inc.

Lafarge Corporation Whitehall Plant
Lucent Technologies
Magee Carpet Company
Praxair, Inc.
R. R. Donnelley & Sons Company
The Stroh Brewery Company
Thomson Consumer Electronics, Inc.
Victaulic Company of America
WEA Manufacturing

J. KENNEDY AND ASSOCIATES, INC.
ATLANTA, GEORGIA

AUGUST 1997

1 of stranded costs for purposes of CTC recovery, regulatory assets/liabilities, and fossil
2 and nuclear decommissioning. The regulatory assets/liabilities that I addressed included
3 the following:

- 4
- 5 ● Taxes recoverable (SFAS 109) and investment tax credit (regulatory liability).
- 6 ● Pension overfunding.
- 7 ● Unrecovered energy costs.
- 8 ● Employee transition costs.
- 9 ● DOE assessment.
- 10 ● SFAS 106.
- 11 ● Deferred Susquehanna refueling costs.
- 12

13 **Q. What is the purpose of your surrebuttal testimony?**

14

15 **A.** The purpose of my surrebuttal testimony is to address by issue the rebuttal testimony of
16 *PP&L witnesses as follows:*

	<u>Issue</u>	<u>PP&L Witness(es)</u>
1		
2	PPLICA stranded cost methodology	Guth, Schadt, Kleha
3	Pension overfunding	Schadt
4	Unrecovered energy costs	Kleha
5	Employee transition costs	Schadt
6	DOE assessment	Schadt
7	SFAS 106	Schadt
8	Fossil Decommissioning	Kleha
9	Deferred Susquehanna refueling costs	Schadt
10	Nuclear decommissioning	Kleha

11

12 Q. Please summarize your testimony.

13

14 A. The Company's criticisms of the PPLICA stranded cost methodology are unfounded and
15 incorrect. The PPLICA method produces the proper quantification of PP&L stranded
16 costs. PP&L's methodology significantly overstates its stranded generation costs.
17 PP&L's attempts to demonstrate that the PECO and PP&L methodologies are equivalent
18 requires significant modifications to the assumptions and methodologies actually
19 utilized by each Company. I demonstrate why PP&L's methodology must be rejected

1 and PPLICA's methodology accepted in order to properly quantify the Company's
2 stranded costs..

3
4 The conclusions and recommendations in my direct testimony remain unchanged, except
5 for a minor change in the quantification of the unrecovered energy costs. A summary
6 of my surrebuttal response to each issue is included at the beginning of each of the
7 following sections of my testimony.

8

1 unamortized balances of these stranded costs until the costs were fully recovered under
2 the PPLICA CTC recovery methodology.

3
4 **Q. Please describe the methodology utilized by PP&L for quantifying stranded**
5 **generation costs.**

6
7 A. PP&L subtracted the net present value of the future years projected market revenues, on
8 a before tax basis, from the net present value of the future years revenue requirements
9 under traditional cost of service regulation, also on a before tax basis, and then
10 discounted the difference in the future years revenue streams at an after tax rate of
11 return.

12
13 **Q. Do the PECO methodology and the PP&L methodology result in equivalent**
14 **quantifications of stranded generation costs?**

15
16 A. No. These methodologies are fundamentally different. The only way the two
17 methodologies can result in equivalent results is to ignore income taxes, which neither
18 of the methodologies do, or to modify the income tax and after-tax or before-tax
19 discount rate assumptions from what were actually used by the Companies. The PECO
20 methodology results in a quantification of the after tax lost income associated with the

1 generation assets. The PP&L methodology ostensibly results in a quantification of the
2 before tax lost revenues, assuming PP&L had computed the net present value of those
3 amounts properly, which it did not.

4
5 **Q. Both Mr. Guth and Mr. Schadt assert that the two methodologies result in**
6 **equivalent quantifications of stranded generation costs. Please respond.**

7
8 **A.** Both Mr. Guth and Mr. Schadt claim to provide mathematical proof that equivalent
9 quantifications are obtained. However, to obtain the "equivalent" results, both resort to
10 restating the PECO and/or PP&L methodologies. For example, Mr. Guth found it
11 necessary, in his "mathematical proof" based upon data provided by Mr. Schadt, to
12 restate the PP&L methodology on an after tax basis.

13
14 However, the two methodologies do not provide equivalent results and it is precisely
15 because the treatment of income taxes differs between the two methodologies. The
16 income tax treatment differs in two respects. First, the PP&L methodology projects
17 *income taxes in the future years traditional cost of service revenue requirements due to*
18 *returns on equity.* These future years income taxes are then discounted and included in
19 the net present value of the stranded generation costs.

20

1 The PP&L methodology includes future years income taxes (for more than 40 years) due
2 to equity returns under traditional cost of service regulation in contrast to PECO's
3 inclusion of income taxes due to equity returns only for the CTC recovery period. Thus,
4 the PP&L methodology results in a significantly higher stranded generation cost than
5 the PECO methodology on this difference alone. Again, the two methodologies provide
6 equivalent results only if there are no income taxes, which is not the case.

7
8 Second, the PP&L methodology utilizes an after tax rate of return to discount its future
9 years before tax revenue requirement projections. In contrast, the PECO methodology
10 utilizes an after tax rate of return to discount the future years after tax market based
11 contribution margins. Thus, the PP&L methodology results in a significantly higher
12 stranded generation cost than the PECO methodology on this difference as well. Again,
13 the two methodologies provide equivalent results only if there are no income taxes,
14 which is not the case.

15
16 **Q. Have you prepared illustrations to demonstrate the difference in the quantification**
17 **of generation stranded costs due to utilization of an after tax or before tax discount**
18 **rate and the utilization of a future years revenue requirements or after tax**
19 **contribution margin streams?**

1 A. Yes. Assume the following simplified fact base for the generation assets of a regulated
2 utility:

3

- 4 ● \$1,000 net book value
- 5 ● \$1,000 tax basis
- 6 ● 10 year book and tax depreciation lives
- 7 ● 10% after tax cost of capital
- 8 ● 50% income tax rate

9

10 Given these facts, I have constructed the illustration on my Surrebuttal Exhibit ___(LK-
11 1). The revenue requirement is the sum of the book depreciation and the grossed up
12 return on rate base. If the revenue requirement amounts are discounted at the after tax
13 rate of return, then the net present value is \$1,386. That would be illustrative of PP&L's
14 quantification of generation stranded cost in this proceeding. If the revenue requirement
15 amounts are discounted at the before tax rate of return, then the net present value is
16 \$1,000, which is equivalent to the net book value. The Company is entitled today only
17 to a net present value equivalent to its net book value. The illustration clearly
18 demonstrates that under the PP&L methodology, the utility would recover an additional
19 \$386 over its \$1,000 net book value for future years income taxes solely due to the

1 equity financing of rate base in those future years. However, PP&L will not finance its
2 stranded costs beyond the CTC recovery period.

3
4 As a further illusion of the validity of the PPLICA and PECO methodologies for
5 generation stranded costs, I have constructed the illustration on my Surrebuttal
6 Exhibit ___(LK-2) utilizing the same fact base as for the prior illustration. However, in
7 this illustration, I have computed the net present value of the future years after tax
8 contribution margins discounted at the after tax rate. The net present value is exactly
9 the net book value, which is what the utility is entitled to at the valuation date.

10
11 These illustrations demonstrate the validity of the PECO methodology employed by
12 Kennedy and Associates for PPLICA in the PP&L restructuring proceedings and for the
13 Philadelphia Area Industrial Energy Users Group (PAIEUG) in the PECO restructuring
14 proceedings. These illustrations also demonstrate that the PP&L methodology is
15 fundamentally in error and results in excessive stranded generation costs. Contrary to
16 PP&L's position, the utility is not entitled to the recovery of the present value of income
17 taxes due to equity financing in future years. The utility will never incur these future
18 year income taxes due to equity financing because of the accelerated recovery of its
19 stranded generation costs through the CTC. It is entitled only to the income taxes
20 associated with the equity financing of the stranded generation costs during the CTC

1 recovery period, which is properly incorporated in the PPLICA and PECO
2 methodologies as previously described.

3
4 **Q. Please describe the methodology utilized by PECO for quantifying net stranded**
5 **regulatory assets.**

6
7 A. PECO simply took the nominal value of its regulatory assets at December 31, 1998. It
8 failed to state its regulatory assets on a net present value basis. In its computation of the
9 CTC recovery, PECO utilized a grossed up rate of return on the unamortized balance of
10 regulatory assets for which a return was appropriate and then levelized the annual CTC
11 recovery utilizing an after tax discount rate. PECO did not discount the future years
12 recovery of regulatory assets under traditional cost of service regulation but rather,
13 effectively discounted its nominal amount of future years recovery over the seven year
14 CTC period.

15
16 **Q. Please describe the methodology utilized by PP&L for quantifying net stranded**
17 **regulatory assets and contrast it to the PECO methodology.**

18
19 A. PP&L quantified its claimed regulatory assets as the net present value of the future years
20 recovery of regulatory assets under traditional cost of service regulation. Thus, the

1 precise timing of the future years recovery under traditional regulation was reflected in
2 its quantification.

3
4 By contrast, the PECO method ignored the timing of recovery under traditional
5 regulation, instead accelerating the discounting effect into seven years. Thus, the PECO
6 methodology improperly increased its CTC recovery compared to the PP&L
7 methodology, all else being equal.

8
9 **Q. Is the PPLICA methodology a "hybrid" as described by PP&L witness Mr.**
10 **Schadt?**

11
12 **A.** No. It is the correct methodology. The PPLICA methodology is not a "hybrid" of two
13 methodologies that are both independently correct as implied by PP&L's witnesses. To
14 the contrary, neither the PECO methodology nor the PP&L methodology are
15 conceptually correct in their quantifications of both stranded generation costs and net
16 stranded regulatory assets. Thus, the PPLICA methodology employs the correct
17 methodology for both stranded generation costs and net stranded regulatory assets.

18
19 **Q. Mr. Schadt includes an example on pages 10 - 13 of his rebuttal testimony that he**
20 **asserts demonstrates the validity of the PP&L methodology. Please respond.**

1 A. This example does not demonstrate the validity of the PP&L methodology because it
2 incorporates errors and merely proves the associative and commutative properties of
3 mathematics. Mr. Schadt merely proved that if you compute a number that you can then
4 back calculate to the starting point. That doesn't demonstrate the validity of the PP&L
5 methodology.

6
7 A closer review of Mr. Schadt's example will illustrate that it incorporates at least two
8 errors. First, Mr. Schadt treated the stranded cost as a revenue subject to income tax
9 rather than a return of its net book value investment. Mr. Schadt's treatment is contrary
10 to the Company's plan to writedown its generation investment to market value. Thus,
11 for accounting purposes and for revenue requirement purposes, it is the book value and
12 rate base investment that is reduced. For example, if the Company sold the \$150 of net
13 book value of generation investment to a third party for \$150, the Company would use
14 that amount to writeoff its generation investment, not recognize it as revenue.

15
16 Second, given that the stranded cost recovery is a reduction to the book value of the
17 Company's generation investment, Mr. Schadt overstated depreciation expense in all
18 years. Depreciation expense should have been on the \$150 less the \$38.66 stranded cost
19 recovery since \$38.66 will no longer be recognized on the Company's accounting books.
20 Mr. Schadt did reduce the capitalization upon which he computed interest expense and

1 preferred and equity returns. Yet, if the net book value of the investment and
2 depreciation expense have not been reduced, then the revenue requirement has not been
3 reduced. Such a situation is fundamentally inconsistent and demonstrates the erroneous
4 representations of Mr. Schadt and his example.

5
6 **Q. Have you prepared a revised example correcting these errors?**

7
8 **A.** Yes. My Surrebuttal Exhibit___(LK-3) replicates Mr. Schadt's example but corrects for
9 these two errors. These corrections result in a nominal recovery of \$4.98 in excess of
10 the Company's requirements compared to the Schadt example that claims \$0 in excess
11 recovery. The corrected example clearly demonstrates that PP&L's methodology results
12 in excessive recovery. Thus, the PP&L methodology must be rejected.

1 stranded generation costs, which I recommend be offset with an explicit recognition of
2 a pension overfunding regulatory liability in the computation of stranded net regulatory
3 assets.

4
5 **Q. Does PP&L witness Mr. Schadt dispute the fact that the Company has continued**
6 **to collect from ratepayers but has not made additional contributions to the pension**
7 **fund since 1989?**

8
9 A. No. Not only were these amounts collected from ratepayers not deposited into the
10 pension fund, but the earnings on these funds will never be reflected in reduced pension
11 expense in future years. If the amounts collected from ratepayers had been contributed
12 to the fund, it would be approximately \$100 million more overfunded. The earnings on
13 those amounts would have reduced pension expense to a negative level compared to the
14 \$5.7 million 1997 level of expense utilized as the base amount for the Company's
15 traditional revenue requirement projections utilized to compute the stranded generation
16 costs. Thus, the ratepayers have not only lost their involuntary contributions but also
17 any future earnings on those contributions.

18
19 **Q. Is the historic earnings rate another reason for the pension overfunding and the**
20 **necessity to recognize a regulatory liability?**

1

2 A. Yes. The historic earnings rate on the pension fund has far exceeded the assumptions
3 utilized by PP&L in its past and current pension fund expense projections. This has two
4 effects. First, PP&L's annual pension expense projection is excessive, thereby
5 overstating its stranded generation cost. Instead of reflecting \$0 or a negative amount
6 of pension expense in future years, PP&L escalated the \$5.7 million 1997 base year
7 amount by 2.5% annually, completely contrary to reality.

8

9 Second, annual pension expense has been declining rapidly as the result of the excess
10 funding and continued earnings on the excess funding. Meanwhile, PP&L's current
11 rates reflect much higher pension expense, which it has retained for its shareholders.
12 This has led to a further overstatement of pension expense since the earnings on those
13 amounts will never be incorporated into the SFAS 87 pension expense computation to
14 reduce the level of expense. Consequently, PP&L's stranded generation cost is further
15 overstated.

16

17 **Q. Did PP&L include pension expense in its computations of the incremental cost of**
18 **new generating capacity?**

19

1 A. No. The derivation of the incremental cost of new generating capacity by the Company
2 does not explicitly include pension expense. This also has the effect of overstating the
3 stranded generation cost. Thus, the recognition of a regulatory liability for the pension
4 overfunding is a necessity.

1 **IV. UNRECOVERED ENERGY COSTS**

2

3 **Q. Please summarize your conclusions and recommendations regarding the**
4 **Company's claim for unrecovered energy costs as a regulatory asset.**

5

6 **A. The Company should be allowed stranded cost recovery of its unrecovered energy costs**
7 **at December 31, 1996, the quantification of which I have revised to \$16.2 million. Any**
8 **deferrals subsequent to December 31, 1996 should not be allowed. The Company has**
9 **failed to demonstrate that it will underrecover. Its analysis filed in rebuttal testimony**
10 **is significantly flawed and was not provided on a timely basis in response to discovery**
11 **specifically seeking this information.**

12

13 **Q. Is the Company's estimate of unrecovered energy costs for 1997 and 1998**
14 **reasonable?**

15

16 **A. No. The Company offered no evidence in its filing regarding its projection of**
17 **unrecovered energy costs for 1997 and 1998. The Company relied only upon the**
18 **Commission's Tentative Order in Docket Nos. P-961131 and R-963842, wherein the**
19 **Commission cited the Company's quantification of annual underrecoveries in its**
20 **Application, which was based upon five years of fuel cost history. It is important to**

1 recognize that the Company's claim in this proceeding is based solely upon and
2 quantified as the average of recoverable fuel costs on a mills per kWh basis for the
3 1992-1996 historical period. The claim in this proceeding is not based upon a
4 quantification of projected unrecovered costs for 1997 and 1998.

5
6 In my direct testimony, I described why the Commission should reject the quantification
7 relied upon by the Company in this proceeding. I also described why the Commission
8 should reject an undocumented and unsupported summary of projected *underrecoveries*
9 provided by the Company in response to PPLICA discovery in this proceeding. In an
10 attempt to bolster its claim, the Company has included an updated projection in its
11 rebuttal case, along with certain supporting documentation. However, the updated
12 projection still suffers from the same deficiencies evident in the Company's response to
13 the cited discovery and that I criticized in my direct testimony. Thus, the Company has
14 failed to demonstrate, as required by the Commission in its Final Order in Docket Nos.
15 P-961131 and R-963842, that its claim is reasonable and should be allowed.

16
17 **Q. Has the Company provided an updated projection of unrecovered energy costs for**
18 **1997 and 1998 in its rebuttal case?**

1 A. Yes. The Company has provided an updated projection as Exhibit JMK 6 sponsored by
2 Mr. Kleha. Pages 1, 2 and 15 of that exhibit for 1997 and 1998, respectively, are
3 comparable to the Company's response to discovery replicated as Exhibit___(LK-3) to
4 my direct testimony.

5

6 **Q. What is your assessment of this latest projection for 1997 and 1998**
7 **underrecoveries?**

8

9 A. Like its predecessor, this projection suffers from the same flaws and must be rejected.
10 The Company's quantifications rest upon numerous assumptions and methodologies
11 which cannot be reviewed, verified, or assessed in sufficient detail due to the incomplete
12 supporting documentation and the lack of timeliness. Nevertheless, certain problems
13 are evident.

14

15 First, a review of the computations underlying the actual 1996 rolling computation
16 compared to the projections for 1997 and 1998 reveal that the Company failed to
17 *recognize that the amount of the revenue recovery due to the ECR rolled into base rates*
18 *would grow in proportion to its sales growth. Instead, it assumed that the amount rolled*
19 *into base rates was fixed while concurrently assuming that the projected ECR fuel costs*
20 *would vary with sales. This was the same problem I identified and described in my*

1 direct testimony when addressing the prior projections provided in response to
2 discovery.

3
4 Second, the results of the Company's assumptions and methodologies appear
5 unreasonable compared to 1996 actuals, again similar to the problems I identified and
6 described in my direct testimony when addressing the prior projections provided in
7 response to discovery. While the Company's projected fuel costs per kWh from its own
8 generation declined in 1997 and increased by 1/100 of a mill in 1998 compared to the
9 1996 actual, its purchased power costs per kWh increased by nearly 20% in 1998
10 compared to the 1996 actual. In addition, its off-system sales revenues per kWh
11 decreased by approximately 20% in 1998 compared to the 1996 actual. To compound
12 the decrease in the off-system sales revenue per kWh, its off-system sales volume
13 projection declined by approximately 50% in 1998 compared to the 1996 actual. In
14 addition, its line losses increased to 6.8% in 1998 compared to 6.1% in 1996. The
15 results of these assumptions and methodologies had the direct effect of resulting in
16 higher projected ECR costs and higher "unrecovered" fuel costs.

17
18 Third, the Company's projections of higher unrecovered fuel costs have increased by
19 \$4.9 million in 1997 and \$25.6 million in 1998 in the one month between filing its
20 projections in response to discovery and filing its rebuttal case. That is further evidence

1 of unreliability and manipulation to bolster its position and further reason for the
2 Commission to reject the Company's claim for unrecovered energy costs.

3
4 **Q. Mr. Kleha alleges that one of your criticisms of the "underrecovery" projections**
5 **is that the Company failed to base that projection on a mills per kWh**
6 **determination. Is that true?**

7
8 **A.** No. Mr. Kleha's assertion is incorrect. My criticism was that the Company failed to
9 reflect an increase in the ECR revenue rolled into base rates due to sales increases. The
10 Company's projection assumed that the ECR revenue rolled into base rates was fixed,
11 which had the effect of overstating the projection of "underrecoveries." Mr. Kleha did
12 not respond to my actual criticism. That problem still exists in the Company's updated
13 projections.

1 **V. EMPLOYEE TRANSITION COSTS**

2

3 **Q. Please summarize your conclusions and recommendations regarding employee**
4 **transition costs.**

5

6 **A. The Company's claim for employee transition costs as a regulatory asset should be**
7 **rejected. The Company's claim is speculative and fails to properly incorporate the**
8 **Company's projected normal employee attrition as an offset.**

9

10 **Q. Mr. Schadt cites declining A&G expenses in the years 1997 through 2001 as a**
11 **rationale for allowing recovery of its claim for employee transition costs. Please**
12 **respond.**

13

14 **A. First, any net savings actually attained by the Company in 1997 and 1998 are retained**
15 **by the Company. The Company has not offered to offset its employee transition costs**
16 **claim with these savings. Second, the source of the Company's projected A&G expense**
17 **reductions in the years 1999-2001 is undefined and is not tied directly to the reduction**
18 **in employees. Third, the A&G expense reductions are minimal by comparison to total**
19 **O&M which continues to rise in the years 1999 through 2001 and thereafter compared**
20 **to the base year of 1997.**

1 **Q. Mr. Schadt asserts that the Company properly reflected its normal employee**
2 **attrition in its quantification of the employee transition costs. Please respond.**

3
4 A. The facts demonstrate that Mr. Schadt is incorrect. The Company's own assumption of
5 normal attrition is 5%, an assumption that Mr. Schadt cannot overcome despite his
6 attempt to recharacterize it as "conservative." Mr. Schadt never addressed the specific
7 criticism that I described in my direct testimony, that is, with 5% attrition, there will be
8 no requirement to incur "transition costs." With 5% normal attrition, the Company will
9 have to hire personnel to limit the personnel reductions to only the 381 reflected in the
10 Company's claim. Mr. Schadt also has failed to address the fact that the Company has
11 acknowledged it has no plans to implement any programs to induce, voluntarily or
12 involuntarily, additional employee reductions. This is additional compelling data that
13 the Company's claim for "employee transition costs" should be rejected.

1

2 A. No. The cost is currently booked for accounting purposes as a nuclear fuel expense.

3 There is no reason to remove these amounts from the nuclear fuel expense included in

4 the stranded generation cost quantification and to reclassify it as a regulatory asset. The

5 appropriate treatment is to set the DOE assessment regulatory asset at \$0.

6

VII. SFAS 106

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20

Q. Please summarize your conclusions and recommendations regarding the SFAS 106 issue.

A. I recommend that the Commission recognize a regulatory liability for the net present value of future earnings on SFAS 106 amounts collected from ratepayers in excess of cash pay as you go regardless of whether the amounts were funded in an external trust fund or retained by the Company. The ratepayers have not received and never will receive the full earnings benefit of their prepayments, contrary to the assertions of Mr. Schadt.

Q. Mr. Schadt claims that the interest income reflected in the SFAS 106 computation fully compensates ratepayers. Please respond.

A. That statement is demonstrably false based upon his own factual recitation. Mr. Schadt acknowledged in his rebuttal testimony that the Company has not fully funded the external trusts for postretirement benefits other than pensions. Thus, the computation of SFAS 106 expense that was utilized by the Company to compute O&M expense in the stranded generation cost quantification is not reduced for the interest income on

1 these precollected but uncontributed amounts. The SFAS 106 computation does not
2 reflect a reduction for interest income unless the precollected but uncontributed amounts
3 are actually contributed to an external trust fund. Thus, there is no reduction to the
4 SFAS 106 expense for interest on these amounts included in the Company's stranded
5 generation cost quantification, contrary to Mr. Schadt's assertion.

6
7 In addition, the ratepayers never receive the interest income benefit of their required
8 prepayments under the Company's methodology. For the future years in its stranded
9 generation cost quantification, the Company simply escalated the base year SFAS 106
10 expense at 2.5%. PP&L did not reflect a reduction in this expense due to additional
11 interest income from full funding of the ratepayers' cumulative prepayments.

12
13 The net present value of this interest income is clearly an obligation of the Company to
14 its ratepayers and should be recognized as such through a regulatory liability.

1 **VIII. FOSSIL DECOMMISSIONING**

2

3 **Q. Please summarize your conclusions and recommendations regarding fossil**
4 **decommissioning.**

5

6 A. I continue to recommend no recovery of these projected costs because they are
7 inherently speculative and uncertain. In addition, PECO's quantifications contain gross
8 errors which significantly overstate PP&L's stranded cost claim.

9

10 **Q. PP&L witness Mr. Kleha asserts that the Company's claim is consistent with the**
11 **Penn-Sheraton decision. Please comment.**

12

13 A. Although this is a legal issue, I do not agree with Mr. Kleha. The Penn-Sheraton
14 decision limits recovery of fossil decommissioning costs to actual costs and in arrears.
15 Neither condition is present. The rationale reflected in the Penn-Sheraton decision is
16 that projections of such costs prior to incurrence are inherently speculative and uncertain
17 and thus, not properly recoverable until incurred and known with certainty.

18 The fact that the Company included its projections of these costs in future years under
19 its revenue requirements methodology fails to address the essence of the Penn-Sheraton
20 decision. The Company's projections are not made less speculative or more certain by

1 allocating the costs to specific future years, even assuming that was done correctly,
2 which it was not.

3

4 **Q. Mr. Kleha disagrees with your observation that other generation suppliers also will**
5 **incur fossil decommissioning costs. Please respond.**

6

7 A. Mr. Kleha's position is inconsistent with PP&L's quantification of stranded generation
8 costs. PP&L failed to include decommissioning costs in its market revenues necessary
9 to recover the incremental cost of new generating capacity. Apparently, the PP&L
10 witnesses believe that only existing Pennsylvania generating capacity will incur future
11 decommissioning costs.

12

13 **Q. Have any PP&L witnesses addressed the numerous and significant errors in the**
14 **Company's fossil decommissioning cost studies that you described in your direct**
15 **testimony?**

16

17 A. No. Given that there was no rebuttal on these issues and no corrections offered, the
18 studies should be rejected solely on the basis of the fundamental errors. The studies
19 cannot be relied upon.

1 **IX. DEFERRED SUSQUEHANNA REFUELING COSTS**

2

3 **Q. Please summarize your conclusions and recommendations regarding the deferred**
4 **Susquehanna refueling costs.**

5

6 **A.** The Company's request should be rejected. It is premised upon a change in accounting
7 for outage costs "subsequent to 1999" as the result of its change to a 24 month refueling
8 cycle for Susquehanna 1 in 1997 and Susquehanna 2 in 1998. As a result of its change
9 in the refueling cycle, the Company will simply expense the costs of one outage each
10 year.

11

12 **Q.** **Does the Company's claim represent the deferral of the effects of a change in**
13 **accounting?**

14

15 **A.** Yes. According to Mr. Schadt's testimony, the Company "assumed a change in
16 accounting in 1999." As I described in my direct testimony, the change in accounting
17 should have occurred in 1997 for Susquehanna 1 and in 1998 for Susquehanna 2. The
18 Company has no authorization from the Commission for the deferral of the effects of
19 this change in accounting.

1 Q. Does this conclude your surrebuttal testimony?

2

3 A. Yes.

**COMPARISON OF NPV REVENUE REQUIREMENTS
DISCOUNTED AT BEFORE AND AFTER TAX COST OF CAPITAL**

Assumptions:

Book Value	\$1,000
Tax Value	\$1,000
Life	10
Aft Tax COC	10%
Inc Tax Rate	50%

	Nominal Depr Rev Req	Nominal Return R R on Beg Bal	Nominal Rev Req	Pres Val Rev Req @Aft Tax	Pres Val Rev Req @Grssd Up
1	100	200	300	273	250
2	100	180	280	231	194
3	100	160	260	195	150
4	100	140	240	164	116
5	100	120	220	137	88
6	100	100	200	113	67
7	100	80	180	92	50
8	100	60	160	75	37
9	100	40	140	59	27
10	100	20	120	46	19
NPV Future Years Rev Req				1,386	1,000
Net Book Value				1,000	1,000
Excess Stranded Cost				386	0

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**DOCUMENT
FOLDER**

**COMPARISON OF NPV AFTER TAX CONTRIBUTION MARGINS
DISCOUNTED AT AFTER AND BEFORE TAX COST OF CAPITAL**

Assumptions:

Book Value	1000
Tax Value	1000
Life	10
Aft Tax COC	10%
Inc Tax Rate	50%

	Nominal Depr Aft Tax	Nominal Aft Tax Ret on Beg Bal	Nominal Aft Tax Ret of & on	Pres Val Rev Req @Aft Tax	Pres Val Rev Req @Grssd Up
1	100	100	200	182	167
2	100	90	190	157	132
3	100	80	180	135	104
4	100	70	170	116	82
5	100	60	160	99	64
6	100	50	150	85	50
7	100	40	140	72	39
8	100	30	130	61	30
9	100	20	120	51	23
10	100	10	110	42	18
			1550	1,000	710

CORRECTED VERSION OF SCHADT REBUTTAL TESTIMONY EXAMPLE

Assumptions:

Income Tax Rate:	41.4935%			
Wtd Cost of Capital: Debt:	3.71%			
Wtd Cost of Capital: Pref. Eq:	0.55%			
Wtd Cost of Capital: Com. Eq:	5.20%			
Beginning Year Investment:	111.34	74.23	37.11	

	<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>	<u>Total</u>
Market Revenues	60.00	60.00	60.00	180.00
Less: Depreciation	37.11	37.11	37.11	111.34
Less: O&M	10.00	10.00	10.00	30.00
Less: Interest Expense	4.13	2.75	1.38	8.26
Less: Income Taxes	<u>3.63</u>	<u>4.20</u>	<u>4.78</u>	<u>12.61</u>
Net Income	\$5.12	\$5.93	\$6.73	17.79
Required Return - Pref. Stock	(0.61)	(0.41)	(0.20)	(1.22)
Required Return - Com. Stock	<u>(5.79)</u>	<u>(3.86)</u>	<u>(1.93)</u>	<u>(11.58)</u>
Remainder	<u>(\$1.28)</u>	<u>\$1.66</u>	<u>\$4.60</u>	<u>\$4.98</u>

J. R. Schadt

**Pennsylvania Power & Light Company
Response to Interrogatories
of the PP&L Industrial Customer Alliance, Set II
Dated April 30, 1997**

Docket No. R-00973954

- Q.10. a. Refer to the DOE assessment on page 39 of 117 of Exhibit JRS-1. Please identify the FERC expense account to which the account 182.36 balance is amortized.
- b. Refer to page 14 of 117 of Exhibit JRS1. Please indicate whether the Total Fuel for 1999 and subsequent years includes the amortization of the DOE assessment deferred by the Company in FERC account 182. If your response is that the Total Fuel amount for 1999 and subsequent years does not include the amortization, then provide documentation demonstrating that your response is correct.
- A.10. a. The DOE Assessment (FERC Account 182.36) is amortized to Nuclear Fuel Expense - Decontamination (FERC Account 518.60).
- b. Total fuel for 1999 and subsequent years through 2007 does include the amortization of the DOE assessment to PP&L for decommissioning and decontamination of certain DOE enrichment facilities. The Company will make an appropriate adjustment in its rebuttal case.