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COMMONWEALTH OF PENNSYLVANIA
PUBLIC UTILITY COMMISSION

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: Pennsylvania Power & Light Company :
: Application for approval of a :
: Restructuring Plan. :
: :
: Further Hearing. :
: :
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Docket No.
R-00973954

Pages 1187 through 1307

Hearing Room 2
North Office Building
Harrisburg, Pennsylvania

DOCKETED

Thursday, August 21, 1997

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Met, pursuant to adjournment, at 9:33 a.m.

BEFORE:

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C O N T E N T S

	<u>WITNESS</u>	<u>DIRECT</u>	<u>CROSS</u>	<u>REDIRECT</u>	<u>RECROSS</u>
1					
2					
3	Bernard J. Bujnowski				
4	By Mr. Russell	1190	--	--	--
5	By Mr. Kohler	--	1191	--	--
6	By Mr. Mullins	--	1194	--	--
7					
8	Anthony M. Osmanski				
9	By Mr. Russell	1219	--	--	--
10	By Mr. Kohler	--	1219	--	--
11					
12	Henry Baumann				
13	By Mr. Russell	1228	--	1263	--
14	By Mr. Kohler	--	1230	--	--
15	By Mr. Hladik	--	1231	--	--
16	By Mr. Kleppinger	--	1238	--	1267
17	By Ms. Moury	--	1250	--	--
18	By Mr. Mullins	--	1254	--	--
19					
20	William H. Whitehead				
21	By Mr. Kaplan	1269	--	1275	--
22	By Mr. Hladik	--	1270	--	--
23	By Mr. Kleppinger	--	1272	--	--
24					
25	William Schmitt				
26	By Mr. Rubin	1277	--	--	--
27	By Mr. Kohler	--	1278	--	--
28					
29	Lee Smith				
30	By Mr. Burgraff	1286	--	--	--
31	By Mr. Kleppinger	--	1287	--	--
32	By Mr. Kaplan	--	1289	--	--

P R O C E E D I N G S

1
2 ADMINISTRATIVE LAW JUDGE GEORGE M. KASHI: I call
3 this proceeding back to order, going back on the record.

4 Are there any preliminary matters from counsel this
5 morning before we start?

6 MR. RUSSELL: Nothing from the company, Your Honor.

7 JUDGE KASHI: Hearing none -- sir?

8 MR. HLADIK: One quick one, Your Honor. Stephen
9 Hladik from Caplan & Luker. I just wanted to make Your
10 Honor aware that I will be here today and tomorrow for Mr.
11 Caplan on behalf of Schuylkill Energy and Gilberton.

12 JUDGE KASHI: Okay. I'm sorry, sir, I didn't get
13 your name.

14 MR. HLADIK: Stephen Hladik.

15 JUDGE KASHI: Did you sign the appearance sheet, sir?

16 MR. HLADIK: Yes.

17 JUDGE KASHI: Do you wish to call your first witness?

18 MR. RUSSELL: Thank you, Your Honor. Pennsylvania
19 Power and Light Company would like to call Bernard J.
20 Bujnowski.

21 JUDGE KASHI: Would you raise your right hand and be
22 sworn, sir?

23 **Whereupon,**

24 **BERNARD J. BUJNOWSKI**

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

1 JUDGE KASHI: Please be seated, sir.

2 MR. RUSSELL: Your Honor, I would like to identify
3 Mr. Bujnowski's testimony and exhibits as follows: PP&L
4 Statement No. 15, consisting of eight pages, is the direct
5 testimony of Mr. Bujnowski, and it is accompanied by Exhibit
6 BJB-1. PP&L Statement No. 15-R, consisting of 26 pages, is
7 the rebuttal testimony of Mr. Bujnowski, and it is
8 accompanied by Exhibit BJB-2.

9 DIRECT EXAMINATION

10 BY MR. RUSSELL:

11 Q. Mr. Bujnowski, do you have any corrections to
12 your testimony or exhibits?

13 A. I do not.

14 JUDGE KASHI: They will be so marked for purposes of
15 identification.

16 (Whereupon, the documents were marked
17 as PP&L Statements Nos. 15 and 15-R
18 and PP&L Exhibits Nos. BJB-1 and
19 BJB-2 for identification.)

20 MR. RUSSELL: Your Honor, with the foundation laid by
21 agreement, PP&L moves into the record Statement No. 15, No.
22 15-R, and Exhibits BJB-1 and BJB-2.

23 JUDGE KASHI: Subject to any timely motions and/or
24 objections made pending cross-examination, that which has
25 been marked as PP&L Statements 15 and 15-R, and PP&L

1 Exhibits BJB-1 and BJB-2 will be received into the
2 evidentiary record.

3 MR. RUSSELL: Thank you, Your Honor. Mr. Bujnowski
4 is available for cross-examination.

5 JUDGE KASHI: Thank you, sir.

6 Mr. Zalcmán is not here today.

7 Mr. Kohler.

8 MR. KOHLER: Thank you, Your Honor.

9 **CROSS-EXAMINATION**

10 BY MR. KOHLER:

11 Q. Good morning, Mr. Bujnowski.

12 A. Good morning.

13 Q. My name is Alan Kohler. I represent Enron in
14 this proceeding.

15 Are you aware that, like the generation supply
16 market, the telecommunications local exchange market is also
17 being opened to competition by this Commission at this time?

18 A. I'm generally aware of it.

19 Q. By the way, I'm referring to page 7 of your
20 rebuttal.

21 Were you also aware that the way this Commission and
22 the FCC is implementing local exchange competition, a
23 competitive local exchange carrier, which are the ones who
24 compete with Bell, who owns the network, provides the
25 service connection, service restoration, service repair

1 orders and all other interaction with Bell on behalf of each
2 of its customers?

3 MR. RUSSELL: Your Honor, I would object to that
4 question for two reasons. There's no foundation in the
5 record for the material in the question, and it's outside
6 Mr. Bujnowski's testimony.

7 MR. KOHLER: I was just asking -- he has indicated
8 problems with that type of activity. I just was asking
9 whether he's aware that it's happening in the
10 telecommunications industry before this Commission now. If
11 he doesn't know, he can say he doesn't know.

12 JUDGE KASHI: Overrule the objection. Answer the
13 question.

14 THE WITNESS: I have a general awareness; I have no
15 specific knowledge of the information in your question, Mr.
16 Kohler.

17 BY MR. KOHLER:

18 Q. Are you aware that in fact the activity of a
19 competitor providing service restoration, service connection
20 and service repair orders is in fact happening on the
21 telecommunications side today?

22 A. No, I'm not.

23 Q. Has PP&L completed all the system modifications
24 necessary for implementation of direct access on 1/1/99?

25 A. No, we haven't.

1 Q. Has PP&L developed all the company procedures
2 necessary to implement direct access?

3 A. They are currently under development. We have
4 not completed them.

5 Q. Isn't it true that some of the system
6 modifications and company procedures can't even be started
7 until PP&L gets an order in this proceeding?

8 A. Could you restate that question, please?

9 Q. Isn't it true that some of the system
10 modifications -- one presumption. Presuming the Commission
11 doesn't adopt the company's proposal verbatim, isn't it true
12 that some of the system modifications and company procedures
13 cannot even be started until PP&L gets an order in this
14 proceeding?

15 A. I'm not sure I understand what you're referring
16 to by system modifications. Which system modifications?

17 Q. Isn't it possible that, as a result of the
18 issuance of the Commission's order in this proceeding, PP&L
19 may have to do some or a great deal of system modification
20 and system procedures in order to implement the Commission's
21 order?

22 A. As a general question, the system would be
23 subject to change based on any order the Commission could
24 make for which it was not currently designed.

25 Q. Fair enough.

1 Don't all of these system modifications and company
2 procedures impose some level of cost on the company?

3 A. The act of modifying our system and changing
4 procedures consistent with those modifications, yes, would
5 impose a cost.

6 MR. KOHLER: Nothing further.

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

8 Mr. Hladik.

9 MR. HLADIK: I have no questions at this time, Your
10 Honor.

11 JUDGE KASHI: That means you have no questions?

12 MR. HLADIK: Yes.

13 JUDGE KASHI: Mr. Mullins.

14 MR. MULLINS: Thank you, Your Honor.

15 **CROSS-EXAMINATION**

16 BY MR. MULLINS:

17 Q. Good morning. My name is James A. Mullins and
18 I'm one of the attorneys representing the Office of Consumer
19 Advocate in this proceeding.

20 Mr. Bujnowski, I'd like you to turn to page 5 of your
21 rebuttal testimony. At lines 15 through 17 you're speaking
22 about an alternate supplier's ability to bill on behalf of
23 its customer if that customer is still a customer of PP&L's
24 T&D electric delivery group that receives its generation
25 supply from that alternate supplier.

1 A. I don't believe those lines intend to comment on
2 the ability of suppliers to meet Commission requirements.
3 I'm saying that I'm simply not aware that they have
4 demonstrated the ability as a part of this proceeding.

5 Q. Now, that determination is a Commission
6 determination, correct, if and when it is made?

7 A. I'm not sure I understand your question.

8 Q. If an alternate supplier is to bill the
9 customer, is it a Commission determination as to whether or
10 not that alternate supplier is sufficiently able to perform
11 that function as set forth in the Commission regulations?

12 A. To my knowledge, I'm not sure that the
13 Commission has defined the process or the procedure or the
14 manner in which it would certify or otherwise qualify
15 alternative suppliers as far as an ability to bill, as far
16 as their ability to perform that function.

17 Q. Is that determination in any way, shape or form
18 left to PP&L as an EDC?

19 A. An EDC -- my understanding is that an EDC has a
20 responsibility to provide those functions as determined by
21 the Act.

22 Q. Mr. Bujnowski, at page 14 of your rebuttal, the
23 answering beginning at line 5 and continuing down to line
24 10.

25 A. Uh-huh.

1 Q. There you're discussing fees which may be
2 imposed by an EDC on an alternate supplier to provide
3 billing services on behalf of that supplier.

4 A. That response refers to a fee which was proposed
5 as a part of PP&L's pilot program for customer choice, and
6 which a \$1.10 fee was proposed to be levied on alternative
7 suppliers in exchange for the provision of billing services.
8 That fee was characterized in testimony as exorbitant. My
9 response attempts to respond to that characterization.

10 Q. If you could, please clarify your response --
11 well, first of all, is there a proposal on the table now by
12 PP&L to assess a fee for billing?

13 A. I would like to defer that question to Mr.
14 Baumann, who is a witness scheduled for later today in this
15 proceeding.

16 Q. Okay. That's fine.

17 At page 22 of your rebuttal, towards the bottom of
18 the page, the answer beginning at line 21, --

19 A. Yes, sir.

20 Q. -- there you're speaking about PP&L's intent to
21 verify a customer's credit worthiness prior to rendering
22 service.

23 A. That's correct.

24 Q. Mr. Bujnowski, if you will, what is it about
25 retail access that has prompted PP&L to shore up its actions

1 in regards to determining credit worthiness of a potential
2 customer?

3 A. I'm not sure there is a relationship there.
4 Perhaps I don't understand your question.

5 Q. We'll come back to that. That may be another
6 question for Mr. Baumann.

7 Let me ask you this. Is PP&L allowed to require a
8 deposit based on a potential customer's prior payment
9 history in regard to non-utility bills?

10 A. My understanding of the regulations are that for
11 a customer requesting service, there are a number of
12 conditions which would require or determine whether or not a
13 deposit can be applied. If any one of those conditions are
14 satisfied, we have to provide service without a deposit.
15 One of those conditions has to do with demonstrating similar
16 service from another utility for a period of time. Another
17 condition has to do with being an owner of real property.
18 If any of those conditions are satisfied, we have to connect
19 without a deposit. If they are not satisfied, we can
20 examine credit worthiness under those circumstances.

21 Q. And that would be credit worthiness I guess in
22 general?

23 A. Correct.

24 Q. I direct you now to page 24 of your rebuttal.
25 Starting at line 6 of page 24 and continuing on to line 9 on

1 page 25, --

2 A. Yes.

3 Q. -- you're discussing the alternate dispute
4 resolution, I guess billing disputes between a customer and
5 the EDC or a customer and its alternate supplier.

6 A. I think that response proposes a model of how it
7 could be handled; correct.

8 Q. At page 25, lines 10 through 13, there you state
9 that if a customer is receiving one bill from PP&L --

10 A. Correct.

11 Q. -- and PP&L determines that an error was made,
12 PP&L would make the correction and process a new bill for
13 the distribution and supply charges; is that correct?

14 A. Yes, sir.

15 Q. Under that scenario, would the alternate
16 supplier have any say-so as to how that dispute was
17 resolved?

18 A. I think what I tried to characterize in my
19 response is a situation in which a consolidated bill is
20 provided by the EDC and a customer calls with a complaint or
21 inquiry associated with that bill. Our efforts would be to
22 attempt to determine the nature of that concern or inquiry.
23 If it was determined that the customer's complaint had to do
24 with charges as they were applied for EDC functions, we
25 would correct the bill and reissue a bill, if we could

1 distinguish that the customer's concern had nothing to do
2 with the supplier's charge. If, in fact, it was clear to us
3 that the customer's concern had to do with those charges for
4 services provided by the supplier, we would refer the
5 customer to the supplier, at which point the supplier could
6 deal with the customer in the resolution of the complaint.

7 Q. Mr. Bujnowski, I have a few responses here,
8 questions promulgated by Enron and responded to by you. Do
9 you have the responses handy?

10 A. I believe I do.

11 Q. The first one I'm looking at is Set IV,
12 Question 4.

13 A. I believe I have that response.

14 Q. If you would briefly look over responses (d) and
15 (e) by the company.

16 (Witness perusing document.)

17 A. Yes, sir.

18 Q. Now, in answer (d) -- well, first of all, we're
19 talking about the new and improved information system, are
20 we not?

21 A. That's correct.

22 Q. Now, beginning with the third sentence in that
23 response, you state that the system is outdated, lacks
24 features which will be required in a competitive
25 environment, including the flexibility to bill for

1 additional products and services, and the ability to bill
2 across several jurisdictions.

3 A. Yes, sir.

4 Q. What products and services are you referring to
5 there?

6 A. Any product or service that would be related to
7 energy services, a number of suggestions for enhanced
8 product --

9 Q. I'm sorry. Energy services; are you referring
10 to generation supply services?

11 A. No, I'm not. I'm sorry. I'm referring to
12 consumer products and services. Outage detection systems
13 would be an example of one product or service. Enhanced
14 security systems would be an example of another product or
15 service. Features for the home, enhanced thermostats that
16 might be available, would be an example of another product
17 or service. These are examples of the types of things that
18 it's envisioned that energy providers will be offering to
19 the public in a retail competition.

20 Q. Now, some of the items that you just mentioned,
21 those would be available to all PP&L customers?

22 A. Yes.

23 Q. In the sentence that I just read to you, you
24 also referred to the ability to bill across several
25 jurisdictions.

1 A. Yes, sir.

2 Q. How do you define "jurisdictions" in that
3 context?

4 A. Political jurisdictions. For example, most
5 utility systems, including PP&L's, are designed to bill
6 within one discrete geographic location; it simply and
7 utterly cannot issue a bill for a customer residing beyond
8 that geographic jurisdiction. We anticipate the need to
9 have to do that in a competitive environment.

10 Q. You may have to go over that again. I'm sorry.
11 You said political jurisdictions. Can you elaborate on that
12 somewhat?

13 A. By political jurisdictions I refer to PP&L
14 serves 1.2 customers in all or parts of 29 counties in
15 central and eastern Pennsylvania. Our current system can
16 only support rendering bills within that jurisdiction.

17 Q. We're still on answer 4 to the Enron response.
18 I take you to paragraph (e). There you state that the new
19 system is intended to support core business functions in
20 PP&L's franchised area.

21 A. That's correct.

22 Q. You also allude to the fact that PP&L should
23 have the ability to bill for additional customers and
24 additional products and services.

25 A. Yes, sir.

1 Q. Now, when you refer to customers, which
2 customers are you referring to?

3 A. I refer to certainly customers currently served
4 by PP&L. To the degree that PP&L or its affiliates engage
5 in sales of energy to additional customers beyond that
6 service area, I would anticipate the ability of the system
7 to support those sales from a billing perspective.

8 Q. Now, you also mention additional products and
9 services. Would those products and services be the same as
10 you just mentioned?

11 A. I personally can't respond to what products or
12 services may be; I have no involvement in developing the
13 range of products and services that might be available. My
14 responsibility is to prepare a system to be able to support
15 that. Other people will determine the range of products and
16 services that will be available. So beyond the examples
17 that I cited, I don't believe I can offer any additional
18 specificity; I have no firsthand knowledge. I have no
19 firsthand knowledge of additional products and services that
20 are being considered or that may be offered in the future.

21 Q. Answer me this, then, if you would. Do you have
22 any idea which customers those products and services would
23 be geared towards?

24 A. No, I do not.

25 Q. Mr. Bujnowski, do you have your direct testimony

1 handy?

2 A. Yes, I do.

3 Q. The last page, page 8 -- it turns out this was a
4 question for you after all -- lines 5 through 7.

5 A. Yes, sir.

6 Q. There you state that the company will place
7 increased emphasis on positive identification and on
8 verification of the credit worthiness of new applicants.

9 A. Yes.

10 Q. I ask you now -- you may have answered this, and
11 if you have, just reiterate your answer -- what is it about
12 the impending retail access that would prompt PP&L to shore
13 up its credit worthiness requirements or its determinations
14 of whether or not a customer is credit worthy?

15 A. Yes, sir. Now I understand the question, and
16 again, I'm not sure that there is a particular relationship.
17 We are placing an increased -- in the past PP&L, and I
18 believe other utilities, have had situations where
19 customers, payment troubled customers, customers who are
20 chronically in arrears with their bill, one option that
21 they've used, in our opinion, to avoid collection or
22 possibly termination would be to call and ask for connective
23 service in a new name, a different name, and consequently,
24 we would provide them service at the same address, but it
25 would be in a different name; it would be the same customer.

1 In an effort to circumvent that, we've taken measures to
2 positively identify an individual when they call us and ask
3 for service. The means of that identification is the
4 customer provides us with certain information, including
5 social security number, we run that through an on-line
6 identification service provided by a third party vendor. If
7 there is a connect between the name and social security
8 number that's given and the source of information verifying
9 it, we proceed with the connect. If there is a discrepancy,
10 we ask that customer to present themselves and positive
11 identification at a company location before we will proceed
12 with the process of connecting.

13 So, again, I'm not sure there's a direct relationship
14 as perhaps an effort on the part of the company to address
15 or strengthen current policies with respect to the
16 collection of overdue receivables.

17 Q. Would that background check of sorts, that
18 credit check of sorts, I assume that would apply to all,
19 obviously, customers who are in PP&L's franchised service
20 territory receiving transmission and distribution services
21 from the company; right?

22 A. Yes, it would.

23 Q. Would those heightened credit checks apply to
24 the generation supply side of the corporation or the
25 corporate entity?

1 A. I believe it would be up to the supplier to
2 determine, number one, how it will evaluate credit
3 worthiness, provided those determinations are consistent
4 with Chapter 56 of the Commission's regulations.

5 Q. Do you have any idea if the generation supply
6 group is going to assess the credit worthiness of a customer
7 along similar lines as the EDC?

8 A. I have no knowledge of their practices with
9 regard to this subject.

10 Q. Mr. Bujnowski, do you have the filing guidelines
11 before you, Section P?

12 A. I'm sorry?

13 Q. The PP&L filing guidelines.

14 A. No, I do not.

15 JUDGE KASHI: Mr. Mullins, are you going into a new
16 section here?

17 MR. MULLINS: Yes, Your Honor. Would you like to
18 recess?

19 JUDGE KASHI: Yes. We're going to recess at this
20 point for public meeting for all you aficionados of the
21 pilot programs. As soon as that's finished, which I expect
22 isn't going to be too long, we will come back and finish
23 with Mr. Mullins.

24 We stand in recess.

25 (Recess.)

1 JUDGE KASHI: Back on the record. Continuing with
2 the cross examination by the Office of Consumer Advocate.

3 Mr. Mullins.

4 MR. MULLINS: Thank you, Your Honor.

5 BY MR. MULLINS:

6 Q. Mr. Bujnowski, I presume you have RP P-13?

7 A. Yes, I do.

8 Q. Now, there you're discussing the PP&L billing
9 format as of that date?

10 A. That's correct.

11 Q. My question to you is quite simple. On July 10
12 the Commission issued an order in which it set forth the
13 billing formats that the EDCs were to follow. I'd just
14 like to know if PP&L had made those changes, or if it
15 hasn't, at what point can we expect to see those provisions
16 implemented?

17 A. PP&L will comply with the requirements as
18 specified. I think the order you're referring to has to do
19 with customer information, which has specific, very specific
20 information with respect to the format, the content, and the
21 language of the bill. And we intend to comply with those
22 guidelines.

23 Q. Mr. Bujnowski, returning to Set IV of the
24 Environmentalists' questions to PP&L. Do you have that
25 handy?

1 A. The interrogatories?

2 Q. Yes.

3 A. Set IV of --

4 Q. Set IV of the Environmentalists.

5 A. Oh, the Environmentalists. Yes, sir.

6 Q. I direct you to question 232.

7 A. Yes, sir.

8 Q. Response B, if you look down, I guess it's the
9 third mini-paragraph, or sentence, or whatever you want to
10 call it, you discuss conjunctive billing there. Do you see
11 that?

12 A. Yes, sir.

13 Q. I was a bit confused by that particular response.
14 Mainly, if you could, conjunctive billing would apply to the
15 EDC charges?

16 A. Perhaps the best way I can describe that would
17 actually be to consider it as kind of summary billing. If
18 you were a proprietor of a business, and that business had a
19 number of franchises located in our service area, it is
20 often a convenience, more than a convenience to you to get
21 one summary, or conjunctive bill, for all those accounts,
22 both from a strict business perspective, and as well may
23 allow you the opportunity to take advantage of certain rates
24 because you are summary billing for the entire amount of
25 usage.

1 Q. If a customer had chosen an alternate supplier,
2 would the company get a bill for that customer's account --
3 well, that account with the alternate supplier conjunctively
4 with other accounts under EDC tariffs alone?

5 A. If I understand your question, I don't believe
6 that that concept would apply to the example you chose; if I
7 understand your question. Would you care to restate the
8 question?

9 Q. Yes.

10 A. And before you restate it, let me also say that
11 this provision, conjunctive billing, is typically a value
12 and application to commercial customers, and typically not
13 applicable in residential situations.

14 Q. Within that same response, page 2 of that
15 response, you speak of blended tariffs. Do you see that?

16 A. Yes.

17 Q. Once again, can you expound on that?

18 A. Under a competitive environment there will be
19 opportunities for you to purchase energy supply to meet
20 different components of your load shape. You may have an
21 opportunity to purchase electricity at peak periods, another
22 opportunity to purchase electricity at base load periods,
23 and perhaps opportunity to purchase electricity on the
24 so-called shoulder, or the period between those two.

25 The system that we are developing would allow us to

1 be able to bill you for services provided under those
2 circumstances. So, in effect, the rates or the tariffs
3 would be blended.

4 Q. Now, the blended tariffs, I guess the definition
5 is usage split between two different tariffs. Those would
6 be specifically EDC tariffs, or would they entail generation
7 tariffs?

8 A. A tariff, of course, is a term that would refer
9 to a regulated part of the business. But I think that
10 basically the system would allow you to bill for rates that
11 you were charged for energy usage at different periods,
12 whether they're tariffs or rate schedules or a contract
13 agreement between you and the alternate supplier.

14 Q. Mr. Bujnowski, I direct you now to Enron Set I,
15 question 35.

16 A. I have that response and question.

17 Q. Now, here we return back to the new information
18 system.

19 A. That's correct.

20 Q. Now, there you state that the new information
21 system is designed to permit the electric delivery group to
22 perform its billing and accounting functions. As a result,
23 all the costs would be allocated to that group.

24 My question to you is: Will PP&L's generation supply
25 group pay the same associated costs of that system as

1 another alternate supplier?

2 A. Although we haven't determined the manner or the
3 cost for usage of the system for PP&L's generation supply
4 company, or any other alternative supplier, that whatever
5 costs were assigned to the generation supplier based on
6 specific use of the system, same terms and conditions would
7 be available for any other alternative supplier.

8 Q. Now, in that context, you have three aspects of a
9 customer's account; transmission, distribution and
10 generation. If the generation third of that component is
11 being provided on a competitive basis, --

12 A. Yes, sir.

13 Q. -- then why shouldn't the associated costs of
14 that billing, recovery of those costs, be the sole -- well,
15 why shouldn't the risks associated with the recovery of
16 those billing costs fall on the shoulders of the company?

17 A. Could you restate that question, please? I'm not
18 sure I understand.

19 Q. I'll try to clarify it. I guess I can simplify
20 it by saying the costs associated with billing --

21 A. Yes.

22 Q. -- for generation service; is there any reason
23 why that component of a customer's account shouldn't be
24 competitive? Competitive, and also the recovery of those
25 costs of the billing system, the risk of that recovery, fall

1 on the shoulders of the shareholders. What I'm saying is,
2 if you have a customer who may or may not pay a bill,
3 shouldn't the shareholders be at risk for receiving that
4 payment?

5 A. I'm sorry, I'm unable to respond to that
6 question.

7 Q. Do you not understand it, or do you --

8 A. I don't understand it.

9 Q. Okay. PP&L has a regulated transmission and
10 distribution portion of the utility. If the recovery of the
11 costs due PP&L for providing those services, who,
12 quote/unquote, takes the hit if a customer doesn't make
13 payments?

14 A. An alternative supplier, or a --

15 Q. No, no. If you have the --

16 A. A customer of an alternative supplier or a
17 customer --

18 Q. No, a customer of PP&L. You have a PP&L customer
19 which may or may not take service from an alternate
20 supplier. Regardless of that, that customer would still
21 receive transmission and distribution service from PP&L;
22 correct?

23 A. That's true.

24 Q. Now, if that customer does not pay that regulated
25 portion of its bill, who would forego that revenue?

1 A. Well, I'll try to respond to that the best I can.
2 I'm not sure I can be entirely responsive with respect to
3 who would forego the revenue. But if you are a customer,
4 and under retail competition you do not pay your portion of
5 the regulated transmission and distribution services, you
6 would be subject to collection procedures consistent with
7 the provisions of Chapter 56.

8 To the degree those provisions allow us to collect
9 overdue receivables, no one takes a hit, in your terms. To
10 the degree that there are overdue receivables that the
11 company has to account for, I'm not sure I'm qualified to
12 respond to the accounting implication of those receivables.

13 Q. Okay. That was sort of a complex question, I
14 admit. We'll move on.

15 One more line of question. Enron Set IV. Let me
16 back up a second. Enron Set IV, question 229.

17 A. Enron Set IV?

18 Q. Question 229.

19 A. I don't have an Enron Set IV, question 229.

20 Q. I'm sorry; Environmentalists Set IV, question
21 229.

22 A. Yes.

23 Q. Now, there we're discussing future service
24 options which may be provided by the company?

25 A. Yes, and I believe most of these are metering

1 options.

2 Q. Right. Now, I'll direct you to the answer of
3 that question. And to sum it up, you state that all
4 services will be offered as market opportunities arise,
5 whatever those services may be.

6 A. Uh-huh.

7 Q. Who makes that determination?

8 A. As to what services would be offered?

9 Q. Who makes the determination as to market
10 opportunities have arisen, let's offer these services to
11 customers.

12 A. Yes. Typically, market staffs would evaluate
13 products and services, presumably they make some assessment
14 of the market, and based on that assessment would make a
15 determination of which products to offer.

16 Q. PP&L's marketing staff?

17 A. PP&L's current -- in the past, yes, PP&L has a
18 marketing staff that made those assessments.

19 Q. Do you have any idea where they would gather the
20 information needed to make that determination?

21 A. I have no firsthand knowledge where they gather
22 the information. I can offer some speculation. Would you
23 like me to speculate?

24 Q. Well, would they look at the market, let the
25 market dictate whether or not the opportunities have arisen?

1 A. Certainly they would look at the market to make
2 that determination. The manner in which they'd approach the
3 market, they would use various methods to assess market
4 readiness for a particular product, ranging everything from
5 focus group, direct interviews with customers, market
6 surveys, perhaps alliances with vendors who have done market
7 research.

8 So there are a number of -- my understanding is there
9 are a number of ways in which marketing would assess the
10 opportunities for entering new products and services to the
11 market.

12 Q. I'll direct you to the second paragraph of that
13 response.

14 A. Yes, sir.

15 Q. And towards the middle of that paragraph, maybe
16 three lines into it.

17 A. Yes.

18 Q. You state that the investments for these new
19 metering systems, the associated costs of providing these
20 services anyway, would be assessed to the customers; is that
21 correct?

22 A. It says it will most likely be recovered in the
23 -- excuse me. Investments in new metering systems required
24 for in-hand service will most likely be recovered in the
25 cost of providing the services.

1 One could interpret that to mean that the customer
2 would ultimately pay for those costs.

3 Q. What do you think the customer's reaction would
4 be to a service that that customer had been charged for that
5 the customer did not feel that he or she needed or did not
6 want?

7 A. If I understand your question, I imagine that in
8 that situation the customer's reaction would be chagrin at
9 best, and anger at worst, if they were, in fact, charged for
10 a service that they didn't need or want.

11 Q. You said the investment for these services would
12 be -- let me back up a second.

13 If you would, what would be the price of these new
14 metering systems? Not an exact number; but how would you
15 derive a price?

16 A. I'm going to offer a response and also suggest
17 that you may wish to pursue this line of questioning with
18 Mr. Osmanski, who is a witness also scheduled to write
19 testimony today.

20 But, let's, as an example, if you were a customer of
21 PP&L for transmission and distribution services, most likely
22 you would have a standard meter, residential meter, on your
23 home. And let's suppose that a representative of Enron or
24 another alternative supplier approached you and said: Look,
25 I have an opportunity here to offer you a savings on your

1 current electric bill. Our assessment of your low profile
2 looks to us like there might be a benefit from alternative
3 pricing schemes. And also I have a home security package
4 that I think you're an ideal candidate for, and I think
5 you'd be interested in.

6 And if you agree to do that, one consequence might be
7 that the alternative supplier might say: But you know what;
8 you're going to have to change our your meter. And you can
9 your transmission, or your local distribution company to do
10 that, but you are going to have to assume the extra cost for
11 that meter, that additional meter, if you want these
12 services.

13 And that's how the investment would be recovered.
14 That's one manner in which the investment would be
15 recovered.

16 And again, an example; you would not be forced to pay
17 for those services unless you accepted that, yes, the added
18 value or added savings, based on an alternative supplier's
19 package, was worth, in your opinion, the additional cost
20 associated with the new meter to support those added value
21 added services.

22 Q. Do you think that the market would dictate any
23 other pricing schemes associated with these new metering
24 services?

25 A. Do I think the market would? The market would

1 certainly have -- yes, the market would have a bearing on
2 what happens to the cost of metering services. Subject to
3 any service or commodity, subject to additional demands,
4 could influence the price of any commodity or service or
5 product.

6 Q. Do you think the market should set the price for
7 those services?

8 A. Which services are you referring to?

9 Q. Any new metering technology that happens to arise
10 in the future. Do you think that based on the providers of
11 those services, the market should set what that price should
12 be?

13 A. If I understand your question, I think the market
14 will set those prices.

15 Q. Okay. Thank you for your testimony.

16 MR. MULLINS: I don't have anything further, Your
17 Honor.

18 JUDGE KASHI: Thank you very much, Mr. Mullins.
19 Redirect, Counsel?

20 MR. RUSSELL: No redirect, Your Honor.

21 JUDGE KASHI: Thank you very much, sir. You're
22 excused.

23 THE WITNESS: Thank you, Your Honor.

24 (Witness excused.)

25 JUDGE KASHI: That which has been previously marked

1 as Statement No. 15 and 15-R, with the attendant Exhibits
2 BJB-1 and 2, are received into the evidentiary record.

3 Without objection?

4 (No response.)

5 JUDGE KASHI: Without objection.

6 MR. RUSSELL: Thank you very much.

7 (Whereupon, the documents marked as PP&L
8 Statement Nos. 15 and 15-R, including
9 Exhibit Nos. BJB-1 and BJB-2 were received
10 in evidence.)

11 JUDGE KASHI: Do you wish to call your next witness?

12 MR. RUSSELL: Yes, Your Honor. PP&L calls
13 Anthony M. Osmanski.

14 JUDGE KASHI: Please raise your right hand to be
15 sworn.

16 Whereupon,

17 ANTHONY M. OSMANSKI

18 having been duly sworn, testified as follows:

19 JUDGE KASHI: Please be seated.

20 MR. RUSSELL: Your Honor, I would identify
21 Mr. Osmanski's testimony as follows: PP&L Statement No.
22 21-R is the rebuttal testimony of Anthony M. Osmanski. It
23 consists of 14 pages. And there are no exhibits with that
24 testimony.

25

DIRECT EXAMINATION

1
2 BY MR. RUSSELL:

3 Q. Mr. Osmanski, do you have any corrections to your
4 testimony?

5 A. No, I do not.

6 JUDGE KASHI: So marked for purpose of
7 identification.

8 (Whereupon, the document was marked
9 as PP&L Statement No. 21-R for
10 identification.)

11 MR. RUSSELL: And Your Honor, with the foundation
12 laid by agreement, PP&L moves into the record Statement No.
13 21-R.

14 JUDGE KASHI: Subject to any timely motions and/or
15 objections made pending cross examination, that which has
16 been marked and identified will be received into the
17 evidentiary record.

18 MR. RUSSELL: Thank you, Your Honor. And
19 Mr. Osmanski is available for cross examination.

20 JUDGE KASHI: Thank you very much.

21 Mr. Kohler?

22 MR. KOHLER: Thank you, Your Honor.

CROSS EXAMINATION

24 BY MR. KOHLER:

25 Q. Good morning, Mr. Osmanski.

1 A. Good morning.

2 Q. My name is Alan Kohler, I represent Enron. Just
3 a few questions.

4 Referring to page 3, line 6 of your testimony.
5 There's a reference to similar systems of lesser
6 sophistication.

7 A. Yes.

8 Q. Do you have any estimate or plan as to when they
9 might be expected to be completed?

10 A. My reference there was basically industry
11 developments within the residential venue, or the
12 residential metering areas. And I would hope that
13 developments of those types of systems would come in line
14 with the expected start of direct access.

15 Q. Will those systems allow PP&L to provide a time-
16 of-day meter to each customer who desires such a meter?

17 A. I believe they would.

18 Q. At the bottom of page 5 of your testimony, line
19 20. Are you with me?

20 A. Yes.

21 Q. Is that intended to be a commitment by PP&L to
22 provide a standardized communication connection upon request
23 of a supplier or suppliers?

24 A. It's my feeling that industry right now is
25 developing these standardized communications. And it would

1 be PP&L's intention to utilize those and provide that when
2 they become available.

3 Q. Do you have any estimate as to your view when
4 they might become available?

5 A. Again, it would depend on how quickly things
6 develop in the standardization type community, whether the
7 ANSI standards would be accepted, how quickly; a lot of what
8 is happening in California right now. But I would hope
9 within the near future.

10 Q. Referring to page 7, line 8. I think, again,
11 you're talking here generally. And my question is: But
12 does PP&L have any specific plans to implement a meter
13 gateway interface for supplier interaction?

14 A. I don't think there are any specific plans at
15 this time to go directly into the meters. Although we are
16 developing and are in the process of implementing a
17 communication infrastructure where we can utilize the
18 Internet to allow customers to view, using a typical
19 browser, to view their energy usage; and different methods
20 and different forms, looking at either hourly or daily
21 usage, typically.

22 Q. So you have no estimate at this point as to when
23 such a gateway interface might be available?

24 A. I believe industry right now is doing some
25 experiments with TCPIP type Internet protocols that would

1 allow communication directly to the meter.

2 At this point we're doing some experimentation with
3 equipment that will allow that. And how fast that
4 progresses, again, is a question that we'll find out
5 shortly.

6 Q. Do you see any possibility of that being
7 available by 1/1/99?

8 A. I think that's entirely possible.

9 Q. Or even likely?

10 A. Yes.

11 Q. Referring to page 8, line 1. Does PP&L plan to
12 charge suppliers for aggregated low-profile data?

13 A. I don't think that I'm qualified to answer that
14 particular question.

15 Q. Is there a witness that would be qualified?

16 A. I think Mr. Baumann may be able to answer that.

17 Q. Okay. In that same area there, I'm referring to
18 on line 4: Data can be provided to the suppliers as needed
19 through contract with PP&L.

20 A. Correct.

21 Q. So, at least you weren't presuming compensation
22 in that, you weren't presuming a price for that service and
23 that contract?

24 A. My presumption in stating that is that we can
25 provide it through some contract. Now, whether or not there

1 would be a charge with it is beyond me.

2 Q. Okay, fair enough. Has PP&L developed a
3 standardized contract for dissemination of aggregated demand
4 profile information to suppliers?

5 A. Not that I'm aware of at this time.

6 Q. Are there any plans to do that?

7 A. I would just be my opinion, but I would think
8 there would be.

9 Q. You wouldn't be the perfect person to ask about
10 that?

11 A. No, I would not.

12 MR. RUSSELL: Again, I think maybe Mr. Baumann can
13 address that.

14 MR. KOHLER: Mr. Baumann, okay.

15 BY MR. KOHLER:

16 Q. Referring to your answer on page 8, line 17.

17 A. Yes.

18 Q. In today's environment, who chooses the type and
19 sophistication of the meter for a given customer, the
20 customer or PP&L?

21 A. In the regulated environment, where we strictly
22 adhere to the tariffs, PP&L chooses the meter. That would
23 be appropriate for the tariff for they needed information
24 that's required.

25 Q. And do you see that changing in the future?

1 A. I guess what, in my opinion, what I feel is going
2 to happen is that data communication, data is really what
3 the customer will require from his metering. And I don't
4 believe that the customer particular needs to determine what
5 type of meter, but he really needs to determine what type of
6 data will be acquired from that particular meter. So the
7 customer will end up choosing a specific service. And along
8 with that service will be their required meter that will
9 allow him, or the customer, to obtain the correct amount of
10 data for that type of service.

11 Q. So is it a fair summary of your statements that
12 customer choice isn't necessary in the metering area,
13 because customers have no desire to choose a meter?

14 A. I think it depends on how you qualify meter area.
15 I qualify meter area as also the data, because you have to
16 acquire that data through the meter. However, I feel
17 that --

18 Q. Well, let's restrict it to the physical meter.
19 Do you want me to restate the question?

20 A. Well, I believe that it's difficult to separate,
21 because I feel that the data and information that you get
22 from the meter is one entity of that system, and the actual
23 physical hardware and connection is the other. And
24 definitely the data and information is a competitive area
25 that needs to be explored.

1 Q. But the data information is not a customer choice
2 issue; is it? Customers aren't going to choose a type of
3 data; are they?

4 A. Customers are going to choose the type of service
5 and pricing that they would require.

6 Q. Let me try it this way. And you may disagree
7 with this initial statement. But if you presume for the
8 moment that customers have a desire to choose something in
9 the metering area, it's like that, that choice would be
10 related to the physical meter and its capabilities; is that
11 right?

12 A. I don't think in particular that the customer
13 understands well enough to be able to choose a particular
14 type of meter. I think that's an engineering decision.

15 Q. I'm going to move on. Let me ask you one
16 question. Can I summarize your last few answers that you
17 don't believe customers have an interest in exercising
18 choice for a physical meter?

19 A. I believe that customers are interested in the
20 information and the control that the meter will give them,
21 but not in the particular device itself.

22 Q. Thank you. If a residential customer today
23 called his or her PP&L customer service representative, and
24 requested and agreed to pay for a time-of-day meter, would
25 PP&L be able to fulfill that customer's request?

1 A. In today's environment? I'm not sure if I
2 understand how you're asking that. But you mean in a
3 regulated environment?

4 Q. Today.

5 A. They would --

6 Q. Today, if a residential customer called his or
7 her PP&L customer service representative and requested and
8 agreed to pay for a time-of-day meter, would PP&L be able to
9 fulfill that customer's request?

10 A. If there was an allowable tariff that allowed
11 them to request that meter, we would provide the meter at
12 charges that are applied through that particular tariff.

13 Q. But no such tariff is in place; is it?

14 A. There are time-of-day -- there is a time-of-day
15 tariff that they can utilize right now, yes.

16 Q. Residential customers?

17 A. Yes.

18 Q. So your answer is yes; if I call -- in fact, I am
19 a PP&L customer, I forgot for a second.

20 (Laughter.)

21 Q. If I call up my customer service representative
22 today and said: Hi, I really like these time-of-day meters.
23 And would you be able to quote me a price? And if I agree
24 to that price, could we make arrangements to install such a
25 meter?

1 JUDGE KASHI: Mr. Baumann, would you raise your right
2 hand and be sworn, sir?

3 **Whereupon,**

4 **HENRY W. BAUMANN**

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

6 JUDGE KASHI: Please be seated.

7 MR. RUSSELL: Your Honor, I would like to identify
8 Mr. Baumann's testimony and exhibits. For the record,
9 PP&L Statement No. 14 is the direct testimony of
10 Henry W. Baumann. It consists of ten pages. And there are
11 no exhibits associated with that.

12 PP&L Statement No. 14-R is the rebuttal testimony of
13 Henry W. Baumann. It consists of twelve pages, and no
14 exhibits with that, either.

15 **DIRECT EXAMINATION**

16 BY MR. RUSSELL:

17 Q. Mr. Baumann, do you have any corrections to your
18 testimony?

19 A. No, I do not.

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

22 **(Whereupon, the documents were marked**
23 **as PP&L Statement Nos. 14 and 14-R for**
24 **identification.)**

25 MR. RUSSELL: And Your Honor, with the foundation

1 laid by agreement, PP&L moves into the record Statement
2 No. 14 and No. 14-R.

3 JUDGE KASHI: Pending any timely motions and/or
4 objections made pending cross examination, that which has
5 been marked as Statement No. 14 and 14-R is received into
6 the evidentiary record.

7 MR. RUSSELL: Thank you. Your Honor, Mr. Baumann is
8 available for cross examination.

9 JUDGE KASHI: Thank you, sir.

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1 JUDGE KASHI: Mr. Kohler?

2 CROSS-EXAMINATION

3 BY MR. KOHLER:

4 Q. You were here for the two prior witnesses's
5 testimony; is that right, Mr. Baumann?

6 A. For the most part, yes.

7 Q. I have one question to start. In your view, do
8 residential customers compete with each other?

9 A. No, they do not.

10 Q. Now, I forget which witness now indicated that
11 you might be in a position to identify at this time what
12 PP&L's proposal is for a charge for billing suppliers. Is
13 that right?

14 A. I am not aware of any charge that the local
15 distribution company is proposing. We are proposing a fee
16 of \$1.10 or were proposing a fee of \$1.10 in our pilot
17 program. As we heard at 10:00, that is now a moot point.
18 No fees will be allowed.

19 Q. So the prior witness was incorrect? The company
20 hasn't proposed anything yet?

21 A. No, they haven't.

22 Q. And you aren't saying that they aren't going to
23 charge a fee; is that correct? You're just saying that that
24 proposal will be made at some point in time in the future?

25 A. No specific fee has been developed.

1 Q. Mr. Osmanski also referred to you a question
2 regarding a potential charge for aggregated demand profile
3 information to suppliers. Were you here for that reference?

4 A. I didn't hear a specific charge, but I did hear
5 a question about -- I heard your question.

6 Q. I think he referred to you the item of specific
7 charge. Are you aware of such a charge?

8 A. At this point in time, no, I am not.

9 Q. Are you aware of any plans on the part of PP&L
10 to assess any charge?

11 A. At this point in time, no.

12 Q. So the issue hasn't come up, again, something
13 for the future; is that right?

14 A. It could come up, depending on how the market
15 evolves, but at this point in time, no, we haven't
16 considered any charge for that information.

17 MR. KOHLER: Understood. Nothing further.

18 JUDGE KASHI: Thank you very much.

19 Mr. Hladik?

20 CROSS-EXAMINATION

21 BY MR. HLADIK:

22 Q. Good morning, Mr. Baumann. My name is Stephen
23 Hladik. Our firm represents Schuylkill Energy Resources and
24 Gilberton Power.

25 I saw from looking at your direct testimony that you

1 are the project manager of competitive intelligence?

2 A. That is my title.

3 Q. What exactly is competitive intelligence?

4 A. Competitive intelligence is the uncovering of
5 information or the collection of information on competitive
6 markets, in competitive markets.

7 Q. I saw that you actively participated in the
8 pilot program. It's rather timely that you are here today;
9 wouldn't you agree?

10 A. I would say so, yes.

11 Q. I have a few questions for you on the enrollment
12 period. I saw from your testimony that that period is going
13 to run from June 1, '98 through 10/1/98; is that correct?

14 A. Yes.

15 Q. And I believe from your testimony, if the
16 enrollment is not filled, that you will reopen for further
17 enrollment?

18 A. Yes.

19 Q. How long is that period going to be that it will
20 be reopened? Have you determined that?

21 A. My guess is it would be until we reach the load
22 limits, so it would remain open as long as necessary.

23 Q. You indicated that the company will publicize
24 and allow people to volunteer; is that correct?

25 A. Yes, I did.

1 Q. What methods of publication has the company
2 decided to implement?

3 A. Nothing final has been determined yet. We will
4 be conducting an education program for our customers, so we
5 will be communicating with them in a number of ways.

6 It could be through local agencies, it could be
7 through mailings of a brochure upon request, but we have not
8 finalized any aspects of our education program at this time
9 that I'm aware of.

10 Q. Now, the method of selection that the company
11 has chosen, as I understand it, if too many people volunteer
12 for it, it will be on a random basis; is that correct?

13 A. Correct.

14 Q. I saw that there was a proposal from one of the
15 witnesses with regard to industrial consumers or customers
16 who would volunteer by a percentage of their load; do you
17 recall that?

18 A. Yes, I do.

19 Q. If industrial customers were allowed to
20 volunteer by a percentage of their load, wouldn't that open
21 up competition potentially for a greater number of
22 participants?

23 A. It's a possibility.

24 Q. I saw that you indicated that customers who
25 return to PP&L will have to sign a one-year contract; is

1 that correct?

2 A. Yes.

3 Q. And there will be a six month grace period?

4 A. For residential customers, yes.

5 Q. Not for industrials?

6 A. No.

7 Q. The reason for that was to prevent gaming, I
8 believe was the phrase you used?

9 A. Yes.

10 Q. Would you agree that in a free market, the
11 consumer should have the ability to freely choose whom they
12 wish to contract with?

13 A. Yes. However, if I look at the local
14 distribution company's responsibility as supplier of last
15 resort, in order for us to procure energy for our customers
16 at the most favorable price, we do need to be able to plan
17 for how much load we much purchase.

18 And we're also concerned about customers who may game
19 the system at the expense of other customers or at the
20 expense of suppliers or at the expense of the local
21 distribution company.

22 Q. The six month grace period, it's your opinion
23 that that is a long enough time for a customer to adequately
24 determine that competition is for them?

25 A. Well, I think that they would have a sufficient

1 amount of time to experience competition, to make a choice.
2 If they feel that they have had an unpleasant experience or
3 they require more information, they can withdraw, acquire
4 that information and that better understanding and then get
5 back into the market.

6 Q. With the one year contract, suppose a customer
7 has passed the six month limit and decides that the supplier
8 is not for them.

9 The fact that going back to PP&L would require a one
10 year contract, would that potentially act to the company's
11 detriment in that that customer will then go to some other
12 supplier and not come back to PP&L?

13 A. I don't believe so, no.

14 Q. With regard to the switching, I believe in your
15 rebuttal testimony that you indicated that it's important
16 for the EDC to directly communicate with the customer
17 regarding --

18 A. Could you please clarify what you mean by
19 "switching"?

20 Q. In other words, leaving PP&L and choosing an
21 alternate supplier.

22 A. Okay. Go ahead.

23 (Pause.)

24 A. I think that also applies to switching
25 suppliers. It could be switching from Supplier A to

1 Supplier B, which is one of those suppliers not being PP&L
2 or the local distribution company. It doesn't apply
3 specifically to leaving the local distribution company for
4 another supplier. It could be switching between other
5 suppliers, alternate suppliers.

6 Q. Are you familiar with switching long-distance
7 carriers?

8 A. In general, yes, not specifically.

9 Q. Have you ever?

10 A. Yes.

11 Q. Did you have to communicate directly with your
12 local telephone company when you were switching?

13 A. No.

14 Q. With regard to a third party verification, I
15 understand you testified that greater protection will not
16 occur through a third party verification; is that correct?

17 A. I believe that I said -- let me check my
18 testimony.

19 Q. I can refer you. Of your rebuttal testimony, it
20 was page 8, line 14, through 16.

21 A. You said line 18?

22 Q. I said line 16.

23 A. Sixteen. Yes. I believe that that is
24 incorrect. In my opinion, you will significantly minimize
25 the amount of slamming that takes place if the customer is

1 involved in the process.

2 And the way I view third party verification in Mr.
3 Bowen's testimony, the customer was not directly involved in
4 the process.

5 Q. Have you conducted any studies to determine that
6 the third party verification will afford less protection?

7 A. No, I have not.

8 Q. Have you performed any studies that direct
9 communication with the customer will provide the greatest
10 protection?

11 A. I have developed my opinion through things I
12 have heard that have happened in the telecommunications
13 industry. As I mentioned, I was generally aware of what has
14 been going on in the telecommunications industry, and that
15 slamming has been a problem.

16 It's my feeling that you can minimize slamming by
17 insuring that the customer is aware that a switch is taking
18 place.

19 Q. So you said you developed your opinion based on
20 what's happening in the telecommunications industry?

21 A. Well, based on what I have heard or seen in the
22 telecommunications industry. I do have a general --

23 Q. Are you aware in the telecommunications industry
24 that some of the carriers use third party verification
25 before switching?

1 A. No, I'm not.

2 Q. Are you aware of whether the slamming problems
3 in the telecommunications industry occurred before
4 implementation of the third party verification?

5 A. I'm not aware of that.

6 MR. HLADIK: I have no further questions, Your Honor.

7 JUDGE KASHI: Thank you, Mr. Hladik.

8 Mr. Kleppinger?

9 MR. KLEPPINGER: Thank you, Your Honor.

10 CROSS-EXAMINATION

11 BY MR. KLEPPINGER:

12 Q. Good morning, Mr. Baumann.

13 A. Good morning.

14 Q. I'll try to be painfully brief, given that as of
15 this morning you have all of 70 days to get your pilot
16 program up and running.

17 (Laughter.)

18 Q. I'll let you get back to your office.

19 I'd like to just compare a little bit your phase-in
20 proposal with that recommended by PPLICA in this proceeding.
21 Both proposals would include, for the industrial class, an
22 open enrollment period. Do you agree with that?

23 A. Yes.

24 Q. And in that open enrollment period, the
25 customers would have to designate how much of their load

FORM 2

1 they would want to move to direct access; would they not?

2 A. I'm sorry, could you restate the question?

3 Q. Under both proposals, wouldn't the customer in
4 that open enrollment period not only have to indicate that
5 they want to participate in direct access but also how much
6 of their load in terms of megawatts they would want to
7 participate in the direct access?

8 A. I believe that is explicitly stated in PPLICA's
9 testimony. I believe in mine, it's that we would have
10 random selection if we were oversubscribed.

11 Q. But before we get to the random selection -- I'm
12 trying not to get to that yet -- I'm trying to identify
13 whether or not, under your open enrollment proposal here, a
14 customer would in fact have to designate the number of
15 megawatts they want on direct access.

16 A. I believe our intent was that customers who
17 would be included would be purchasing 100 percent of their
18 load.

19 Q. So if a customer only wanted for whatever
20 operational reason to only have 50 percent or 70 percent of
21 their load on direct access, under your proposal here they
22 would not be able to do that? It would be 100 percent of
23 the load or nothing?

24 A. I believe that was our intent, yes.

25 Q. Does that appear anywhere in here, or is that --

1 A. I believe it does not.

2 Q. Okay. So then for every customer that signs up
3 the enrollment form in the industrial class, it will be 100
4 percent of their peak load?

5 A. Correct.

6 Q. Then when we move to the random selection step
7 -- well, let's back up a second.

8 Under the company's proposal, then, if the 33 percent
9 is undersubscribed, everybody that wants to get into the
10 first third is into the first third for their full load?

11 A. Correct.

12 Q. Under PPLICA's approach, if the 33 percent is
13 undersubscribed, everybody gets in for whatever amount of
14 their load they would designate?

15 A. Based on what's in I believe Mr. Baron's
16 testimony, yes.

17 Q. In your rebuttal testimony to the PPLICA
18 proposal, you did not address I don't think the issue that
19 would arise under PPLICA's proposal if a customer designated
20 less than 100 percent of their peak load and was selected
21 for participation.

22 Is there an objection from the company standpoint to
23 having customers with part of their load on direct access
24 and part of their load continuing to be bought from PP&L?

25 A. I believe we'd consider that.

1 Q. In fact, you will have to do that in the context
2 of the pilot program?

3 A. That's correct.

4 Q. Let's try to look at what the worst case
5 scenarios would be under the PP&L approach to the phase-in
6 and the PPLICA approach to the phase-in, and see whether you
7 agree with me whether it's the worst case or not.

8 Under PP&L's approach, if the load limitation of 33
9 percent in the first year or 66 percent in the second year
10 is oversubscribed, and we move to the random selection, the
11 conclusion is, is it not, Mr. Baumann, that customers who
12 want to exercise their right of direct access will not be
13 able to exercise that right during that time period?

14 A. There may be some customers who are excluded
15 from direct access if they're not selected in the random
16 selection process, yes.

17 Q. So that in that event, the worst case for an
18 individual customer is that they would have wanted all of
19 their load in the first phase and they didn't get any of
20 their load in because they weren't randomly selected in an
21 oversubscription situation?

22 A. Yes.

23 Q. Now, in the proposal that's been recommended by
24 PPLICA in this case, would you agree with me that the worst
25 that any customer could do in the industrial class is that

1 they would only be assured that under scenario, that the
2 worst they would get is 33 percent of their load? That's
3 the default, if you will, of the PPLICA proposal? Would you
4 agree with that?

5 A. Yes.

6 Q. So that everybody who would want to get in on
7 that first or second phase would in fact get in?

8 A. One clarification. In terms of the customers
9 who would be eligible under the PPLICA proposal, I believe
10 that that would apply to a very narrow group of industrial
11 and commercial customers.

12 If I recall Mr. Baron's testimony, that is only the
13 larger customers that are served at the primary level and
14 above, that general service customers served at the company
15 tariff of GS-3 and served at the tariff of GS-1 would be
16 excluded from or are excluded from Mr. Baron's testimony.
17 So when we use the term "all customers" --

18 Q. I'm referring to the industrial classes.

19 A. -- we're talking about the larger customers.

20 Q. Yes.

21 A. Well, we could have some commercial customers
22 who are served at those tariff schedules as well, LP-4 and
23 LP-5. So it's not just industrial customers.

24 Q. Well, okay. Just so the terminology is
25 straight, what we're talking about are rate schedules, are

1 we not?

2 A. Okay.

3 Q. And there may be commercial customers on Rate
4 Schedule LP-5, for example, all right?

5 A. Okay.

6 Q. But the 33 percent limit is a class limit.

7 A. Okay.

8 Q. I mean, that's the way you're planning on
9 implementing it, aren't you?

10 A. Well, we talk about customer classes, and in
11 Mr. Kleha's testimony he has defined the classes and has
12 listed them in a table.

13 Q. Right. And those classes aren't separated by
14 residential, commercial, industrial; they're separated by
15 rate schedules?

16 A. Correct.

17 Q. Residential schedules, GS schedules, LP
18 schedules.

19 A. Correct.

20 Q. So again, back to my original point, the worst
21 case scenario for a customer served on one of those
22 industrial rate schedules under the PPLICA recommendation is
23 that if they want to get in the first or second phase, they
24 will definitely get in, and the least amount of load that
25 they will get in will be 33 percent in the first year and

1 66 percent in the second year. Can we agree with that?

2 A. Yes. Now, I guess one thing that did go into
3 the development of our process and one reason why we think
4 it is a more equitable or actually more favorable approach
5 is that customers have told us that in many cases they don't
6 care to split their load.

7 They have told us that with our pilot where the
8 Commission has established load limits of 10 percent, and I
9 have had conversations with other customers who have also
10 explained that administratively, it's a concern for them.

11 Q. And that's sort of a random discussion that
12 you've had? You haven't done a polling, for example, of
13 your industrial customers?

14 A. No.

15 Q. Have you specified any more than what's in your
16 direct testimony on the case by case approach for resolving
17 the competitive disadvantage issue under the company's
18 proposal where one customer gets in, one doesn't, and they
19 compete in the same area?

20 A. No, I haven't specified anything beyond my
21 direct testimony or my rebuttal testimony.

22 Q. So you don't know yet whether or not that would
23 be a discussion the customer would have with PP&L, it would
24 be resolved, or whether that customer would need to come to
25 the Commission to have that resolved?

1 A. I don't know that. The company has expressed a
2 willingness to discuss this issue with customers and to
3 resolve it, attempt to resolve it to the satisfaction of the
4 customer.

5 Q. Do you agree that under PPLICA's recommendation,
6 at least for the industrial rate schedule -- again, I use
7 that term meaning the LP rate schedules in Mr. Kleha's
8 testimony -- that the competitive disadvantage issue would
9 not arise unless a customer chose not to designate a certain
10 amount of load to get into the pilot?

11 A. No, I wouldn't agree with that. There may be
12 some customers who have elected not to apply for the first
13 third or the second third and could still be at a
14 competitive disadvantage.

15 There are I think some customers who -- I'm sorry, I
16 lost my train of thought.

17 (Pause.)

18 A. The customers who have -- I'm sorry, could you
19 rephrase the question?

20 Q. The basic question, Mr. Baumann, is whether or
21 not under PPLICA's approach to the phase-in for the
22 industrial groups of customers, that the competitive
23 disadvantage issue would not arise to the same extent that
24 it could arise under the PP&L approach. And you have given
25 one example of where you think it could, and you were trying

1 to think of others.

2 A. I still disagree. In fact, I believe in
3 Mr. Baron's testimony, he states that there still would be
4 some problems with this, although he hasn't explicitly
5 stated those problems. But he said that there could still
6 be some competitive disadvantage problems with this
7 proposal, with the PPLICA proposal.

8 Q. Do you think those would be less in terms of
9 magnitude and in number than what would occur under the PP&L
10 approach?

11 A. I don't know that because I have heard groups
12 discuss concerns about competitive distortions, but I have
13 not seen any specific quantification of that or I have not
14 been made of aware of any customer groups which may be
15 harmed by this.

16 In my rebuttal testimony, I do state that we are
17 talking about generation service only. It is a portion of
18 the bill, it's not the entire bill, and it's for a period of
19 two years and would predominantly effect customers where
20 electricity is a large portion of their operating costs.

21 I think that significantly reduces the number of
22 customers who fall in those categories. So to say that it
23 would lessen the problem, I don't know what the extent of
24 the problem is and don't feel I can say in all fairness that
25 it would lessen it.

1 Q. Well, on the one area you did mention, you
2 indicated a customer may not have nominated any load to get
3 into the pilot.

4 In that situation, isn't it the customer's fault? I
5 mean, they made the choice not to designate their load to
6 participate in the first phase -- I may have said "pilot"
7 before. I meant first phase.

8 A. Yes.

9 Q. That's their conscious decision, and if that
10 then produces a competitive disadvantage because they chose
11 not to go into the first phase and their competitor did,
12 that's business, as opposed to a regulatory edict that says,
13 we know you want to get in but we're up to the limit and you
14 didn't get picked in the random selection, so you're out.

15 One is a customer choice issue and one isn't; would
16 you agree with that?

17 A. Yes.

18 Q. Now, on the two years issue that you mentioned,
19 could the duration of that two year period of a potential
20 competitive disadvantage be lessened if the second phase of
21 the phase-in, if you will, would go to 66 percent on January
22 2, 1999? There would be more load available?

23 A. I think doing that would create other problems.

24 Q. Would it solve this one, first? And then let's
25 go to --

1 A. I wouldn't say it would solve it. I don't know
2 what impact it would have, but it would certainly create
3 other problems in that this is a transition period. We are
4 trying to insure that we have a smooth transition to
5 competition, and we are trying to insure that we have
6 systems in place and the systems are operating reliably and
7 suppliers are paid their money, et cetera.

8 And to throw that much more load and customers into
9 the process I think would complicate some of the
10 administrative tasks that we have. It would be more
11 difficult to administer that.

12 Q. Well, if a competitive disadvantage case comes
13 before you under the company's proposal, that would only
14 come to you if in fact 33 percent was oversubscribed in the
15 first year, correct?

16 A. Or in the second year.

17 Q. Or the second.

18 A. Right.

19 Q. Right. So in order to solve that problem, would
20 you not have to exceed the 33 percent in the first year or
21 the 66 percent in the second year?

22 A. We may. That's a possible solution.

23 Q. And as you sit here today, you don't know how
24 many of those competitive disadvantage claims may be
25 brought?

1 A. No, I don't.

2 Q. Now, your rebuttal testimony also refers to the
3 size of the problem being related I guess to the portion of
4 the company's operating costs that are attributable to
5 electricity. I think you mentioned that in a prior answer.

6 Is it really the portion of their operating costs
7 that's attributable to electricity or the margin that a
8 given customer has in its operation, and whether or not that
9 margin is thrown out of kilter or out of whack by the fact
10 that a competitor got a reduction in that cost element and
11 they did not, all other things being equal?

12 A. I don't know enough about these other
13 businesses, I feel, to answer that question.

14 Q. But you agree that if two businesses are
15 operating at a thin margin --

16 A. What would you define as "thin"?

17 Q. Let's take the retail business, which at least
18 from what I read is a low profit margin business, or the
19 food merchant business, okay.

20 And if their costs, non-electric costs are otherwise
21 similar, even if their electric cost is a small portion of
22 their total operating cost, if one gets a break on that for
23 access and one doesn't, it will still make for a competitive
24 disadvantage; will it not?

25 A. Well, I think if you look at a small margin, to

1 me that's a matter of opinion. Some people may think a 25
2 percent margin is a small margin. Some people might think a
3 1 percent margin is a small margin.

4 I don't know enough about the industry or the
5 businesses, the industry in which they compete to know
6 whether --

7 Q. Does it matter what the margin is? I mean
8 whether the definition of a thin profit margin is 1 percent
9 or 5 percent or 25 percent, if the costs of two competing
10 businesses are otherwise similar and they're getting a break
11 on electricity because of direct access on one company and
12 not on the other, if you were that businessperson, wouldn't
13 you see that as a competitive disadvantage for your
14 business?

15 A. Yes, I would.

16 MR. KLEPPINGER: That's all I have, Mr. Baumann.
17 Thank you.

18 JUDGE KASHI: Thank you very much, Mr. Kleppinger.

19 Ms. Moury?

20 MS. MOURY: Thank you, Your Honor.

21 CROSS-EXAMINATION

22 BY MS. MOURY:

23 Q. Good morning, Mr. Baumann.

24 A. Good morning.

25 Q. I'm Karen Moury for the Office of Small Business

1 Advocate.

2 When you were discussing with Mr. Kleppinger the
3 phase-in by customer class, you indicated that would be done
4 on the basis of rate schedules, correct?

5 A. Yes, that's correct.

6 Q. So that in the first phase, one-third of the
7 GS-1 load would be eligible as would one-third of the
8 GS-3 load, et cetera?

9 A. Yes, right.

10 Q. Now, you have indicated that the company is
11 sensitive to the possibility of competitive concerns that
12 you discussed with Mr. Kleppinger, and I think you indicated
13 that the company hasn't developed any procedure for
14 reviewing individual requests by customers.

15 What I was wondering is whether the company has
16 established any guidelines that it would employ in making
17 those determinations when the requests would be made.

18 A. At this point, no.

19 Q. Have you considered how GS-1 and GS-3 customers
20 in particular would be aware that there was an avenue to
21 pursue in possibly getting into the first phase if their
22 competitors had and they hadn't?

23 A. I would expect that to be part of our education
24 or communication plan during the period prior up to choice
25 on 1/1/99.

1 Q. Now, in your rebuttal testimony, you indicate
2 that you think that the company's proposal for the selection
3 process is the best way to resolve competitive concerns, and
4 you indicate that this would only seriously affect the
5 customers for whom electricity is a large portion -- again,
6 you did discuss this with Mr. Kleppinger.

7 Have you surveyed small business customers to
8 determine how seriously they would be affected by having
9 their competitors who are able to reduce their electric
10 bills while they have to remain subject to the existing
11 rates?

12 A. Do you mean a formal study? No, we have not.

13 Q. Have you discussed it with your small business
14 customers at all?

15 A. I have discussed it with a couple very
16 informally, just people, you know, when I walk into buy a
17 sandwich or something like that. And they didn't seem to
18 express a great concern.

19 Q. Couldn't you envision a scenario where there
20 would be say a mini-market, convenience store with a gas
21 pump as well on opposite corners; if one of them is in the
22 first phase and the other isn't, wouldn't you think that the
23 other one would have concerns about the ability of the
24 customer who has direct access being able to knock a penny
25 or two off the price of the gas?

1 A. I don't know that. When you say "convenience
2 stores," a convenience store is a part of a larger chain and
3 there could be other stores within the chain who have access
4 and not the one that's directly across the corner. I don't
5 know what the implication of that would be.

6 Q. But it wouldn't take a huge savings, would it,
7 in your electric bill to be able to drop your gas by a penny
8 or two?

9 A. I don't know that.

10 Q. You indicate that this problem at a maximum
11 would last for two years. Wouldn't it be correct that a
12 customer who would participate in the pilot would actually
13 have the potential for having this advantage for three years
14 over a competitor?

15 A. It could, since they would be grandfathered,
16 yes.

17 Q. Now, does the company's proposal contain any
18 provision that would prevent, especially in the case of the
19 GS-3 class, that would prevent a few large commercial
20 customers from dominating the entire load available for each
21 phase?

22 A. You mean, large GS-3 customers dominating the
23 load for the GS-3 class?

24 Q. Correct.

25 A. We have not developed any procedures at this

1 time. We are working on those sorts of issues now. We
2 don't have anything planned.

3 Q. Are you aware that in the GS-3 class, four
4 percent of the largest bills constitute about a third of the
5 total kwh consumption in the class?

6 A. I was not aware of that, no.

7 MS. MOURY: That's all I have, Your Honor. Thank
8 you, Mr. Baumann.

9 JUDGE KASHI: Thank you, Ms. Moury.

10 Mr. Mullins?

11 MR. MULLINS: Thank you, Your Honor.

12 CROSS-EXAMINATION

13 BY MR. MULLINS:

14 Q. Good morning. My name is James A. Mullins and
15 I'm one of the attorneys representing the Office of Consumer
16 Advocate in these proceedings.

17 Mr. Baumann, to begin with, I'd like to piggyback on
18 some of the questions that Mr. Hladik asked of you.
19 Regarding the six month grace period for residential
20 customers, is there a statutory basis for that?

21 A. No, there is not. I don't believe there is.

22 Q. Correct me if I'm wrong. If the Commission were
23 to issue regulations regarding alternate supplier switching,
24 would PP&L be subject to those rules?

25 A. Yes, they would. In fact, it's my understanding

1 that they have proposed an ANPRM, advanced notice of
2 proposed rulemaking dated sometime in April where they do
3 discuss supplier switching issues.

4 If that rule was adopted by the Commission, the
5 company would abide by those rules.

6 MR. KOHLER: Just to correct the record, Your Honor,
7 they have now issued in addition a proposed rulemaking order
8 on this issue.

9 BY MR. MULLINS:

10 Q. Mr. Baumann, on page 8 of your direct testimony
11 -- are you there?

12 A. Yes.

13 Q. You discuss Mr. Bowen's third party verification
14 approach regarding alternate supplier switching.

15 A. Did you say direct testimony or rebuttal
16 testimony?

17 Q. I'm sorry, the rebuttal, I'm sorry, page 8.

18 A. Go ahead.

19 Q. Now, lines 18 and 19 read, "Direct communication
20 with the customer will provide the greatest protection." If
21 a third party verifies with the customer that he or she has
22 switched his or her alternate supplier, isn't that direct
23 communication?

24 A. If a third party has?

25 Q. Yes.

1 A. I guess the concern I have there is that I'm not
2 sure if in fact the third party has talked to the customer.
3 There is no assurance of that.

4 Q. Do you have any knowledge as to how third party
5 verification is conducted or has been conducted?

6 A. No, I don't.

7 Q. Do you have any reason to believe that the third
8 party verifier would not directly communicate with the
9 customer?

10 A. I could tell you one experience I do have and I
11 have talked about with my colleagues at PP&L, is some
12 consultants who have called in and asked for information for
13 our customers, and they may have misrepresented themselves
14 when they called. And those are the sorts of concerns that
15 I have about a third party being involved.

16 Q. I understand that under Enron's proposal, the
17 company can request documentation of that verification if it
18 so desires; is that correct? Is that your understanding?

19 A. I believe so, yes.

20 Q. If you have an able bodied customer and an
21 alternate supplier that enter into a contract for generation
22 supply, why does PP&L feel the need to be provided with
23 direct written notification of that contract?

24 A. Well, I believe in the case of our proposal
25 which was stated in my direct testimony, we would accept

1 some evidence from the supplier that the customer has
2 requested a switching.

3 What we have proposed is that we would send some type
4 of packet or notification to the customer, making them aware
5 that the switch was taking place and just to verify that in
6 fact it did take place, or that they had authorized it.

7 Q. Now, correct me if I'm wrong. I think that your
8 testimony specifies that if you send the information to the
9 customer and the customer doesn't respond, you assume that
10 the customer has in fact agreed to a contract with the
11 alternate supplier?

12 A. Yes.

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1 Q. Regarding the BUSS rate, basic utility supply
2 service, the rate charged under that provision can exceed
3 the rate cap, can it not?

4 A. I don't believe so, no. That is not my
5 understanding.

6 Q. And a customer's right to receive that service
7 is via the tariff; correct?

8 A. Are you talking about generation supply only, or
9 are you talking about the entire bill?

10 Q. If a customer returns to the BUSS service, PP&L
11 is obligated to serve that customer under its tariff; is
12 that correct?

13 A. We're obligated to supply energy to the
14 customer; right.

15 Q. Exactly.

16 A. It may be at a market price or subject to some
17 max, from what I understand.

18 Q. Okay, now, regarding that market price, if the
19 BUSS service is provided at a market price, where do your
20 gaming concerns come into play?

21 A. The gaming concerns come into play if a customer
22 would be taking service from a supplier during what we
23 consider to be non-peak seasons or non-peak months, which
24 could be typically the spring or the fall. When we get into
25 the winter, or when PP&L has high peaks, and we get into the

1 summer, when we have high peaks, those are the two times of
2 year when I would have a gaming concern, because a customer
3 who is returning to basic utility supply service will need
4 to be provided energy due to the fact that PP&L is the
5 supplier-of-last-resort.

6 Q. If the BUSS is provided at a market price, why
7 would a customer return to PP&L to receive energy at market
8 price and enter into a one-year contract if that customer
9 could obtain that supply elsewhere at the market price
10 without that one-year contract?

11 A. Well, depending on how the other suppliers are
12 sourcing their energy, they could have a different price.
13 If they return to PP&L during a high cost period and PP&L
14 would have to make provisions for them to take service
15 during those high cost periods, we may not be able to
16 procure the energy for them at a reasonable price.

17 Q. Aren't you assuming that that customer won't be
18 able to obtain supply at the market price?

19 A. From?

20 Q. From another alternate supplier besides the
21 generation supply group.

22 A. I don't know what his reasons would be for
23 returning to us.

24 Q. Just regarding gaming, what I'm saying is, if
25 you have the BUSS service provided at market price, I find

1 it somewhat hard to believe that a customer would not be
2 able to obtain supply elsewhere at the market price. I just
3 can't see every other supplier above the market price once
4 that customer terminates its contract with its previous
5 supplier.

6 A. I don't know what other suppliers do to
7 determine their pricing. They could have different
8 motivations.

9 Q. But that's feasible. It's feasible that a
10 customer could obtain market priced supply from another
11 supplier rather than return to the BUSS service; correct?

12 A. If they so choose, yes.

13 Q. Mr. Baumann, do you have the filing guidelines,
14 Volume IV?

15 (Document handed to witness.)

16 Q. That's Section P, P-12. Do you have that?

17 A. It says P on the cover, but it stops at O.

18 Q. I think P is way at the end.

19 A. O is the last page.

20 Q. The last section.

21 A. You said P --

22 Q. P-12.

23 A. Okay.

24 Q. I'll just direct you to the last sentence in
25 that response, well, the first paragraph, last sentence.

1 That reads, "Supply from the alternative supplier will begin
2 at the start of the customer's next supply cycle," and that
3 would occur after the customer does, in fact, chose an
4 alternate supplier.

5 My question is: what is your definition of "next
6 supply cycle"?

7 A. That would be their billing cycle.

8 Q. Page 8 of your direct testimony -- do you have
9 that?

10 A. Uh-huh.

11 Q. Line number 7. You can go ahead and read that,
12 and I'll just ask you a question after you're finished.

13 A. "The company will send a list of all alternative
14 suppliers licensed by the Commission to customers at the
15 time they become eligible for retail access."

16 Q. Does PP&L plan on providing any other documents
17 to the customers in addition to that list?

18 A. Pertaining to suppliers?

19 Q. Yes, or just background information.

20 A. On suppliers?

21 Q. Or deregulation. Maybe you could -- well, go
22 ahead.

23 A. To answer your question, no, not on other
24 suppliers.

25 Q. Not direct information regarding a particular

1 supplier, just additional documentation, "Herewith find a
2 listing of licensed suppliers in Pennsylvania. As you
3 recall, you can choose," you know, anything that --

4 A. There may be a cover letter or something
5 explaining what they're receiving, yes.

6 Q. Anything else besides that cover letter?

7 A. At this point, I don't know.

8 MR. RUSSELL: Mr. Mullins, I think Ms. Lennon may be
9 able to address some of those issues for you.

10 MR. MULLINS: Okay.

11 BY MR. MULLINS:

12 Q. I just have one more question, maybe two; one
13 more issue anyway.

14 Do you have a copy of the Customer Choice Act?

15 A. No, I do not.

16 (Document handed to witness.)

17 MR. RUSSELL: He does now, Mr. Mullins.

18 MR. MULLINS: Okay; great.

19 BY MR. MULLINS:

20 Q. I direct you to Section 2807, paragraph (e).

21 A. (e) did you say?

22 Q. Pardon me?

23 A. (e)?

24 Q. Yes; (e).

25 A. Okay.

1 Q. Now, if you could read for me -- you don't have
2 to read it out loud, just read it to yourself --
3 subparagraph (2).

4 (Witness complying.)

5 A. Okay.

6 Q. Would you agree that that particular provision
7 applies after the phase-in of retail access?

8 A. It states that, yes.

9 MR. MULLINS: Thank you for your testimony.

10 I don't have anything further, Your Honor.

11 JUDGE KASHI: Redirect, sir?

12 MR. RUSSELL: May I have a moment, Your Honor?

13 JUDGE KASHI: Surely.

14 (Discussion off the record.)

15 JUDGE KASHI: Back on the record.

16 Redirect, sir?

17 MR. RUSSELL: Very brief, Your Honor.

18 **REDIRECT EXAMINATION**

19 BY MR. RUSSELL:

20 Q. Mr. Baumann, do you recall that during cross-
21 examination you were asked some questions, I think by
22 counsel for Small Business Advocate, regarding two gas
23 stations on opposite corners? Do you recall that?

24 A. Yes.

25 Q. Would you expand or clarify somewhat your answer

1 to that hypothetical?

2 A. We were not advocating cross-subsidization of
3 one location over another; that these locations would be
4 stand-alone locations and would be treated as such in a
5 transition period. If there are concerns about competitive
6 distortions, we are willing to discuss that with the
7 affected customer.

8 JUDGE KASHI: Excuse me. Plain English, that means
9 you're going to offer it to both gas stations?

10 THE WITNESS: That could be. That's a possible
11 solution.

12 MR. RUSSELL: I'm sorry, Your Honor, I didn't hear
13 the question.

14 JUDGE KASHI: My question was, after he spoke, I
15 wanted it in plain English, and I asked did that mean he was
16 going to provide it to both gas stations, and the answer is,
17 he doesn't know, so I'm not quite sure what his first answer
18 meant to begin with as far as the clarification that you
19 were seeking. It didn't clarify anything for me.

20 MR. RUSSELL: Maybe I should try again.

21 JUDGE KASHI: Try again.

22 BY MR. RUSSELL:

23 Q. I guess to go to Judge Kashi's question first,
24 if, on a case-by-case basis, we did discover a competitive
25 problem, would we be willing to address that?

1 A. Yes.

2 Q. Could one solution be allowing both gas stations
3 to participate in the first phase of competition?

4 A. Yes.

5 JUDGE KASHI: What would be some other ones? I'm
6 curious.

7 BY MR. RUSSELL:

8 Q. Are there any other solutions that you can think
9 of at this time, Mr. Baumann?

10 A. It could be -- I guess not, no.

11 JUDGE KASHI: So then the answer to my question to
12 begin with that I asked you was yes, that you were going to
13 offer it to both stations?

14 THE WITNESS: I believe I did say that that was a
15 possible solution, Your Honor.

16 JUDGE KASHI: Okay.

17 MR. RUSSELL: Just two more questions, Your Honor.

18 BY MR. RUSSELL:

19 Q. You were asked some questions by counsel for
20 PPLICA regarding the company's proposal for signing up
21 customers for the first and second part of phase-in. Would
22 that be done on a customer basis or an account basis?

23 A. On an account basis.

24 Q. Do our larger customers have more than one
25 account in some instances?

1 A. Yes, some of them do.

2 Q. Would it be possible that one account or two
3 accounts would be in the competitive market and others would
4 not?

5 A. Yes; that's possible.

6 Q. Finally, you, in response to questions from
7 counsel for the OCA, talked about your gaming concerns with
8 customers returning to basic utility supply service. Was
9 there one additional gaming concern that you didn't discuss
10 in your earlier answer?

11 A. Yes, there was. The rate cap also enters into
12 the concern where a customer may leave a supplier and return
13 to PP&L during one of the higher cost periods because the
14 market price that he was able to acquire from another
15 supplier would be higher than the price attainable under
16 PP&L's capped rates. Once the high cost period had ended,
17 he would then be able to leave the electric distribution
18 company and sign up with some other supplier.

19 MR. RUSSELL: I have nothing further, Your Honor.

20 JUDGE KASHI: Thank you very much.

21 MR. KLEPPINGER: Your Honor, just a couple.

22 JUDGE KASHI: Yes, Mr. Kleppinger. Short follow-up.

23 MR. KLEPPINGER: Short follow-up.
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REXCROSS-EXAMINATION

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BY MR. KLEPPINGER:

Q. On the multiple account industrial customers that you mentioned in response to Mr. Russell's question, if two accounts get in and one account does not, will the customer be permitted to combine the loads of the two accounts or to shift the account to the location that was not selected?

A. Is that a two-part question? Would they be able to --

Q. Yes.

A. For the sake of procuring generation supply, yes, they would be able to combine the accounts. In terms of switching it, replace those two that got in and replace it with the one that did not get in, at this point, no, they would not.

Q. Why would PP&L care whether or not that account -- if the account got in at a given megawatt number, and the customer has another account that did not get in and that megawatt number would be transferred to the location that didn't get in, why would it make a difference to PP&L?

A. There would be -- one concern I have would be it might be a different rate schedule. If you're talking about a customer --

Q. It's the same rate schedule. Let's assume that.

1 A. I can't think of any concern.

2 Q. When the customer makes that initial designation
3 that they want to participate, there is not a limitation, is
4 there, on the -- well, let me back up a second. The
5 customer doesn't only have to take their direct access
6 through one supplier; is that correct?

7 A. I believe, yes, that they can have multiple
8 suppliers.

9 Q. So that customer would have to designate a
10 megawatt load level to PP&L that they're getting from
11 Supplier A and from Supplier B?

12 A. Yes. They would have to schedule that.

13 MR. KLEPPINGER: Thank you, Your Honor.

14 JUDGE KASHI: Thank you very much.

15 You're excused, sir.

16 (Witness excused.)

17 JUDGE KASHI: That which has been marked and
18 identified as PP&L Statement No. 14 and 14-R are received
19 into the evidentiary record, without objection?

20 (No response.)

21 JUDGE KASHI: Without objection.

22 (Whereupon, the documents marked as
23 PP&L Statements Nos. 14 and 14-R
24 were received in evidence.)

25 JUDGE KASHI: Do you wish to call your next witness?

1 MR. KAPLAN: Thank you, Your Honor. Pennsylvania
2 Power and Light Company calls William H. Whitehead.

3 JUDGE KASHI: Would you raise your right hand and be
4 sworn, sir?

5 Whereupon,

6 WILLIAM H. WHITEHEAD

7 having been duly sworn, testified as follows:

8 JUDGE KASHI: Please be seated.

9 MR. KAPLAN: Your Honor, pursuant to our stipulation
10 and our agreement on foundation, we will identify for the
11 record Statement No. 12, the direct testimony of William H.
12 Whitehead, a statement of 27 pages, and Statement No. 12-R,
13 the rebuttal testimony of William H. Whitehead, a statement
14 of 11 pages, and Exhibits WHW-1 through 3.

15 JUDGE KASHI: So marked for purposes of
16 identification.

17 (Whereupon, the documents were marked
18 as PP&L Statements Nos. 12 and 12-R
19 and PP&L Exhibits Nos. WHW-1 through
20 WHW-3 for identification.)

21 DIRECT EXAMINATION

22 BY MR. KAPLAN:

23 Q. Do you have any corrections?

24 A. No, I don't.

25 MR. KAPLAN: Thank you, Your Honor. We have no

FORM 2

1 rejoinder. Mr. Whitehead is available for cross-
2 examination.

3 JUDGE KASHI: Thank you very much, sir.

4 Mr. Kohler.

5 MR. KOHLER: None, Your Honor.

6 JUDGE KASHI: Mr. Zalcmán is not here today.

7 Mr. Hladik.

8 MR. HLADIK: Thank you, Your Honor.

9 **CROSS-EXAMINATION**

10 BY MR. HLADIK:

11 Q. Good afternoon.

12 A. Good afternoon.

13 Q. My name is Stephen Hladik and we represent
14 Gilberton Power Company and Schuylkill Energy Resources. I
15 have just a few questions, Mr. Whitehead.

16 As I recall from your testimony, you indicated that
17 PJM members are required to implement a full, wide open
18 access tariff; is that correct?

19 A. That's correct.

20 Q. And PP&L did that; correct?

21 A. PP&L, as part of PJM, did that, yes.

22 Q. Is there a standard in PJM for determining what
23 constitutes transmission and distribution?

24 A. The standard within PJM is essentially up to
25 each company to determine what's transmission and what's

1 distribution.

2 Q. You're familiar with the seven-part FERC test;
3 is that correct?

4 A. Yes, I am.

5 Q. And it's true that PJM has not required the
6 parties to use that test; correct?

7 A. PJM, as an organization, has not required us to
8 use it, no.

9 Q. Are all of the lines that interconnect the PURPA
10 projects to PP&L part of the management of PJM?

11 MR. KAPLAN: I'm sorry, that question is totally
12 incomprehensible. Part of the management of PJM?

13 MR. HLADIK: Subject to the management or subject to
14 PJM.

15 I'll rephrase it.

16 MR. KAPLAN: Thank you.

17 BY MR. HLADIK:

18 Q. For example, is the tie line between SER and
19 PP&L considered transmission?

20 A. Well, basically what we have said is that our 69
21 kV and above transmission is subject to PJM's oversight,
22 yes, and it's governed by PJM's oversight. So our 69 kV and
23 above is part of PJM's oversight as far as transmission
24 goes.

25 Q. So with regard to SER, the answer was yes?

1 A. Yes. As I recall, SER is connected at 69 kV?

2 Q. Yes.

3 A. Then it would be part of that, yes.

4 MR. HLADIK: No further questions.

5 JUDGE KASHI: Thank you very much.

6 Mr. Kleppinger.

7 MR. KLEPPINGER: Thank you, Your Honor.

8 **CROSS-EXAMINATION**

9 BY MR. KLEPPINGER:

10 Q. Good afternoon, Mr. Whitehead. Just a few
11 questions, really, on your direct testimony, page 25, that
12 discusses ancillary services. I'm trying to understand
13 which of these ancillary services are either explicitly or
14 implicitly already performed by PP&L for its retail
15 customers today.

16 A. You're referring to page 25 and continuing on to
17 page 26?

18 Q. Yes. We'll start with the scheduling system
19 control and dispatch.

20 A. Yes.

21 Q. In one way or another, isn't PP&L already doing
22 that for its retail load?

23 A. Yes.

24 Q. Would the costs of doing that be included
25 somewhere in our rate designs today even though they're not

1 specifically broken out as an ancillary service to Rate
2 Schedule LP-5 or any other rate schedule?

3 A. Yes. I would assume they are, yes.

4 Q. Now, would the same be true for the second
5 ancillary service, reactive supply and voltage control?

6 A. Yes.

7 Q. Would the same be true for regulation and
8 frequency response service?

9 A. Yes. That would be true.

10 Q. Would it be true for energy imbalance service?

11 A. Yes, to the extent that PP&L does it or possibly
12 PJM does it, but it's that service that's provided.

13 Q. Would you give me the same answer then for
14 operating reserve-spinning reserve and operating reserve-
15 supplemental reserve?

16 A. Yes. Essentially, either PP&L or as part of PJM
17 that's provided, yes.

18 Q. So if all of those ancillary services are
19 provided today for the retail customer and the costs are in
20 rates today, does it follow then that there should be no
21 increase in payments made by customers for the transmission
22 services once that transmission service is unbundled from
23 today's rates? Transmission and distribution. I should put
24 them together; it would have to be both.

25 A. If you're referring to the -- are you referring

1 to the rate cap itself, or are you just referring to in
2 general, the transmission and distribution charges that PP&L
3 charges?

4 Q. Yes, it's the latter. I'm trying to stay out
5 of the rate cap. I'm just trying to get conceptually that
6 the sum of all these parts should not end up being greater
7 than the whole.

8 A. Well, I would say the sum of all the parts, but
9 I think with today's operation, you have the bundled
10 generation, transmission and distribution, and all three of
11 those together comprise all of the services that we provide,
12 so some of these services may not be in the transmission and
13 distribution part, they may be in the production part.

14 Q. Okay.

15 A. So as a bundled product, I'd say they're all
16 within our rates today, yes.

17 MR. KLEPPINGER: Thank you. That's what I needed to
18 know.

19 That's all I have, Your Honor.

20 JUDGE KASHI: Thank you very much.

21 Redirect?

22 MR. KAPLAN: If I could take a second, Your Honor?

23 JUDGE KASHI: Go ahead.

24 (Discussion off the record.)

25 JUDGE KASHI: Back on the record.

1 MR. KAPLAN: I just have two quick questions, Your
2 Honor.

3 JUDGE KASHI: Very good.

4 **REDIRECT EXAMINATION**

5 BY MR. KAPLAN:

6 Q. After unbundling and the transition to
7 competition, will PP&L or PJM be charging for ancillary
8 services?

9 A. After the transition, PJM will charge for the
10 ancillary services.

11 Q. Will the charges charged by PJM be the same as
12 those that were implicitly bundled into the retail rate
13 structure before transition to competition?

14 A. Not necessarily. Those charges will be up to
15 PJM. They're part of their tariff, so it will be up to them
16 what they charge.

17 MR. KAPLAN: Thank you.

18 That's all, Your Honor.

19 JUDGE KASHI: Thank you very much, sir.

20 You're excused, sir. Thank you.

21 (Witness excused.)

22 JUDGE KASHI: That which has been marked as PP&L
23 Statement No. 12 and 12-R, together with the appended
24 Exhibits WHW-1 through 3, are received into the evidentiary
25 record, without objection?

1 (No response.)

2 JUDGE KASHI: Without objection.

3 (Whereupon, the documents marked as
4 PP&L Statements Nos. 12 and 12-R and
5 PP&L Exhibits Nos. WHW-1 through
6 WHW-3 were received in evidence.)

7 JUDGE KASHI: Mr. Mullins, do you wish to call your
8 witness?

9 MR. MULLINS: Yes. Mr. Burgraff will call Ms. Smith
10 to the stand.

11 MR. BURGRAFF: Let me go find her. She's out on the
12 phone.

13 (Pause.)

14 MR. KOHLER: Judge, I have less than ten minutes for
15 Mr. Schmitt.

16 MR. RUBIN: IBEW Local 1600 calls William Schmitt to
17 the stand.

18 JUDGE KASHI: Mr. Schmitt, will you raise your right
19 hand and be sworn, sir?

20 Whereupon,

21 WILLIAM SCHMITT
22 having been duly sworn, testified as follows:

23 JUDGE KASHI: Please be seated, sir.

24 MR. RUBIN: Your Honor, I would ask to have marked
25 for identification as IBEW Statement No. 1 the prepared

FORM 2

1 rebuttal testimony of William Schmitt.

2 JUDGE KASHI: So marked for purposes of
3 identification.

4 (Whereupon, the document was marked
5 as IBEW Statement No. 1 for
6 identification.)

7 DIRECT EXAMINATION

8 BY MR. RUBIN:

9 Q. Mr. Schmitt, do you have a copy of IBEW
10 Statement No. 1?

11 A. Yes, I do.

12 Q. Do you have any corrections or additions to make
13 in that statement?

14 A. No, I do not.

15 MR. RUBIN: Your Honor, according to the stipulation
16 of the parties, I would move the admission of IBEW Statement
17 No. 1, subject to any timely motions on cross-examination.

18 JUDGE KASHI: Subject to any timely motions and/or
19 objections made pending cross-examination, that which has
20 been marked as IBEW Statement No. 1 will be received into
21 the evidentiary record.

22 MR. RUBIN: Thank you, Your Honor. The witness is
23 available for cross-examination.

24 JUDGE KASHI: Mr. Kohler.

25 MR. KOHLER: Thank you, Your Honor.

CROSS-EXAMINATION

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BY MR. KOHLER:

Q. Good afternoon, Mr. Schmitt. My name is Alan Kohler. I'm representing Enron in this proceeding.

Did you watch the Super Bowl this past January?

A. No, I don't believe I had the privilege.

Q. Were you aware that Enron ran a commercial on Super Bowl Sunday?

A. No, I wasn't.

Q. I guess the point is --

(Laughter.)

MR. KOHLER: Never ask a question you don't know the answer to.

(Laughter.)

THE WITNESS: I have seen your other commercials.

BY MR. KOHLER:

Q. Do you expect that suppliers will use the mass media to try to attract customers to their services?

A. I would suspect so, yes.

Q. Is telemarketing another primary means of attracting residential customers?

A. Yes. Painful as it is.

Q. Are these the same advertising methods that are primarily used by long distance carriers in the long distance business?

1 A. I would assume so, yes.

2 Q. Are you aware that Enron has stated to the
3 Commission on more than one occasion in public documents
4 that it's prepared to offer service to the smallest
5 customers and to the largest customers?

6 A. Yes, I am.

7 Q. When you use the mass media and telemarketing --
8 in fairness, let me refer you to page 9, line 12, of your
9 testimony, and that paragraph.

10 A. Yes.

11 Q. When you use the mass media and telemarketing to
12 attract business, are you really in a position to cherry
13 pick like you suggest?

14 A. Rephrase your question.

15 Q. When you use the mass media and telemarketing to
16 attract business, are you really in a position to cherry
17 pick like you suggest?

18 A. I don't believe you would be, and I don't
19 believe that I am suggesting that. I'm just citing some of
20 the problems that the customers could have with the
21 telemarketing situation and the aggravation and agitation
22 that it has caused in other deregulation.

23 Q. Maybe I have to refer you back to the prior page
24 of your testimony, line 18. I'm sorry for that mis-
25 reference. You indicate there, don't you, that you are

1 concerned that PP&L's more desirable customers are cherry
2 picked by other suppliers?

3 A. That's correct.

4 Q. Are you referencing -- let me ask you this.
5 Maybe we can clear this up. Are you talking about the
6 residential market when you say cherry pick?

7 A. I'm talking about the residential market and
8 whatever part of the market that different suppliers would
9 choose to get into.

10 Q. In a previous question, didn't you just answer
11 that if you use the mass media and telemarketing, you aren't
12 in a position to cherry pick?

13 A. That would be correct. It depends what the area
14 is that you're talking about. For example, are you talking
15 that if you were going to enter the metropolitan
16 Philadelphia market, it's up to the Commission whether you
17 could determine that you want to market in South
18 Philadelphia versus Ardmore, or would you be allowed to --

19 Q. That's pretty tough with mass media marketing,
20 isn't it?

21 A. It depends what you do.

22 Q. Do you really believe that Enron or any other
23 broad-based provider is going to refuse to provide services
24 to potential customers who don't have English as their
25 primary language if that person wants Enron's service?

1 A. I don't believe that you would refuse to provide
2 it. It depends on the customer's service and where you're
3 located. If you were allowed or other servicers or
4 suppliers were allowed to provide those customers services,
5 my question is: where would they be located? I believe
6 that one of the intentions of the Competition Act in
7 Pennsylvania is to attract business and jobs into
8 Pennsylvania, and what assurance do we have that those
9 services would remain within the confines of Pennsylvania,
10 and would the people in Pennsylvania, with our different
11 ethnic backgrounds here, be talking to someone that was
12 familiar with their different languages here?

13 Q. Maybe we can clear this up. So it's not your
14 testimony that if, for example, someone sees Enron's
15 commercial, whether they're Spanish-speaking or use Spanish
16 as a primary language, disabled, or low income, that if that
17 person requests Enron's business, you aren't saying that
18 Enron won't provide them with service?

19 A. I wasn't referring to that at all, no.

20 Q. Bear with me. You just eliminated some of my
21 questions.

22 (Pause.)

23 BY MR. KOHLER:

24 Q. Let me ask you this. Then you would expect that
25 companies like Enron that will do mass media advertising

1 will attract persons who don't use English as their primary
2 language, who are disabled, and who are low income; is that
3 right?

4 A. I think if people so desire to choose them, that
5 that would be the case.

6 Q. Assuming they're advertising.

7 A. Whether you have mass media or not.

8 Q. Are you aware that this Commission is also
9 implementing competition at this time in the local exchange
10 market for telephone?

11 A. I'm not all that familiar with it, I'm just
12 aware of it, yes.

13 Q. Are you aware that within that environment, each
14 competing local exchange carrier will be providing its own
15 billing services?

16 A. That may be so.

17 Q. If that were the case --

18 A. I'm not aware of that.

19 Q. If that were the case, would you consider that
20 bad public policy?

21 A. I don't believe it's the same kind of an entity.
22 If you talk about the billing service, you're talking about
23 local companies. Our concern is where the billing would
24 emanate from. Naturally, it would come from labor, and our
25 concern is that the intent, as I stated earlier, the intent

1 of the competition, at least my belief, was to attract
2 industry and jobs to Pennsylvania and to retain jobs in
3 Pennsylvania; and to allow the billing to go to other
4 entities that may relocate those billing and those customer
5 services outside of the state I think would be
6 counterproductive to what the state intended in its
7 legislation.

8 Q. I couldn't agree with you more. Would you be
9 surprised if -- well, whether we're talking about just
10 billing for generation or single bill by the supplier, would
11 you be surprised if generation suppliers that are
12 participating in Pennsylvania use some of the same billing
13 entities to provide billing services as competitive local
14 exchange carriers are utilizing today?

15 A. I wouldn't be able to speculate on what would
16 occur.

17 MR. KOHLER: I have nothing further, Your Honor.

18 JUDGE KASHI: Thank you very much.

19 Redirect, counsel?

20 MR. RUBIN: No redirect.

21 JUDGE KASHI: Thank you. You're excused, sir.

22 (Witness excused.)

23 JUDGE KASHI: That which has been marked and
24 identified as IBEW Statement No. 1 is received into the
25 evidentiary record, without objection?

1 (No response.)

2 JUDGE KASHI: Without objection.

3 (Whereupon, the document marked as
4 IBEW Statement No. 1 was received in
5 evidence.)

6 MR. BARAK: Your Honor, before we break for lunch, I
7 wonder if I might put into the record the Bradford testimony
8 that we stipulated in on Monday.

9 JUDGE KASHI: Do you have copies, sir?

10 MR. BARAK: Yes, I do, Your Honor. For the record,
11 Your Honor, this is Environmentalists' Statement No. 3,
12 testimony and exhibits of Peter A. Bradford, and an attached
13 affidavit. Pursuant to Monday's stipulation that can be
14 found at the time of the comments of Mr. Russell, I move
15 this into evidence.

16 JUDGE KASHI: Environmentalists' Statement No. 3 is
17 received by stipulation.

18 (Whereupon, the document was marked
19 as Environmentalists' Statement No.
20 3 for identification, and was
21 received in evidence.)

22 MR. BARAK: Thank you, Your Honor.

23 JUDGE KASHI: Lunch. We'll reconvene at 1:30.

24 (Whereupon, at 12:33 p.m., the hearing was adjourned,
25 to be reconvened at 1:30 p.m., this same day.)

AFTERNOON SESSION

(1:33 p.m.)

1 JUDGE KASHI: On the record.

2 Mr. Burgraff, do you wish to call your witness?

3 MR. BURGRAFF: Yes, I do, Your Honor. We call Lee
4 Smith. Ms. Smith is already in the witness box.

5 JUDGE KASHI: Could you please stand and raise your
6 right hand to be sworn?

7 Whereupon,

8 LEE SMITH

9 having been duly sworn, testified as follows:

10 JUDGE KASHI: Please be seated.

11 MR. BURGRAFF: Your Honor, I have distributed to the
12 court reporter two copies of a document entitled OCA
13 Statement No. 4 consisting of 18 pages of narrative
14 testimony and Schedules LS-2 through LS-6, and I would ask
15 that it be marked for identification.

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

18 (Whereupon, the documents were marked
19 as OCA Statement No. 4 and OCA
20 Exhibits LS-2 through LS-6 for
21 identification.)

22 MR. BURGRAFF: I've also submitted to the court
23 reporter two copies of a document entitled OCA Statement No.
24
25

1 4-S consisting of seven pages of narrative testimony and
2 Schedules LS-7 through LS-12, and I ask that that be marked
3 for identification.

4 JUDGE KASHI: So marked for purposes of
5 identification.

6 (Whereupon, the documents were marked
7 as OCA Statement No. 4-S and OCA
8 Exhibits LS-7 through LS-12 for
9 identification.)

10 MR. BURGRAFF: Your Honor, this morning we detected a
11 transpositional error in Schedule LS-9 that impacts
12 Schedules LS-9 through LS-12. We are attempting to correct
13 those schedules as I speak, and hopefully we will have those
14 soon and they will be walked over.

15 I have asked counsel for the company whether or not
16 their cross-examination went to those schedules. I have
17 been informed that it doesn't, so I believe cross-
18 examination can proceed. However, I will have to substitute
19 the new LS-9 through LS-12 for those present here.

20 JUDGE KASHI: Very well.

21 DIRECT EXAMINATION

22 BY MR. BURGRAFF:

23 Q. Good afternoon, Ms. Smith.

24 A. Good afternoon.

25 Q. Do you have before you what has been identified

1 as OCA Statement No. 4 and OCA Statement No. 4-S?

2 A. Yes, I do.

3 Q. Do you have any corrections to be made to those
4 documents today outside of the matter I just discussed?

5 A. Outside of the correction of those tables, I
6 have no other changes.

7 MR. BURGRAFF: Your Honor, I would ask that OCA
8 Statement No. 4 and Statement No. 4-S be admitted into the
9 record subject to our normal caveats, and then the witness
10 will be available for cross-examination.

11 JUDGE KASHI: Subject to any timely motions and/or
12 objections made pending cross-examination, that which has
13 been marked and identified as OCA Statement No. 4 and
14 Statement No. 4-S with the attendant Schedules 2 through 6
15 and 7 through 12 will be received into the evidentiary
16 record.

17 MR. BURGRAFF: Thank you.

18 JUDGE KASHI: Cross-examine, Mr. Kleppinger.

19 MR. KLEPPINGER: Thank you, Your Honor.

20 **CROSS-EXAMINATION**

21 BY MR. KLEPPINGER:

22 Q. Good afternoon, Ms. Smith. My name is David
23 Kleppinger. I represent the PP&L Industrial Customer
24 Alliance. Just a few questions.

25 With respect to your position on the phasing out of

1 the EDI and IDI credits, for customers who currently have
2 EDI or IDI credits, would you agree with me that they were
3 receiving those credits as of January 1, 1997?

4 A. Yes.

5 Q. If a competitive transition charge were to be in
6 existence beyond the original expiration of the EDI and IDI
7 credits, would not such customers experience a rate increase
8 with the expiration of those credits over their January 1,
9 1997 rates?

10 A. That will depend on the level of the CTC. If
11 the credit, for instance, is essentially a penny a kilowatt-
12 hour and the credit disappears but the CTC is only a penny a
13 kilowatt-hour, then there would be no increase. If the CTC
14 were a more significant number, they could see an increase.

15 Q. Under the utility's proposed CTC, there would be
16 an increase, would there not?

17 A. That is correct.

18 Q. Next, on page 12 of your direct testimony at
19 lines 14 through 19, you provide here a CTC calculation.
20 Will you agree with me that this calculation is provided
21 merely for illustrative purposes of what an average cent per
22 kilowatt-hour CTC would be?

23 A. That's correct; it's an average number for the
24 total company.

25 Q. And your actual calculation of the CTC charges

1 by rate schedule would be as set forth on Exhibit LS-5?

2 A. Yes. We have only done a rate schedule
3 computation for the residential class, but one would follow
4 the same methodology for other classes.

5 Q. And that methodology uses the production demand
6 allocator from Mr. Kleha's cost of service study?

7 A. Yes.

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

10 JUDGE KASHI: Thank you very much, Mr. Kleppinger.
11 Mr. Kaplan.

12 MR. KAPLAN: Thank you, Your Honor.

13 **CROSS-EXAMINATION**

14 BY MR. KAPLAN:

15 Q. Good afternoon, Ms. Smith. My name is Donald
16 Kaplan. I'll be examining you on behalf of Pennsylvania
17 Power & Light Company.

18 A. Good afternoon.

19 Q. Would you generally agree that under PP&L's
20 proposal for CTC recovery, that the total amount of stranded
21 costs recovered over the course of the transition period
22 declines from year to year?

23 A. Yes.

24 Q. Would you agree that recovering more of the
25 stranded costs in the earlier years is relatively less risky

1 than a recovery pattern in which more of the CTC is
2 recovered in later years?

3 A. I assume you're talking about risky to the
4 company. I'm sure that the company would prefer to recover
5 more in the early years than the later years. I'm not sure
6 that I see an element that makes it particularly more risky
7 to recover more dollars in the later years than the early
8 years.

9 Q. You do not agree that waiting until tomorrow to
10 collect a dollar is more risky than collecting it today?

11 A. No. It's less desirable, but it's not more
12 risky.

13 Q. Suppose there is an economic downturn and you
14 cannot recover all of your stranded in the later years.
15 That would make it more risky, wouldn't it?

16 A. You have two thoughts in there. One is that
17 there is an economic downturn, and the second is that you
18 can't recover the CTC I guess because of the economic
19 downturn.

20 I think that we are looking at a restructuring Act
21 that comes very close to guaranteeing that whatever happens
22 to the economy or other circumstances, the company will
23 recover CTC in the future.

24 Q. Are you aware that there is a rate cap?

25 A. Yes.

1 Q. And are you aware that if the market price
2 exceeds projections such that the total of CTC, market price
3 and other charges exceed the rate cap, the company's last
4 resort customers will only pay at the rate cap?

5 A. Yes.

6 Q. And are you aware that there is nothing in the
7 statute which permits the company to recover the amounts it
8 will not have recovered in that situation?

9 A. It is my analysis of the situation that the only
10 -- the most likely -- maybe "the only" is too strong a word
11 -- the most likely circumstance which could cause market
12 price to increase to such a level that it was not be
13 possible to collect CTC in the later years because of the
14 rate cap would be substantial increases in the fuel price;
15 and as I read the statute, the company would have the
16 ability to come in and request a modification to the rate
17 cap for that type of increase.

18 Q. And it is your understanding as well that that
19 is not a guaranteed recovery?

20 A. What is not a guaranteed recovery?

21 Q. That the ability to seek an exception to the
22 rate cap does not mean that the Commission will grant an
23 exception to the rate cap?

24 A. I agree, yes.

25 Q. So thereby, logically, it is more risky to wait

1 till tomorrow to recover a CTC dollar than today?

2 A. If I were the company -- and we'll look at a
3 specific situation. We'll get to the year 2003, and we had
4 all expected the market price was going to be 3.5 cents, and
5 the market price turns out to be 4 cents or 4.5 cents and
6 the company has real problems, runs up against the rate cap.
7 The other thing that is happening at that time is that the
8 company's generating assets now have considerable additional
9 value.

10 If I were the company, I would sell those assets at
11 that point and recover additional value in that way. So I'm
12 --

13 Q. Ms. Smith, I would really like to get out of
14 here early this afternoon. Can I have an answer to my
15 question?

16 A. If all we are saying is that we have a fixed
17 amount of dollars and we are going to ignore all of the
18 other things that might change the value of the assets, I
19 guess that I do agree that there is some possibility that
20 those dollars might not be recovered in the more distant
21 future.

22 Q. Thank you. In levelizing the CTC, you imposed a
23 discount rate; is that correct?

24 A. Yes.

25 Q. The discount rate was not the pure rate of

1 inflation; is that correct?

2 A. That's correct.

3 Q. It includes a real return to the company. Real
4 interest was involved of some sort.

5 A. It is based on the OPA computation of the rate
6 of return the company is receiving, yes.

7 Q. So inherently, when you move money back and
8 forth through time, you're recognizing there is a real
9 return required to compensate the company for the risk of
10 moving that money back and forth.

11 A. There is something required to compensate the
12 company for the fact that some dollars would be received in
13 the future rather than at the present, and that has to do
14 with the time value of money, which is not necessarily
15 related to risk, but risk is a factor, a very small factor.

16 Q. So then in applying the real return implicit in
17 the discount rate, you were not relating that to additional
18 risk, but simply the time value of money?

19 A. That's correct.

20 Q. Could you please turn to page 4 of your
21 surrebuttal testimony?

22 A. Yes.

23 Q. You are an economist; is that correct?

24 A. Yes.

25 Q. Now, we had another economist testify here

1 yesterday morning by the name of Alfred Kahn. Are you
2 familiar with Professor Kahn?

3 A. Yes.

4 Q. I guess you probably are familiar with this book
5 (indicating).

6 A. Yes.

7 Q. You may even own a copy.

8 A. No.

9 Q. You don't. Could you -- I was being a little
10 bit too flip. The book I held up was Professor Alfred E.
11 Kahn, "The Economics of Regulation, Principles and
12 Institutions." You would agree that many people regard this
13 as a learned treatise in the area of economic regulation; is
14 that correct?

15 A. Yes.

16 Q. Could you read for us the first sentence on the
17 top of page 75?

18 A. "In sum, the economic ideal would be to set all
19 public utility rates at short-run marginal cost with
20 appropriate adjustments for problems of second best, and
21 these must cover all sacrifices, present or future, and
22 external as well as internal, to the company for which
23 production is at the margin causally responsible."

24 Q. Thank you. Now, you agree, and I believe I
25 gather from your testimony, although you don't agree with

1 the company's proposal, that marginal cost pricing is
2 appropriate even in regulation?

3 A. Yes, but I think I should note that that does
4 not necessarily mean short-run marginal cost pricing is
5 appropriate. I have argued in the past that there are a
6 number of purposes for which it makes sense to account for
7 long-run marginal costs, so I have a little caveat to that
8 agreement.

9 Q. So you're disagreeing then with Professor Kahn?

10 A. Yes.

11 Q. Now, if PP&L and the PJM had no current plans to
12 expand its transmission system and that transmission system
13 were properly sized to handle all demands for the
14 foreseeable future, wouldn't the short-run marginal cost of
15 using that system approach zero?

16 A. No, it would not, because if a customer, for
17 instance, decides -- you started off with the assumption
18 that the system was properly sized to meet load. If the
19 system was properly sized to meet current load, it would not
20 be properly sized to meet a larger load.

21 Q. My hypothetical was it is properly sized to meet
22 future load. I said current and future, but I won't make
23 you adopt that hypothetical. Let's just say it is properly
24 sized currently to meet future load.

25 A. Okay. In other words, the system has a

1 significant excess size to it, yes.

2 Q. Right. And without any regard to who is
3 responsible or prudence of that excess.

4 A. Right. Then the question is?

5 Q. Then the question is: wouldn't the marginal
6 cost of using that system approach zero?

7 A. Yes, it would approach zero.

8 Q. Now, you have made no independent evaluation of
9 the transmission and distribution facilities of Pennsylvania
10 Power & Light or the PJM, have you?

11 A. No, but I have estimated marginal distribution
12 costs in many other jurisdictions and utilities.

13 Q. But you haven't done that for the PJM or PP&L?

14 A. That's correct.

15 Q. Now, is it your understanding -- I'm going to
16 switch topics. I'll give you a little warning. I'm going
17 to talk about the competitive rate rider now.

18 A. Okay.

19 Q. Is it your understanding, just so we are clear,
20 that if the company uses the competitive rate rider in the
21 future, it will be used by the delivery side of the company
22 and will not be used in conjunction with the sales of
23 generation? Is that your understanding?

24 A. It was my understanding that -- and I may be
25 wrong -- that the company's distribution function was

1 proposing to use the competitive rider to discount delivery
2 charges only to customers who are also purchasing generation
3 from the company.

4 Q. That was your understanding and that is the
5 basis for your testimony?

6 A. Yes.

7 Q. Now, turning to the company's customized rate
8 design proposal, is it your understanding that first with
9 respect to residential users, the company permits
10 residential users to choose between traditional and
11 customized?

12 A. Yes.

13 Q. And are you also aware -- and your counsel may
14 have advised you -- of Mr. Krall's testimony I believe it
15 was two days ago where the company outlined the basis upon
16 which it would be willing to offer the customized or
17 traditional option to commercial and industrial customers?

18 A. I did hear the company had indicated that
19 willingness, yes.

20 Q. If that proposal is adopted, would you continue
21 to have objections to the customized rate design proposal,
22 if all customers have an option to choose one or the other?

23 A. If that was accompanied by class-specific
24 reconciliation, it would reduce my objection to this,
25 because I would expect that the larger commercial and

1 industrial customers are going to be the ones best equipped
2 to decide which option will benefit them the most. They
3 will be the ones who will say, "This option means we'll pay
4 less in CTC than the other option." And to the extent that
5 they succeed in doing that, the total collection of CTC
6 dollars from those classes will be less than it would have
7 been otherwise.

8 If the reconciliation is on a class basis, that's not
9 a problem. If it is company-wide, it could be a problem,
10 because if residential customers are not as astute in making
11 the correct selection, they will be cost-shifted to them.

12 Q. Well, would you agree that for many residential
13 customers, decisions which have significant impact on
14 changes in energy use are relatively obvious and
15 straightforward? And let me cite you a couple examples
16 before you answer the question.

17 We recently put on an addition to our house, and we
18 have a second child, and I tracked our energy bills; and I'm
19 not quite sure which, but I think it was the second child
20 increased our energy use.

21 (Laughter.)

22 Q. But that's an obvious. Would you agree that that
23 would be an obvious change, an addition or more children in
24 the house, more people living in the house?

25 A. It would be an obvious cause of the change, yes.

1 Q. And if, in fact, you're a young couple with a
2 growing family, it would be reasonable to expect, as your
3 family grew, your energy use would increase, and you might
4 thereby, I think, if you thought about it, choose a
5 customized rate design.

6 A. It would be my expectation that that result is
7 very reasonable, but I have very low expectations that most
8 customers would think of that. I don't think people are
9 thinking, I'm having a baby, my electric use is just going
10 to go up. I find that very unlikely.

11 Q. Well, let's hold that thought for a second.
12 Let's go on to another question. Now, if we were at the
13 other end of the spectrum, your children were about to go
14 off to college or go off to work and move out of the house,
15 you might expect your energy use to decline. I know your
16 telephone use might decline, but your energy use may also
17 decline; is that correct? That would be a reasonable thing
18 for a residential customer to expect?

19 A. I just want to make a more general statement. In
20 my opinion -- and I deal with a lot of friends who you would
21 think are fairly well educated consumers, and they really
22 seem to have very low awareness of why their electric bills
23 go up or down at any point.

24 Q. Well, let me go back. Let's just go back to my
25 hypothetical. If you thought about it a little bit, it

1 would be reasonable to understand that that might lower your
2 energy; is that correct?

3 A. If your children were television watchers, game-
4 players, etcetera, that would be reasonable, yes.

5 Q. There are fairly mundane kinds of things that
6 happen.

7 A. Yes.

8 Q. All right. Now, your answer to the previous
9 question about education; you would agree that a good
10 education program to alert consumers as to how to use this
11 option would be an important part of offering the option?
12 Would you agree with that?

13 A. Yes.

14 MR. KAPLAN: Thank you, Your Honor. We have no
15 further questions.

16 JUDGE KASHI: Thank you very much.

17 I have one. And I hate to even ask it, but there's
18 something that you just said.

19 Actually, there was a dialogue between you, Counsel,
20 and her that brought it up.

21 Go back to 1973. And what happens, if fuel prices go
22 absolutely berserk, to this entire program? Can you project
23 that?

24 THE WITNESS: If fuel prices went -- if oil doubled
25 next year, --

1 JUDGE KASHI: Right, right.

2 THE WITNESS: -- the impact on the market price would
3 be so significant that every utility under such a program
4 would be in here saying we have to get out from under the
5 rate cap. There's no way around it.

6 JUDGE KASHI: And so, that risk is something that
7 we're engendering for the entire economy?

8 THE WITNESS: I don't know if I would say that we are
9 entering into a situation that creates this risk, because
10 the risk is there whether we had no restructuring -- or, if
11 we had no restructuring, the increased oil bills would
12 simply operate through a fuel charge, and our rates would go
13 up under that circumstance.

14 I think that if we think because we have a rate cap
15 we have a hundred percent certainty that it will hold under
16 all circumstances, we're using some wishful thinking.

17 But I think that the situations that would cause
18 rates to go up would have caused rates to go up under a
19 regulated environment, under a pure market environment,
20 under any environment.

21 JUDGE KASHI: And the situation happening where the
22 fuel prices go up and it affects everybody, but we have one
23 company collecting CTC during that particular price,
24 wouldn't that have the tendency to destroy the entire
25 scheme?

1 THE WITNESS: Destroy the entire --

2 JUDGE KASHI: Deregulation, competitive scheme.

3 THE WITNESS: I don't think it would necessarily have
4 a real impact. I think the market, for instance, would
5 continue to function. We would continue to find that new
6 suppliers were produce electricity and would be competing,
7 and, in fact, would be trying to beat the price of the older
8 utilities.

9 I think that we would have a fairly significant
10 public relations problem. Because I think customers reading
11 the newspapers, a lot of customers think that deregulation
12 means prices are going to go down. And communicating that
13 something external has happened that's changed this
14 expectation would be a problem.

15 JUDGE KASHI: It would also have a tendency to push
16 or move the country more to nuclear energy?

17 THE WITNESS: I'm sorry?

18 JUDGE KASHI: It would have a tendency to push the
19 country to more usage of nuclear energy? And would it leave
20 those people who are, in fact, buying up the nuclear power
21 plants now in a better position?

22 THE WITNESS: Not necessarily. You probably should
23 bring this question up again when a fuel price witness is
24 here. But almost everyone's expectations are that almost
25 all new generating plants are going to be built for gas.

1 And it's possible to build a new generating plant and get it
2 on line fairly efficiently within a year and a half to two
3 years time.

4 So I would expect that an increase in oil that was
5 not accompanied by an equal percentage increase of gas would
6 lead to an acceleration of the introduction of new gas
7 units.

8 And I would expect we would see some increase in gas
9 prices as a result, but I think our fuel price forecasters
10 tend to project different paths for gas and for oil.

11 JUDGE KASHI: Thank you. I'm sorry I had that
12 fantasy, but there was just something that happened between
13 the two of you that clicked in my head.

14 MR. KAPLAN: Can I just ask one question in response,
15 Your Honor?

16 JUDGE KASHI: Sure, absolutely. After me going off
17 like that?

18 (Laughter.)

19 MR. KAPLAN: Well, no, it's just a very narrow one.

20 BY MR. KAPLAN:

21 Q. When you were referring to the people who do the
22 fuel forecasts, you yourself are not an expert in fuel
23 forecasting?

24 A. That's correct.

25 MR. KAPLAN: That's it. Thank you, Your Honor.

1 JUDGE KASHI: Redirect, Counsel?

2 MR. BURGRAFF: Could we stand down for just one
3 minute, Your Honor?

4 JUDGE KASHI: Sure.

5 (Discussion off the record.)

6 JUDGE KASHI: Mr. Burgraff?

7 MR. BURGRAFF: We have no redirect, Your Honor.

8 JUDGE KASHI: Thank you very much.

9 Thank you very much, you're excused.

10 THE WITNESS: Thank you.

11 (Witness excused.)

12 JUDGE KASHI: That which has been previously marked
13 as OCA Statement Nos. 4, 4-S, LS-2 through LS-12 -- and
14 there will be a replacement; is that correct?

15 MR. BURGRAFF: Yes, there will be replacements, I
16 believe, for 9 through 12.

17 JUDGE KASHI: All right. They are received into the
18 evidentiary record. Without objection?

19 (No response.)

20 JUDGE KASHI: Without objection. Thank you very
21 much.

22 (Whereupon, the documents marked as OCA
23 Statement Nos. 4 and 4-S, including OCA
24 Exhibit Nos. LS-2 through 12 were received
25 in evidence.)

1 JUDGE KASHI: That concludes our schedule for today.
2 I appreciate counsel's efforts. We're doing -- well, I'm
3 not going to say we're doing well.

4 We are left with two witnesses, I believe, for
5 tomorrow; Mr. Kohler's witnesses; correct?

6 MR. LONGWELL: Yes, correct, Your Honor.

7 JUDGE KASHI: So, I guess the question is, do you all
8 want to start at 9:30 yet, or sleep in tomorrow and start at
9 10:00?

10 MR. KAPLAN: I would suggest that -- I don't want to
11 speak for you -- but I know Mr. Kohler is very concerned
12 about the time and that we resume our 9:30 schedule, and
13 just give everybody a chance to get away.

14 JUDGE KASHI: All right. That's right, he has that
15 1:50 flight.

16 MR. KAPLAN: Yes.

17 MR. LONGWELL: In fact, we had agreed, Your Honor, we
18 had even suggested, or made a proposal, that if there's a
19 concern with getting through them that we're willing to have
20 them earlier.

21 JUDGE KASHI: Okay. So that's what we have on for
22 tomorrow.

23 I would like tomorrow to start talking about the
24 briefs. I would like people to take a look at the --
25 everybody's got a copy of the language that we've proposed

1 as far as the outline and the commonality of issues and
2 things like that. Because I, in fact, am firm on the joint
3 briefs. It's not a wish list, it's a firm time. And I
4 think I'd like to talk to some of the folks as far as the
5 logistics.

6 One of the things I know that counsel isn't going to
7 like about it is it's going to require a little more effort,
8 it's going to require some consolidated effort in talking to
9 the people that are in your groups.

10 Nobody is going to be denied if they have a
11 particular burning issue that they've got to get off their
12 chest, nobody's going to be denied that opportunity. But
13 we're going to pare down as best I can.

14 On those particular kind of issues we'll talk about
15 page limitations on those, where you think you have a
16 conflict inside your group, a particular allotment of pages
17 to that particular issue, to that particular party.

18 But within the interest group I think that we can
19 save everyone a whole lot of time, effort, hardship,
20 whatever. And my secretary, from carrying it all around,
21 her back. Okay?

22 (Laughter.)

23 JUDGE KASHI: All right. If there's nothing further,
24 we will recess until 9:30 tomorrow morning. Thank you
25 again, counsel.

1 (Whereupon, at 2:10 p.m., the hearing was adjourned,
2 to reconvene at 9:30 a.m. on Friday, August 22, 1997, in
3 Harrisburg, Pennsylvania.)

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13 **C E R T I F I C A T E**

14 I hereby certify, as the stenographic reporter,
15 that the foregoing proceedings were taken stenographically
16 by me, and thereafter reduced to typewriting by me, or under
17 my direction; and that this transcript is a true and accu-
18 rate record to the best of my ability.

19
20 **COMMONWEALTH REPORTING COMPANY, INC.**

21
22 By: *Sandra Milus Brown*

23 **Sandra Milus Brown**

24
25 ***

FORM 2