

R. E. Hill  
D. A. Krall

8/27/97  
Handy  
w/lt

**Pennsylvania Power & Light Company  
Response to Interrogatories  
of the Office of Consumer Advocate, Set III  
Dated April 17, 1997**

**Docket No. R-00973954**

Q.24 Provide any plans or proposals for further mitigation of NUG contract costs, including buyouts, buydowns, and renegotiations.

A.24 PP&L has entered into a buy-out agreement with one NUG which is awaiting Commission approval. It is PP&L's policy to pursue opportunities to enter into buy-outs, buy-downs, and renegotiations as they arise consistent with the contracts which exist between the Company and the NUG owners.

DOCUMENT  
FOLDER

DOCKETED  
SEP 03 1997

PROthonotary's OFFICE  
P.A.P.U.C.

97 AUG 29 AM 9:37

1170 21440



1 the New Hampshire pilots that are going on.

2 Q. My only question is: do you have an opinion as  
3 to why the circumstance in the Massachusetts electric pilot  
4 program and the New Hampshire pilot program, as reported on  
5 JAL-7, tend to suggest that the average retail price charged  
6 to participants was below the average wholesale price within  
7 the associated power pool?

8 A. My best guess as to what's happening there is  
9 that because these are fairly small pilots, the companies  
10 offering power in those pilots are willing to do it below  
11 cost as a way of getting a foothold into the market, but I  
12 have not done a detailed study of that to know whether  
13 that's the case.

14 MR. CAPLAN: I have no further questions.

15 JUDGE CHRISTIANSON: Thank you.

16 PP&L has some?

17 MR. KAPLAN: Yes.

18 CROSS-EXAMINATION

19 BY MR. KAPLAN:

20 Q. Are you aware of the percentage of load that is  
21 going to be subject to competition in the pilot?

22 A. My understanding is that there's a 5 percent  
23 target and that at least the primary orders of the  
24 Commission called for keeping the participation open until  
25 that 5 percent is reached.

1 Q. And assuming the pilot proceeds on schedule,  
2 immediately following the pilot, one-third, at least one-  
3 third of the load of the Commonwealth will be available for  
4 competition; is that correct?

5 A. Yes.

6 Q. And then the following, of course, two-thirds in  
7 the next two years?

8 A. Yes.

9 Q. Isn't it true that an alternate supplier that is  
10 interested in participating in competition to serve retail  
11 customers in Pennsylvania would have an interest in getting  
12 its name known, and its service, quality and products known  
13 during the pilot?

14 A. I would think that they would, yes.

15 Q. And you would also think it would be reasonable  
16 for them to invest heavily in doing that in the pilot,  
17 waiting for the larger payoff of full competition; is that  
18 correct?

19 A. I don't know how heavily they might want to  
20 invest, but I would think they would be interested in having  
21 a prominent position during the pilots so that they would be  
22 better situated for the full competition.

23 Q. In fact, would you agree that it would be  
24 reasonable for an alternate supplier to make its  
25 determination on its recovery of its investment in retail

1 competition in Pennsylvania over some period that extends  
2 far beyond the pilot, through full competition and perhaps  
3 even beyond that?

4 A. I think that would be a good business decision  
5 on their part.

6 Q. So that they would not be necessarily concerned  
7 with losses for the first 5 percent of load available for  
8 competition, but only losses over the entire reasonable term  
9 period once full competition is opened up?

10 A. I think they have to be somewhat concerned about  
11 losses during the pilot program period. How much they would  
12 be concerned, what level of losses they might be willing to  
13 accept during that period for what future gains, they would  
14 have to make that judgment themselves.

15 Q. But they certainly would not be unreasonable to  
16 invest money going after the first 5 percent of load in  
17 order to get their name known, their products known,  
18 customers familiar with their products, even if they could  
19 not hope to recover their full costs from those initial 5  
20 percent of customers?

21 A. If they felt that there was a large enough  
22 potential payoff in the future, they might be willing to  
23 take those short-term losses.

24 Q. Isn't it true that with respect to most  
25 companies entering into markets, they do expect, in the

1 beginning, to make investments, cut prices, invest in  
2 advertising and getting the products known before they get  
3 any payoff or payback of those initial investments?

4 A. I would agree with that.

5 MR. KAPLAN: No further questions, Your Honor.

6 JUDGE CHRISTIANSON: Thank you.

7 Any other cross for the witness?

8 (No response.)

9 JUDGE CHRISTIANSON: I hear no volunteers.

10 MR. POPOWSKY: Your Honor, I don't have any cross,  
11 but I have a point of clarification. Could I do that?

12 JUDGE CHRISTIANSON: Yes.

13 MR. POPOWSKY: In the witness' testimony, in the  
14 report on page 8, the very top of page 8, there's a  
15 statement that "The PEA proposal contains the statement that  
16 `customer groups which the utilities demonstrate to be  
17 impractical to serve should not participate.'" The witness  
18 goes on to state that "PEA counsel has stated that low-  
19 income customers are not included in this language." I've  
20 been relying on that statement as well, and I simply wanted  
21 to ask that at some point today, if anybody at PEA disagrees  
22 with that statement, to please let us know on the record  
23 today, since I've been relying on that representation as  
24 well, that this provision is not intended to exclude or will  
25 not exclude low-income customers.