

COMMONWEALTH OF PENNSYLVANIA

PUBLIC UTILITY COMMISSION

KJR

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:   
Pennsylvania Public Utility Commission :   
versus Pennsylvania Power & Light Company : Docket Nos.   
Investigation into a proposed \$261,000,000 : R-943271   
annual rate increase. : R-943271C0001   
: through   
Further Hearing. : R-943271C00130   
:   
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Pages 548 through 748

**DOCKETED**

**MAR 31 1995**

Hearing Room 2  
North Office Building  
Harrisburg, Pennsylvania

Tuesday, March 28, 1995

Met, pursuant to adjournment, at 10:05 a.m.

BEFORE:

ROBERT A. CHRISTIANSON, Administrative Law Judge

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E X H I B I T S (Continued)

<u>NUMBER</u>	<u>FOR IDENTIFICATION</u>	<u>IN EVIDENCE</u>
<u>UCC Cross-Examination Exhibit No.</u>		
1	(OCA-III-28)	570 591
2	(PPLICA-I-32)	570 591
3	(Monthly Peak Demands)	572 591
4	(Peak Demand Data)	576 591
5	(Monthly Planned Capacity, System Peaks and Reserves)	583 591
6	(Revenue Subsidy Data)	713 719
<u>OTS Cross-Examination Exhibit No.</u>		
13	(various interrogatory responses)	664 682
<u>PPLICA Cross-Examination Exhibit No.</u>		
5	(PP&L filing for EDI-Phase IV)	633 643
<u>OSBA Cross-Examination Exhibit No.</u>		
2	(OSBA-2 and OSBA-3)	733 746

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P R O C E E D I N G S

1  
2 ADMINISTRATIVE LAW JUDGE ROBERT A. CHRISTIANSON: I  
3 am Administrative Law Judge Robert Christianson. We are  
4 here for another day of hearing concerning this PP&L rate  
5 filing.

6 Today will be essentially the rate design/rate  
7 structure day, and we'll just see how long we run and how  
8 much examination we might have.

9 We've done a little bit of housekeeping that doesn't  
10 need to be put on the record, some questions about the  
11 public input and questions about a particular party being  
12 here tomorrow and witnesses, but I'll try to get more  
13 clarification about tomorrow during the break when I make a  
14 phone call, or perhaps two phone calls.

15 There's nothing I have immediately for the group  
16 assembled. Anything from the company other than the  
17 witness?

18 MR. MacGREGOR: No, Your Honor.

19 JUDGE CHRISTIANSON: I gather there's nothing  
20 immediately from other people. We can speak up as we go  
21 along if we need to handle any business, any housekeeping or  
22 other business.

23 We'll go ahead with the witness at the moment, and if  
24 the witness will stand, I will swear him in, unless -- have  
25 you been sworn?

1 MR. KLEHA: I was sworn.

2 JUDGE CHRISTIANSON: You've been previously sworn,  
3 not by me, but you've been sworn.

4 Whereupon,

5 JOSEPH M. KLEHA

6 having previously been duly sworn, testified further as  
7 follows:

8 JUDGE CHRISTIANSON: Proceed, counsel.

9 MR. MacGREGOR: Yes, Your Honor. Mr. Kleha did  
10 appear last week, and at that time his Statement No. 7 and  
11 his Exhibits JMK-1, 2 and 3 were admitted to the record.  
12 Mr. Kleha was cross-examined at that time on all issues in  
13 his testimony other than as related to the class cost of  
14 service study, and he is appearing today for cross-  
15 examination on those studies.

16 JUDGE CHRISTIANSON: Yes, thank you. I remind the  
17 witness that he continues to be under oath. I did glance  
18 through the transcript and I recall the examination.

19 Then you don't have to introduce any testimony?

20 MR. MacGREGOR: That's correct, Your Honor. We're  
21 ready to proceed with cross.

22 JUDGE CHRISTIANSON: It's only the one testimony.  
23 Well, then we can check again. If Staff wants to lead off,  
24 feel free.

25 MR. MICKENS: Yes, I will, Your Honor.

## CROSS-EXAMINATION

1  
2 BY MR. MICKENS:

3 Q. Good morning, Mr. Kleha.

4 A. Good morning, Mr. Mickens.

5 Q. I just have a couple of questions for you this  
6 morning, at your Statement No. 7, roughly pages 6 through 8.

7 A. Yes, sir.

8 Q. Here you supply four reasons in support of the  
9 12 coincident peak demand allocation methodology; is that  
10 correct?

11 A. That's correct.

12 Q. And you state further at page 6, lines 8 through  
13 12 that this methodology was used in every state and federal  
14 proceeding in which PP&L has submitted cost allocation  
15 studies, correct?

16 A. That's correct.

17 Q. Can you tell me exactly when the 12 CP  
18 methodology was first employed by PP&L?

19 A. I've only been at PP&L since 1981, but I do know  
20 that going back into the seventies, the prior witnesses for  
21 PP&L had employed a 12 CP methodology, so at least from the  
22 1970s onward, that I'm aware of.

23 Q. And it was employed in the 1984 proceeding?

24 A. That's correct.

25 Q. Now, do you happen to know when it was most

1 recently employed in a federal proceeding?

2 A. I believe it was 1991, a federal proceeding.  
3 I'm not sure of the docket number. It may be in the front  
4 part of my testimony here.

5 Q. Okay, that's okay.

6 A. 91322 was the federal docket number.

7 Q. Thank you. Now, Mr. Kleha, from a firm customer  
8 standpoint, what advantages does the 12 CP present over  
9 other methodologies such as the peak and average and the  
10 design peak day methodologies?

11 A. I think at least in my opinion, the 12 CP  
12 methodology provides for a consistency over the 12 months of  
13 any given test year period that's utilized.

14 It basically recognizes the fact that there is usage,  
15 demand and energy usage, over the entire period of the year  
16 and gives weight to the fact that customers will use power  
17 and demand power at various times and in different levels  
18 over the entire period.

19 MR. MICKENS: Thank you.

20 That's all I have, Your Honor.

21 JUDGE CHRISTIANSON: Then we can go to Consumer  
22 Advocate. I'd like to mention, we do have representation  
23 for Bethlehem Steel here as well.

24 MS. BRANDEIS: Thank you, Your Honor.

25 JUDGE CHRISTIANSON: Good morning.

1 I should mention, in case somebody wonders, we had  
2 expected to have Mr. LaGuardia this morning. He had the  
3 flu, I guess, and we expect now to have him on Thursday, as  
4 we arranged yesterday, up in Executive Chambers. But that  
5 just clears a little more time for rate design today.

6 Ms. McCloskey?

7 MS. McCLOSKEY: Thank you, Your Honor.

8 CROSS-EXAMINATION

9 BY MS. McCLOSKEY:

10 Q. Good morning, Mr. Kleha.

11 A. Good morning, Ms. McCloskey.

12 Q. I'd like you to turn to page 8 of your testimony  
13 where you begin a discussion of your method of allocating  
14 cost to the interruptible service customers.

15 Is it a fair summary of your testimony to say that  
16 you use a two-step approach in that allocation?

17 A. That's correct.

18 Q. And in the first step, the interruptible  
19 customers are allocated production costs on the same basis  
20 as firm customers; is that correct?

21 A. That's correct.

22 Q. And then in the second step, am I correct that  
23 you reduce the interruptible class's cost responsibility by  
24 allocating a rate base credit based on the cost of a  
25 combustion turbine peaking unit?

1 A. That's correct.

2 Q. And in this case, that results in an \$86 million  
3 rate base credit to the interruptible class, correct?

4 A. That's correct.

5 Q. Now, is the \$86 million credit then allocated to  
6 the company's firm customers?

7 A. That's correct.

8 Q. And is it allocated to the firm demand  
9 nomination of the interruptible customers?

10 A. No, it is not.

11 Q. And why is it then only allocated to the firm  
12 customers?

13 A. It is allocated to the firm customers because it  
14 was our view that the firm customers were the beneficiaries  
15 of the fact that PP&L was obtaining non-firm load from the  
16 interruptible customers, and that if we were going to  
17 recognize the fact that there was a value of non-firm load,  
18 it was on a system-wide basis and therefore  
19 non-participating customers should be the ones who would  
20 benefit from the fact that it was on the system, and they  
21 should pay for it.

22 Q. Is the \$86 million rate base credit a current or  
23 future benefit to the company?

24 A. It's a current benefit.

25 Q. And is there any possibility it will be a future

1 benefit to the company?

2 A. I believe so.

3 Q. Now, at page 9 of your testimony, line 15, you  
4 note that you utilized the value of \$300 per kilowatt for  
5 the value of the peaking capacity, and I believe that  
6 determination was explained by Mr. Sipics in his cross-  
7 examination.

8 A. That's correct.

9 Q. And are you also aware of Mr. Sipics' testimony  
10 regarding the market for the purchase of installed capacity  
11 credits?

12 A. Vaguely.

13 Q. And are you aware of his testimony, I think it's  
14 on page 15 of Mr. Sipics, which is Statement 9?

15 JUDGE CHRISTIANSON: Does the witness need it? He  
16 can get it. I just didn't know if he would need it.

17 MR. MacGREGOR: We'll show it to him.

18 THE WITNESS: And what was the reference?

19 BY MS. McCLOSKEY:

20 Q. I think it's page 15 of his testimony, his  
21 discussion at lines 2 through 10 where he talks about  
22 installed capacity credits being sold for as low as 15 to 20  
23 percent of the PJM capacity deficiency rate.

24 A. I see that.

25 Q. You are aware of the short-term market for the

1 purchase of these capacity credits?

2 A. Yes.

3 Q. And you are aware that this short-term market  
4 produces a price well below the cost of a combustion turbine  
5 which you have utilized?

6 A. It does.

7 Q. Would the market price of this short-term  
8 capacity measure the value of interruptibility to the  
9 company and its other customers?

10 A. Not necessarily.

11 Q. Could you explain why not?

12 A. I believe that what we were trying to do in the  
13 cost allocation study was to recognize the fact that the  
14 non-firm customers or customers who contributed non-firm  
15 load were providing a benefit, and that benefit was to the  
16 extent that the company would not need to purchase or to  
17 build a peaking unit, peaking capacity.

18 And so if the customers were providing that benefit,  
19 then pricing out the value of that benefit for cost  
20 allocation purposes should be at the value of that peaking  
21 capacity that was foregone either from a building standpoint  
22 or a purchasing standpoint.

23 Q. At the present time, though, I believe you  
24 agreed with me last week and Mr. Sipics did as well, the  
25 company has no plans to install or build a combustion

1 turbine; is that correct?

2 A. That's correct.

3 Q. And the interruptible contracts are typically  
4 for one year duration?

5 A. That's correct.

6 Q. And it would take longer than one year to plan  
7 and to build a combustion turbine; would it not?

8 A. That's outside my area.

9 Q. Now, if you could reference page 10 of your  
10 testimony where you're describing your distribution plant  
11 investment study?

12 A. Yes.

13 Q. And then continuing on to page 11, you note that  
14 PP&L has used a minimum size system method to identify the  
15 applicable customer and demand related components; is that  
16 correct?

17 A. That's correct.

18 Q. Now, in determining the cost and type of minimum  
19 facilities, am I correct that you used the minimum size of  
20 facilities that would be installed today on the PP&L system?

21 A. That are currently being used, yes.

22 Q. And are the unit costs of the minimum size  
23 facilities in today's costs or were they in historic costs?

24 A. I believe they are an average. They're historic  
25 and current.

1 Q. But it would be an average of costs that would  
2 include historic costs and then present day?

3 A. That's correct, because the plant account would  
4 hold dollars that would have been placed in service in 1994  
5 as well as those in '95 and '93.

6 Q. And what was the minimum size line transformer  
7 for the PP&L system today?

8 A. Bear with me one moment, please.

9 (Pause.)

10 A. I believe that's 10 KV.

11 Q. Would you agree that that size transformer could  
12 handle a sizable portion of residential and other secondary  
13 customers' demands?

14 A. Yes.

15 Q. What was the minimum conductor size utilized in  
16 your study?

17 A. One-aught triple-X.

18 Q. And how much of a typical load could that size  
19 conductor handle?

20 A. I'm not certain of that.

21 Q. Could you obtain that information?

22 A. Certainly.

23 MS. McCLOSKEY: Could I make an on-the-record data  
24 request for the typical load that could be handled by the  
25 conductor size utilized in the minimum size study?

1 JUDGE CHRISTIANSON: That seems reasonable.

2 MR. MacGREGOR: We'll supply it.

3 JUDGE CHRISTIANSON: Fine.

4 BY MS. McCLOSKEY:

5 Q. Now, I just have a few additional questions for  
6 you on your FERC jurisdictional allocation methodology, and  
7 I believe we did touch on this briefly last week in the  
8 context of the off-system sales.

9 And let me use as an example, for the JCP&L sale, I  
10 believe you told us that you utilized a slice of system cost  
11 to allocate out the cost for that sale; is that --

12 A. No, that's not correct. We do not use a slice  
13 of system allocator. The contract with Jersey Central Power  
14 & Light is such that they purchase a slice of our system.

15 Therefore, there is a contract percentage of the  
16 system that they would be paying for, and that contract  
17 percentage is used to allocate production, transmission,  
18 other plant and operating expenses to Jersey Central Power &  
19 Light Company such that jurisdictional or Pennsylvania  
20 jurisdictional customers are, their revenue requirement  
21 excludes the cost associated with that contract.

22 Q. When you referenced the contract percentage,  
23 could you just give us a more concrete example?

24 A. Jersey Central Power & Light Company purchases  
25 945 megawatts of PP&L's system. I believe the contract

1 percentage is derived by taking the 945 megawatts divided by  
2 the total installed capacity of PP&L, which works out to be  
3 about 11.3 percent.

4 Q. Okay, and then that 11.3 percent is utilized --

5 A. As the allocator.

6 Q. -- as the allocator for the production costs?

7 A. That's correct.

8 Q. And for your municipal customers, is the same  
9 methodology utilized for those customers in making the cost  
10 allocation for jurisdictional purposes?

11 A. No. It's not the same methodology. The FERC  
12 jurisdictional customers are allocated costs as if they were  
13 a full requirements customer, that is their demands and  
14 their energies are utilized in order to determine the  
15 allocation to them such that, unlike the bulk power  
16 contracts -- Jersey Central Power & Light Company, Baltimore  
17 Gas & Electric Company, Atlantic City Electric Company --  
18 which have a fixed percentage based upon the number of  
19 megawatts of the system that they take, the FERC  
20 jurisdictional municipalities are considered requirements  
21 customers.

22 Therefore, you allocate costs to them in the same  
23 fashion that you would any other requirements customer based  
24 upon their load requirements and their energy usage.

25 MS. McCLOSKEY: Thank you, Mr. Kleha.

1 THE WITNESS: You're welcome.

2 MS. McCLOSKEY: I think that concludes my cross.

3 JUDGE CHRISTIANSON: Then we might as well just  
4 continue around the table with Bethlehem Steel.

5 MS. BRANDEIS: Thank you, Your Honor.

6 CROSS-EXAMINATION

7 BY MS. BRANDEIS:

8 Q. Just to go back one moment, Mr. Kleha, to  
9 something that Ms. McCloskey asked you, with respect to the  
10 term of interruptible contracts with your customers, they  
11 are typically one year, but not necessarily; is that  
12 correct?

13 A. That's correct.

14 Q. You could or the customer could agree to a  
15 longer term if that were deemed to be --

16 A. I believe that's correct, ma'am.

17 Q. All right. Now, just with respect to the  
18 monthly peak responsibility demand allocation method  
19 described on page 5, I'm correct that the allocator for each  
20 customer class is based on the customer class average  
21 coincident demand at the time of the system peak, right?

22 A. That's correct.

23 Q. And with respect to each of the 12 coincident  
24 peaks used to ascertain the average coincident demand, those  
25 peaks are measured during the actual peak demand of the PP&L

1 system during each month?

2 A. That's correct.

3 Q. Now, in various of PP&L's tariffs, for billing  
4 purposes, there are pre-established on-peak and off-peak  
5 periods; is that correct?

6 A. I believe that's correct, but that's probably  
7 more in the area for Mr. Kasper. If you want to know what  
8 the hours are, that's not my area.

9 Q. Would you know whether the pre-established  
10 on-peak and off-peak periods have been changed in these  
11 tariffs during the last ten years?

12 A. I really don't know the answer to that.

13 JUDGE CHRISTIANSON: I guess they could find out.

14 MS. BRANDEIS: Well, I guess the question is, is Mr.  
15 Kasper the correct person to discuss the on-peak/off-peak  
16 terms of the tariff and the load profiles, let's say, of  
17 people using on-peak and off-peak?

18 MR. MacGREGOR: He is certainly as to the former. If  
19 you're going to get heavily into the load data, that's  
20 really Mr. Slivka, but certainly our principal witness on  
21 tariffs and issues relating to the tariff is for Mr. Kasper  
22 and not for Mr. Kleha.

23 MS. BRANDEIS: I'm not going to make any requests,  
24 but I would reserve the right, if I can't get the  
25 information from Mr. Kasper, then to make a data request if

1 that's okay.

2 JUDGE CHRISTIANSON: Yes. We can follow up with it  
3 if we need to.

4 MS. BRANDEIS: Okay.

5 BY MS. BRANDEIS:

6 Q. And again, you would not be the correct witness  
7 to ask which percentage of PP&L's industrial load has an  
8 on-peak billing demand period before 4:00?

9 A. No, ma'am, sorry.

10 Q. Let me just quick run through, see what I have  
11 left to ask you.

12 MR. MacGREGOR: Mr. Kleha is testifying on the class  
13 cost of service study, and that's it.

14 BY MS. BRANDEIS:

15 Q. Now, looking at page 96 then of your Exhibit  
16 JMK-2 --

17 A. That was page --

18 Q. Ninety-six, cost allocation details, future test  
19 year.

20 A. Yes, I have that.

21 Q. This page contains the allocators for the  
22 company's 12 coincident peak demand allocation for the  
23 future test year?

24 A. As well as page 95.

25 Q. And am I correct that the 676,820 kilowatts is

1 the basis for the LP-5 class demand allocator?

2 A. That's correct.

3 Q. And that number was derived from the average  
4 peak demand of the LP-5 class during the historic test year;  
5 would that be a fair way of saying it?

6 A. Mr. Slivka developed the demand allocators -- or  
7 excuse me, the demands. He assembled the demands. I  
8 believe he looks at the historical information and then  
9 projects the future.

10 Q. So it would be the same for the 66,294 for the  
11 interruptible service by agreement, presumably?

12 A. I believe so.

13 Q. Now, if you know, were any customers within  
14 interruptible load interrupted during any of the 12 monthly  
15 system peak periods on which the allocators are based?

16 A. That would be for the 12 months ended September,  
17 1995. We've gone through approximately five months or six  
18 months of that test year so far, and I believe we had a new  
19 winter peak in February.

20 And to the best of my knowledge, there were no  
21 customers interrupted during that peak.

22 Q. Would you agree with me that if the company had  
23 interrupted customers at the time of a monthly system peak,  
24 it's likely that the allocators on the LP-5 would have been  
25 lower, to state the obvious?

1 A. That's correct.

2 Q. Now, on page 9 of your testimony, you discuss  
3 establishing the equivalent peaking capacity value for the  
4 interruptible portion of the coincident peak demand  
5 contribution of the interruptible customers.

6 A. Yes, ma'am.

7 Q. I think Ms. McCloskey went through this with  
8 you. My question is, you used the number 287 megawatts.  
9 How does this number relate to the 345 megawatts number that  
10 was used in Mr. Sipics' testimony as the amount of  
11 interruptible load available to PP&L?

12 A. I think Mr. Sipics went through a detailed  
13 discussion of the 345 megawatts. I can speak to the 287 and  
14 basically indicate that that was the derived non-firm  
15 demand, coincident demand in the future test year.

16 So each month of the future test year was reviewed to  
17 determine what the total coincident peak demand of all  
18 interruptible customers would be.

19 That number minus their firm contract demand produced  
20 their non-firm demand, and the 287 megawatts is that  
21 calculation.

22 MS. BRANDEIS: Your Honor, could I have one minute?

23 JUDGE CHRISTIANSON: Yes. We can certainly pause.

24 (Pause.)

25 MS. BRANDEIS: That's all I have. Thank you, Mr.

1 Kleha.

2 JUDGE CHRISTIANSON: We might as well continue just  
3 around the table with Mr. Delaney.

4 MR. DELANEY: Thank you, Your Honor.

5 Your Honor, I have some exhibits that I will  
6 distribute here. I will do it as a set.

7 Mr. Haynes, my assistant, will distribute some. I  
8 have some, also.

9 JUDGE CHRISTIANSON: Let's be shown as off the record  
10 briefly.

11 (Discussion off the record.)

12 JUDGE CHRISTIANSON: Back on the record.

13 We've got these passed out. There's a couple of sets  
14 missing, I guess, but maybe there's more lawyers here than  
15 Mr. Delaney expected.

16 MR. DELANEY: Yes. Whoever didn't get them, Your  
17 Honor, I'll supply them with it.

18 JUDGE CHRISTIANSON: As necessary, we can share or  
19 use the two for the court reporter temporarily.

20 Go ahead. Do you want to identify your exhibits at  
21 this point?

22 MR. DELANEY: Your Honor, I'll do them as I go along,  
23 if that's okay.

24 JUDGE CHRISTIANSON: Okay, fine.

25

## CROSS-EXAMINATION

1  
2 BY MR. DELANEY:

3 Q. Good morning, Mr. Kleha. My name is Dan  
4 Delaney. I represent the University/College Coalition,  
5 which is a group of colleges and universities that receive  
6 service from PP&L under GS and LP-4 rate schedules.

7 A. Good morning.

8 Q. Good morning. I'd like to ask you some  
9 questions about your testimony concerning the 12 CP cost of  
10 service study.

11 Now, as I understand your testimony, PP&L has  
12 proposed the 12 coincident peak method be utilized in the  
13 allocation of demand related costs in this proceeding?

14 A. That's correct.

15 Q. And would I be correct that under this method, a  
16 class's responsibility is based on the relationship on its  
17 12 monthly contributions to system peak to the average of  
18 such monthly system peaks?

19 A. Yes.

20 Q. And I would note, in responding to some  
21 questions from Mr. Mickens, I think you reviewed the  
22 company's history of using the 12 CP method.

23 A. As far as I remember.

24 Q. As you were aware of it, very good.

25 And I think when he asked you about why the company

1 used it, I think one of the reasons you said to support its  
2 use was that it measured demand over the entire period of  
3 the year?

4 A. Correct.

5 Q. Would I be correct then that this method  
6 considers all 12 months of the year to be influential with  
7 respect to the amount of generation and transmission  
8 capacity that PP&L is required to have to serve its  
9 customers?

10 A. That's correct.

11 Q. I would note that PP&L has answered several  
12 interrogatories concerning monthly peaks on its system, and  
13 I would like to review those with you.

14 Initially, though, I would like to have them  
15 identified in the record as they are presently marked and  
16 which were in the packet that I distributed, the two PP&L  
17 interrogatory responses which address monthly peaks on the  
18 system.

19 The first, which is now marked as UCC Cross-  
20 Examination Exhibit No. 1, is the PP&L response to No. 28 of  
21 OCA Set No. III, which describes the amount and disposition  
22 of capacity for the time of the monthly peak demand for the  
23 most recent three-year period.

24 The second interrogatory response, which is currently  
25 marked as UCC Cross-Examination Exhibit No. 2, is PP&L's

1 response to No. 32 of Set I of the PP&L interrogatories of  
2 the Industrial Customer Alliance.

3 MR. DELANEY: Your Honor, at this point, I would ask  
4 that they be identified in the record as they are presently  
5 marked.

6 JUDGE CHRISTIANSON: Yes, those two are identified as  
7 your Cross 1 and Cross 2.

8 (Whereupon, the documents were marked as UCC  
9 Cross-Examination Exhibits Nos. 1 and 2 for  
10 identification.)

11 BY MR. DELANEY:

12 Q. Now, initially, let me direct you, Mr. Kleha, to  
13 the one that has been marked No. 1. And let me ask you,  
14 would you accept subject to check that during 1994, the  
15 annual system peak on the PP&L system occurred in January,  
16 which was 1,999 megawatts or 45.4 percent greater than the  
17 smallest monthly peak which occurred in May?

18 And what I'm looking at for the 1994 data on UCC  
19 Cross-Examination Exhibit No. 1 is the January, 1994 data  
20 and the May, 1994 data.

21 A. And your question was?

22 Q. Would you accept subject to check that during  
23 1994, the annual system peak on the system, which occurred  
24 in January, was 1,999 megawatts or 45.4 percent greater than  
25 the smallest monthly peak, which occurred in May?

1 A. Yes, I would agree, subject to check.

2 Q. Now, would you agree that if PP&L predicted the  
3 magnitude of its capacity resources upon the magnitude of  
4 the May peak, would it have enough capacity to satisfy its  
5 January peak?

6 A. I think Mr. Sipics is a better witness for that.

7 Q. Let me restate my question, then. If PP&L  
8 planned its capacity resources to meet the indicated May  
9 peak of 4,404 megawatts, would it have enough capacity to  
10 satisfy the January peak of 6,403?

11 A. Again, I believe Mr. Sipics is a better witness  
12 for talking about how PP&L plans its resources and what it  
13 should be planning for.

14 Q. Let me direct your attention to the bottom of  
15 UCC Cross-Examination Exhibit No. 1, the bottom of Column 2.  
16 Am I correct that PP&L's current installed capacity of 8,543  
17 megawatts is well above the magnitude of the annual system  
18 peak?

19 A. It's above the magnitude of the system peak,  
20 yes.

21 Q. Thank you, Mr. Kleha. Now, let me direct your  
22 attention to the UCC Cross-Examination Exhibit No. 2. Can  
23 you identify any year in which the annual system peak on the  
24 PP&L system did not occur in the winter?

25 A. No. I believe Mr. Sipics has testified that

1 PP&L is a winter peaking company.

2 Q. Thank you, Mr. Kleha. Again, directing your  
3 attention to the same cross-examination exhibit, would you  
4 agree that since 1985, PP&L's annual system peak has  
5 occurred during one of the following months: January,  
6 February and December?

7 A. That was from '85, you said?

8 Q. Yes, which I think is the data that's examined  
9 in the second cross-examination exhibit.

10 A. A quick review indicates that that's true.

11 MR. DELANEY: Thank you.

12 Your Honor, at this point, I'd like to have  
13 identified in the record as it is presently marked UCC  
14 Cross-Examination Exhibit No. 3, which is a summary of the  
15 monthly peak demands of PP&L, which summarizes information  
16 from the PP&L interrogatory response which has been marked  
17 as UCC Cross-Examination Exhibit No. 2.

18 I would ask that that be identified in the record as  
19 it is presently marked.

20 JUDGE CHRISTIANSON: So 3 is identified.

21 (Whereupon, the document was marked as UCC  
22 Cross-Examination Exhibit No. 3 for  
23 identification.)

24 JUDGE CHRISTIANSON: It's a one-page exhibit?

25 MR. DELANEY: Yes, Your Honor. It's a one-page

1 document entitled, "Monthly Peak Demands (Megawatts)".

2 JUDGE CHRISTIANSON: And I see some numbers  
3 underlined, which I guess are going to be significant.

4 MR. DELANEY: Yes. I'll ask the witness about them.

5 JUDGE CHRISTIANSON: So identified. Go ahead.

6 BY MR. DELANEY:

7 Q. Do you have that document, Mr. Kleha?

8 A. I do.

9 Q. Now, this exhibit shows the monthly peak demand  
10 figures for PP&L from 1990 through 1994. Now, the bold  
11 figures, which are underlined, are the annual system peaks.  
12 As I indicated, I have summarized this information from the  
13 second cross-examination exhibit.

14 Now, would I be correct that since 1990, the annual  
15 system peak occurred during either January, February or  
16 December?

17 MR. MacGREGOR: I object to the question to the  
18 extent that it requires Mr. Kleha to assume that the  
19 information in the exhibit is accurate.

20 BY MR. DELANEY:

21 Q. Would you agree subject to check, Mr. Kleha?

22 A. Based upon what I see on the Exhibit No. 3 here,  
23 the underlying numbers indicate that the largest number  
24 would appear in February, December or January.

25 Q. And I think in a prior question, when you

1 examined UCC Cross-Examination Exhibit No. 2, you agreed  
2 that that interrogatory response indicated that PP&L's  
3 annual system peak since 1985 had occurred in January,  
4 February or December; is that correct?

5 A. That's correct. That's what the data indicates.

6 Q. Would you agree, therefore, that a peak has not  
7 occurred during the remaining nine months of the year, which  
8 would be March through November?

9 A. The system peak has not, and would not be  
10 expected to for a winter peaking company.

11 Q. Thank you, Mr. Kleha. Directing your attention  
12 to line 14 of this exhibit, would you agree that during --

13 A. I'm sorry, which exhibit are you on?

14 Q. I'm sorry, it's No. 3.

15 JUDGE CHRISTIANSON: We'll accept No. 3 at least for  
16 discussion purposes. We'll maybe talk about it later when  
17 you move it. Go ahead.

18 BY MR. DELANEY:

19 Q. It's at line 14 of Cross-Examination Exhibit  
20 No. 3. Would you agree that during 1991, that the average  
21 of the peaks for these nine months amounted to 85.1 percent  
22 of the annual system peak, and would you accept that subject  
23 to check?

24 A. Subject to check.

25 JUDGE CHRISTIANSON: Let me just check. It might be

1 helpful for the company and maybe me. For Mr. Delaney, how  
2 did you go about preparing this, just taking --

3 MR. DELANEY: Taking the numbers from the 1 and 2  
4 cross-examination exhibits and summarizing them on this  
5 exhibit.

6 JUDGE CHRISTIANSON: This is something you basically  
7 did as a lawyer. You didn't need expertise --

8 MR. DELANEY: I prepared it as part of cross-  
9 examination, and I applied some expertise, Your Honor.

10 JUDGE CHRISTIANSON: It is the sort of thing a lawyer  
11 could do?

12 MR. DELANEY: Yes.

13 JUDGE CHRISTIANSON: Okay.

14 MR. DELANEY: I would hope so, Your Honor. At least  
15 a lawyer could do it.

16 JUDGE CHRISTIANSON: Go ahead.

17 BY MR. DELANEY:

18 Q. Again, directing your attention to line 14 of  
19 the third cross-examination exhibit, Mr. Kleha, would you  
20 agree subject to check that this average declined 79 percent  
21 by 1994?

22 A. That's what the numbers indicate, yes.

23 Q. Thank you, Mr. Kleha.

24 MR. DELANEY: Your Honor, at this point, I would like  
25 to have identified in the record as it is presently marked

1 UCC Cross-Examination Exhibit No. 4, which is a summary of  
2 the system peak data derived from the interrogatory response  
3 of the company which has previously been marked as UCC  
4 Cross-Examination Exhibit No. 2.

5 JUDGE CHRISTIANSON: No. 2 came through a little weak  
6 in spots, but I think you can read it well enough. Go  
7 ahead.

8 (Whereupon, the document was marked as UCC  
9 Cross-Examination Exhibit No. 4 for  
10 identification.)

11 BY MR. DELANEY:

12 Q. Mr. Kleha, I'd like you to direct your attention  
13 to the cross-examination exhibit marked No. 4. This exhibit  
14 shows PP&L's peak demand data for the years 1990 through  
15 1994.

16 The first column shows the annual system peak for  
17 each year, and the average of the peaks for the months of  
18 January, February and December are shown in Column 2.  
19 Column 3 shows the average of the peaks of the nine months,  
20 March through November.

21 Let me direct your attention to line 6 of the  
22 exhibit, which shows the 1990 to '94 annual compounded  
23 growth rates for the peak demands.

24 Am I correct that the exhibit indicates that the  
25 growth rate for the annual system peak is 3.3 percent?

1           A. I'll accept that that's what your number shows,  
2 subject to check.

3           Q. Very good.

4           JUDGE CHRISTIANSON: We can make all of this subject  
5 to check.

6           MR. DELANEY: That's fine.

7           BY MR. DELANEY:

8           Q. Would it also be correct that the growth rate  
9 for the average of the peaks for the nine months ended March  
10 through November is indicated to be 2.1 percent? Would you  
11 accept that subject to check?

12          A. Yes.

13          Q. Therefore, comparing on line 6 of the exhibit  
14 the 3.3 percent to the 2.1 percent, would you agree that  
15 from 1990 to '94, the annual system peak for PP&L grew 57  
16 percent faster than the average of the peak demands for the  
17 nine months March through November?

18                 And to get that number, I'm comparing the 3.3 percent  
19 to the 2.1 percent we just discussed.

20          A. Subject to check, yes.

21          Q. Very good. Now, on the same exhibit, UCC No. 4,  
22 referring to the middle column of line 6, would you agree  
23 that the corresponding growth rate for the average of the  
24 peaks for January, February and December is indicated to be  
25 3.6 percent?

1 A. Yes.

2 Q. And would you accept that subject to check?

3 A. Yes.

4 Q. Would you agree subject to check that this  
5 growth rate of 3.6 percent is 71 percent greater than the  
6 2.1 percent growth rate for the nine months March through  
7 November?

8 A. Subject to check, yes.

9 Q. Thank you. Let me direct your attention to line  
10 7 of the exhibit, which shows the annual compounded growth  
11 rates and the peak demands for the period 1991 through '94.

12 Would you agree that the growth rate in the annual  
13 system peak of 3.8 percent is more than three times the 1.2  
14 percent growth rate in the average of the peaks for the nine  
15 months March through November? Would you accept that  
16 subject to check?

17 A. Yes.

18 Q. Would you agree that UCC Cross-Examination  
19 Exhibit Nos. 3 and 4 which we've just discussed demonstrate  
20 that PP&L's load dynamics are changing, which winter peaks  
21 becoming more predominant relative to the monthly peaks of  
22 the remaining nine months?

23 MR. MacGREGOR: Objection, Your Honor. It's beyond  
24 the scope of the witness's testimony and beyond the scope of  
25 his expertise.

1 MR. DELANEY: Well, in response, Your Honor, in an  
2 initial response, he indicated that his methodology equally  
3 weighted all the monthly peaks through a year.

4 The testimony has reviewed the monthly peaks on the  
5 system. I think it's within the scope of cross-examination.

6 MR. MacGREGOR: Your Honor, we presented two  
7 witnesses last week, Mr. Sipics and Mr. Slivka, who actually  
8 prepared these interrogatory responses, not Mr. Kleha.

9 And if we had questions concerning the changing  
10 dynamics of PP&L's system peak over time, they certainly  
11 should have been asked of Mr. Sipics or Mr. Slivka, not of  
12 Mr. Kleha.

13 MR. DELANEY: I think, just a brief response, Your  
14 Honor, that the witness did indicate that in his cost of  
15 service methodology, the monthly peaks on the system played  
16 a role.

17 MR. MacGREGOR: And he also indicated that he  
18 received that peak data from Mr. Slivka, and utilized it in  
19 his cost of service study.

20 That's plain from the testimony and it's plain from  
21 Mr. Slivka's testimony.

22 JUDGE CHRISTIANSON: I think the other witnesses  
23 probably would have been better. I'll ask the witness to  
24 try to respond. Again, if it's not within his area --

25 THE WITNESS: I honestly couldn't speak to the

1 changing dynamics of the system. That's way outside my  
2 area.

3 BY MR. DELANEY:

4 Q. Okay, thank you, Mr. Kleha.

5 A. You're welcome.

6 Q. Could we go to page 6 of your testimony?

7 A. Page 6?

8 Q. Yes. And I think in lines 6 through 8, you  
9 discuss that it is undesirable for a utility to change its  
10 cost allocation methodology. Do you have that discussion  
11 there?

12 A. Yes.

13 Q. Are you familiar with the cost allocation  
14 methodologies used by American Electric Power, a major  
15 utility with numerous operating subsidiaries?

16 A. No, I am not.

17 Q. So you are unfamiliar whether they have changed  
18 from a 12 CP to a 6 CP system?

19 MR. MacGREGOR: Objection, Your Honor. The witness  
20 already answered that he has no knowledge of the APS  
21 methodology.

22 JUDGE CHRISTIANSON: Yes, so that makes it  
23 surplusage, but you can just continue your cross.

24 BY MR. DELANEY:

25 Q. Mr. Kleha, let me ask you, are you familiar with

1 the cost of service methodology used by other Pennsylvania  
2 electric utilities?

3 A. Vaguely. I don't think many electric utilities  
4 have filed cost allocation studies within the recent few  
5 years.

6 Q. Are you familiar with the cost allocation  
7 methodology used by the West Penn Power Company?

8 A. I saw their exhibit. I think they used a 12 CP  
9 method.

10 Q. And would you agree with me that in the last  
11 several -- if you know -- adjudicated cases of the West Penn  
12 Power Company, the Commission did not necessarily accept the  
13 cost allocation methodology proposed by the company?

14 A. I have no knowledge of that.

15 Q. Okay, so you are unfamiliar with the  
16 Commission's adjudications for that electric utility?

17 A. I know their rate order. I recognize that they  
18 got a rate increase, but I don't know all the nuances of the  
19 Commission's decision.

20 Q. Okay, so you don't know then what cost  
21 allocation methodology the Commission adopted in those  
22 proceedings?

23 A. I know that in their last proceeding, they  
24 adopted the 12 CP.

25 JUDGE CHRISTIANSON: Again, we can take notice of

1 Commission orders, but we don't have to, exactly.

2 BY MR. DELANEY:

3 Q. Going back to your testimony, the bottom of page  
4 7 and the top of page 8, I think one of the reasons that you  
5 advanced for the 12 CP method as being appropriate is  
6 because PP&L must schedule maintenance at its generation  
7 stations throughout the year.

8 A. That's correct.

9 Q. Wouldn't the need to schedule generation  
10 maintenance also be a concern for other electric utilities?

11 A. Yes.

12 MR. DELANEY: Your Honor, at this point, I would like  
13 to have identified in the record as it is presently marked  
14 UCC Cross-Examination Exhibit No. 5, which is a summary of  
15 the PP&L monthly planned capacity, system peaks and  
16 resulting reserves for 1994.

17 And this summarizes information contained in PP&L's  
18 response to Question 28 of the Set III OCA interrogatory  
19 which has been previously marked as UCC Cross-Examination  
20 Exhibit No. 1.

21 JUDGE CHRISTIANSON: Okay. Again, like the others,  
22 we'll probably take it subject to check. And just a  
23 comment: I appreciate counsel bringing up early what the  
24 issues are now, even though we might have to take notice of  
25 some things. At least the company knows where you're coming

1 from at this point.

2 MR. DELANEY: Yes.

3 MR. DELANEY: I would ask that it be marked as --

4 JUDGE CHRISTIANSON: Yes, it's so marked as Exhibit  
5 No. 5, your Cross No. 5.

6 MR. DELANEY: Okay, very good.

7 (Whereupon, the document was marked as UCC  
8 Cross-Examination Exhibit No. 5 for  
9 identification.)

10 BY MR. DELANEY:

11 Q. Mr. Kleha, could I ask you to examine that  
12 exhibit marked No. 5 which shows PP&L's monthly planned  
13 capacity, monthly system peaks and resulting reserves for  
14 1994?

15 And let me just explain that the planned capacity  
16 figures in Column 1 are obtained by adding PP&L's installed  
17 capacity plus capacity purchases less capacity sales and  
18 scheduled maintenance.

19 And again, the information on the exhibit was taken  
20 from the document that's been marked as UCC Cross-  
21 Examination Exhibit No. 1, which was a PP&L interrogatory  
22 response to an OCA interrogatory.

23 Reviewing that exhibit, would I be correct that the  
24 annual system peak for 1994 occurred in January?

25 A. That's correct.

1 Q. And would I be correct, looking at the last  
2 column in the exhibit for January, that the reserve  
3 percentage indicated for that month is 7 percent?

4 A. That's what the data indicates, yes.

5 Q. And you accept that subject to check?

6 A. Yes.

7 Q. And would I be correct that on this exhibit,  
8 looking again at that last column, that the next lowest  
9 reserve percentage indicated is 22.7 percent, for March?

10 A. That's what the page indicates, yes.

11 Q. Would you be willing to accept that subject to  
12 check?

13 A. Yes.

14 Q. Now, would it be correct that the average  
15 reserve percentage for the 11 months excluding January  
16 indicated on line 13 is 34.4 percent?

17 A. I'll accept your math subject to check.

18 Q. Thank you, Mr. Kleha. Referring to Column 3 of  
19 the exhibit, lines 1 and 13, would it be correct that the  
20 average reserve for the 11 months excluding January is four  
21 times that for January?

22 And what I am comparing are the figures 1,792  
23 megawatts versus 449 megawatts.

24 A. The math would produce four times, yes.

25 Q. And you would accept that subject to check?

1 A. Yes.

2 Q. And would I be correct again, looking at the  
3 last column on the exhibit, Mr. Kleha, that even with the  
4 scheduled maintenance, PP&L enjoyed reserve margins during  
5 every month of 1994?

6 A. That's what the data would indicate. However, I  
7 would also indicate that the month of January is simply 31  
8 days for the month of January, but as we all know, on  
9 January 19th through the 21st, the PJM system experienced  
10 severe difficulties with regard to availability of capacity.

11 JUDGE CHRISTIANSON: I was going to take notice of  
12 that. I remember it well. We got sent home here at the  
13 state complex.

14 THE WITNESS: Exactly. And I think, as other  
15 witnesses have testified, that it was the good fortune to  
16 have some government declarations to curtail usage that  
17 assisted in keeping the emergency to the limited degree it  
18 was.

19 JUDGE CHRISTIANSON: So you're talking about, those  
20 few days were particularly crucial?

21 THE WITNESS: That's when the peak was set, Your  
22 Honor. And basically what I'm indicating is that during the  
23 days that the peak was in fact set, there were constraints,  
24 and so the reserve was not at the 7 percent level or any  
25 level like that.

1 JUDGE CHRISTIANSON: For the particular day or hour  
2 in question.

3 THE WITNESS: That's right.

4 JUDGE CHRISTIANSON: Then that's in the nature of  
5 redirect, but it might as well be brought out at this point.  
6 Continue with your interrogation.

7 BY MR. DELANEY:

8 Q. Mr. Kleha, thank you for that correction. And  
9 what you were describing was not the monthly reserve figure  
10 but the reserve that PP&L may have had in the period in  
11 January that you specifically described; is that correct?

12 A. That's correct.

13 MR. DELANEY: Thank you, Mr. Kleha.

14 That's all the questions I have, Your Honor. I guess  
15 at this point I would move UCC Cross-Examination Exhibits 1  
16 through 5 into the record.

17 JUDGE CHRISTIANSON: Go ahead and state it. We can  
18 leave the company time to review these numbers and such. Is  
19 it that, or is it more?

20 MR. MacGREGOR: I understand, but, Your Honor, we  
21 certainly can check these numbers and confirm that they  
22 represent what's in the two interrogatory responses.

23 I would first note that the interrogatories, as I  
24 indicated earlier, were prepared by Mr. Sipics and Mr.  
25 Slivka, not by Mr. Kleha, so certainly Mr. Kleha can't

1 authenticate them for admission.

2 With respect to 3, 4 and 5, I really think it's a  
3 better procedure to have the parties put on a witness, put  
4 forth the issues and adjustments so we know what to respond  
5 to in rebuttal.

6 I object to dumping this data in the record and  
7 allowing Mr. Delaney to make whatever kind of arguments he  
8 might in the brief, and to take us by surprise on the  
9 issues, and we might not address an issue in rebuttal that  
10 we don't even know is an issue just because this information  
11 is admitted into the record without a sponsoring witness.

12 JUDGE CHRISTIANSON: Maybe we can check with Mr.  
13 Delaney. I'm inclined to accept things like this, but I  
14 realize there may be gaps here that need to be filled.

15 One reason I tend to be sympathetic to Mr. Delaney is  
16 that it's better to do it this way than to wait for the  
17 briefs and come up with this information and extract it, and  
18 really surprise the company quite unfairly.

19 MR. MacGREGOR: Well, I understand, Your Honor, but  
20 still, at some point in this case, we have to put together  
21 our rebuttal testimony to respond to what issues have been  
22 raised by the parties in this proceeding.

23 I think the most orderly way to do that is to have  
24 the parties put their adjustments and issues on the table in  
25 their testimony. Then we know exactly what we're responding

1 to in rebuttal.

2 And at this point, I don't know. Do I have to put  
3 rebuttal in in response to this? I don't know, because I  
4 really don't know what the issues are.

5 JUDGE CHRISTIANSON: For Mr. Delaney, do you have  
6 something in the nature of an offer of proof or some  
7 discussion about where you're going? Do you anticipate  
8 calling a witness?

9 MR. DELANEY: In response, I would be glad to  
10 identify the issues that we're going to support with the  
11 cross-examination.

12 Not every party is in a position to support its  
13 issues with testimony all the time, although I hope that we  
14 will present a witness in the case consistent with the  
15 filing deadlines of the testimony.

16 If I understand the objection, it really goes to I  
17 think an issue of weight, as to whether you can support an  
18 adjustment on which a witness has not appeared to support,  
19 to provide with live testimony and be subject to the  
20 company's cross-examination for the adjustments that are  
21 proposed in that fashion.

22 MR. MacGREGOR: That's not my argument.

23 MR. DELANEY: Maybe I misunderstood.

24 JUDGE CHRISTIANSON: He wants a little more fleshing  
25 out the details of the issues involved.

1 MR. MacGREGOR: I really have two points to my  
2 objection, Your Honor. First, this document has not been  
3 authenticated by the witness who prepared it, so technically  
4 it cannot be admitted without being authenticated, 1 and 2.

5 JUDGE CHRISTIANSON: I'm not too worried about  
6 authentication, since it's prepared by the company.

7 MR. MacGREGOR: More importantly, Mr. Delaney needs  
8 to -- if he's going to have a witness, why can't the witness  
9 raise these issues in his testimony and we'll know what  
10 we're dealing with?

11 If he's not going to have a witness, then I do want  
12 an agreement that on the date on which his testimony would  
13 have been due if he had a witness, that we have a specific  
14 statement of the issues and adjustments he plans to propose  
15 in this proceeding so we'll have notice and an opportunity  
16 to respond.

17 JUDGE CHRISTIANSON: That's what you're really  
18 worried about, is to know just where he's coming from.

19 MR. MacGREGOR: Yes.

20 JUDGE CHRISTIANSON: Perhaps we can defer it. Maybe  
21 Mr. Delaney can work up a statement as -- I think, as a  
22 general matter, I know where we're coming from.

23 MR. DELANEY: With the clarification Mr. MacGregor  
24 has provided, he seems to be raising the due process notice  
25 issue, and I have no problem, if we don't file testimony, to

1 give him a statement of the issues that will be supported by  
2 the cross-examination.

3 MR. MacGREGOR: That's fine, Your Honor. Then I  
4 would accept the admission of this subject to checking the  
5 numbers.

6 JUDGE CHRISTIANSON: Yes, obviously it's subject to  
7 check that your math and your transposition of numbers is  
8 good.

9 MR. DELANEY: It was prepared by a lawyer, Your  
10 Honor, so I don't know --

11 (Laughter.)

12 MR. MacGREGOR: That's why we want to check it.

13 (Laughter.)

14 JUDGE CHRISTIANSON: Well, then, I'll require Mr.  
15 Delaney to either come in with a witness or a concise  
16 statement as to where he's coming with this information.  
17 This statement could be maybe a couple of pages signed by  
18 Mr. Delaney if he doesn't have a witness.

19 MR. DELANEY: Certainly, Your Honor, I'll be glad to  
20 do that.

21 JUDGE CHRISTIANSON: Within the timing of when the  
22 witness would have to come in and give testimony.

23 MR. DELANEY: Yes, Your Honor. I agree to that.

24 JUDGE CHRISTIANSON: Then subject to that and subject  
25 to check, the five exhibits are accepted into the record.

1 (Whereupon, the documents marked as UCC  
2 Cross-Examination Exhibits Nos. 1 through 5  
3 were received in evidence.)

4 JUDGE CHRISTIANSON: And we'll hold open the  
5 possibility of adverse motions until a little bit later, but  
6 I think we understand where we're going on it.

7 MR. MacGREGOR: That will be fine, Your Honor.

8 JUDGE CHRISTIANSON: But the five exhibits are now a  
9 part of the record.

10 MR. DELANEY: Thank you, Your Honor.

11 Thank you, Mr. Kleha.

12 JUDGE CHRISTIANSON: Then we have Mr. Haynes for the  
13 fuel oil people.

14 MR. HAYNES: Thank you, Your Honor.

15 CROSS-EXAMINATION

16 BY MR. HAYNES:

17 Q. Good morning, Mr. Kleha.

18 A. Good morning.

19 Q. Am I correct from your prior response that you  
20 joined PP&L in approximately 1981?

21 A. That's correct.

22 Q. And looking at your testimonies identified on  
23 page 3, is it true that you did not submit any prepared  
24 testimony in the prior PP&L general rate increase  
25 proceeding?

1 A. That's correct.

2 Q. Have your duties and responsibilities changed  
3 since you joined PP&L?

4 A. Yes, they have.

5 Q. Were you involved in any way in the formation or  
6 creation of Rate Schedule RTS?

7 A. No, sir.

8 Q. Do your current duties have any input into the  
9 modification of Rate Schedule RTS?

10 A. No, sir.

11 Q. Would that be Mr. Kasper?

12 A. Yes, sir.

13 Q. Turning to page 6 of your prepared direct  
14 testimony, beginning at line 13, you indicate that sharply  
15 different and mixed signals would be given to various rate  
16 classes if other methods were used.

17 My question is, what is the importance of cost  
18 signals given to the respective rate classes?

19 A. I think two things are the result of a cost  
20 allocation study. One, there is an attempt to appropriately  
21 assign the cost of providing service to each representative  
22 rate group.

23 Secondly, it provides the rate designer the  
24 information necessary to make reasoned judgments as to how  
25 and in what form to design the appropriate rate schedules to

1 recover the revenue requirements associated with the cost  
2 allocation study.

3 Q. And you are sponsoring the cost allocation study  
4 of PP&L; is that not correct?

5 A. That's correct.

6 Q. Would it be fair to say that it is an embedded  
7 cost of service study?

8 A. That's a fair statement.

9 Q. Have you in any way factored in externalities or  
10 other non-embedded costs into your study?

11 A. The only difference would be the inclusion of  
12 the interruptible capacity credit value.

13 Q. In terms of the judgment that was applied to  
14 determine each rate increase that would be applied to each  
15 rate schedule, would that be something within your  
16 jurisdiction?

17 A. No, sir.

18 Q. Who would make that determination?

19 A. Mr. Kasper.

20 Q. Did you provide any input at all into his  
21 decision?

22 A. The cost allocation study.

23 JUDGE CHRISTIANSON: Let me try a question which  
24 might clarify it, might not. You seem to have some  
25 indication here, at least on page 6, that you chose the

1 study for this case somewhat with end results in mind, in  
2 the nature of sort of a gradualism concept or not departing  
3 too much from prior situations.

4 THE WITNESS: Well, the regulations require that each  
5 electric utility filing for a base rate increase in  
6 Pennsylvania must provide not only its preferred method but  
7 the results of other methods.

8 And basically what I am suggesting here is that we  
9 made that comparative analysis, lined up the studies to make  
10 sure that we were not providing a study -- or our preferred  
11 method was not out of line.

12 JUDGE CHRISTIANSON: Okay, then that's more pure cost  
13 study than I was thinking.

14 Okay, go ahead, counsel.

15 BY MR. HAYNES:

16 Q. Turning to your Exhibit JMK-2, page 7, the  
17 second full paragraph there, would it be fair to say that  
18 that states a goal of PP&L that the class cost of service  
19 study should produce a rate of return as near the overall  
20 rate of return as possible for each class?

21 A. I would call it a stretch goal, yes.

22 Q. Turning to page 8 of that exhibit, does that not  
23 reflect the class return for Rate Schedule RTS?

24 A. Under present rate conditions, that's correct.

25 Q. And on page 10, you have it under the proposed

1 rates?

2 A. That would be under proposed rates, that's  
3 correct.

4 Q. And am I correct that on page 8, the rate of  
5 return under present rates is a negative 2.36 percent?

6 A. That's correct.

7 Q. And under proposed rates, it's a negative .43  
8 percent?

9 A. That's correct.

10 Q. Are there any other rate classes that have a  
11 negative return under either present or proposed rates?

12 A. Not based upon the cost allocation study results  
13 presented here.

14 Q. Turning to your Exhibit JMK-1, which is your  
15 historic test year cost study -- is that not correct?

16 JUDGE CHRISTIANSON: I'll answer it for him. Yes.  
17 We have the two of them, each about an inch thick.

18 THE WITNESS: That's correct, Your Honor.

19 JUDGE CHRISTIANSON: I could mention, since I've  
20 spoken up, I just closed the record in a water case where  
21 the water company cost man departed from recent practice and  
22 was criticized for departing from the old method. So we get  
23 you -- no matter which way you go, we'll get you.

24 (Laughter.)

25 THE WITNESS: That's true, Your Honor.

1 JUDGE CHRISTIANSON: But you're used to that, I  
2 guess.

3 Go ahead, counsel.

4 BY MR. HAYNES:

5 Q. Would you agree that looking at the historic  
6 test year, the Rate Schedule RTS would produce a negative  
7 return of 1.28 percent under present rates as shown on page  
8 8?

9 A. You're correct.

10 Q. And similarly, if you looked at under proposed  
11 rates on page 106, that the Rate Schedule RTS would produce  
12 a positive return of .20?

13 A. That's correct.

14 Q. Am I correct that the difference between the  
15 historic test year and the future test year would be the  
16 cost differences between the two time periods? Is that  
17 correct?

18 A. That's correct; in addition to that, the  
19 interruptible load credit that was applied in the future  
20 test year.

21 Q. I'd like you to assume a hypothetical. The  
22 hypothetical is, PP&L provides service to only one class.  
23 That class is Rate Schedule RTS.

24 Under those circumstances, would PP&L be making any  
25 money from Rate Schedule RTS?

1           A. Well, as you're aware, Mr. Haynes, each cost  
2 study that's performed is subject to the differences in  
3 conditions based upon the time period in which you review  
4 it.

5           And to suggest that in one particular period, if you  
6 looked at the results of that and determined whether the  
7 company would be making money, would be inconclusive.

8           You would have to do a study over varying periods of  
9 time to determine whether that class was in fact producing a  
10 return to the company that covered its costs.

11          Q. Do you know when Rate Schedule RTS was created  
12 and approved?

13          A. I believe, subject to check, that it was  
14 proposed back in the early eighties, maybe the 1981 to '82  
15 time frame.

16          Q. Have you made any analysis whether Rate Schedule  
17 RTS has ever produced a positive rate of return under the  
18 company's embedded cost of service studies?

19          A. This is the first fully distributed cost of  
20 service study in which RTS was separated from the  
21 residential customer grouping into a separate rate class.

22          Q. Does the company perform internal cost of  
23 service studies periodically?

24          A. It performs analyses that I would not classify  
25 as a fully distributed cost of service study, but they have

1 certainly reviews of where the general classes are going.

2 Q. Restating the prior question, the hypothetical,  
3 based upon your cost of service study, would you agree that  
4 PP&L would be losing money if it was only providing service  
5 to Rate Schedule RTS?

6 A. All other conditions being equal, Rate RTS,  
7 based upon the cost of service study analysis that was  
8 performed here for the 12 months ended September, 1995 would  
9 not show a contribution to earnings.

10 Q. And would you agree with me that it would  
11 actually be an operating expenses loss, not any return on  
12 capital?

13 MR. MacGREGOR: Your Honor, I object to the question.  
14 If the company had one customer class, RTS, it would have a  
15 completely different system to supply service to those  
16 customers.

17 It would look nothing like the current system in  
18 terms of types of capacity and cost structure, so the  
19 question is meaningless.

20 JUDGE CHRISTIANSON: It's very hypothetical, I must  
21 say.

22 MR. HAYNES: I would agree with that. That's why I  
23 made it a hypothetical, Your Honor. The question is, who is  
24 picking up the costs to provide the service. And right now,  
25 it is other classes that are picking it up.

1           And my cross-examination is that if it is not those  
2 other classes, maybe it should be PP&L's shareholders.

3           JUDGE CHRISTIANSON: I'll allow the questioning to  
4 continue, with the understanding that the witness might have  
5 to be a little bit innovative in framing answers.

6           It is a very hypothetical situation. It's not the  
7 sort of situation we can prove would exist. We can't have  
8 another witness come in and authenticate the hypothetical,  
9 really, because it clearly isn't consistent. But go ahead  
10 and try to respond.

11          MR. HAYNES: I'm moving on to another line.

12          JUDGE CHRISTIANSON: Okay.

13          BY MR. HAYNES:

14          Q.    Mr. Kleha, does PP&L provide merchandising  
15 services, sale of appliances, electric appliances at all?

16          A.    No, sir.

17          Q.    Did it used to in the past?

18          A.    Yes.

19          Q.    How were those costs treated for ratemaking  
20 purposes, if you know?

21          A.    Since I was only a child at that point in time,  
22 I'm not sure, sir.

23          (Laughter.)

24          JUDGE CHRISTIANSON: Some electric companies still  
25 give away light bulbs, as well.

1 THE WITNESS: I believe that's true, Your Honor.

2 JUDGE CHRISTIANSON: It may not be any more, I don't  
3 know.

4 BY MR. HAYNES:

5 Q. Turning to page 7 of your direct testimony,  
6 beginning on lines 9 through 15, you talk about the third  
7 consideration being class diversities.

8 A. Yes.

9 Q. What do you mean by "class diversities"?

10 A. Not all customers utilize energy at any given  
11 hour in any given time period in the same way as anyone  
12 else, so there are diversities.

13 Some customers will use more energy or put more  
14 demand on the system at let's say the afternoon period, and  
15 some will put it on in the morning period, or some will put  
16 it on in the evening period.

17 So you have diversities, and they're seasonal, also.

18 JUDGE CHRISTIANSON: This is an argument against just  
19 using the system peak, the annual peak, because they're not  
20 all on the peak, necessarily?

21 THE WITNESS: That's correct.

22 BY MR. HAYNES:

23 Q. Am I correct that your position or PP&L's  
24 position is that the diversity in loads is important among  
25 the seasons, each month of a year?

1 A. Throughout all time periods of the year, yes.

2 Q. Would that be also diversity within each given  
3 day?

4 A. I believe so.

5 Q. Have you made analysis of whether there is any  
6 significant diversity demand with respect to the secondary  
7 distribution system?

8 A. No.

9 Q. Why not?

10 A. I didn't believe there was any need for it.

11 JUDGE CHRISTIANSON: Let me just check. Secondary  
12 distribution is the more local distribution?

13 THE WITNESS: Yes, it is.

14 BY MR. HAYNES:

15 Q. Would you agree me that Rate Schedule RTS is  
16 served off the secondary distribution system?

17 A. Certainly. It's a residential customer, as are  
18 streetlighting and customers of that nature.

19 Q. Turning to your Exhibit JMK-3, which is the  
20 smaller of the ones, page 11?

21 A. Yes.

22 MR. MacGREGOR: Your Honor, can we wait one minute  
23 until I get my copy of that out?

24 (Pause.)

25 JUDGE CHRISTIANSON: Yes, we can pause a minute.

1 (Pause.)

2 MR. MacGREGOR: What page are we on?

3 MR. HAYNES: Page 11.

4 MR. MacGREGOR: Thank you.

5 BY MR. HAYNES:

6 Q. Beginning at page 10, you begin an analysis of  
7 the distribution plant classification utilizing a minimum  
8 system approach; is that correct?

9 A. Yes.

10 Q. Would it be accurate to say that the purpose of  
11 your use of the minimum system is to identify distribution  
12 costs incurred to connect a customer, a single customer?

13 A. The minimum system study is designed to identify  
14 the level of costs that would be identified as relative to  
15 customer, as opposed to demand or energy.

16 Q. Am I correct that under this theory, the costs  
17 to connect a single customer do not vary with the customer's  
18 demand?

19 A. I'm sorry, I didn't --

20 Q. Am I correct that under this theory, the costs  
21 to connect a single customer do not vary with the customer's  
22 demand?

23 A. The study identifies the cost associated with  
24 providing service on basically a low-load or no-load  
25 condition to a single customer.

1 JUDGE CHRISTIANSON: Just to reach the customer?

2 THE WITNESS: Yes, basically, what would need to be  
3 in service to provide that customer if he desired to take  
4 some energy.

5 JUDGE CHRISTIANSON: With the smallest transformers  
6 and the smallest everything?

7 THE WITNESS: Smallest that is currently being  
8 installed, yes.

9 JUDGE CHRISTIANSON: Right. I'm familiar with this  
10 generally. Go ahead.

11 BY MR. HAYNES:

12 Q. Am I correct that you utilized a 10 kva  
13 transformer for the minimum system size?

14 A. That's correct. That's the smallest size being  
15 installed on PP&L's system. That's an overhead transformer,  
16 Mr. Haynes.

17 MR. HAYNES: One moment, Your Honor.

18 JUDGE CHRISTIANSON: We can certainly pause. We'll  
19 probably break in several minutes. We might get done with  
20 the cross of the witness. We'll see.

21 (Pause.)

22 JUDGE CHRISTIANSON: We can be shown as off the  
23 record.

24 (Discussion off the record.)  
25

1 JUDGE CHRISTIANSON: Let's be back on the record.

2 Mr. Haynes then is done with his examination, and we  
3 can go with Small Business and probably break after Small  
4 Business for the morning break.

5 Go ahead.

6 MS. MOURY: Thank you, Your Honor.

7 JUDGE CHRISTIANSON: If you take a long time, we'll  
8 break before you're done, obviously.

9 MS. MOURY: All right.

10 CROSS-EXAMINATION

11 BY MS. MOURY:

12 Q. Good morning, Mr. Kleha.

13 A. Good morning.

14 Q. My name is Karen Moury. I'm with the Office of  
15 Small Business Advocate.

16 Through discovery, Mr. Kleha, we asked you to provide  
17 summaries of all interim cost allocation studies performed  
18 by PP&L between the last base rate filing and this case, and  
19 what you provided were studies you had filed in the interim;  
20 is that correct?

21 A. That's correct.

22 Q. And none of those contain any Pennsylvania rate  
23 class allocations; is that correct?

24 A. Not rate classes; that's correct.

25 Q. Did you or anyone at PP&L prepare any interim

1 studies of Pennsylvania class rates of return between the  
2 last base rate case and this one?

3 A. Not full cost allocation studies, no.

4 Q. You did, in response to Mr. Haynes, mention some  
5 analysis that you did perform. What exactly would that  
6 show?

7 A. Basically, looking at book information, which  
8 would be any particular period; you could look at a quarter  
9 or a year or half-a-year, whatever period you chose to  
10 identify. You basically look at the books of the company  
11 and make some assumptions as to what the costs are for each  
12 customer group based upon some historical demands and  
13 energies that would have been incurred.

14 So basically what you would do is you'd say, okay, I  
15 have calendar 1990 data, for example, and I have full demand  
16 allocations and energy allocations that were performed for  
17 my 1984 study. So I would look at my book information and I  
18 would basically say, okay, if all things are equal, and I  
19 assume the same kind of allocations, these are the kind of  
20 results I would get.

21 So to me it's not a cost allocation study. It's kind  
22 of a review as you're moving forward in time to see if there  
23 are any significant aberrations.

24 JUDGE CHRISTIANSON: It might be helpful for you to  
25 say why you do it. Just to keep your hand in or --

1 THE WITNESS: Basically, to keep your hand in it and  
2 to have some indication of how your costs are being incurred  
3 and if they're --

4 JUDGE CHRISTIANSON: If there's a real loser there, I  
5 guess.

6 THE WITNESS: Well, if you have some significant  
7 changes in your costs, in your cost structure. You may have  
8 a change in your energy cost that is more significant than  
9 you had in 1984 when we performed the last cost study, and  
10 you want to basically see how that falls out.

11 JUDGE CHRISTIANSON: That's fine for me. Go ahead,  
12 counsel.

13 BY MS. MOURY:

14 Q. Would any of those reviews that you performed  
15 have any information about the rate of return being provided  
16 by the GS-1 class at any given time?

17 JUDGE CHRISTIANSON: It's not of a quality you would  
18 present in a rate case, I guess.

19 THE WITNESS: Certainly not. It's not an inch thick,  
20 Your Honor.

21 I'm not sure whether -- you said GS-1?

22 BY MS. MOURY:

23 Q. Yes.

24 A. I'm not sure if GS-1 was separated from GS-3 or  
25 whether it was just kind of an aggregate group. I honestly

1 don't remember exactly how we did all of them.

2 Q. Under the cost study provided in this case, at  
3 present rates, you would agree, would you not, that the GS-1  
4 class is shown to provide a return that is twice the system  
5 average return?

6 A. Under present conditions?

7 Q. Right.

8 A. Yes.

9 Q. Do you know how long that has been the case?

10 JUDGE CHRISTIANSON: It started ten years ago.

11 THE WITNESS: I don't have the 1984 cost study with  
12 me. I don't remember what it was at that point in time.  
13 But again, as I indicated to Mr. Haynes, a cost allocation  
14 study done for any particular period of time is subject to  
15 the costs and the usage and all of the factors that would  
16 change in any given time period. So if we looked at the  
17 same information for 1990, it might not have shown that same  
18 result. I just don't -- I can't recall.

19 JUDGE CHRISTIANSON: You just don't know what the  
20 result might have been, if they had a result.

21 THE WITNESS: Correct.

22 BY MS. MOURY:

23 Q. Now, I believe you did actually, in the  
24 discovery response, provide us with the results in 1984, but  
25 as I understand, that would have been the study as filed

1 with your case and not one that was performed after the  
2 rates were implemented and those rates may have been  
3 different than whatever were proposed; is that correct?

4 A. The rates in the last case are different than  
5 the rates proposed today?

6 Q. No. I'm sorry. You mentioned the results of  
7 the 1984 study, that you didn't have those with you, --

8 A. That's correct.

9 Q. -- but you might be able to have those, and I  
10 indicated to you that we did in fact ask for those, and we  
11 have those.

12 A. Okay.

13 Q. But my concern, and I wanted to ask you about  
14 that, is the results that you provided us for the 1984 case  
15 would be the class rate of return results had your proposed  
16 rates in that case been implemented.

17 JUDGE CHRISTIANSON: In my memory we did not follow  
18 the PP&L recommendation.

19 MS. MOURY: And that's what I'm kind of getting at.

20 BY MS. MOURY:

21 Q. It's at least possible -- I guess I could ask:  
22 is it at least possible that the rates that were implemented  
23 after the 1984 rate case would have produced different class  
24 results than what you proposed?

25 A. Than what was proposed.

1 Q. Right.

2 A. Yes. That is true.

3 JUDGE CHRISTIANSON: It's very likely.

4 THE WITNESS: That's correct, Your Honor.

5 BY MS. MOURY:

6 Q. Is there anything that you can provide to the  
7 Office of Small Business Advocate from the 1984 case to the  
8 1994 case that would indicate where the GS-1 class was?

9 JUDGE CHRISTIANSON: Would your compliance filing  
10 have done anything to show the status?

11 THE WITNESS: That's what I'm thinking about, Your  
12 Honor, but I can't recall off the top of my head.

13 JUDGE CHRISTIANSON: I just don't know how those  
14 animals work. They don't really do that.

15 MR. MacGREGOR: The compliance filing would not. We  
16 will look and see if we have anything. I don't think we do,  
17 but if we do -- we'll go back and check and we'll provide  
18 whatever we have.

19 JUDGE CHRISTIANSON: And try to get back yea or nay  
20 within ten days. Probably you can get the details.

21 MR. MacGREGOR: Oh, we can do it sooner than that.

22 JUDGE CHRISTIANSON: Yes. It's on a shelf there or  
23 in a computer there somewhere. But they're not sure what  
24 they can get for you.

25 MS. MOURY: All right.

1 BY MS. MOURY:

2 Q. Mr. Kleha, was there any information of this  
3 sort provided in response to discovery in the federal  
4 antitrust litigation?

5 A. I have no knowledge of that.

6 JUDGE CHRISTIANSON: One thing, counsel, you're just  
7 talking about GS-1 now? If they don't isolate GS-1, you  
8 don't want to have it? How broad is --

9 MS. MOURY: GS-1 and GS-3 would be the only classes I  
10 would be particularly interested in.

11 JUDGE CHRISTIANSON: Say if you've got any general  
12 studies, but focus on those two classes, obviously, in  
13 responding to her. And then again, probably most of the  
14 people in the room are interested.

15 MR. MacGREGOR: We'll supply the data response to all  
16 the parties, Your Honor, to the extent we have anything.

17 JUDGE CHRISTIANSON: Yes.

18 Go ahead.

19 MS. MOURY: Thank you.

20 BY MS. MOURY:

21 Q. Mr. Kleha, if you would turn to JMK-2, I  
22 believe, page 197. Now, am I correct, Mr. Kleha, that what  
23 you're computing here are allocators for certain components  
24 of customer-related costs?

25 A. That's correct.

1 Q. Am I also correct that you've applied different  
2 weightings to the different types of phase service based on  
3 cost estimates?

4 A. Based on a review of the information in our  
5 accounting systems, yes.

6 Q. Focusing on the column for the GS-1 class, would  
7 you agree that the single-phase customers tend to be smaller  
8 than the three-phase customers?

9 A. I think on a general basis that's probably true,  
10 but Mr. Kasper knows more about the customers than I do.

11 Q. Would it be fair to state that the smaller GS-1  
12 customers are responsible for a smaller dollar value of  
13 customer costs, per customer, than larger customers?

14 A. I don't know that that's necessarily true. I  
15 think the size of the customer probably doesn't really  
16 dictate how much you have to put in service to serve him.  
17 It may dictate certainly the size and maybe the cost of some  
18 of the things, but you would have the same facilities.

19 Q. But a single-phase customer would be less  
20 expensive to serve than a three-phase customer; is that  
21 correct?

22 JUDGE CHRISTIANSON: As far as what is dedicated to  
23 that customer only you're talking about?

24 MS. MOURY: Yes.

25 JUDGE CHRISTIANSON: It's intuitive that it would be,

1 but go ahead and be careful in your response.

2 THE WITNESS: Well, certainly a single-phase  
3 customer, the conductor size would certainly be smaller, so  
4 from that standpoint it would be less cost from that  
5 particular aspect, but it doesn't matter whether he's a  
6 single-phase, two-phase or three-phase customer with regard  
7 to other facilities such as billing --

8 JUDGE CHRISTIANSON: Like meters and stuff like that.

9 THE WITNESS: They're all the same.

10 JUDGE CHRISTIANSON: Go ahead.

11 BY MS. MOURY:

12 Q. Let's go to page 192 then, because I think that  
13 deals with meters. Again, focusing on GS-1, I note that  
14 most of those customers fall into meter types "A" and "D".  
15 Would you agree with that, that the greatest number of  
16 customers fall into meter types "A" and "D" in the GS-1  
17 class?

18 A. Yes, that's what that would indicate.

19 Q. And meter "A", is that the basic residential  
20 meter?

21 A. I'm not certain of that. I believe it's  
22 correct.

23 Q. Maybe this is more appropriately directed to Mr.  
24 Kasper. Would you consider the smaller GS-1 customers to be  
25 the ones with "A" meters?

1 A. I probably would, but --

2 Q. All right.

3 MR. MacGREGOR: Maybe we should defer that to Mr.  
4 Kasper, if you could, just so we don't clutter up the  
5 record.

6 JUDGE CHRISTIANSON: Matter of fact, if Mr. Kasper  
7 doesn't have the answer, the company could probably  
8 undertake to respond.

9 MR. MacGREGOR: Certainly.

10 JUDGE CHRISTIANSON: I guess as a general matter the  
11 smaller customer would probably have a lower immediate cost  
12 of service, but again, the witness is being careful. He's  
13 under oath so he wants to be careful.

14 THE WITNESS: Yes.

15 MS. MOURY: I think I'm going to defer a number of my  
16 other questions to Mr. Kasper because they're kind of  
17 follow-ups on that. I think I only have one other area for  
18 Mr. Kleha, maybe two.

19 BY MS. MOURY:

20 Q. Mr. Kleha, regarding PP&L's conversion to a  
21 minimum size classification system for distribution plant,  
22 how do you respond or how do you intend to respond to the  
23 concern that the minimum size method overstates the  
24 allocation of costs to certain classes because of its  
25 demand-carrying capabilities?

1           A. Well, let me just say that PP&L, except for its  
2 1984 rate filing, did use a minimum system study previously,  
3 so this is not a departure from, it's basically a return to,  
4 the approach that PP&L had used in the past; and that the  
5 study that was performed in the 1984 proceeding was  
6 basically an attempt to be consistent with the approach that  
7 was put forward by some other parties in the 1983  
8 proceeding.

9           Basically, the approach that was used at that point  
10 in time, which is what we called a modified zero intercept  
11 or, in our vernacular, an ER analysis, basically an analysis  
12 of our plant and property records, we looked at simply a  
13 subset of the total minimum system study at that point in  
14 time. So they have all been a minimum system study. We  
15 haven't departed.

16           Basically, my response is that while it's true there  
17 can be considered to be some load-carrying capability in the  
18 minimum system facilities, by design there has to be some  
19 load-carrying capability because you're providing facilities  
20 in place to serve a customer so that they can have  
21 instantaneous demand available to them. So you need some  
22 capability.

23           Now, one has to look at the minimum system study then  
24 in conjunction with how it is utilized in the design of  
25 rates, and it provides a guide to the rate designer as to

1 how he can apportion his cost such that he would collect  
2 some proportionate share of the identified customer costs  
3 from a minimum system study through the customer charge.

4 Q. Finally, in response to OCA discovery you've  
5 indicated that the costs for various community programs are  
6 included in the customer service account and are allocated  
7 using C-10, total customers.

8 A. That's right; customers.

9 Q. Now, could you just confirm that the \$500,000 in  
10 costs for the small business program are similarly  
11 allocated?

12 A. Yes.

13 MS. MOURY: Thank you.

14 That's all I have, Your Honor.

15 JUDGE CHRISTIANSON: Fine. Then probably at this  
16 point it's logical to take about a ten-minute break or so,  
17 and we'll be off the record.

18 (Recess.)

19 JUDGE CHRISTIANSON: We might as well go ahead and be  
20 back on the record.

21 I guess the Industrials are next.

22 MR. KLEPPINGER: Thank you, Your Honor.

23 CROSS-EXAMINATION

24 BY MR. KLEPPINGER:

25 Q. Good morning, Mr. Kleha.

1 A. Good morning, Mr. Kleppinger.

2 Q. I would like to begin on page 6 of your  
3 testimony where you list the four primary considerations for  
4 using the 12 CP method. Let's start at the second one where  
5 you indicate that PP&L's installed capacity obligation to  
6 the PJM Interconnection is a primary consideration for your  
7 use of the 12 CP; correct?

8 A. Yes.

9 Q. Now, you then discuss just sort of generally Mr.  
10 Sipics' testimony on how that obligation is defined. Would  
11 you agree with me that the result of that calculation is  
12 that PP&L has an obligation to the PJM to maintain at least  
13 a 12 percent reserve margin over its winter peak?

14 A. For minimum reliability purposes, yes.

15 Q. And by definition, based on what we've heard  
16 earlier today, if in fact PP&L has maintained or is  
17 maintaining a 12 percent reserve margin over its winter  
18 peak, it also has enough capacity to satisfy its obligation  
19 to PJM for the remaining 12 months of the year where its  
20 winter peak does not occur -- remaining 11 months. Excuse  
21 me.

22 A. I think, as Mr. Sipics testified, the 12 percent  
23 is for the annual period, so yes, that would be correct.

24 Q. A third consideration that you raise on page 7  
25 is that the 12 CP recognizes seasonal class diversity;

1 correct?

2 A. Yes.

3 Q. Now, if you know, Mr. Kleha, when PP&L is making  
4 a decision as to whether or not to construct additional  
5 generating capacity, is a primary determinant in that  
6 decision whether it has sufficient capacity to meet its  
7 winter peak or whether class diversity is being recognized?

8 A. I don't know the answer. I think Mr. Sipics is  
9 probably a better person to respond to PP&L's resource mix.

10 Q. It is your testimony that you've reflected these  
11 class diversities through utilization of the 12 CP; correct?

12 A. That's correct.

13 Q. Is that reflection based on your understanding  
14 of the operating characteristics of PP&L on how seasonal  
15 diversity is recognized, or is it more of a planning  
16 perspective of how seasonal diversity is recognized? I'm  
17 trying to distinguish between operating and planning, if you  
18 will.

19 A. I think it's probably leaning a little heavier  
20 towards the operating.

21 Q. Now, the fourth consideration that you raise is  
22 discussed at the bottom of page 7 and over to page 8, and  
23 you indicate that the 12 CP method reflects actual PP&L  
24 system operating conditions at line 2 on page 8; correct?

25 A. Yes.

1           Q.    Again, if you know, from a standpoint of making  
2 a decision of when PP&L needs additional generating  
3 capacity, is it PP&L's system operating conditions or PP&L's  
4 system planning conditions that generate the need for that  
5 new capacity?

6           A.    Again, I think Mr. Sipics is probably the better  
7 person to respond to that.

8           Q.    Based on your responses then to the third and  
9 fourth considerations that you address in your testimony, I  
10 take it that for cost allocation purposes your focus is more  
11 on the operating conditions of the utility as opposed to the  
12 planning conditions of the utility?

13          A.    Yes.

14          Q.    Next, Mr. Kleha, I would like to discuss for a  
15 moment your treatment of interruptible load in the cost  
16 study, and I will try not to be repetitive of what other  
17 attorneys have asked you today.

18                Am I correct that the level of the interruptible load  
19 that you have used in the cost study for calculating the  
20 second step of your approach is the 287 megawatts?

21          A.    Yes.

22          Q.    You were with us last week when Mr. Sipics was  
23 cross-examined, were you not?

24          A.    Yes, I was.

25          Q.    Do you recall Mr. Sipics testifying to a

1 capacity equivalent value associated with that 287  
2 megawatts?

3 A. Yes, I do.

4 Q. Do you recall that that value was defined then  
5 in terms of being 345 megawatts for planning purposes?

6 A. I recall that number, yes.

7 Q. I would like to then move to your use of a  
8 current value of new peaking capacity referenced at page 9,  
9 line 15 to 16, of your testimony. That value is what you  
10 utilized in the second step of your analysis?

11 A. That's correct.

12 Q. And that value was applied to 287 megawatts?

13 A. That's correct.

14 Q. Mr. Kleha, I would like to show you an  
15 interrogatory answer, which is OTS-RB-50. It is a response  
16 by Mr. Sipics and Slivka. I would like to call your  
17 attention to page 3 of 3 where a definition of capacity  
18 equivalent value is provided.

19 MR. KLEPPINGER: I'll show that to counsel.

20 (Document handed to Counsel MacGregor.)

21 (Pause.)

22 (Document handed to witness.)

23 THE WITNESS: Where you have the line?

24 BY MR. KLEPPINGER:

25 Q. Yes. I just bracketed the reference so that you

1 could locate it.

2 Mr. Kleha, could you please read for the record how  
3 the company is defining capacity equivalent value?

4 A. I think this is with regard to for PJM purposes,  
5 but it says, "This capacity equivalent value represents the  
6 amount of capacity PP&L does not have to install because the  
7 load can be interrupted."

8 Q. And that's the end of the quotation?

9 A. That's right.

10 Q. In your cost study are you not attempting to  
11 reflect, with the 287 megawatts, the amount of capacity that  
12 can be deferred by PP&L due to the presence of the  
13 interruptible load?

14 A. No. I think what we're trying to do here right  
15 now is apples and oranges. What Mr. Sipics apparently is  
16 discussing in that response to that interrogatory is that  
17 for PJM installed capacity accounting purposes, the amount  
18 of interruptible load that a utility suggests that it has  
19 available has some capacity equivalent value, and that is  
20 the amount of the interruptible load claimed plus the  
21 applicable reserve margin, which would be about -- you would  
22 multiply the interruptible load by 120 percent, or 1.2.

23 For purposes of cost allocation what we have  
24 suggested here is that in the future test year, in the  
25 allocation of cost, we typically under the 12 CP method look

1 at the coincident peak demand responsibility of each  
2 customer class for allocating production and transmission-  
3 related facilities; and the 287 megawatts represents the  
4 coincident peak responsibility of the interruptible  
5 customers, their total coincident peak demand as projected  
6 for the future test year, minus their firm contract demand  
7 to produce the non-coincident peak demand, which would be  
8 the 287 megawatts.

9 So I think on the one hand we're talking about  
10 installed capacity accounting on the PJM system versus the  
11 amount of capacity recognized as the coincident peak  
12 interruptible load for those interruptible load customers,  
13 or interruptible service customers.

14 Q. If the company does not need to install peaking  
15 capacity to meet the 287 megawatts of interruptible load,  
16 would it follow that the company also does not have to  
17 maintain a 20 percent reserve margin on that 287 megawatts  
18 of interruptible load?

19 A. If we were discussing simply the PJM installed  
20 accounting calculation I would say yes, but for purposes of  
21 the cost allocation, the 20 percent reserve margin is  
22 inappropriate to be utilized.

23 Q. On page 9 of your testimony, at lines 2 to 3,  
24 you are using the term "equivalent peaking capacity value,"  
25 and you have that reference in quotations. Do you see that?

1           A.    That's correct.  That was my terminology as I  
2 used it in my testimony.  I didn't see the response to that  
3 interrogatory, obviously, because it wasn't propounded when  
4 I was putting together my testimony.

5           Q.    And I take it that your definition that you have  
6 used of "equivalent peaking capacity value" in your  
7 testimony is not equivalent to the definition that you read  
8 into the record previously for "capacity equivalent value"?

9           A.    That's correct, because they're two different  
10 items.

11          Q.    And yet in your cost study when you did attempt  
12 to value the interruptible load, you valued that using a  
13 \$300 per kW of peaking capacity provided to you by Mr.  
14 Sipics; isn't that correct?

15          A.    That's correct.

16          Q.    When preparing the cost of service study on the  
17 revenue side, would I be correct that any customer class  
18 that has interruptible load would have for its revenues the  
19 actual revenues provided to the company, and included in  
20 those revenues effectively would be the credit that it  
21 receives for the interruptible service that it takes; the  
22 full amount of the current credit in the LP-5 optional  
23 interruptible tariff is reflected in the revenues that are  
24 in your cost study?

25          A.    I believe that's correct.

1 Q. I would next like to turn to the non-utility  
2 generation allocation in your cost study, and if you could  
3 for the moment refer to your Exhibit JMK-2 at line 10.

4 A. What page was that, sir?

5 Q. I'm sorry. I didn't give you the page, I don't  
6 think. Page 19, line 10.

7 Do you have that, Mr. Kleha?

8 A. I sure do.

9 Q. This is the line item which allocates the  
10 purchase of energy from non-utility generators; correct?

11 A. That's correct.

12 Q. It indicates here that it is allocated on A-1-A  
13 allocator.

14 A. That's only to the three contracts shown on that  
15 particular page, in Section 3, Part 1, of the cost  
16 allocation study. As you recall from my discussion with Ms.  
17 McCloskey this morning, there are contract percentages  
18 utilized to allocate costs to the bulk power contracts that  
19 PP&L has in place, and that's what you see there. That  
20 allocator represents the allocation of certain costs to  
21 those bulk power contracts, if appropriate, and in that case  
22 A-1-A would indicate that no costs are allocated to those  
23 particular groups because of the way the contract is  
24 structured.

25 Q. For non-utility generation costs assigned to

1 your retail customers --

2 A. Okay. You would have to go to Part 3, and we  
3 would be looking at page 67. As you can see on line 10,  
4 that's a slightly lower number than was shown on page 19  
5 because a portion of those costs is assigned to PP&L's FERC  
6 jurisdictional requirements customers, the municipalities,  
7 Citizens Electric, UGI Electric.

8 Q. What allocator is used in your cost study to  
9 allocate the \$219,813,000 of non-utility generation costs to  
10 your customer class?

11 A. EG-10, which is an energy allocator.

12 Q. Does \$219,813,000 reflect the total amount of  
13 non-utility generation purchased power costs allocated to  
14 your retail customers?

15 A. It's the total amount of costs but it doesn't --  
16 line 10 on page 67 and 68 does not represent the total  
17 picture of how it is allocated to all the customer groups.  
18 Line 10 on page 67 and 68 is simply the amount of non-  
19 utility generation costs that PP&L has or will incur for the  
20 future test year ended September of '95.

21 As you know, we make payments to non-utility  
22 generators on an energy-only basis. That's why the costs  
23 are shown here as allocated on a pure energy approach.  
24 However, in Exhibit Future 1 --

25 THE WITNESS: Do you have that, Your Honor, Future 1?

1 JUDGE CHRISTIANSON: Go ahead. I didn't bring it  
2 with me.

3 THE WITNESS: Future 1, Schedule D-3, page --

4 BY MR. KLEPPINGER:

5 Q. Nine.

6 A. Nine. Thank you. That shows that consistent  
7 with the settlement agreement that was reached between PP&L  
8 and a number of parties in complaints filed against several  
9 of PP&L's ECR energy cost rate filings, that PP&L has  
10 identified or has placed in its tariff a provision to create  
11 a proxy for a demand component of its non-utility generation  
12 costs and allocate that proxy amount on a demand basis.

13 So basically what happens is that in terms of the  
14 rate proposal before the Commission today, PP&L has proposed  
15 to roll into its base cost of energy all of its energy-  
16 related costs; however, in the spirit of the settlement  
17 agreement that was accepted by the Commission in 1994, the  
18 company has proposed to continue creating the demand proxy  
19 portion of the non-utility generator payments and to assign  
20 that to the four customer groupings shown on Schedule D-3,  
21 page 9, residential, general service, LP-4 and LP-5, on a  
22 demand basis consistent with that settlement.

23 Q. To try to interpolate that last answer, are you  
24 telling us that you first rolled into the cost study all  
25 non-utility generation costs incurred by retail customers on

1 an energy basis?

2 A. That's correct.

3 Q. Then you rolled out, if you will, the demand  
4 component associated with those non-utility generation  
5 purchases that were previously defined in the settlement  
6 reached on the ECR complaint cases?

7 A. That's correct. The approach that has been  
8 utilized in the cost allocation study and in preparation of  
9 Schedule D-3 in this case is consistent with the same  
10 application of charging to the various customers that the  
11 ECR itself would produce.

12 Q. I guess the question, Mr. Kleha, is whether or  
13 not you have rolled in costs into the cost study on the non-  
14 utility generation on an energy basis and rolled out  
15 revenues, if you will, on a split energy and demand basis?

16 A. That's correct. So that the result would look  
17 exactly the same as if all the dollars had remained in the  
18 ECR calculation.

19 Q. Is the company then also committing to  
20 continuing the utilization of the demand/energy split of  
21 non-utility generation purchases in subsequent ECR filings  
22 to this base rate case?

23 A. Yes. Consistent with that settlement agreement  
24 we discussed.

25 Q. When you looked at the class revenues that are

1 included in the cost study on the non-utility generation  
2 issue, did you include for cost study purposes the revenues  
3 that are shown on Exhibit D-3 for each of the four customer  
4 groups?

5 A. Yes, sir.

6 Q. So that the revenues that are in the cost study  
7 that were rolled in from the ECR calculation are revenues  
8 which were generated utilizing the demand/energy split of  
9 the non-utility generation?

10 A. For that proxy amount of non-utility generation,  
11 yes.

12 Q. If the revenues were rolled in with that  
13 demand/energy allocation but the costs were rolled in on a  
14 100 percent energy basis, aren't the revenues for a class  
15 like LP-5 lower in the cost study than if the revenues had  
16 been rolled in on a 100 percent energy basis?

17 A. No, and if I misled you, I'm sorry. The  
18 revenues that are shown in the cost study reflect the  
19 revenues from each particular customer class, and the  
20 revenue structure shown on Schedule D-3, page 9, which shows  
21 the allocation on a demand basis of a component of the non-  
22 utility generation costs, those revenues are what are  
23 included for each customer group, but they are in -- that  
24 portion of the dollars would be included in the ECR  
25 component of the company's schedule of revenues.

1 Q. So if we go back to an item that we discussed  
2 last week on page 83 of your cost study, line 4 -- again,  
3 we're in JMK-2, page 83.

4 A. That's correct.

5 Q. You're telling me that that line represents  
6 revenues on a customer class basis that reflect the  
7 demand/energy split of non-utility generation purchases?

8 A. We're talking about line 4?

9 Q. Yes.

10 A. That's correct, because as you recall from the  
11 settlement agreement, and as shown on Schedule D-3, page 9,  
12 that the sum of that split to all the customer groups is a  
13 net of zero, but there are varying effects for the four  
14 customer groups, and as shown in Schedule D-3, I think page  
15 4 indicates that there were created various ECR rates for  
16 the four customer groups coming out of the settlement.

17 Q. I'll go back to a question I think I asked  
18 before and now I'm more confused on. If the revenues from  
19 the ECR that are reflected on page 83 and 84 of the cost  
20 study reflect the demand/energy split on how those costs  
21 were collected from customers, and if page 67 includes the  
22 costs associated with those on an energy basis, aren't  
23 certain classes like LP-5 showing a demand/energy-based  
24 revenue assignment but an energy-based cost assignment with  
25 respect to non-utility generation purchases?

1           A.    No, I don't believe so, because there are two  
2 roll-ins that took place. Not only is there the roll-in of  
3 cost but there is the roll-in of the revenue associated with  
4 that cost, and so the dollars rolled in from a cost  
5 standpoint were done on an energy basis, and the revenues  
6 associated with those costs were done on an energy basis.  
7 Then what Schedule D-3, page 9, simply does is back out the  
8 dollars assigned on an energy basis, back them out and  
9 reassign them on a demand basis. So I think the roll-ins  
10 are consistent; both the revenues and the expenses were done  
11 on an energy basis, and then under the sponsorship of the  
12 settlement agreement there was the roll-out of the proxy  
13 portion of the NUG output payments and then the reassignment  
14 of those dollars on a demand basis.

15                   Does that make it clearer?

16           Q.    Is there a line item in the cost of service  
17 study that shows where that reassignment on a demand basis  
18 occurs?

19           A.    I think it's shown in Schedule D-3 of Exhibit  
20 Future 1, which creates the base rate or the rate revenue  
21 level with the roll-in of the energy component, and that  
22 then is translated as the rate revenue figure on line 3 of  
23 page 83 of JMK-2.

24           JUDGE CHRISTIANSON: This all occurs because you keep  
25 your ECR on energy.

1 THE WITNESS: That's correct.

2 JUDGE CHRISTIANSON: Trying to fix the books, sort  
3 of.

4 THE WITNESS: Basically, what happens, Your Honor, is  
5 that PP&L pays for its non-utility generation on an energy-  
6 only basis, and for purposes --

7 JUDGE CHRISTIANSON: You're not acknowledging that it  
8 has some capacity value.

9 THE WITNESS: No, we didn't acknowledge that, Your  
10 Honor. We pay energy-only avoided-cost payments and those  
11 energy-only avoided-cost payments are recovered through  
12 PP&L's ECR on a kWh basis.

13 In a global settlement that took place at -- let me  
14 see if I can find the docket number.

15 JUDGE CHRISTIANSON: I'm vaguely aware of it.

16 THE WITNESS: -- at a docket number in '94, PP&L  
17 agreed as part of the settlement to create a demand  
18 component by a proxy method. It takes the number of  
19 megawatts of capacity for non-utility generators that it has  
20 claimed on the PJM Interconnection and multiplies it by the  
21 PJM installed capacity deficiency rate to create a proxy  
22 demand component. So in terms of the calculation of the  
23 revenues in this proceeding, PP&L first took the dollars  
24 associated with the non-utility generation costs, rolled in  
25 the dollars on a cost basis, on an energy basis, rolled in

1 the revenues on an energy basis, then to be consistent with  
2 the settlement agreement, backed out a portion of the  
3 revenues and reassigned them on this demand basis. So the  
4 reassignment of them doesn't change the amount of revenues  
5 that PP&L is going to derive, it just changes the way in  
6 which the four customer groups are going to pay those  
7 revenues for that particular piece.

8 JUDGE CHRISTIANSON: And it made Mr. Kleppinger and  
9 his clients a little bit happier.

10 THE WITNESS: I hope so.

11 MR. KLEPPINGER: A little bit.

12 (Laughter.)

13 JUDGE CHRISTIANSON: Not totally overwhelmed.

14 MR. KLEPPINGER: Not enough to satisfy, as you'll  
15 find out.

16 BY MR. KLEPPINGER:

17 Q. So, Mr. Kleha -- I hope this is the last  
18 question on this subject -- looking at your cost study on  
19 page 83 again of JMK-2, what you've told us is that in line  
20 3 on rate revenue present level, for the customer classes  
21 that are listed across that line, those revenues reflect  
22 actual revenues from those classes including a demand/energy  
23 split of non-utility generation payments?

24 A. Are you suggesting simply for the rate revenue  
25 line?

1 Q. Yes.

2 A. Well, as I indicated before, the demand split of  
3 that NUG output payment demand proxy is done on line 4 in  
4 the energy revenue.

5 Q. Okay.

6 A. Perhaps a better way to say it is that line 7,  
7 which is the total revenues from all of the customer groups,  
8 reflects that allocation.

9 Q. Next I would like to turn to the treatment of  
10 Economic Development Initiatives and Industrial Development  
11 Initiatives in the cost study.

12 A. Yes.

13 Q. Am I correct that the manner in which you've  
14 handled these credits in the cost of service study is to  
15 reduce the revenues essentially received by PP&L from the  
16 classes in which customers who are utilizing EDI and IDI  
17 credits reside?

18 A. The revenues reflect the current billing  
19 conditions to those customers, yes.

20 Q. So if we would characterize those credits as  
21 being a cost, if you will, to the company, would I be  
22 correct that that cost is essentially being directly  
23 assigned to the classes who are incurring that cost for the  
24 company?

25 A. I think that's a fair characterization.

1 Q. Now, when PP&L originally proposed the EDI and  
2 IDI credits, do you recall as to whether or not those  
3 credits were intended to benefit all PP&L ratepayers through  
4 the retention of existing industrial customers and the  
5 expansion of new and existing customers?

6 A. I think that was one rationale for it, yes.

7 MR. KLEPPINGER: Rather than think, we might as well  
8 confirm.

9 Your Honor, I would like to have marked for  
10 identification purposes PP&L Industrial Customer Alliance  
11 Cross-Examination Exhibit No. 5, the company's filing in  
12 June 1 of 1992 regarding Economic Development Initiatives -  
13 Phase IV. And I can give you the docket number.  
14 R-00922363.

15 JUDGE CHRISTIANSON: So identified.

16 (Whereupon, the document was marked  
17 as PPLICA Cross-Examination Exhibit  
18 No. 5 for identification.)

19 MR. MacGREGOR: Your Honor, if the purpose of this  
20 exhibit is to simply show that one of the purposes of the  
21 program was to benefit all of our customers, I think that is  
22 stated in Mr. Kasper's testimony and in Mr. Farber's  
23 testimony, and I don't think there's any dispute. If  
24 there's other reasons to put it in, that's fine, but I don't  
25 want to needlessly burden the record.

1 MR. KLEPPINGER: There are other reasons certainly  
2 with Mr. Kasper. I'm doing it now because of its  
3 relationship to the cost study.

4 MR. MacGREGOR: Fine.

5 JUDGE CHRISTIANSON: We'll identify it as No. 5.  
6 That's your next number.

7 BY MR. KLEPPINGER:

8 Q. Mr. Kleha, you recognize this document, do you  
9 not, as PP&L's filing for Phase IV of the EDI program?

10 A. Yes, I do.

11 Q. If you could turn to page 4 of that document, is  
12 it safe to say that among the considerations listed at this  
13 portion of PPLICA Exhibit No. 5 are identification of  
14 benefits to existing ratepayers by the program?

15 A. I think that's correct.

16 Q. For a customer class that has one customer in  
17 it, if we assume that that customer is obtaining EDI and IDI  
18 credits for the time being, the way you've chosen to treat  
19 those credits in the cost study would cause that one  
20 customer class to have lower revenues than they would have  
21 otherwise had absent the EDI and IDI credits; correct?

22 A. That's correct.

23 Q. And that would have an effect, would it not, on  
24 depressing that customer class's rate of return below where  
25 it would be if the credits were not reflected?

1           A.     Assuming those credits did not exist; that's  
2 true.

3           Q.     So that if rates were then set for that customer  
4 class on a cost of service basis in your cost study, that  
5 one customer class would essentially be paying back the  
6 costs associated with the EDI and IDI credits, would they  
7 not?

8           A.     I don't know that you could say they were paying  
9 back the costs, but certainly their revenue requirement --

10          Q.     Going forward; excuse me.

11          A.     -- going forward would reflect.

12          Q.     The rate schedule LP-5 has more than one  
13 customer in it; correct?

14          A.     It does.

15          Q.     And certain LP-5 customers do obtain EDI and IDI  
16 credits; correct?

17          A.     I believe that's correct; yes.

18          Q.     And along the lines of my prior questions with  
19 respect to a one-customer class, with respect to LP-5, if  
20 rates in this case were set consistent with the cost of  
21 service study, would not all customers within the LP-5 class  
22 be paying for, in essence, a portion of the EDI and IDI  
23 credits received by the LP-5 customers that are getting the  
24 credits?

25          A.     I don't think I could agree that all customers

1 would be paying for it. Certainly the revenue requirements  
2 would show the effect of those EDI credits, but as you know,  
3 the usage patterns of each customer determine what they pay.

4 Q. But from a revenue requirement standpoint, the  
5 revenue requirement for that class, if this Commission said  
6 you must meet that revenue requirement from LP-5, whatever  
7 the value of the EDI and IDI credits is, those credits would  
8 be embedded in that revenue requirement and being absorbed  
9 by LP-5 customers in some way?

10 A. That's correct.

11 Q. And no other customers outside of the LP-5 class  
12 would be bearing any costs associated with those EDI and IDI  
13 credits; is that correct?

14 A. That's correct.

15 Q. Do you have an opinion as to whether or not the  
16 presence of the EDI and IDI credits have benefited other  
17 customers on PP&L's system outside of the LP-5 class?

18 A. I guess I have an opinion. I'm not sure that it  
19 is shared by everyone.

20 Q. Well, Mr. Farber expresses an opinion on that  
21 subject, does he not?

22 A. He does.

23 Q. Doesn't he indicate that it was beneficial to  
24 have the EDI and IDI programs for all customers?

25 A. Yes, he does state that.

1           Q.    The benefits -- and assume for the moment that  
2 those benefits exist consistent with Mr. Farber's testimony.  
3 In order to obtain those benefits, am I correct that  
4 customers who are not getting EDI and IDI credits are paying  
5 no costs associated with obtaining that benefit pursuant to  
6 the way you've handled the EDI and IDI credits in the cost  
7 of service study?

8           A.    Outside of the class that those credits fall  
9 into, yes.

10          Q.    I believe you were asked by Ms. Moury earlier as  
11 to how the costs of social programs are being allocated in  
12 the cost study, and you indicated that was on a customer  
13 class basis, based on the number of customers?

14          A.    That's correct.

15          Q.    So that with respect to those types of programs,  
16 all customer classes are bearing some portion of those costs  
17 on a customer allocator basis?

18          A.    It's proposed that way, yes.

19          Q.    Is that also the case of uncollectible accounts  
20 expense?

21          A.    Bear with me a minute till I look at that.

22          Q.    Or is that a direct assignment?

23          A.    I think it's probably a direct assignment. Let  
24 me check on that, please.

25               (Pause.)

1 A. I think that's basically a direct assignment.

2 Q. Could you verify if that's correct at a break,  
3 and if it's different, please get back to me?

4 A. Yes.

5 Q. With respect to customer assistance programs and  
6 the social programs that are requested in this case, those  
7 are on a customer allocator?

8 A. That's correct.

9 Q. If we could once again go back to page 83 of  
10 your cost study -- and this will be somewhat of a follow-up  
11 to our discussion last week, which sort of got into the cost  
12 study more at that time than I think Judge Turner wanted to  
13 do, but let's try it again.

14 We were discussing the treatment of off-system sales,  
15 namely output reservations, transmission entitlements and  
16 capacity credits in the cost study. Do you recall our  
17 discussion?

18 A. I do.

19 Q. I believe we concluded that in the event the  
20 company's proposal with respect to the JCP&L contract is  
21 rejected by the Commission, that the company would reflect  
22 in the cost of service study 100 percent of the revenues it  
23 receives from output reservations, transmission entitlements  
24 and capacity credits; correct?

25 A. That's correct.

1 Q. I also think that we agreed that in order to do  
2 that, the company would have to adjust line 4 on page 83 of  
3 your cost study and eliminate that revenue credit that we  
4 see there of \$21,487,000; correct?

5 A. That's correct. That first column listed as  
6 total Pennsylvania jurisdictional would go to zero.  
7 However, as we discussed probably about 20 minutes ago, you  
8 would still see varying effects to the different customer  
9 groups because of the demand allocation of the proxy portion  
10 of the NUG output payments.

11 Q. Now, if we could flip back to page 10 of your  
12 cost study, again JMK-2, at line 43 there's a return  
13 component of \$510,275,000; correct?

14 A. That's correct.

15 Q. And that is the return that PP&L needs in this  
16 case in order to generate the rate of return shown on line 5  
17 of 10.17 percent; correct?

18 A. That's correct.

19 Q. Now, in order to get that level of return, am I  
20 also correct that the company has to obtain operating  
21 revenues on line 12 of \$2,663,890,000?

22 A. Yes.

23 Q. Now, I believe you had Exhibit Future 1 out  
24 previously, and if you could turn back to that at page  
25 D-1 -- do you have that?

1 A. Yes, I have it.

2 Q. Line 1, column 6, we see that \$2.6 billion  
3 operating revenue number; correct?

4 A. That's correct.

5 Q. And at line 13 we see the \$510,275,000 return  
6 number; correct?

7 A. That's correct.

8 Q. Now, if that \$2.6 billion number on line 1  
9 changes, operating income changes and rate of return  
10 changes, does it not?

11 A. As well as taxes, yes.

12 Q. If we assume that the company's Jersey Central  
13 Power & Light contract proposal is rejected, we had agreed  
14 that -- back on page 8 of your cost study now, line 4 --  
15 \$21,487,000 would be eliminated?

16 A. That's correct.

17 Q. If we eliminate that line 4, am I correct that  
18 line 12, total operating revenues, would then increase by  
19 that same amount of \$21,487,000?

20 A. Yes.

21 Q. So going back over to Exhibit D-1, the line 1  
22 operating revenues under column 4, pro forma at present  
23 rates, would also have to change from the two billion four  
24 hundred some odd thousand dollars to \$2,423,000,000;  
25 correct?

1 A. That's correct.

2 Q. If that occurs, then isn't the rate increase  
3 column on column 5 of Exhibit D-1 \$21 million less than what  
4 is reflected on Exhibit D-1 in order to meet the \$2.6  
5 billion requirement for this case?

6 A. Yes.

7 Q. So does it follow then that at the compliance  
8 phase of this case, assuming PP&L got all the revenue that  
9 it asked for, and assuming that the JCP&L contract proposal  
10 is rejected, the base rate increase in this case is really  
11 only \$240 million and not \$260 million?

12 A. Subject to check, yes, I agree with that.

13 Q. With respect to the JCP&L contract proposal --  
14 and this is on the allocation of those costs, so it is I  
15 think consistent with your cost of service appearance  
16 today -- you discuss that at pages 22 and 23 of your  
17 testimony.

18 A. What page was that?

19 Q. Generally page 22 and 23 of your direct  
20 testimony.

21 In terms of allocating Jersey Central's coming back  
22 into rates, is that allocated under your proposal on the  
23 same demand component that is utilized to allocate non-  
24 utility generation?

25 A. Yes.

1 Q. If that was allocated on the same basis that the  
2 company allocates production plant in its cost of service  
3 study, would the demand allocator be different for each  
4 customer class?

5 A. Well, if you're using only one allocator as  
6 opposed to all the allocators across the entire cost  
7 structure, surely it would be different.

8 Q. So that there will be a class difference in  
9 terms of the amount of costs that a class absorbs under the  
10 Jersey Central contract based on whether that contract is  
11 handled in the ECR, as you have proposed, or in a base rate  
12 case were you to come in for base rate relief for each of  
13 those 189 megawatts?

14 A. I think there is some slight difference.

15 Q. I believe you provided an interrogatory answer  
16 at OCA Set V, No. 64. Would you turn to that at this point?

17 (Witness perusing documents.)

18 A. Yes.

19 Q. Would you agree with me subject to check that on  
20 Attachment 1 of this interrogatory the class LP-5 would  
21 absorb approximately 15 percent of the total JCP&L revenue  
22 requirement of \$177,600,000? That's lawyer's math again.

23 A. Approximately 15 percent; that's correct.

24 Q. In the cost of service study, would I be correct  
25 that the generation level demand allocator would be utilized

1 to allocate the Jersey Central capacity if a base rate case  
2 was being filed?

3 A. Only the capacity. There are operating expenses  
4 associated with that. There are other facilities also.

5 Q. I understand.

6 In the cost of service study, would you agree with me  
7 subject to check that the generation level demand allocator  
8 for the LP-5 class is approximately 14 percent?

9 A. Subject to check, yes.

10 MR. KLEPPINGER: Thank you, Mr. Kleha. I think I've  
11 used my half-an-hour.

12 THE WITNESS: You're welcome.

13 JUDGE CHRISTIANSON: We won't comment on the time.

14 We might as well go to lunch after this. Let's be  
15 off the record briefly.

16 (Discussion off the record.)

17 JUDGE CHRISTIANSON: Let's go ahead and be back on  
18 the record.

19 I'm assuming there's no objection to Exhibit No. 5?

20 MR. MacGREGOR: That's correct.

21 JUDGE CHRISTIANSON: And it's accepted into the  
22 record.

23 (Whereupon, the document marked as  
24 PPLICA Cross-Examination Exhibit No.  
25 5 was received in evidence.)

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JUDGE CHRISTIANSON: Then we'll break for lunch.

(Witness temporarily excused.)

(Whereupon, at 12:45 p.m., the hearing was adjourned,  
to be reconvened at 1:45 p.m., this same day.)

AFTERNOON SESSION

(2:00 p.m.)

JUDGE CHRISTIANSON: We can be back on the record.

I gather there is some redirect for the witness.

MR. MacGREGOR: Just a few questions, Your Honor.

JUDGE CHRISTIANSON: Proceed.

Whereupon,

JOSEPH M. KLEHA

having previously been duly sworn, testified further as follows:

REDIRECT EXAMINATION

BY MR. MacGREGOR:

Q. Mr. Kleha, you were asked during cross-examination what was the most recent date in which the company employed the 12 CP allocation method in a cost of service study. Do you have further information for the record on that point?

A. Yes, I do. I submitted a cost allocation study using a 12 CP method in 1994 to the FERC for some changed rates at that jurisdiction.

Q. You were also asked some questions regarding the extent to which the company recognizes customer diversity in the allocation of secondary distribution costs.

How are those costs allocated in the company's cost of service study?

1           A.    The costs of the secondary facilities are  
2 allocated on the basis of class max non-coincident peaks,  
3 which by their very nature recognize diversity of the  
4 various customer groups.

5           Q.    And your answer refers to the demand component  
6 of those secondary distribution costs?

7           A.    That's correct.

8           Q.    You were also asked questions regarding the  
9 class rates of return for Rate RTS, and specifically the  
10 fact that those class returns show a negative return under  
11 present and proposed rates.

12            Could you explain for the record, to the extent you  
13 can, why under this particular cost of service study that  
14 rate class is showing a negative rate of return?

15           A.    Yes, I can.  Basically, for the class cost  
16 allocation study for the 12 months ended September, 1995, we  
17 have based our demand allocators on the 12 CP method on the  
18 basis of the projections for the test year.

19            And those projections reflect the fact that in  
20 certain months of the year, we are seeing an evening peak  
21 occur with regard to customer contribution to the system  
22 average peak.

23            And those basically are occurring due in fact to what  
24 I would consider a change in lifestyle.  We have customers  
25 who are now using more of their energy in the evening period

1 than they did in the past.

2 Q. And as a result of that, am I correct that at  
3 least in certain months, the company has Rate RTS customers  
4 who may be using substantial amounts of energy at the time  
5 of the monthly peaks?

6 A. That's correct at the present time. However,  
7 Rate RTS was created as I understand it as a load management  
8 device, and the company is pursuing the effort to put load  
9 control devices on those RTS systems such that it, from a  
10 load management standpoint, would take them in the future  
11 off of the peak period.

12 Q. Just so the record is clear, Rate RTS right now  
13 is on a time clock control system?

14 A. That's correct.

15 Q. And the company is going to adopt new control,  
16 direct control methodologies that will allow the company to  
17 manage the load of the RTS class in such a way as to move it  
18 off of the monthly system peaks?

19 A. That's correct.

20 Q. If that were to take place, what effect would  
21 there be in your view upon the class rate of return for Rate  
22 RTS?

23 A. If those direct load control devices are placed  
24 on those systems, it's my expectation that the rate of  
25 return under both a present and proposed condition for

1 Rate RTS would be substantially towards the positive side  
2 and would most likely be close to system average.

3 Q. You were also asked some questions by Mr.  
4 Kleppinger regarding the 287 megawatts of interruptible load  
5 as compared to the 345 megawatt number that appeared in Mr.  
6 Sipics' exhibit, the difference as I understand it being the  
7 reserve margin that PJM permits the company to take into  
8 account in carrying interruptible load on its system.

9 Just so the record is clear, for purposes of your  
10 cost of service study, is the way in which you treated  
11 interruptible load consistent or inconsistent with the  
12 method you used for all the other rate classes?

13 A. It's absolutely consistent for all rate classes.

14 Q. Meaning as I understand it, in each instance you  
15 look at each class's contribution to the system peak without  
16 regard to reserve margin in allocating cost?

17 A. That's correct. Reserve margins play no part in  
18 the allocation of costs on a class basis.

19 Q. You were also asked some questions by Mr.  
20 Kleppinger which I think you accepted subject to check  
21 regarding a potential impact on the company's requested rate  
22 increase in this proceeding if its Jersey Central Power &  
23 Light proposal were rejected, and I believe you indicated  
24 that, all else equal, that the amount of the company's  
25 increase would fall from approximately \$260 million to

1 approximately \$240 million.

2 Do you recall those questions?

3 A. Yes, I do.

4 Q. If that were to occur, would there be an  
5 offsetting \$20 million in the company's energy cost rate?

6 A. Yes. As the proposal is structured right now,  
7 the company has requested that the Commission allow it to  
8 recover through its ECR in the future the non-energy revenue  
9 requirements associated with some expiring contracts, bulk  
10 power contracts, the first of which is the Jersey Central  
11 Power & Light agreement.

12 In recognition of that request, the company has  
13 proposed to flow through its ECR 100 percent of the  
14 off-system capacity related revenues associated with  
15 installed capacity credit sales, output reservation sales  
16 and transmission entitlement sales.

17 So basically, what the company has proposed is that  
18 the base rates would be increased by approximately \$261  
19 million in this case but that the customers would receive an  
20 approximately \$21.5 million dollar decrease in its ECR.

21 If the company's proposal with regard to the expiring  
22 bulk power contracts is rejected by the Commission, the  
23 company would no longer seek to flow through the ECR those  
24 off-system capacity related revenues, and therefore the  
25 amount of revenue in the base rate portion of the case would

1 be \$21.5 million different than what it is today, and the  
2 ECR, the proposed ECR in this case would be increased by  
3 that corresponding \$21.5 million dollars.

4 Q. So in terms of the overall rate effect on  
5 customers, looking at both the base rate side and the ECR  
6 side, it would essentially be a wash?

7 A. That's correct.

8 MR. MacGREGOR: That's all I have, Your Honor.

9 JUDGE CHRISTIANSON: We can pause, if you need some  
10 follow-up on that. Anybody volunteering? Mr. Kleppinger?

11 RE CROSS-EXAMINATION

12 BY MR. KLEPPINGER:

13 Q. Mr. Kleha, under current rates, the \$21 million  
14 we're talking about with respect to these off-system sales  
15 is not being flowed through the ECR other than the 33  
16 percent piece of capacity credit sales, correct?

17 A. As we sit here, the rates that are in place  
18 today do not flow those dollars through the ECR, that's  
19 correct, except for the one-third portion that you just  
20 spoke about.

21 Q. Now, it's the company's proposal that 100  
22 percent of those be flowed through the ECR if the JCP&L  
23 proposal is approved?

24 A. That's correct.

25 Q. I'm still confused by your conclusion that this

1 is a wash, because I thought we had agreed that on Exhibit  
2 D-1, Column 6, line 1, the \$2.6 billion in total revenues in  
3 this case cannot change without changing the operating  
4 income and the rate of return requested in this case of  
5 10.17 percent; is that correct?

6 A. That would not change. You have a corresponding  
7 change to both Column 4 and Column 6. If the company's  
8 proposal is rejected by the Commission under your  
9 hypothetical, then Column 4 and Column 6, the revenues would  
10 increase by an equal amount in each column.

11 Q. Now, if that in fact is true, Column 5, which  
12 lists the \$261 million rate increase, stays constant,  
13 correct?

14 A. Right.

15 Q. But Column 6 has now grown by 21 and some-odd  
16 million dollars?

17 A. Yes.

18 Q. Well, then, under a rejection of the company's  
19 JCP&L proposal, are you testifying that the company is  
20 asking for a rate increase which produces a return in excess  
21 of 10.17 percent?

22 A. No. Under your hypothetical scenario, if the  
23 company had an additional \$21.5 million, then the revenue or  
24 the return produced by that increased level of revenues  
25 would be higher than the 10.17 that the company has

1 requested in this case. The company is still requesting  
2 10.17.

3 Q. Well, then, if your proposal on JCP&L is  
4 rejected and if you want to maintain that this case is only  
5 seeking a return of 10.17, doesn't either Column 5 on D-1,  
6 line 1 get reduced by \$20 million, namely the rate increase,  
7 or Column 6 remains constant?

8 A. Column 6 would have to remain constant if you  
9 wanted to continue a 10.17 percent overall return. However,  
10 that assumes that the company has an additional  
11 \$21.5 million in its base rates.

12 The company's proposal is not to include that  
13 \$21.5 million in its base rates, but to flow through it back  
14 to customers automatically through the ECR.

15 Q. And I am still trying to analyze the effect of  
16 the rejection of your JCP&L proposal, so let's divorce  
17 ourselves from the idea of what the company's proposal is,  
18 because all of my questions are relating to a rejection of  
19 that proposal.

20 Now, a rejection of that proposal, under the way we  
21 currently receive off-system sales credits in the ECR, would  
22 only be a difference on this 33 percent of capacity credit  
23 sales pursuant to the settlement of those ECR complaint  
24 cases. That's the only change to our current ECR that would  
25 occur when you take all of the capacity credit sales, output

1 reservations and transmission entitlements and put them in  
2 base rates; isn't that correct?

3 A. No, that's not correct, because right now it's  
4 only one-third of the revenues associated with the installed  
5 capacity credit sales.

6 The company is now proposing to flow through 100  
7 percent of those installed capacity credit sales revenues  
8 plus 100 percent of the output reservation sale revenues,  
9 and 100 percent of the transmission entitlement sale  
10 revenues.

11 JUDGE CHRISTIANSON: And that won't happen if the  
12 deal doesn't go through?

13 THE WITNESS: That's correct. Basically, you have  
14 two separate packages here, Your Honor. On the one hand,  
15 the company has proposed a \$261 million base rate increase,  
16 and at the same time said it will give a decrease of  
17 \$21 million to the ECR. The net of those two is  
18 approximately \$240 million.

19 If the Commission, as Mr. Kleppinger states, rejects  
20 the company's proposal, the company still will be getting an  
21 increase from customers of \$240 million. It will just be  
22 zero in the ECR and \$240 million in base rates.

23 JUDGE CHRISTIANSON: That's enough for me. I'm sure  
24 Kleppinger will go forward if he needs to.

25

1 BY MR. KLEPPINGER:

2 Q. So far, I agree with you, except for your answer  
3 to Mr. MacGregor that said there's an off-setting  
4 \$20 million increase in the ECR.

5 How can that occur if in today's current ECR being  
6 paid, we're not seeing the benefit of 100 percent of those  
7 off-system sales?

8 A. My discussion concerned the rate filing here.  
9 We're talking about the confines of the future test year --

10 Q. As you have proposed it?

11 A. As we have proposed it.

12 Q. And I keep trying to get back to saying, your  
13 proposal is rejected.

14 MR. MacGREGOR: Can we go off the record for a  
15 minute?

16 JUDGE CHRISTIANSON: Yes, let's go off the record  
17 briefly.

18 (Discussion off the record.)

19 JUDGE CHRISTIANSON: Back on the record.

20 There has been a discussion off-the-record, and maybe  
21 Mr. Kleppinger can state what he wants to, or Mr. MacGregor.  
22 Somebody can give the agreement you had.

23 MR. KLEPPINGER: My understanding, Your Honor, is  
24 that the questions we have been asking to Mr. Kleha, I have  
25 been trying to identify, what is the effect on the base rate

1 increase in this case if the JCP&L proposal that the company  
2 has made is rejected.

3 If I understand Mr. MacGregor's comments off the  
4 record, the base rate increase in this case under the event  
5 that the JCP&L proposal is rejected is a 240-odd million  
6 dollar base rate increase.

7 JUDGE CHRISTIANSON: That much they can agree to, I  
8 think.

9 MR. KLEPPINGER: And that comparing that to today's  
10 ECR that is currently in effect --

11 JUDGE CHRISTIANSON: That's when you get in deep  
12 water.

13 MR. KLEPPINGER: -- there would not be a \$20 million  
14 increase to today's ECR.

15 MR. MacGREGOR: Completely apples and oranges.  
16 Actually, there would be a \$20 million difference, if you  
17 compared them at the same point in time.

18 You're looking at two completely different time  
19 frames. At the end of this case, the \$20 million is either  
20 going to be in base rates or it's going to be in the ECR,  
21 100 percent. The one-third/two-thirds is over.

22 MR. KLEPPINGER: The problem, Mr. MacGregor, is that  
23 associated with this \$20 million in revenue, there is not an  
24 off-setting cost element in the cost of service study or in  
25 the ECR.

1           This isn't a dollar-for-dollar exchange between fuel  
2 costs and fuel revenues. This is a found \$20 million with  
3 no costs underlying it.

4           MR. MacGREGOR: And we're either going to return it  
5 to customers 100 percent through base rates if we lose the  
6 JCP&L, or 100 percent through the ECR if we win the JCP&L  
7 adjustment. I don't really understand what the  
8 complications are.

9           JUDGE CHRISTIANSON: And you're worrying about how it  
10 will be returned by customer class?

11          MR. KLEPPINGER: I'm just concerned with the  
12 conclusion of this case where the JCP&L proposal is rejected  
13 and the customers of PP&L see anything more than a  
14 \$240 million increase in their base rates and their total  
15 rates over what they are today.

16          JUDGE CHRISTIANSON: I don't think there will be an  
17 increase in total rates. There will be a lack of a  
18 decrease, as I understand it.

19          MR. MacGREGOR: The current rates have this  
20 one-third/two-thirds split in them subject to the prior  
21 settlement, and at the end of this case, that's going to be  
22 abandoned.

23                 And it's either all going to be in the ECR or it's  
24 all going to be in base rates, so the net effect at the end  
25 of this case, if everything is approved, is going to be a

1 \$240 million change in rates.

2 And it's either going to be a \$261 million increase  
3 in base rates and a \$20 million credit in the ECR, or a  
4 \$240 base rate increase and no credit in the ECR.

5 Those are the two alternative conditions that will  
6 exist at the end of this case, with the variable being  
7 whether or not the company's JCP&L proposal is accepted or  
8 rejected.

9 I really can't explain it any further than that. If  
10 you have further questions, you can go ahead.

11 MR. KLEPPINGER: Well, I think that's correct,  
12 because under either scenario you laid out, the net effect  
13 on customers is \$240 million. And I think he said that  
14 already.

15 JUDGE CHRISTIANSON: The witness is indicating  
16 agreement with that; is that correct?

17 THE WITNESS: That's right. Under PP&L's proposal  
18 right now, you have \$261 million in the base rate as a  
19 charge, and a credit of \$21 million in the ECR, under our  
20 proposal. That's a net of \$240 million.

21 JUDGE CHRISTIANSON: And that net will stay, will be  
22 in existence if you get your whole increase?

23 THE WITNESS: That's correct, if we get our whole  
24 increase.

25 JUDGE CHRISTIANSON: I think we're in sufficient

1 agreement at the moment. We can always worry about it  
2 later, even as late as briefs if we have to.

3 Any other recross for the witness?

4 (No response.)

5 JUDGE CHRISTIANSON: Hearing no offers, we seem to be  
6 done. I guess we've sort of done redirect again with your  
7 explanation.

8 I gather there's no further need for the witness, and  
9 the witness is excused.

10 THE WITNESS: Thank you, Your Honor.

11 (Witness excused.)

12 JUDGE CHRISTIANSON: We might as well go ahead with  
13 the next witness.

14 MR. MacGREGOR: May I have just one minute, Your  
15 Honor?

16 JUDGE CHRISTIANSON: Yes. Let's be off the record.

17 (Discussion off the record.)

18 JUDGE CHRISTIANSON: Back on the record.

19 MR. MacGREGOR: Your Honor, the company would like to  
20 call as its next witness Mr. Oliver G. Kasper.

21 JUDGE CHRISTIANSON: I think I have to swear this one  
22 in.

23 MR. MacGREGOR: That's right.  
24  
25

1 Whereupon,

2 OLIVER G. KASPER

3 having been duly sworn, testified as follows:

4 MR. MacGREGOR: Your Honor, I need to mark several  
5 documents for identification before examining Mr. Kasper.

6 The first is entitled, "Pennsylvania Power & Light  
7 Company Direct Testimony of Oliver G. Kasper," which was  
8 submitted with the company's initial filing and supplied to  
9 the court reporter at the pre-hearing conference.

10 I would ask that it be marked for identification as  
11 PP&L Statement No. 8.

12 JUDGE CHRISTIANSON: So identified, your No. 8.

13 (Whereupon, the document was marked as PP&L  
14 Statement No. 8 for identification.)

15 MR. MacGREGOR: In addition, Mr. Kasper is  
16 responsible for four exhibits. The first is entitled,  
17 "Pennsylvania Power & Light Company Tariff 200, Supplement  
18 No. 50."

19 I would ask that it be marked for identification as  
20 Exhibit OGK-1.

21 JUDGE CHRISTIANSON: So identified, bound in with 1,  
22 2, 3, 4 together?

23 MR. MacGREGOR: That's correct.

24 (Whereupon, the document was marked as PP&L  
25 Exhibit No. OGK-1 for identification.)

1 MR. MacGREGOR: The second document is entitled,  
2 "Digest of Proposed Changes Requested in Supplement No. 50  
3 to Electric Tariff No. 200."

4 I would ask that it be marked for identification as  
5 Exhibit OGK-2.

6 JUDGE CHRISTIANSON: So identified.

7 (Whereupon, the document was marked as PP&L  
8 Exhibit No. OGK-2 for identification.)

9 MR. MacGREGOR: The third is entitled, "Allocation of  
10 Proposed Pay Increase, Tariff 200, Supplement No. 50." I  
11 would ask that it be marked as Exhibit OGK-3.

12 JUDGE CHRISTIANSON: So identified.

13 (Whereupon, the document was marked as PP&L  
14 Exhibit No. OGK-3 for identification.)

15 MR. MacGREGOR: And lastly, a document entitled,  
16 "Cost of Service Analysis of EDI-IDI Programs, Tariff 200,  
17 Supplement No. 50" should be marked for identification as  
18 Exhibit OGK-4.

19 JUDGE CHRISTIANSON: So marked.

20 (Whereupon, the document was marked as PP&L  
21 Exhibit No. OGK-4 for identification.)

22 DIRECT EXAMINATION

23 BY MR. MacGREGOR:

24 Q. Mr. Kasper, do you have before you a copy of  
25 PP&L Statement No. 8?

1 A. I do.

2 Q. Is this a copy of your direct testimony in this  
3 proceeding?

4 A. Yes, it is.

5 Q. Was it prepared either by you or under your  
6 direct supervision?

7 A. Yes, it was.

8 Q. Do you have any changes, additions or  
9 corrections to make to Statement No. 8 at this time?

10 A. I have two corrections to make to Statement  
11 No. 8, and they are both on page 7. On line number 10 is  
12 the first correction. The \$7.00 charge should read \$7.20.  
13 The second change is on line 14. The 400 kilowatt-hours  
14 should read 600 kilowatt-hours. And those are the only two  
15 changes.

16 Q. Mr. Kasper, with those changes, if I were to ask  
17 you the questions contained in Statement No. 8 again today,  
18 would your answers be the same as those contained therein?

19 A. Yes, they would.

20 Q. Would those answers be true and correct to the  
21 best of your knowledge?

22 A. Yes.

23 Q. Mr. Kasper, with respect to the documents that  
24 have been marked Exhibits OGG-1 through 4, were those  
25 documents prepared either by you or under your direct

1 supervision?

2 A. Yes, they were.

3 Q. And is the information contained therein true  
4 and correct to the best of your knowledge?

5 A. Yes.

6 MR. MacGREGOR: Your Honor, I would at this time move  
7 the admission of PP&L Statement No. 8 and Exhibits OGK-1  
8 through 4, subject to cross-examination and timely motion.

9 JUDGE CHRISTIANSON: Under the standard conditions,  
10 the statement and four exhibits are now accepted into the  
11 record.

12 (Whereupon, the documents marked as PP&L  
13 Statement No. 8 and PP&L Exhibits Nos.  
14 OGK-1 through OGK-4 were received in  
15 evidence.)

16 MR. MacGREGOR: Mr. Kasper is available for cross.

17 JUDGE CHRISTIANSON: Once again, we might as well  
18 start with Trial Staff.

19 MR. MICKENS: Thank you, Your Honor.

20 CROSS-EXAMINATION

21 BY MR. MICKENS:

22 Q. Good afternoon, Mr. Kasper.

23 A. Good afternoon.

24 Q. My name is Ken Mickens. I represent the Office  
25 of Trial Staff in this proceeding.

1           Would you refer to your Statement No. 8, page 7? At  
2 approximately lines 12 to 14, you state that PP&L is  
3 proposing in this proceeding to increase the residential  
4 number of kilowatt-hour steps from two to three in order to  
5 better reflect the cost of service; is that correct?

6           A.    That's correct.

7           Q.    Can you tell me specifically what costs are you  
8 referring to, and how does this proposed change address this  
9 concern?

10          A.    Okay. The cost we're referring to comes from  
11 the cost of service study and it has to do with the customer  
12 component.

13          And we're increasing the customer charge from \$4.80  
14 to \$7.20. That does not cover the entire customer component  
15 as stated in the cost of service.

16          Therefore, we're increasing the first step to recover  
17 part of it. And to recover the remaining portion of that  
18 customer charge, we've created a second step of 600  
19 kilowatt-hours.

20          Q.    Thank you.

21          MR. MICKENS: Your Honor, I would like marked OTS  
22 Cross-Examination Exhibit No. 13. This document includes  
23 several responses to OTS interrogatories as well as one or  
24 two other items.

25          JUDGE CHRISTIANSON: Go ahead and pass it out. It's

1 identified as your No. 13.

2 (Whereupon, the document was marked as OTS  
3 Cross-Examination Exhibit No. 13 for  
4 identification.)

5 BY MR. MICKENS:

6 Q. Mr. Kasper, if you'll look at the document I  
7 just handed out, which has been identified as OTS Cross-  
8 Examination Exhibit No. 13, the first item in that document  
9 is the response to OTS-RS-45; is that correct?

10 A. That's correct.

11 Q. Now, this response indicates that PP&L does not  
12 provide end use metering, but only whole house metering for  
13 residential customers; is that correct?

14 A. That's correct.

15 Q. And it further indicates that as a result,  
16 average annual residential usage is not available, correct?

17 A. Average annual residential usage?

18 Q. That's part of the question in OTS-RS-45.  
19 That's what it requests; is that correct?

20 JUDGE CHRISTIANSON: I guess they have it for the  
21 whole house.

22 THE WITNESS: My confusion comes that I can come up  
23 with an average residential usage for the whole house, but  
24 not for let's say water heating or space heating  
25 independently.

1 BY MR. MICKENS:

2 Q. Okay, that's a good start. Let's go over to the  
3 second item, which is a bill insert for PP&L for March. Can  
4 you identify that as such, "Connect"? It didn't represent  
5 itself on the copying, but do you recognize that as PP&L's  
6 March bill insert?

7 A. I'm not familiar with this insert.

8 JUDGE CHRISTIANSON: I vaguely recognize it, being a  
9 PP&L customer.

10 MR. MICKENS: Is the company willing to stipulate  
11 that this in fact is the March PP&L bill insert to its  
12 customers?

13 JUDGE CHRISTIANSON: We can make it subject to check,  
14 if you want.

15 MR. MacGREGOR: Yes, I believe it is, Your Honor.

16 JUDGE CHRISTIANSON: We'll accept it now subject to  
17 possible check.

18 MR. MacGREGOR: That would be fine.

19 JUDGE CHRISTIANSON: I vaguely recognize it myself.

20 MR. MICKENS: Thank you.

21 It's a copy of my personal bill, so I can certainly  
22 verify that it was in my bill.

23 MR. MacGREGOR: We'll accept your representation.

24 (Laughter.)

25

1 MR. MICKENS: Okay, thank you.

2 JUDGE CHRISTIANSON: That's pretty authentic.

3 MR. MICKENS: I'm glad to hear that.

4 (Laughter.)

5 BY MR. MICKENS:

6 Q. Now that that has been accepted by your  
7 colleagues, Mr. Kasper, looking at that bill insert, would  
8 you agree that there is an attempt here to show the effect  
9 of the proposed increase on typical residential customer  
10 bills?

11 A. Yes.

12 Q. Now, just looking at the various categories that  
13 are indicated there, 500 kilowatt-hour -- hours of usage is  
14 what I'm talking about -- 500 kilowatt-hours, 1,000  
15 kilowatt-hours, 1,500 kilowatt-hours -- would you agree with  
16 me that a monthly kilowatt-hour usage of 500 kilowatt-hours  
17 or less is probably a lighting-only customer?

18 A. I cannot verify that. I think you would have to  
19 request an answer on that from Mr. John Slivka.

20 Q. Okay, so you have no knowledge whatsoever of  
21 what a particular customer might use on average on a monthly  
22 basis in terms of kilowatt-hours?

23 A. Of an average customer on our system?

24 Q. That's correct.

25 A. If we take a look at it on some of the studies

1 that we've done, it's been in the area between five and six  
2 hundred kilowatt-hours.

3 Q. For which customers, sir?

4 A. For an average customer.

5 JUDGE CHRISTIANSON: Average residential customer?

6 THE WITNESS: Average residential.

7 BY MR. MICKENS:

8 Q. Average residential. What about, do you have  
9 any information whatsoever with regard to what an average  
10 lighting-only customer, monthly kilowatt-hour usage would  
11 be?

12 A. No. That would come under our market research  
13 group, under Mr. John Slivka. He'd be better responsible  
14 for answering those questions.

15 Q. Let me ask you this: What about monthly usage  
16 for a customer that is all electric, meaning heating, lights  
17 and hot water? Do you have any average data with regard to  
18 what that customer would be using on a monthly basis?

19 A. Not at this time, but again, that could be  
20 submitted as a question.

21 JUDGE CHRISTIANSON: You're suggesting an on-the-  
22 record data request?

23 MR. MICKENS: Your Honor, we requested some of this  
24 information through an interrogatory. I'm trying to elicit  
25 some additional information at this time.

1 We're certainly willing to receive this information  
2 if it's available as a response to a data request, although  
3 if it is available, I'm questioning the response to  
4 OTS-RS-45.

5 JUDGE CHRISTIANSON: Well, I guess there's a  
6 difference in interpretation. They interpret it as having  
7 actual meter readout figures. You're indicating they could  
8 estimate it, and I think they can, pretty clearly.

9 MR. MICKENS: Okay. If they can provide an estimate  
10 for the average residential customer that uses lights only,  
11 for the average residential customer that uses lights and  
12 water heating, and for the average residential customer that  
13 is all electric, or for all three purposes.

14 JUDGE CHRISTIANSON: Now, one thing which might mix  
15 it up a bit is air conditioning, if you can break that out  
16 separately or -- I guess he who heats is normally he who air  
17 conditions.

18 MR. MICKENS: I would assume that would be part of  
19 the all-electric.

20 JUDGE CHRISTIANSON: The heating and everything.

21 MR. MICKENS: Yes.

22 JUDGE CHRISTIANSON: That would be "A" under your  
23 No. 45.

24 MR. MICKENS: That's right.

25 JUDGE CHRISTIANSON: "A" is the all-electric house.

1 MR. MICKENS: Correct.

2 MR. MacGREGOR: We'll be happy to supply whatever  
3 estimates we have. My sense is that at least some estimate  
4 that might be in some type of range for lighting-only is  
5 possible and the all-electric is possible.

6 Whether we have anything on lighting and water  
7 heating, I don't know, but we will certainly supply whatever  
8 estimates we have.

9 MR. MICKENS: Okay.

10 JUDGE CHRISTIANSON: And I guess the standard would  
11 be, you take the all-electric customer, you subtract out the  
12 lighting customer, and you have the difference as the  
13 heating and other things, heating/cooling, whatever.

14 The company has undertaken to respond as best as they  
15 can to your original No. 45.

16 MR. MICKENS: Thank you, Your Honor. I appreciate  
17 that.

18 BY MR. MICKENS:

19 Q. Just looking at the bill insert for one  
20 additional question, Mr. Kasper, looking at the third  
21 category there, the 1,500 kilowatt-hours, would you agree  
22 with me that the bill insert indicates that based upon  
23 actual usage statistics, the average monthly bill for a  
24 customer using up to 1,500 kilowatt-hours per month would  
25 increase under the company's rate increase proposal about

1 12.3 percent or \$14.43?

2 A. That's correct.

3 Q. One additional question on that matter: Do you  
4 happen to know, Mr. Kasper, what percentage of PP&L's  
5 residential customers are all-electric, or use electric for  
6 all purposes?

7 A. Again, I don't have that information with me at  
8 this time, and John Slivka would be the person to refer that  
9 question to.

10 MR. MICKENS: Could I add that to the data request  
11 that I asked?

12 MR. MacGREGOR: Yes.

13 MR. MICKENS: Thank you.

14 BY MR. MICKENS:

15 Q. Mr. Kasper, would you refer to the Company's  
16 exhibit, Part IV, Attachment 4-C, which is in the green  
17 binder, page 26?

18 A. 4-C?

19 Q. Yes, page 26. Do you have that?

20 A. Yes.

21 Q. Looking down to rate of change, near the bottom  
22 of that page there, rate of change percent, you would agree  
23 with me that this schedule provides, for Rate Schedule SE,  
24 calculation of effect on proposed rate based on bill  
25 frequency distribution for the 12 months ended September,

1 1994; is that correct?

2 A. That's correct.

3 Q. Now, looking down towards the bottom of that  
4 page, the line marked "Rate Change" and "Percent," would you  
5 agree with me that the percent change in the Rate Schedule  
6 SE, which is for energy-only streetlighting, is 63.93  
7 percent?

8 A. I'll agree with you that it is 63.93 percent for  
9 base rates only.

10 Q. Okay, for base rates.

11 A. Yes. It does not include an ECR adjustment for  
12 the present rates or for the proposed rates.

13 Q. Okay. Thank you. Now, just with regard to the  
14 base rate percentage which we're talking about, the 63.93  
15 percent, what is the rationale for such an increase in this  
16 rate for municipalities and government agencies?

17 A. The 63.93, once you bring in the energy cost  
18 rate of the present rates, is going to bring this to less  
19 than a 17 percent increase, overall.

20 Q. Okay, so there is a credit involved there?

21 A. No. There is a charge under the current rates  
22 for the energy cost rate which is one cent per  
23 kilowatt-hour, roughly, which is not reflected in these  
24 sheets.

25 Q. Where is that reflected at?

1 A. That would be reflected in the D-3 statement.

2 Q. And you say that with that, with the impact of  
3 the statement at D-3, that the percentage increase is  
4 reduced to what?

5 A. Approximately 17 percent.

6 Q. Now, was this developed based upon a cost of  
7 service study? How was it arrived at?

8 A. It was developed off of a cost of service study  
9 where we took the streetlighting rates as we have them and  
10 then removed I believe the equipment and the maintenance  
11 costs from that cost of service study.

12 Q. Where does that show up in the filing? Where is  
13 that in the filing?

14 A. I do not believe that is within the filing. It  
15 is a separate study.

16 Q. Let me ask you this, Mr. Kasper: For municipal  
17 streetlighting, what time are the lights normally turned on  
18 and off in the winter and the summer periods?

19 A. Winter periods, they are, again, operated on a  
20 photocell, so they turn on when it gets dark, usually  
21 sometime in the winter months between 4:30 and 5:00.

22 In the summer months, again, photo control is  
23 bringing them on closer to eight, nine o'clock at night.

24 Q. Now, does PP&L consider streetlighting as found  
25 under Schedules SHS and SE on-peak or off-peak service?

1 A. We consider it to be an on-peak service.

2 Q. You consider that on-peak. Has PP&L ever  
3 considered off-peak rates for municipal lighting?

4 A. No.

5 Q. Why not?

6 A. Streetlighting is for public safety, and that's  
7 our main thrust behind streetlighting. It would be  
8 basically not in the public interest to start bringing your  
9 lights on let's say on a non-peak time period after seven or  
10 eight o'clock at night in the wintertime, when it's already  
11 dark.

12 So for public safety reasons, we've never gone into  
13 off-peak streetlighting.

14 JUDGE CHRISTIANSON: I guess counsel may be thinking  
15 more about cost of service studies than actual --

16 BY MR. MICKENS:

17 Q. Yes. Not only that, I'm thinking about what you  
18 actually call it. It may be a semantical issue that we're  
19 involved in here. You've already testified that PP&L  
20 considers these on-peak, and I guess --

21 JUDGE CHRISTIANSON: Let me try one question. Is it  
22 on-peak because in the winter, they're there at like four  
23 o'clock when there's heavy usage?

24 THE WITNESS: That's correct.

25 JUDGE CHRISTIANSON: In the summer, they wouldn't be

1 on-peak, exactly?

2 THE WITNESS: That's also correct. Their  
3 contribution to the 12 CP would be less in the summer  
4 months.

5 JUDGE CHRISTIANSON: But their peak is because of the  
6 wintertime when they're there early in the evening?

7 THE WITNESS: That's correct.

8 JUDGE CHRISTIANSON: Go ahead, counsel. I guess he's  
9 saying in his answer, if they avoided this four o'clock  
10 turn-on, that could be considered then non-peaking, but  
11 since they're there at four o'clock in the winter, I guess  
12 that's his problem, or four o'clock or thereabouts, maybe  
13 not quite as early as four o'clock.

14 MR. MICKENS: Right.

15 BY MR. MICKENS:

16 Q. But PP&L has never considered alternative  
17 pricing for the provision of an off-peak period that's now  
18 considered on-peak --

19 A. No.

20 Q. -- with regard to these rates?

21 JUDGE CHRISTIANSON: Most of the usage would be more  
22 or less off-peak, but he says some of it is on-peak.

23 THE WITNESS: That's correct.  
24  
25

1 BY MR. MICKENS:

2 Q. You realize that the reason why we're having  
3 this discussion is because streetlighting by its mere nature  
4 is only going to be needed when it's dark, unlike some other  
5 types of services. So that's the reason for the questions.

6 JUDGE CHRISTIANSON: This might tie in a little bit,  
7 I think the other witness on redirect talked about getting  
8 more usage early in the evening, spring and fall evenings.  
9 But that's just a memory. It might not help progress.

10 MR. MacGREGOR: Well, I think it does. PP&L is  
11 somewhat different than I think most of the other electric  
12 utilities in the state. We are a winter peaking company.  
13 We in some months tend to peak around that late afternoon  
14 period when the streetlights are on.

15 And for another utility that was a summer peaking  
16 company driven by air conditioning, obviously for that  
17 company, the streetlighting usage is going to be off-peak  
18 because it's at night and it's not occurring at two or  
19 three o'clock in the afternoon during the week, during a  
20 period of heavy air conditioning.

21 JUDGE CHRISTIANSON: When I said "the fall," actually  
22 streetlighting is heavy in the fall and winter. The  
23 shortest day of the year is December 21st.

24 MR. MacGREGOR: And that's reflected in the cost of  
25 service study. We use the 12 CP, so we look at each month

1 of the cost of service study, and if they're on at the time  
2 of the peak, they're allocated costs in that month, and if  
3 they're not on in another month, they're not allocated  
4 production and demand costs.

5 JUDGE CHRISTIANSON: Mr. Mickens might try to  
6 convince you to take a different view of the thing.

7 MR. MacGREGOR: I understand that, but I just wanted  
8 to make sure --

9 MR. MICKENS: I understand that.

10 BY MR. MICKENS:

11 Q. Now, Mr. Kasper, you do recognize that PP&L,  
12 being a winter peaking company, that there's possibly an  
13 opportunity to look at off-peak rates for these  
14 classifications during the summer?

15 A. There may be.

16 JUDGE CHRISTIANSON: Spring and summer, probably.

17 BY MR. MICKENS:

18 Q. Spring and summer. Would you acknowledge that?

19 A. Yes.

20 Q. Would you refer to the company's response to  
21 OTS-RE-31D that's in the packet which is OTS Cross-  
22 Examination Exhibit No. 13?

23 JUDGE CHRISTIANSON: Right after the ad -- or the  
24 notice, not an ad. It's a notice.

25 MR. MICKENS: What's that?

1 JUDGE CHRISTIANSON: I misspoke. The bill stuffer is  
2 not an ad, it's a notice. I just corrected myself.

3 THE WITNESS: You have a 31D?

4 BY MR. MICKENS:

5 Q. 31D, yes. It's the third item. Do you have  
6 that?

7 A. Yes, I do.

8 Q. Now, in this response, the 12 CP methodology is  
9 explained; is that correct?

10 A. Yes.

11 Q. Looking at Attachment 1, Attachment 1 provides  
12 the contribution of rate classes to the monthly peaks for  
13 PP&L, is that correct, for the year ended September 30,  
14 1994?

15 (Pause.)

16 Q. Is that correct?

17 A. Yes, it does.

18 Q. Now, if you look down the list at street and  
19 area lighting, why are there seven months of 62 kilowatt  
20 contribution to the system peak and five months which are  
21 far in excess of that amount? Can you determine why that  
22 might be the case?

23 A. No, I cannot. I do not know.

24 Q. Could you provide that as a result to a data  
25 request, please?

1 (No response.)

2 JUDGE CHRISTIANSON: The 62 is intriguing, some sort  
3 of base usage or something.

4 MR. MICKENS: It's obvious that the same thing is  
5 happening in each month, Your Honor. We just want to find  
6 out what's going on as opposed to the other months.

7 MR. MacGREGOR: So what you want is an explanation of  
8 the 62?

9 MR. MICKENS: An explanation of the 62 and why it's  
10 so markedly different from the other months.

11 MR. MacGREGOR: The ones that are very high are  
12 obviously because the streetlighting was on at the time of  
13 the peak, like on December 29, 1993, the peak was at 1800  
14 hours or six o'clock in the evening, and the streetlights  
15 were on then, so that number was high.

16 I think what he indicated -- I don't know what the 62  
17 is, and we'll explain that.

18 JUDGE CHRISTIANSON: Right. The emphasis is on the  
19 62, but he wants the whole pattern.

20 MR. MICKENS: Exactly, because you've even got one  
21 month that's even much lower than --

22 THE WITNESS: I was trying to respond to your 62. I  
23 don't know why we have that there.

24 MR. MICKENS: Okay, thank you.

25

1 BY MR. MICKENS:

2 Q. Now, Mr. Kasper, is streetlighting metered?

3 A. Yes and no. The SE rate is metered. Many of  
4 our other streetlighting rates are on a fixture basis, where  
5 we have poles and the underground facilities installed but  
6 we charge on a pole basis, and no meters are attached to  
7 those circuits.

8 JUDGE CHRISTIANSON: Because you know the usage?

9 THE WITNESS: Yes.

10 BY MR. MICKENS:

11 Q. And with regard to this service, for some of  
12 these services, at least one of the schedules, the customer  
13 provides the pole; isn't that correct?

14 A. That's correct. I believe that's the SE.

15 Q. That's the SE rate?

16 A. Right.

17 Q. And the SHS rate, the company provides the pole  
18 and the energy?

19 A. Yes.

20 Q. Now, if off-peak rates were instituted for  
21 streetlighting, would it be necessary to meter those rates?

22 A. Yes, it would. Also, you would install controls  
23 for the systems, so it would increase the costs of the  
24 installations considerably.

25 Q. So it would be necessary to meter those?

1 A. Yes.

2 Q. Mr. Kasper, I have a few questions concerning  
3 minimum charges. If you will refer to page 7 again of your  
4 testimony, roughly lines 10 though 11, you state that the  
5 reason for increasing the customer charge for residential  
6 service from \$4.80 to \$7.20 per month is to more accurately  
7 reflect the cost of service; correct?

8 A. Correct.

9 Q. Now, if you'll look at the company's response to  
10 OTS-RS-15D and OTS-RS-4D which it refers to, here you  
11 indicate or you make reference to OTS-RS-4D as providing  
12 support for the proposed increase in the RS customer charge;  
13 is that correct?

14 A. That's correct.

15 Q. Now, in support of that, you make reference to  
16 the response to OTS-RS-4D, Attachments 1 and 2; is that  
17 correct?

18 A. That's correct.

19 Q. And in Attachment 1, we're talking about  
20 customer related costs based on a cost allocation study  
21 using a minimum size system, correct?

22 A. Correct.

23 Q. Just briefly, for the record, could you define a  
24 minimum size system, Mr. Kasper?

25 A. I believe that was covered in Mr. Kleha's

1 testimony earlier today.

2 Q. It was mentioned earlier. If you would just  
3 briefly respond to that, I would appreciate it.

4 A. Under our minimum system study, we followed the  
5 NARUC manual for sizing out the minimum system study in  
6 which we, basically on a pole-for-pole replacement, used our  
7 minimum size pole that we're using today, used our minimum  
8 size wire, our minimum size transformer, and also included  
9 the service drops and meters to the customers.

10 Q. And in differentiating the study provided in  
11 Attachment 1 and the study provided in Attachment 2, would  
12 you agree with me that the difference is based upon demand?

13 A. No. I believe Attachment 2 was a request for  
14 only the services to the customer, which would have been the  
15 transformer, service drop and meter.

16 Q. Okay. And if you were differentiating the study  
17 provided in Attachment 2 from the study provided in  
18 Attachment 1, what would you use as the most significant  
19 differentiating factor?

20 A. The minimum system itself, being the poles and  
21 conductors, is missing.

22 Q. In Attachment 2?

23 A. Yes.

24 Q. Now, in response to OTS-RS-15D, however, would  
25 you agree with me that the company is based its proposed

1 increase to the customer charge on the data that's provided  
2 in Attachment 1, or based upon the minimum system study?

3 A. That's correct.

4 Q. Now, Mr. Kasper, is it required that all demand  
5 and demand related charges be recovered in the minimum  
6 charge?

7 A. The minimum charge is representative of the  
8 customer component and not the demand component.

9 Q. Yes. I'd like you to answer my question, first,  
10 and then provide your explanation. My question was, is it  
11 required that all demand and demand related charges be  
12 recovered in the minimum charge?

13 A. No.

14 Q. And would you agree that any costs not recovered  
15 in the minimum charge will be recovered in the usage blocks?

16 A. That is correct.

17 MR. MICKENS: Your Honor, I believe that's all that I  
18 have for this witness. At this time, I would ask that OTS  
19 Cross-Examination Exhibit No. 13 be moved into evidence.

20 MR. MacGREGOR: No objection.

21 JUDGE CHRISTIANSON: No. 13 is accepted into the  
22 record.

23 (Whereupon, the document marked as OTS  
24 Cross-Examination Exhibit No. 13 was  
25 received in evidence.)

1 MR. MICKENS: Thank you very much.

2 JUDGE CHRISTIANSON: Let me just have one or two  
3 follow-up questions to Mr. Mickens. I seem to recall a  
4 tendency several years ago or a few years ago to flatten out  
5 the blocking in rate design. Now we seem to be pushing it a  
6 bit more up front again. Can you comment on that?

7 THE WITNESS: We're looking at trying to recover the  
8 costs, specifically customer charges and demand charges, in  
9 the front end blocks of the rate, and not really flattening  
10 it out but trying to front end load the rate.

11 JUDGE CHRISTIANSON: Yes, but for a while, it seemed  
12 like the tendency was in the other direction a bit, that we  
13 wouldn't have blocks anymore. Maybe I'm mistaken.

14 THE WITNESS: Well, it would have gone towards a  
15 flattening out of the energy charge and a separate demand  
16 block and a separate customer charge totally, which would be  
17 what you would refer to as the unbundled rate.

18 And that's the direction that many of the utilities  
19 have been heading.

20 JUDGE CHRISTIANSON: But you're doing it in the  
21 blocking?

22 THE WITNESS: Yes. It's moving more towards that  
23 style of a rate, where eventually, if you did move your  
24 demand and your customer component out of the energy blocks,  
25 you then have a three-part rate: basically, customer charge,

1 demand charge segregated out, and your energy charge would  
2 be a flat rate right across the board.

3 JUDGE CHRISTIANSON: Which would be defensible in  
4 theory, but you're not going that route?

5 THE WITNESS: Right. It would be very difficult to  
6 do that without tremendous impacts on the customers across  
7 the class.

8 JUDGE CHRISTIANSON: Fine. That's sufficient for me,  
9 and if you wanted to follow up --

10 MR. MICKENS: No, Your Honor, nothing further.

11 JUDGE CHRISTIANSON: Then we'll go with Consumer  
12 Advocate.

13 MS. McCLOSKEY: Thank you, Your Honor.  
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## CROSS-EXAMINATION

1  
2 BY MS. McCLOSKEY:

3 Q. Good afternoon, Mr. Kasper. My name is Tanya  
4 McCloskey. I'm with the Office of Consumer Advocate. I'd  
5 like to stay with OTS Cross-Examination Exhibit No. 13, and  
6 you were discussing the response that was marked OTS-RS-4D,  
7 Attachment 1 and Attachment 2. As I understand these  
8 attachments, Attachment 1 contains all of the costs that  
9 PP&L considers to be customer related; is that correct?

10 A. That's correct.

11 Q. And then Attachment 2 shows the assessment of  
12 customer costs using customer-related billing, metering and  
13 service lines. I believe you answered that yes.

14 A. That's correct.

15 Q. Now, on Attachment 1, if you could look at line  
16 18, the operation and maintenance expense, am I correct that  
17 -- and I'm going to focus on the Rate RS -- that the total  
18 of \$113,448,000 shown there is derived from Exhibit JMK-2,  
19 pages 69 through 71, and that would be Mr. Kleha's cost of  
20 service study?

21 A. I cannot verify that.

22 Q. Would you like to see a copy of JMK-2? I don't  
23 know if the company has one for you.

24 MR. MacGREGOR: We do. Sixty-nine through 71?

25 MR. KLEPPINGER: Pages 69 through 71, and we'll look

1 at page 71, line 53. For the rate class RS I'm focusing on.

2 (Document handed to witness.)

3 THE WITNESS: Okay.

4 BY MS. McCLOSKEY:

5 Q. You see there the \$113,448,000. And this is the  
6 summary of what occurred on the prior pages; is that your  
7 understanding?

8 A. That's correct; yes.

9 Q. Now, that operation and maintenance number  
10 includes such items as the customer component of the  
11 distribution expense, customer accounting, administrative  
12 and general expenses, and then it's followed with some  
13 adjustments; is that correct?

14 A. That's correct.

15 Q. On Attachment 2, on line 18 under the operation  
16 and maintenance expense for the Rate RS, you include  
17 \$92,323,000, and that's about a \$21 million difference in  
18 the two numbers.

19 A. Would you repeat that?

20 Q. On Attachment 2, line 18 for operation and  
21 maintenance expense, you include \$92,323,000 as opposed to  
22 the \$113,448,000 shown on Attachment 1, and that's  
23 approximately a \$21 million difference; correct?

24 A. That's correct.

25 Q. What costs or portions of costs did you remove

1 to arrive at the \$92,323,000 on Attachment 2?

2 A. I'm going to have to refer that question back to  
3 Mr. Joe Kleha.

4 MR. KLEPPINGER: Your Honor, could I make an on-the-  
5 record data request that the company or Mr. Kleha provide  
6 for us as soon as possible the reconciliation, what was  
7 removed, to arrive at the \$92,323,000 on Attachment 2?

8 JUDGE CHRISTIANSON: He's still present and he's  
9 nodding, so I guess you're okay.

10 MR. MacGREGOR: We can do that.

11 BY MS. McCLOSKEY:

12 Q. Would you agree with me that the \$92,323,000  
13 would include some portion of administrative and general  
14 expenses in that O&M expense number on Attachment 2?

15 A. Yes, it should.

16 Q. And it would also include at least portions of  
17 such costs as uncollectible accounts;; is that correct?

18 A. That I'm not sure of.

19 JUDGE CHRISTIANSON: Mr. Kleha is wondering back  
20 there as well.

21 Go ahead and speak up if you like.

22 MR. KLEHA: Basically what you have on Attachment 2,  
23 I believe, is everything related to distribution only.  
24 There's no A&G in there, there's no uncollectible accounts.

25 MS. McCLOSKEY: I think if you look at your cost of

1 service study and pull out the customer-related components  
2 of things like uncollectibles, employee benefits, customer  
3 accounting, customer services and information, and A&G  
4 expenses, you get a number less than \$92 million, and what  
5 we're trying to do is get a reconciliation of those.

6 MR. KLEHA: We'll reconcile it by the appropriate  
7 items that we removed.

8 JUDGE CHRISTIANSON: Technically he's a company  
9 official and not a witness, but it's on the table.

10 MR. MacGREGOR: We will be happy to supply the  
11 calculation to show the difference. We'll do it as soon as  
12 we can.

13 MS. McCLOSKEY: Could you, in supplying that, confirm  
14 whether the entire amount of administrative and general  
15 expense, uncollectibles expenses, employee benefits,  
16 customer accounting and customer services and information  
17 was removed from the costs included on Attachment 2?

18 MR. MacGREGOR: Yes. I assume that would be part of  
19 the breakdown.

20 BY MS. McCLOSKEY:

21 Q. Mr. Kasper, you've had a number of discussions  
22 about the company's three-step declining block rate  
23 structure both with Mr. Mickens and with the Judge, and I  
24 believe we've established that the first two blocks are  
25 intended to recover the customer components in the earlier

1 blocks.

2 A. The remainder of the customer components not  
3 recovered in the customer charge.

4 Q. Were the declining block rates proposed to serve  
5 any additional purposes?

6 A. No.

7 Q. Does the use of the declining block rate  
8 encourage the use of electricity?

9 A. Yes, it does. It tends to give a lower  
10 incremental cost to the tail end of the rate and does  
11 encourage the use of electricity.

12 Q. Now, I would also like to follow up on your  
13 Attachment 4 to be sure I understand what occurred there.  
14 It's in Volume IV of the filing requirements, your  
15 Attachment 4-C, and I would like to just focus on page 1,  
16 which shows the residential rate schedule.

17 At the bottom essentially what you do is you  
18 calculate revenue at present rates and then at proposed  
19 rates and determine a percentage difference, which comes out  
20 to be 30.88 percent.

21 A. That's correct.

22 Q. And that's obviously higher than the 15.29  
23 percent increase that's been discussed in the case for the  
24 Rate RS. Now, am I correct that -- let me put it this way:  
25 if you look at the bottom of that you'll see the

1 \$246,959,094, and that's the revenue increase required from  
2 that class.

3 A. In base rates.

4 Q. In base rates. But in this case you're rolling  
5 into base rates approximately \$118 million of revenue that  
6 had previously been recovered in the ECR but was now being  
7 recovered in base rates.

8 A. That's correct.

9 Q. So of the \$246 million, residential ratepayers  
10 were already paying \$118 million of that but it was just in  
11 the ECR, so the proposed increase only goes to the  
12 difference between those two numbers.

13 A. That's correct.

14 Q. The difference between \$246 million and \$118  
15 million, which is about \$128 million. And that should  
16 correspond to the approximate 15 percent increase.

17 A. Subject to check, yes.

18 Q. And we can see the \$118 million, if you look at  
19 your Exhibit OGK-2, in the very back of that exhibit where  
20 you have a tabulation of revenue effect. On page 2 of 4, at  
21 the very top, you'll see the ECR roll-in for the residential  
22 class of \$118,048,728.

23 A. That's correct.

24 Q. I would like to turn to page 16 of your  
25 testimony, beginning on line 1, where you're discussing the

1 EDI/IDI credits. Am I correct that the credits were  
2 implemented in 1987?

3 A. That's correct.

4 Q. And the company is planning to phase them out by  
5 the year 2000; is that correct?

6 A. In our current tariff, yes, that is correct.

7 Q. So these credits will have been in existence for  
8 13 years; correct?

9 A. Right.

10 Q. Are you aware of any economic development  
11 discounts for any other utility that have lasted that long?

12 A. No, I am not.

13 Q. Given that PP&L has not had a general rate case  
14 since 1984, have other customer rates been affected by these  
15 discounts?

16 A. No, they have not. They are on the increment  
17 and they have come out of the potential earnings for our  
18 shareholders.

19 Q. You state on page 18 of your testimony, lines 16  
20 to 17, that sales are greater due to the EDI/IDI credits.  
21 During the time that these credits have been offered, has  
22 PP&L received revenue greater than its additional cost for  
23 these sales?

24 A. Yes, we have.

25 Q. Would you agree with me that that was part of

1 the reason PP&L was able to defer filing a rate case?

2 A. It was part of the reason, yes.

3 Q. Now, in PP&L's last rate case, rates were set to  
4 cover PP&L's costs including its fixed costs, were they not?

5 A. Yes.

6 Q. And the EDI/IDI sales were made in addition to  
7 the test year level of sales in that rate case; correct?

8 A. Yes.

9 Q. So these additional sales were not needed to  
10 cover PP&L's fixed costs; is that correct?

11 A. In the interim between rate cases?

12 Q. Yes.

13 A. I would say no, that the fixed costs of the  
14 company have increased over time as well as our variable  
15 costs, and the additional sales helped defer a rate case.

16 Q. Now, on page 20 of your testimony you discuss  
17 Demand Free Days, and as I understand it, the customer is  
18 able to select free weekdays in which the demand is not  
19 counted for billing purposes; correct?

20 A. That's correct.

21 Q. Does the company's monthly peak demands always  
22 occur on a weekday?

23 A. Subject to check, yes, I believe they do.

24 Q. Have customers taking advantage of this  
25 operation increased their demand?

1           A.    We have 23 customers on it, and of that seven  
2 are taking advantage of it, and yes, they have, of those  
3 seven, increased demand.

4           Q.    Has the peak demand of these customers on Demand  
5 Free Days ever contributed to the company's monthly peak  
6 demand?

7           A.    I do not know at this time.

8           MS. McCLOSKEY: Thank you, Your Honor. I have no  
9 further questions of Mr. Kasper.

10          JUDGE CHRISTIANSON: We could break soon. Do you  
11 want to start off?

12          MS. BRANDEIS: It's up to you, Your Honor.

13          JUDGE CHRISTIANSON: Let's take a break for a few  
14 minutes. We've been running about an hour-and-a-quarter.  
15 Let's take about ten minutes.

16          (Recess.)

17          JUDGE CHRISTIANSON: We can start again with  
18 Bethlehem, I guess. We'll try to run tonight and get done  
19 with the witness if we can, possibly.

20                                    CROSS-EXAMINATION

21          BY MS. BRANDEIS:

22          Q.    Good afternoon, Mr. Kasper. I'm Joan Brandeis  
23 for Bethlehem Steel Corporation.

24          A.    Good afternoon.

25          Q.    On page 5 of your testimony you say that the

1 degree of movement of rates toward the cost of service is  
2 constrained by the need to acknowledge and respond to  
3 competition in some of the company's markets, including the  
4 ability of some large customers to shift production  
5 facilities.

6 A. That's correct.

7 Q. Am I correct that an example of this is  
8 Bethlehem Steel's facilities in Maryland and Indiana?

9 A. That I cannot answer. I'm not sure, simply  
10 because I do not know the products that you're actually  
11 manufacturing in Burns Harper and Sparrows Point.

12 Q. On page 10, at lines 8, 9 and 10, you refer to  
13 optional interruptible power is a market choice that  
14 customers with interruptible load can exercise.

15 A. That's correct.

16 Q. Would you agree that the pricing provisions that  
17 currently exist for optional interruptible power under rate  
18 schedule LP-5 are structured to reflect the lesser value of  
19 a non-firm service?

20 A. They were structured in our original filing to  
21 provide EDI credits and provide interruptible resource for  
22 PP&L. In that case they were reflected to provide both of  
23 those, so it is reflecting some interruptible plus some  
24 economic development.

25 Q. On page 11 also you state, and I'm going to

1 quote, "as stated in Mr. Sipics' testimony, the value of  
2 interruptible load has declined materially." Can you point  
3 out to me the place in Mr. Sipics' testimony where he states  
4 this?

5 A. You're looking at line 5, page 11?

6 Q. I'm looking at line 5, "First, as stated in Mr.  
7 Sipics' testimony, the value of interruptible load has  
8 declined materially."

9 A. Specifically I can't point that out right now.  
10 If I have a copy of his testimony, I might be able to locate  
11 it.

12 Q. I can give you a copy of Mr. Sipics' testimony.

13 MS. BRANDEIS: If that's all right, Your Honor.

14 JUDGE CHRISTIANSON: Yes. Go ahead. See if you can  
15 find it to help refresh his memory. You're suggesting it  
16 might not be there?

17 MS. BRANDEIS: That's what I'm suggesting.

18 JUDGE CHRISTIANSON: Then it might take him a little  
19 longer to find it.

20 MS. BRANDEIS: Impossible things are done in a  
21 second.

22 (Document handed to witness.)

23 JUDGE CHRISTIANSON: I guess we could clarify  
24 somewhat what we mean by value. I guess value in the sense  
25 of capacity needs.

1 (Pause.)

2 MR. MacGREGOR: Do you mind if I show him the  
3 reference, or do you want him to find it himself?

4 MS. BRANDEIS: Not at all.

5 THE WITNESS: It's on page 15 of Mr. Sipics'  
6 testimony, lines 7, 8, 9 and 10. "Recently market  
7 transactions have indicated the installed capacity credits  
8 have been purchased and sold as low as 15 to 20 percent of  
9 the PJM value," which was \$73.00 per KW for your --

10 JUDGE CHRISTIANSON: So you're talking about the  
11 price of capacity.

12 BY MS. BRANDEIS:

13 Q. And you equate that to the statement that he's  
14 testifying that the value of interruptible load has declined  
15 materially when he's talking about the price the capacity  
16 credits are being purchased for?

17 A. That's correct.

18 Q. A factual question. On page 12 you show the  
19 computation on lines 19, 20 and 21. I wonder, is there any  
20 reason that the numbers that you're using on line 20 differ  
21 from the explanation of the tariff contained in OGK-2 at  
22 page 11? Specifically, you're using 4.88 times 1,200,000  
23 kilowatt-hours, and on page 11 you reference 4.86.  
24 Similarly, you're using 3.88 times 1,500,000 kilowatt-hours  
25 and on page 11 it's 3.68. Am I not understanding your

1 numbers? Is there a reason for the difference?

2 A. Let me review it a second.

3 (Witness perusing documents.)

4 A. Could you review that question again, please?

5 Q. On line 20 in your testimony you're giving us  
6 some calculations to show how things were arrived at, and on  
7 arriving at \$220,530 you give the calculation 4.88 times  
8 1,200,000 kilowatts.

9 A. Right.

10 Q. If you look at your Exhibit OGK-2, at page 11,  
11 which is a comparison of the present and proposed rates for  
12 LP-5 --

13 A. Right.

14 Q. I mean I can't -- shouldn't these two figures be  
15 the same? If they should not, can you explain why not?

16 JUDGE CHRISTIANSON: You mean the 4.86 and 4.88?

17 MS. BRANDEIS: Right. And 3.68 and 3.88.

18 BY MS. BRANDEIS:

19 Q. You're talking about the historic LP rate and  
20 you're showing us what it would look like.

21 A. Yes. There seems to be a typographical error on  
22 the first block. The 4.88 cents per kilowatt-hour in my  
23 testimony, versus the 4.86 that's showing up, that's what  
24 you're discussing?

25 Q. Yes.

1 A. I believe that's just an error.

2 Q. If that's what it is, that's fine. Which is  
3 correct?

4 A. The 4.86.

5 Q. So on page 12 it should be 4.86?

6 A. Right.

7 Q. And also, I assume it should be 3.68 not 3.88?

8 A. That's correct.

9 Q. Would that make any difference in the outcome of  
10 the calculations? And if it does, would you advise us? You  
11 don't have to do it now.

12 A. Okay. Will do.

13 Q. Let me ask you this, Mr. Kasper. When PP&L  
14 requests a customer to reduce its interruptible load, what  
15 does PP&L do with the capacity which that interruptible  
16 customer is not using?

17 A. At that time it's used to meet the capacity  
18 requirements of the other customers on our system.

19 Q. In other words, it's being sold to other  
20 customers who need it, supplied to other customers who need  
21 it?

22 A. (Witness nodding affirmatively.)

23 Q. Would you agree that when you sell capacity to a  
24 hospital or a residential customer when they need it, that  
25 its value is equal to any other capacity on the PP&L system

1 which you would sell to a customer?

2 A. Under our rate schedules that would be true.

3 Q. Now, on page 13, at line 16, you suggest that  
4 interruptible load is only available for interruption for  
5 relatively few hours a year. Am I correct that an LP-5  
6 customer can be interrupted for up to 200 hours a year?

7 A. That's correct.

8 Q. On page 15, at lines 13 through 16, where you  
9 discuss the proposal to institute a cap of 500 megawatts of  
10 non-coincident interruptible load, can you tell us, how did  
11 you arrive at 500 megawatts as a cap?

12 A. This goes back to the closing of the  
13 interruptible rate and the amount of interruptible capacity  
14 that we were starting to experience on our system, and we  
15 were starting to develop what was called a double peaking  
16 situation. When we actually reduced the peak utilizing the  
17 interruptible customers, we actually developed a peak  
18 outside a ten-hour period which is higher. Therefore, when  
19 we started looking at it, it seemed reasonable that the 300  
20 to 350 megawatt range of coincident peak load reduction is  
21 what we needed.

22 Now, when you take a look at the diversified or non-  
23 diversified billing of these customers, that's the  
24 difference between their max billing demand or max peak  
25 demand on a monthly basis minus their firm in the contract,

1 when we take a look at that, about 500 megawatts is going to  
2 give us our 300 to 350 megawatt range of interruptible load  
3 that we desire on the hour system peak.

4 Q. I guess my question then is why 350? How did  
5 you arrive at that as what you need?

6 A. Any peak reduction further than that becomes  
7 unnecessary for us. It has little value beyond that point  
8 because we're actually reducing the peak further than we  
9 need to to maintain a level load. Actually, what you would  
10 see is a peak occurring outside the ten-hour window as these  
11 customers would start to come back on.

12 Q. Again, I'm sorry to be slow, but the basis for  
13 the 350 in particular? Am I missing something? Where did  
14 you derive 350? One more time.

15 A. Well, when we take a look --

16 JUDGE CHRISTIANSON: That's the size of the peak you  
17 want to shave off.

18 THE WITNESS: It's the size of the peak we want to  
19 shave. On a peak day, if we started and looked at a ten-  
20 hour window centered around the peak that was going to occur  
21 and reduced it by 350 megawatts, what we would start to see  
22 if we reduced further than that, let's say 450 megawatts, is  
23 that we would incur another peak outside of that window, at  
24 the beginning or end of it. So now what's happened to us is  
25 we've reduced below those peak levels.

1 BY MS. BRANDEIS:

2 Q. And another peak would occur because -- why  
3 would another peak occur outside of a ten-hour window?

4 A. The contracts state that the customers stay off  
5 for ten hours. Once they leave that ten-hour window, it is  
6 their choice to come back up to full load.

7 Q. And it's your experience that they do that?  
8 It's not like a hotel room, you know, a lost night is a lost  
9 night?

10 A. It's our experience that they do that. With the  
11 interruptible customers we had prior to the LP-5 rate, that  
12 was their normal mode of operation. Once they interrupted,  
13 they would come back after their allotted time period, back  
14 to full load.

15 Q. Turning to --

16 MS. BRANDEIS: Excuse me one second, Your Honor.

17 JUDGE CHRISTIANSON: Sure.

18 (Pause.)

19 BY MS. BRANDEIS:

20 Q. Turning to your Exhibit OGK-1, and in particular  
21 to the proposed rate schedule for residential service  
22 thermal storage. Am I correct that the RTS rate is designed  
23 to reward residential ratepayers who are willing to postpone  
24 certain usage to PP&L's off-peak hours, or to encourage  
25 them, or to force them?

1           A.    It was to encourage them to move to time periods  
2 other than the normal residential peak periods. This is a  
3 load management rate, not necessarily an off-peak rate.

4           Q.    If you know, when was the rate put into effect?

5           A.    I believe it was -- I'm not sure. Maybe 1991.

6           Q.    And under that rate --

7           A.    Nineteen eighty-one; sorry.

8           Q.    I'm sorry; go ahead.

9           A.    I think it was 1981.

10          Q.    Under the rate a customer can choose one of  
11 three optional on-peak periods?

12          A.    That's correct.

13          Q.    And the three periods are?

14          A.    Seven a.m. to 5:00 p.m., 8:00 a.m. to 6:00 p.m.,  
15 or 9:00 a.m. to 7:00 p.m.

16          Q.    Would you agree that the RTS class imposes a  
17 higher demand per customer than a residential customer with  
18 substantially equivalent energy usage but who does not have  
19 the thermal storage capacity?

20          A.    Yes, they do.

21          Q.    Under rate schedules LP-4 and LP-5, what are the  
22 on-peak billing periods for billing purposes which customers  
23 served under those rates can choose?

24          A.    Those are 7:00 a.m. to 3:00 p.m., 8:00 a.m. to  
25 4:00 p.m., and 9:00 a.m. to 5:00 p.m.

1 Q. Under the rate design of on-peak and off-peak  
2 periods, am I correct that the demand that is used during  
3 the off-peak periods does not get included in the  
4 calculation of the customer's bill?

5 A. That's correct.

6 Q. So you would agree that industrial customers are  
7 likely to attempt to control energy usage during the on-peak  
8 periods and to shift production to the off-peak?

9 A. That's correct. That was the original intent of  
10 those on-peak/off-peak periods, was to encourage economic  
11 development.

12 Q. Can you tell us what percentage of PP&L's  
13 industrial load has elected an on-peak billing demand period  
14 before 4:00 p.m.?

15 A. No, not at this time. We would have to do that  
16 in a data request for you.

17 MS. BRANDEIS: Could you give us that information,  
18 Mr. MacGregor?

19 MR. MacGREGOR: Could you repeat it, please?

20 MS. BRANDEIS: I want to know what percentage of  
21 PP&L's industrial load has elected an on-peak billing demand  
22 period before 4:00 p.m.

23 BY MS. BRANDEIS:

24 Q. Mr. Kasper, to your knowledge over the past ten  
25 years have PP&L's actual monthly system peaks been gradually

1 moving toward late afternoon and early evening?

2 A. Yes, they have.

3 Q. Am I correct that if industrials impose a  
4 greater demand on the system in late afternoon, that while  
5 for billing purposes the demand is not counted, for the  
6 purpose of allocating demand it would be?

7 A. That's correct.

8 Q. So to the extent industrial customers have  
9 shifted demand in response to your rate design, the cost of  
10 service process will tend to allocate higher demand costs to  
11 that class?

12 A. That could happen.

13 Q. Can you tell us, in fact, have there been  
14 significant change in customer class allocations between the  
15 1983 cost of service study and the cost of service study  
16 performed in this case?

17 A. No, I can't give you that information at this  
18 time.

19 Q. Let me ask the question another way. Do you  
20 know whether the demand allocation to industrial customers  
21 is higher in this case than it was in '83?

22 A. I do not know.

23 Q. Would you agree that the residential thermal  
24 storage rate has contributed to a shift in the actual peak?

25 A. No, I will not agree with that. The shift in

1 the actual peak is more related to the change in the  
2 residential RS customers that are moving towards an evening  
3 peak. Yes, because of that move, RS is now contributing to  
4 a system peak, but it is neither the cause nor the reason  
5 why it shifted in that direction.

6 MR. MacGREGOR: Just so the record is clear, I think  
7 you said RS there. You meant RTS?

8 THE WITNESS: The RS class.

9 MR. MacGREGOR: You meant RTS?

10 THE WITNESS: No. The RS class, the residential  
11 class in general, is moving towards an evening peak. The  
12 RTS customers are already there, and the other classes have  
13 moved.

14 JUDGE CHRISTIANSON: I could ask you to speculate as  
15 to why, but that would be speculation.

16 THE WITNESS: Yes.

17 MS. BRANDEIS: Your Honor, I would like to have  
18 marked Bethlehem Steel Corporation Cross-Examination Exhibit  
19 No. 1 and distribute it to counsel.

20 JUDGE CHRISTIANSON: We'll call it your No. 1.

21 (Whereupon, the document was marked  
22 as Bethlehem Steel Cross-Examination  
23 Exhibit No. 1 for identification.)

24 MR. MacGREGOR: Your Honor, to the extent it matters,  
25 this is already in the record from this morning. If it

1 makes any difference to you.

2 MS. BRANDEIS: I understand that. We have, at the  
3 back of the exhibit, we have our own extrapolation.  
4 Everyone has extrapolated from that exhibit.

5 MR. MacGREGOR: It's in graph version this time.

6 MR. HAYNES: I'll note for the record it's not in  
7 color though.

8 JUDGE CHRISTIANSON: We have a large duplication but  
9 not total duplication. This is your Cross-Examination  
10 Exhibit No. 1.

11 BY MS. BRANDEIS:

12 Q. This is, in fact, Mr. Kasper, the Pennsylvania  
13 Power & Light response to PPLICA Interrogatory Set I,  
14 Question 32, and at the end we have in fact extrapolated  
15 some data from the PP&L response.

16 Again, subject to check obviously -- it's lawyer  
17 mathematics -- would you agree that Attachment 1 to  
18 PPLICA-32 in fact shows the monthly peaks for PP&L for the  
19 years '85 to '94?

20 A. That's correct.

21 Q. And it's marked year, month, day and hour, and  
22 the hour is in what I'll call military time; right?

23 A. That's correct.

24 Q. Now, the graph is an extrapolation of some of  
25 the data set forth and shows in graph form the time of day

1 in which the peak demand occurred on PP&L's system during  
2 each of the 12 months of the years 1985, '86 and '93 and  
3 '94. Would you agree subject to check that the number of  
4 months in which PP&L's peak demand occurred after 3:00 p.m.  
5 increased from two in 1984 to seven in 1994?

6 A. You said 1984?

7 Q. I'm sorry; did I say '84? I meant 1985.

8 A. Subject to check, yes.

9 Q. I apologize if I'm skipping around a little,  
10 because I incorporated some questions that I had for Mr.  
11 Kleha into your testimony. Let me ask you this -- and I'm  
12 finished with the exhibit. Am I correct that under rate  
13 schedule LP-5 the maximum on-peak demand is the average  
14 number of kilowatts supplied during a specified period of  
15 maximum use during the on-peak hours?

16 A. That's correct. It's a 15-minute period.

17 Q. And you would agree or you have agreed that an  
18 industrial customer taking service under rate schedule LP-5  
19 would try to schedule its maximum energy usage, if possible,  
20 to the off-peak hours?

21 A. Yes, if it's beneficial for the customer.

22 Q. So again, I am correct that if industrial  
23 customers are shifting their demands to later in the day, it  
24 is likely that they are being allocated a greater portion of  
25 demand under this cost of service study than would be the

1 case if PP&L's rate schedule on-peak hours for billing  
2 purposes were the same as the actual on-peak hours?

3 A. Not necessarily. You would have to take a look  
4 at the allocation of all the classes to see what is  
5 happening there. It's speculation as to whether they would  
6 be receiving a higher portion of the demand component or  
7 not.

8 Q. So you're saying, if I understand you, that  
9 notwithstanding the fact that the actual on-peak and the  
10 billing on-peak are different such that industrial customers  
11 are actually, because of the rate design, switching their  
12 load into what could be now the on-peak hours, that isn't  
13 necessarily resulting in them getting a higher percentage of  
14 the demand allocation?

15 A. They may.

16 Q. In pricing of the various rate schedules, it is  
17 true that off-peak rates recognize that power use in off  
18 peak does not place the same demand on PP&L's system as  
19 power use during the on peak?

20 A. Power used in the off peak tends to levelize our  
21 load profile, giving us a much better load factor.  
22 Therefore, usually what happens is the peak may not move but  
23 our load factor would improve, such as a customer adding a  
24 new line at an off-peak period; thereby we're able to spread  
25 our costs over more kilowatt-hours.

1           Q.    Can you explain why it is not appropriate to  
2 price interruptible power on the same basis; that is, with  
3 respect to the amount of demand which it places on the  
4 system at peak?

5           A.    The interruptible power at best for PP&L is that  
6 of a gas turbine. It takes a while to get a hold of it, and  
7 normally we are not interrupting at the hour of every system  
8 peak throughout the year, only at times of emergencies. So  
9 for most of the times throughout the year, PP&L still has to  
10 supply that peak load at the hour of system peak.

11          Q.    You say it does supply the load, but it doesn't  
12 have to, right? It could interrupt.

13          A.    Only in the case of an emergency, as specified  
14 in our tariff.

15          Q.    There are other bases for interruption, are  
16 there not?

17          A.    We have a basis for a local interruption on  
18 transmission, and we also have a basis for an economic  
19 interruption.

20          MS. BRANDEIS: Thank you, Mr. Kasper. I have no  
21 other questions.

22          JUDGE CHRISTIANSON: Fine. Then Mr. Delaney.

23          MR. DELANEY: Yes.

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## CROSS-EXAMINATION

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BY MR. DELANEY:

Q. Good afternoon, Mr. Kasper. My name is Dan Delaney. I represent the University/College Coalition, which is a group of colleges that receive electrical service under the GS and LP-4 rate schedules. I would like to ask you some questions concerning the revenue allocation that is proposed in your testimony.

Mr. Kasper, could I ask you to turn to page 6 of your testimony, and specifically looking at the answer that begins on line 4. Am I correct that you state there that the proposed allocation of PP&L's overall revenue requirement and rate design in this case moves each major rate class closer to its cost of service as compared to present rates?

A. That's correct.

Q. And I would assume that by cost of service you mean the cost as determined by PP&L's 12 CP cost of service study?

A. That's correct.

Q. Would you agree subject to check that the major rate classes on PP&L's system are RS, GS-1, GS-3, LP-4 and LP-5?

A. That's correct.

Q. Would you also agree subject to check that these

1 five classes currently account for 94.8 percent of the total  
2 jurisdictional revenues of the company?

3 A. Subject to check, that's correct.

4 Q. I would like to ask you some questions  
5 concerning the allocation of revenues to these rate classes,  
6 and I think that the summary that I would like to review  
7 with you is on pages 113 and 114 of the cost of service  
8 study, the Exhibit JMK-2. Do you have a copy of that, Mr.  
9 Kasper, by any chance?

10 (Document handed to witness.)

11 JUDGE CHRISTIANSON: Is it page 113?

12 MR. DELANEY: One-thirteen and 114 of Exhibit JMK-2.

13 BY MR. DELANEY:

14 Q. Do you have that, Mr. Kasper?

15 A. Yes.

16 Q. Just so I understand, would it be correct that  
17 line 2 shows the present rate revenue for each cost of  
18 service study class?

19 A. That's correct.

20 Q. And would it also be correct that line 7 shows  
21 the rate revenue that would be required in order for each  
22 class to have a rate of return equal to the present  
23 jurisdictional rate of return, which is 7.31 percent?

24 A. That's correct.

25 Q. Now, so that the record is clear, for purposes

1 of our discussion I would like to designate the amount by  
2 which the present rate revenue for a class differs from the  
3 revenue required for a 7.31 percent rate of return as being  
4 the present revenue subsidy. Directing our attention to the  
5 proposed rates, and specifically line 12 of this exhibit on  
6 pages 113 and 114, does this show the proposed rate revenue  
7 for each cost of service study class?

8 A. Yes, it does.

9 Q. Would I be correct that line 17 shows the rate  
10 revenue that would be required in order for each class to  
11 produce a rate of return equal to the proposed  
12 jurisdictional rate of return of 10.17 percent?

13 A. That's correct.

14 Q. Now, for purposes of our discussion and so that  
15 the record is clear, I would like to designate the amount by  
16 which the proposed rate revenue for a class differs from the  
17 rate revenue requirement for a 10.17 percent rate of return  
18 as being the proposed revenue subsidy.

19 MR. DELANEY: Your Honor, at this point I would like  
20 to have identified in the record UCC Cross-Examination  
21 Exhibit No. 6. This exhibit summarizes information from  
22 Exhibit JMK-2, pages 113 to 114.

23 JUDGE CHRISTIANSON: Okay, your No. 6.  
24  
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1 (Whereupon, the document was marked  
2 as UCC Cross-Examination Exhibit No.  
3 6 for identification.)

4 JUDGE CHRISTIANSON: And maybe we'll get Bethlehem's  
5 exhibit in the record when Mr. Delaney moves his.

6 MR. DELANEY: I'm not going to move it, Your Honor.  
7 Ms. Brandeis can, if she likes.

8 MR. MacGREGOR: Your Honor, did you move Bethlehem's  
9 exhibit in?

10 JUDGE CHRISTIANSON: No. I said we'll wait.

11 MR. MacGREGOR: Okay.

12 BY MR. DELANEY:

13 Q. Just for ease of reference, this summarizes the  
14 information we just reviewed for pages 113 to 114 of JMK-2.

15 Now, specifically turning our attention to the  
16 exhibit I just distributed, which is UC Coalition Cross-  
17 Examination Exhibit No. 6, this exhibit shows, for PP&L's  
18 five major classes, present and proposed revenue subsidy  
19 figures under the 12 CP cost of service study for the future  
20 test year. The present revenue subsidy figures appear in  
21 column 1, and the proposed revenue subsidy figures appear in  
22 column 2. These figures were derived from the Exhibit JMK-2  
23 which we just reviewed.

24 MR. DELANEY: Your Honor, can I ask you, did you  
25 identify this?

1 JUDGE CHRISTIANSON: If I didn't, I did now. It is  
2 your No. 6.

3 MR. DELANEY: Thank you.

4 BY MR. DELANEY:

5 Q. Specifically directing your attention to the RS  
6 class, does this exhibit indicate that the revenue subsidy  
7 that it's currently receiving of \$60.8 million per year is  
8 reduced to \$43 million under PP&L's proposal?

9 A. Subject to check.

10 Q. You can certainly take that subject to check.

11 JUDGE CHRISTIANSON: And he has taken it subject to  
12 check.

13 BY MR. DELANEY:

14 Q. Would you also agree subject to check that this  
15 is a reduction of 29.3 percent?

16 A. Yes.

17 Q. So under PP&L's proposed distribution of the  
18 increase, would I be correct that class RS is moving closer  
19 to cost?

20 A. Yes.

21 Q. Would it also be correct that under PP&L's  
22 proposal, the subsidy that is currently being provided by  
23 the GS-1 class would be reduced by 23 percent? And I'm  
24 comparing on line 2 of this cross-examination exhibit,  
25 columns 3 and 4, the figures \$38.8 million and \$29.9

1 million.

2 A. That's correct.

3 Q. Therefore, would it also be correct that under  
4 PP&L's proposed distribution of the increase, GS-1 would  
5 also be moving closer to cost?

6 A. That's correct.

7 Q. Would it also be correct that the subsidy that  
8 is currently being paid by the GS-3 class would be reduced  
9 by 40.8 percent under your proposal? And I'm comparing, on  
10 line 3 of this exhibit, columns 3 and 4, specifically the  
11 figures \$50.5 million and \$29.9 million.

12 A. Correct.

13 Q. So, therefore, would it be correct that under  
14 PP&L's proposed distribution of the increase, GS-3 would  
15 also be moving closer to cost?

16 A. That's correct.

17 Q. Would it also be correct under PP&L's proposal  
18 that the subsidy that is currently received by the LP-5  
19 class would be reduced by 91.5 percent? I'm comparing, on  
20 line 5, columns 3 and 4 of this exhibit, specifically the  
21 numbers \$17.073 million to \$1.447 million.

22 A. That's correct.

23 Q. Therefore, under your proposed distribution of  
24 the increase, using the 12 CP cost of service study, LP-5  
25 would be moving closer to cost; is that correct?

1 A. That's correct.

2 Q. Directing your attention to line 4 of this  
3 exhibit, is it correct that the revenue subsidy being paid  
4 by rate LP-4 at the present rates is \$15,906,000, subject to  
5 check?

6 A. That's correct.

7 Q. Now, directing your attention to line 4 again of  
8 this exhibit, is it correct that the rate subsidy to be paid  
9 by rate LP-4 at the proposed rates is \$16,435,000? And  
10 that's specifically on line 4, column 4.

11 A. That's correct.

12 Q. So if I'm correct here then, unlike the other  
13 four major rate classes that we've discussed, under the  
14 proposed revenue distribution of the increase LP-4 would be  
15 moving away from cost; is that correct?

16 A. That's incorrect.

17 Q. That's not correct?

18 A. No, it is not.

19 Q. Is it not correct that the revenue subsidy being  
20 paid under the proposed distribution increases by \$529,000?

21 A. The revenue subsidy may be increasing but the  
22 movement towards the system average rate of return can be  
23 shown in Exhibit OGK-3.

24 JUDGE CHRISTIANSON: Is this because your revenue is  
25 increasing too?

1 THE WITNESS: Yes.

2 JUDGE CHRISTIANSON: So revenue increases 10 percent,  
3 this increases 2 percent, more or less.

4 THE WITNESS: Right.

5 JUDGE CHRISTIANSON: So he's agreeing with you on the  
6 total gross dollar value.

7 BY MR. DELANEY:

8 Q. I'm sorry; what was the reference you gave, Mr.  
9 Kasper?

10 A. It's OGK-3. My exhibits.

11 Q. And you disagreed with my question because of  
12 the revenue basis?

13 A. That's correct. You're moving in the form of a  
14 percent of system average. If you look on column 3, you'll  
15 see that the LP-4 rate as a percent of system average is 122  
16 percent of system average rate of return. With the proposed  
17 rates in place for LP-4, in column 7 you will see that for  
18 LP-4 the system average rate of return, the percent of  
19 system average rate of return, will be 116 percent. And it  
20 is moving toward system average.

21 Q. Let me direct your attention to another line on  
22 the exhibit you just referenced and let me ask you a  
23 question about that. Let me direct your attention to rate  
24 ISA on your Exhibit OGK-3. If I correctly interpret the  
25 exhibit, the schedule indicates that although the 12 CP cost

1 of service study indicates that a 25.7 percent increase is  
2 required for the system average rate of return, the proposed  
3 increase to the rate is only 0.15 percent. Can I ask you,  
4 why is the proposed increase to rate ISA so small?

5 A. ISA is what we call interruptible service by  
6 agreement. We have one customer under that rate, and within  
7 the contract for that rate there is a restriction on how  
8 much we can apply the base rate increase to that customer.  
9 We can only apply the system average increase to the firm  
10 level of that interruptible contract.

11 Q. And the indicated increase of 0.15 percent is  
12 the increase that you just described?

13 A. That's correct.

14 Q. It's the maximum under the contract.

15 A. Yes.

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1 MR. DELANEY: Very good. Thank you, Mr. Kasper.  
2 That's all the questions I have.

3 Your Honor, I'd like to move into the record Cross-  
4 Examination Exhibit No. 6.

5 JUDGE CHRISTIANSON: We can also perhaps discuss the  
6 Bethlehem exhibit.

7 MS. BRANDEIS: Yes, Your Honor.

8 MR. MacGREGOR: I have no problem with Mr. Delaney's  
9 exhibit as long as it is subject to check with respect to  
10 the numbers, which I think it is.

11 MR. DELANEY: That's fine, Your Honor.

12 JUDGE CHRISTIANSON: That is accepted, No. 6 of  
13 Delaney.

14 (Whereupon, the document marked as  
15 UCC Cross-Examination Exhibit No. 6  
16 was received in evidence.)

17 MR. MacGREGOR: And I have no problem with the  
18 Bethlehem Steel exhibit subject to the same caveats we  
19 discussed earlier today with Mr. Delaney's earlier exhibit,  
20 that whatever they plan to do with that will either be  
21 encompassed in testimony that will be presented or in a  
22 statement of issues that will be presented on the testimony  
23 due date.

24 MS. BRANDEIS: That is acceptable, Your Honor, and I  
25 would like to move it into evidence.

1 JUDGE CHRISTIANSON: Your exhibit also is accepted.  
2 Your No. 1 is accepted into evidence under those conditions,  
3 the Delaney conditions, I guess.

4 MR. MacGREGOR: Yes, sir.

5 (Whereupon, the document marked as  
6 Bethlehem Steel Cross-Examination  
7 Exhibit No. 1 was received in  
8 evidence.)

9 JUDGE CHRISTIANSON: Then we can go ahead with Mr.  
10 Haynes.

11 CROSS-EXAMINATION

12 BY MR. HAYNES:

13 Q. Good afternoon, Mr. Kasper. My name is Bob  
14 Haynes. I am representing the Central Eastern Pennsylvania  
15 Fuel Oil Dealers.

16 A. Good afternoon.

17 Q. I have a few questions on your role in this rate  
18 increase application. What was your exact role in the rate  
19 increase revenue allocation decision by PP&L?

20 A. I supervised the decision on how that was to be  
21 allocated across the rate classes.

22 Q. So you, I believe someone used the word today,  
23 are the rate designer that actually developed the  
24 allocation, supervised it?

25 A. Yes.

FORM 2

1 Q. In terms of your rate design philosophy, am I  
2 correct that you followed cost of service principles as  
3 developed by Mr. Kleha to a certain extent?

4 A. Yes.

5 Q. What other factors did you consider?

6 A. That was answered in an interrogatory, an  
7 allocation of the increase. That was OTS-RS-7D, I believe.

8 (Pause.)

9 A. In our philosophy under the rate design, we are  
10 trying to move all of our classes towards cost of service,  
11 all of our major classes. In doing so, we're also taking a  
12 look at some of the problems that are associated with the RS  
13 class and the cost drift that is taking place and trying to  
14 address that.

15 We also imposed on our rate design team a 150 percent  
16 of system average increase. So we did not allow any class  
17 to go more than 150 percent of the system average.

18 Q. And what would that cap be?

19 A. That would be about 17.39 percent.

20 Q. Is that including the ECR reduction?

21 A. Yes, and the other roll-ins of SBRCA and STAS.

22 Q. What about gradualism in terms of -- what about  
23 in terms of step movement towards system average overall  
24 return?

25 A. We employed gradualism in there in trying to

1 minimize the impacts on many of the customers, but some of  
2 that had to be sacrificed as we tried redesigning some of  
3 the rates.

4 JUDGE CHRISTIANSON: For instance, the small  
5 residential?

6 THE WITNESS: Yes.

7 BY MR. HAYNES:

8 Q. Would you agree that the lowest users of  
9 residential customers are receiving the highest percentage  
10 increase in under 500 KW?

11 A. That is correct. They are receiving the highest  
12 percentage increase.

13 Q. What is your role in the development and  
14 monitoring of Rate Schedule RTS?

15 A. That rate was in existence before I took this  
16 position, and I was responsible for supervising the redesign  
17 of that rate during this rate case.

18 Q. What is your role in PP&L's load management  
19 policies in general?

20 A. That falls under our DSM programs, which are  
21 under Gerry Farber, who will be here tomorrow testifying.

22 Q. Turning to your Exhibit OGK-3 -- let me know  
23 when you have that.

24 A. I've got it.

25 Q. Would you agree that the class with the largest

1 percentage movement towards system overall return would be  
2 the LP-5 class?

3 A. That's correct.

4 Q. At 4.66 percentage movement?

5 A. That's correct.

6 Q. That would be followed by the RS class at a 3.29  
7 percent?

8 A. That's correct.

9 Q. Would you agree with me that the RTS rate  
10 schedule is the rate schedule that has the smallest  
11 contribution to the overall system return?

12 A. Yes.

13 Q. In fact, as indicated through cross-examination  
14 earlier today, PP&L is actually losing money under that rate  
15 schedule at present and proposed rates as developed in the  
16 cost of service study?

17 A. If you'll look under a cost of service study,  
18 yes, it is contributing to system peak and it begins to show  
19 a negative rate of return. However, we have programs  
20 underway at this time, as Mr. Kleha referred to, to take a  
21 look at direct load control, which would move that off of  
22 the system peak and probably move it into a profitable  
23 situation.

24 Q. But that is at this point in time mere  
25 speculation; is that not correct?

1 A. No.

2 Q. What facts do you have to prove that?

3 A. I have a team now working on direct load control  
4 using a technology much similar to what you use for a  
5 beeper.

6 Q. That's fine, but I asked you what facts and not  
7 what team is working on it.

8 What facts do you have to provide for this record of  
9 quantitative proof that Rate Schedule RTS is actually  
10 providing some positive revenue contribution to PP&L?

11 MR. MacGREGOR: Objection. That wasn't what he said.

12 MR. HAYNES: That's the question I asked, and he  
13 elaborated beyond the scope of the question. So I'd ask  
14 that the latter part of his response be stricken.

15 JUDGE CHRISTIANSON: You were asking about future  
16 before. Now you're asking about present. When you asked  
17 him about future, I think his response was not improper.

18 MR. HAYNES: My question was tied into the PP&L cost  
19 of service study, and he answered, I believe, that it was  
20 not producing any positive revenue contribution. I then  
21 went on to the planning team that is underway to try to  
22 develop a positive cash flow. That is my recollection.

23 JUDGE CHRISTIANSON: Yes. That might have been  
24 volunteered. I don't exactly recall.

25 MR. MacGREGOR: Then he asked what facts he had to

1 prove that, and he started to explain exactly what plans are  
2 in place and going forward to address the situation.

3 JUDGE CHRISTIANSON: Counsel may view that as  
4 speculation. We can go into that if we have to. Maybe I'll  
5 ask --

6 MR. HAYNES: I can ask, perhaps, a follow-up  
7 question.

8 JUDGE CHRISTIANSON: Go ahead.

9 BY MR. HAYNES:

10 Q. At this time, you do not have a cost of service  
11 study in effect or in place that establishes that Rate  
12 Schedule RTS provides a positive return, above system  
13 average return?

14 A. That's correct.

15 Q. Now, you make reference to this planning in your  
16 testimony. Just bear with me while I find it.

17 (Pause.)

18 Q. That would be on page 7 of your testimony, would  
19 it not?

20 A. That's correct.

21 Q. So PP&L is proposing to install approximately 50  
22 to 100 of these radio control devices, and that is presently  
23 in the planning stage?

24 A. Yes.

25 Q. Who will be responsible for those costs of

1 installing those devices?

2 A. That would be PP&L.

3 Q. Is there an estimate of the cost of those  
4 devices?

5 A. Not at this time.

6 Q. Would you agree with me that the cost of that  
7 program would be allocated to Rate Schedule RTS?

8 A. I would have to refer that question to Joe  
9 Kleha.

10 Q. Would you agree with me that there would be no  
11 additional revenue as a result of that cost?

12 A. That's correct.

13 Q. Would you agree with me that under that  
14 scenario, Rate Schedule RTS would actually increase the  
15 amount of its losses in a subsequent cost of service study?

16 A. No. If those units are moved off-peak, then the  
17 allocation of demand to the RTS customer is going to be  
18 reduced. Therefore, it would make a positive contribution.

19 Q. So you're anticipating some change in the tariff  
20 to reflect a different on-peak/off-peak time period?

21 A. As stated earlier, the RTS system is a load  
22 management system, not an on-peak and off-peak system. At  
23 this time, it uses an on-peak and off-peak control time  
24 clock. Also with the tariff, we have a paragraph in which  
25 we can change the control strategy of that system.

1 JUDGE CHRISTIANSON: So you wouldn't have to change  
2 the tariff?

3 THE WITNESS: No.

4 BY MR. HAYNES:

5 Q. Turning to the tariff -- I appreciate you  
6 leading into that question -- I believe it's page 21 of the  
7 tariff.

8 JUDGE CHRISTIANSON: Right.

9 THE WITNESS: Correct.

10 BY MR. HAYNES:

11 Q. -- which is identified as Exhibit OGK-1. Where  
12 would that flexibility be established in the tariff?

13 A. You only have page 21. You do not have page  
14 21-A, because no changes were on 21-A. On page 21-A of the  
15 existing tariff, which will be carried over into this  
16 supplement, application provision number 5: "The company  
17 reserves the right to install necessary devices to control  
18 the operation of the electric components of the thermal  
19 storage system at its option."

20 Q. Is that tariff provision part of the filing?

21 A. No, because there were no changes.

22 MR. MacGREGOR: No. It wasn't changed, so it wasn't  
23 filed as part of the tariff.

24 JUDGE CHRISTIANSON: Your present tariff is not  
25 technically part of the filing.

1 MR. MacGREGOR: Right.

2 MR. HAYNES: If I could have the most current tariff  
3 provision for Rate Schedule RTS if it hasn't already been  
4 provided in discovery.

5 MR. MacGREGOR: It has been, yes.

6 MR. HAYNES: I'll take a look at it.

7 JUDGE CHRISTIANSON: He has it right there. It is  
8 obviously available in our tariff files.

9 MR. MacGREGOR: We're happy to provide copies to  
10 anybody who wants it. I think it may have already been  
11 provided in discovery.

12 BY MR. HAYNES:

13 Q. Am I correct that Rate Schedule RTS allows the  
14 customer to provide the on-peak selection between the three  
15 time periods?

16 A. That's correct.

17 Q. And I believe that was the subject of earlier  
18 cross-examination. Have you made any analysis of what  
19 customers are selecting as part of their on-peak time  
20 periods?

21 A. We have done some preliminary work, and the most  
22 frequently requested time frame is 7:00 a.m. to 5:00 p.m.

23 MR. HAYNES: Can I make that an on-the-record data  
24 request, to get what information they have on the selection  
25 of time periods by customers?

1 MR. MacGREGOR: Do you mean you want more detail on  
2 it, to the extent we have it, on what the breakdown is?

3 MR. HAYNES: Yes.

4 MR. MacGREGOR: Fine.

5 BY MR. HAYNES:

6 Q. In terms of the tariff provision, is the  
7 customer allowed to switch time periods after a certain  
8 period of time?

9 A. Yes.

10 Q. Or at will. What are the restrictions?

11 A. We usually do it on a one-year basis.

12 Q. Do you know the duration of the energy -- I  
13 guess it would be the energy storage capability of the  
14 equipment installed pursuant to Rate Schedule RTS?

15 JUDGE CHRISTIANSON: Sort of the capacity of it?

16 THE WITNESS: I guess he's asking the capacity.

17 BY MR. HAYNES:

18 Q. It would be the Btu storage capability.

19 A. Each system is designed for the particular house  
20 that it's in, and I'm not sure of the restrictions on it.  
21 Subject to checking it, I think there is a 12-hour storage  
22 capability of these units. They could handle a 12-hour on-  
23 peak period.

24 Q. And presumably, that's to provide heating  
25 storage to --

1 JUDGE CHRISTIANSON: For overnight, I guess.

2 BY MR. HAYNES:

3 Q. -- for overnight during the on-peak hours?

4 A. Yes.

5 Q. Is there any prohibition for a customer actually  
6 using RTS for heating during the on-peak hours or would that  
7 be part of the equipment restrictions?

8 A. Well, the elements in the units are controlled  
9 by the meter that they cannot operate during the on-peak  
10 hours. The heating system is functioning to provide heat  
11 through the duct system or through ceramic storage bricks in  
12 the systems during those periods.

13 Q. So are you saying there is no way a customer can  
14 actually be using this service on-peak for heating usage?

15 A. They can. There is an emergency bypass on the  
16 systems.

17 Q. And how does a customer use that emergency  
18 bypass?

19 A. He either goes down and throws the switch or  
20 punches the button.

21 Q. Have you made any analysis to determine how many  
22 customers have used the emergency bypass?

23 A. No, we have not.

24 Q. Is there any rate penalty imposed on a customer  
25 for using the emergency bypass?

1 A. Yes, there is.

2 Q. What is the rate penalty?

3 A. It is the demand component of the rate.

4 Q. And how would PP&L know whether the emergency  
5 bypass has been used?

6 A. We would not know whether the emergency bypass  
7 was used, but the demand component of the rate would  
8 compensate for the high demand set by the customer.

9 Q. The on-peak demand?

10 A. Yes.

11 Q. So the on-peak demand would spike and that would  
12 trigger the penalty?

13 A. Right.

14 Q. Has PP&L on occasion ever waived any penalties?

15 A. Yes. On occasion, it has happened, and that  
16 question probably should be referred to Tom Stathos or  
17 Bernie Bujnowski on the frequency.

18 Q. Is it a common occurrence?

19 A. I do not know.

20 MR. HAYNES: I understand those witnesses have  
21 already come and gone. I'd like to make that an on-the-  
22 record data request.

23 MR. MacGREGOR: Why don't we do that? Mr. Stathos is  
24 going to be here tomorrow, but I'm not really sure he can  
25 answer that. Why don't we make it a data request then and

1 we'll supply it?

2 JUDGE CHRISTIANSON: Let me try one question just to  
3 get an order of magnitude. How many customers are there on  
4 this?

5 THE WITNESS: There are 14,000 out of 1.2 million.  
6 This is not a very large class.

7 JUDGE CHRISTIANSON: So 14,000 is a lot to study if  
8 you're going to study it.

9 THE WITNESS: Yes.

10 JUDGE CHRISTIANSON: Thanks.

11 BY MR. HAYNES:

12 Q. Do you know the reasons why the penalty was  
13 waived?

14 A. Usually it's in a case where the heat pump has  
15 failed in the home and the storage system cannot handle the  
16 entire household during the on-peak period.

17 MR. HAYNES: One moment, Your Honor.

18 JUDGE CHRISTIANSON: Yes. We can pause.

19 (Pause.)

20 MR. HAYNES: That's all the questions I have. Thank  
21 you, Mr. Kasper.

22 JUDGE CHRISTIANSON: We'll proceed with the Small  
23 Business.

24 MS. MOURY: Thank you, Your Honor.

25 First, I'd like to distribute what I have marked as

1 OSBA Cross-Examination Exhibit No. 2. It is the company's  
2 responses to OSBA-2 and OSBA-3. I would ask that it be so  
3 identified.

4 JUDGE CHRISTIANSON: So identified.

5 (Whereupon, the document was marked  
6 as OSBA Cross-Examination Exhibit  
7 No. 2 for identification.)

8 JUDGE CHRISTIANSON: Did you get 1 in the record?

9 MS. MOURY: Well, I put 1 on hold, and I'm bringing  
10 it back tomorrow. So I decided for clarity to keep it as  
11 No. 1.

12 JUDGE CHRISTIANSON: Okay.

13 CROSS-EXAMINATION

14 BY MS. MOURY:

15 Q. Mr. Kasper, for my first question, actually,  
16 we'll need to refer to a page on this exhibit and your  
17 Attachment 4-C, page 6.

18 (Pause.)

19 Q. So you're at page 6 of the attachment?

20 A. Yes.

21 Q. The page in OSBA Cross-Examination Exhibit 2  
22 that I'll need to refer you to is Attachment 1 to OSBA-3.  
23 That is page 1. It is the next-to-the-last page in the  
24 exhibit.

25 My question, Mr. Kasper, is that I need to understand

1 why two numbers are not the same, and those two numbers are,  
2 first of all, on Attachment 1 of the exhibit, the number  
3 listed at the KW Step 5 of almost 4.6 million, the number of  
4 KWs at the 5 KW step. All right?

5 A. Yes.

6 Q. What I need to know is why that number is so  
7 much lower than the number on page 6 of Attachment 4-C of  
8 about 7 million. Where that is is about halfway down the  
9 page where the proposed rate figures are given, there is  
10 "Billing KW Blocks," and it says, "First 5 KW," and then the  
11 first column, "Per Unit," has a figure of a little over  
12 7 million.

13 A. 7,043,000 versus 7,093,00; are those the two  
14 numbers you're --

15 Q. No. The two numbers I need to understand are  
16 the 7 million on Attachment 4-C, page 6 and the 4.6 million  
17 on Attachment 1 in the cross-examination exhibit.

18 A. Can I confer with somebody in the audience here?

19 Q. That's fine with me.

20 JUDGE CHRISTIANSON: Either that or a data request.  
21 We can be shown as off the record. Go ahead and check.

22 (Discussion off the record.)

23 JUDGE CHRISTIANSON: Let's just take a short break at  
24 this time.

25 (Recess.)

1 JUDGE CHRISTIANSON: Back on the record.

2 We have been off for a few minutes. Small Business  
3 seems to have an argument going among the PP&L people.

4 Go ahead.

5 MS. MOURY: Your Honor, I believe they've indicated  
6 they're going to provide that as an on-the-record data  
7 request, so I'll move on.

8 BY MS. MOURY:

9 Q. Mr. Kasper, while we have page 6 open, if I  
10 could just ask you a couple of questions about the  
11 University/College Coalition Exhibit No. 6.

12 JUDGE CHRISTIANSON: That is that one page?

13 MS. MOURY: Right.

14 BY MS. MOURY:

15 Q. Would you agree, Mr. Kasper, if you compare the  
16 \$38,874,000 figure shown on UCC Exhibit No. 6 for the GS-1  
17 revenue subsidy to the 1995 rate revenue under present rates  
18 that would be shown on Attachment 4-C, page 6, that over 25  
19 percent of the GS-1 present rate revenue is actually  
20 accounted for in this revenue subsidy? In other words, what  
21 I'm asking you is would you agree that approximately \$39  
22 million is about 25 percent or more of the GS-1 present rate  
23 revenue?

24 A. Subject to check, yes.

25 Q. Correspondingly, the LP-4 present rate revenue

1 subsidy of almost 16 million, would you agree subject to  
2 check that that is about 6 percent of that class present  
3 rate revenue?

4 A. That's correct.

5 Q. Now, continuing with OSBA Cross-Examination  
6 Exhibit No. 2, I refer you now, Mr. Kasper, to the company's  
7 response to OSBA-2, and we would go to Attachment 1 of that  
8 response.

9 Now, if I wanted to determine the percentage of GS-1  
10 bills that are issued for less than 500 KWH per month, would  
11 I divide the number of bills cumulative at the 500 KWH step  
12 of 792,999 by the number of total bills cumulative on page 6  
13 of that attachment, which are shown as 1,418,619?

14 A. Could you step through that again, please?

15 Q. All right. If I wanted to determine the  
16 percentage of GS-1 bills that are issued for less than 500  
17 KWH per month, would I divide the number at the KWH Step  
18 500, the number under number of bills cumulative, by the  
19 total number of bills?

20 A. That's correct.

21 Q. Would you accept subject to check that according  
22 to this document, more than half of the GS-1 bills are for  
23 less than 500 KWH per month?

24 A. Yes.

25 Q. And just to put that into perspective, would you

1 accept subject to check that doing that same calculation  
2 with the information in Attachment 2 relating to the  
3 residential class, about 40 percent of RS bills are for less  
4 than 500 KWH per month?

5 A. Yes.

6 Q. Now, do you have any information about this  
7 percentage of GS-1 customers that are receiving bills for  
8 less than 500 KWH per month, information as in who they are  
9 or what type of customers they are?

10 A. Yes. There is a data request from your office  
11 that we're attempting to answer right now, and some of the  
12 preliminary work we're doing on these customers indicates we  
13 have like a 20/80 rule set up. Twenty percent of the  
14 customers are responsible for 80 percent of these accounts.  
15 They represent customers such as AT&T, Bell Telephone, Bell  
16 Atlantic Mobile, Service Electric Cable T.V. What they are  
17 is amplifier stations.

18 There is a tremendous number of traffic signals on  
19 this rate. UGI has gas pressure transmission stations.  
20 There is a tremendous number of small accounts that are paid  
21 by just a few customers.

22 Q. So it may be premature to ask, but would you  
23 assume at this point that what we normally would think of as  
24 a small business is probably somewhere above the 500 KWH?

25 A. Yes.

1 Q. Mr. Kasper, have you done any comparison of the  
2 proposed rates for RS and GS-1 customers on a cents per  
3 kilowatt-hour basis?

4 A. No, I have not.

5 Q. At this time I'd like to refer you to Exhibit  
6 OGK-1, specifically to the GS-1 rate schedule, which is at  
7 page 24.

8 Now, if I wanted to calculate the monthly bill for a  
9 GS-1 customer who was using 1,000 KWH with an assumed 5 KW  
10 of demand, would I be correct in starting with the monthly  
11 proposed charge of \$8.30 --

12 A. That's right.

13 Q. -- and then adding to that 750 kilowatt-hours at  
14 the rate of \$10.80 per kilowatt-hour?

15 A. That's correct.

16 Q. And then adding to that 250 kilowatt-hours at  
17 the rate of \$8.20 per kilowatt-hour?

18 A. Correct.

19 Q. And the reason that I would do that is that the  
20 way the rate is set up for the first 150 kilowatt-hours per  
21 kilowatt of the billing KW is set at that first block rate  
22 of \$10.80?

23 A. That's 10.8 cents.

24 Q. I'm sorry. I'm sorry. I knew that.

25 JUDGE CHRISTIANSON: It's not even 5:00 yet.

1 THE WITNESS: I was going to say we go to the dollars  
2 real quick on this.

3 BY MS. MOURY:

4 Q. So that with each additional KW of billing  
5 demand, another 150 kilowatt-hours are subjected to that  
6 10.8 cent rate?

7 A. That's correct.

8 Q. Now, when I looked at the RS rate, which I think  
9 is just a couple pages back, page 20, I noted that it is the  
10 first 200 kilowatt-hours that are subjected to the higher  
11 10.9 cents per kilowatt-hour rate; is that correct?

12 A. That's correct.

13 Q. Could you explain or are you aware of any  
14 differences between these two classes of customers that  
15 would justify the GS-1 customer of 5 kilowatts of demand  
16 experiencing the higher rate through 750 kilowatt-hours,  
17 whereas a residential customer with that same consumption  
18 would be subjected to the higher 10.9-cent rate for only the  
19 first 200 KWH?

20 A. I guess I'm having trouble understanding what  
21 you mean by differences between the customers.

22 Q. Well, what I would like to know is I guess why  
23 the GS-1 customer with 5 kilowatts of demand is subjected to  
24 the higher block rate essentially for 550 kilowatt-hours  
25 than a residential customer with the same consumption.

1           A.    Okay.  There are differences between the two.  
2  Once we get past 4 KW under old rates, we put in demand  
3  metering, which is also more expensive.  So it drives the  
4  price upwards on the first steps of that rate for the GS  
5  customers.  We do require a more expensive meter, and it  
6  pushes up our customer cost for providing that service.

7           Q.    But for the non-demand meter customers, you  
8  wouldn't have that additional expense; right?

9           A.    No, but they would be at the 4 KW and under  
10 right now.  We just have a kilowatt-hour meter installed on  
11 those customers without the demand register.

12          Q.    But under the proposed rates, they will be at  
13 the 5 KW?

14          A.    Right; and that is to include another step in  
15 the demand to start covering the customer component as we  
16 find under the minimum bill.

17          Q.    Do you know whether GS-1 customers in general  
18 understand this rate tariff?

19          A.    No, I do not.

20          Q.    So you haven't done any surveys of those  
21 customers?

22          A.    No.

23          Q.    A question about -- I don't think you need to  
24 refer to them.  The GH-1 and the GH-2 tariffs specifically  
25 state by their terms that they are in the process of

1 elimination, but in response to OSBA discovery, you  
2 indicated that PP&L has no current plans for their  
3 elimination.

4 I just wondered if you could tell us what you do know  
5 about that process?

6 A. In the process of these rate increases on the  
7 GH-1 and GH-2 rate, we are increasing the price relative to  
8 the other classes; and as these customers move up in the  
9 price ranges or move up in their price level, we run on an  
10 annual basis something called a Most Advantageous Rate  
11 Program; and if the customer sees more than a 4 to 5 percent  
12 savings by moving to another rate schedule, we will send  
13 them a letter automatically and give them the option to move  
14 off to another rate.

15 Q. Now I'd like to direct your attention to Exhibit  
16 OGK-3. Reviewing this document, Mr. Kasper, if cost were  
17 the only factor in rate design and cost-based rates were the  
18 only rate design objective, the GS-1 class would have been  
19 proposed to receive a 14.32 percent reduction in rates; is  
20 that correct?

21 A. That's correct.

22 Q. And instead, the GS-1 class has been proposed to  
23 receive about a 3.89 percent increase; is that correct?

24 A. Right.

25 Q. Now, is it fair to say that the concept of

1 gradualism was one of the major obstacles faced by the  
2 company in attempting to move this class toward cost-based  
3 rates?

4 A. That's correct. We're looking at gradualism,  
5 and we also took a stand that all customer classes should  
6 share in at least a small portion of the rate increase where  
7 possible.

8 Q. Also in discovery, we asked you to set forth  
9 PP&L's proposed method for reallocating a Commission ordered  
10 reduced revenue deficiency among the various rate classes,  
11 and you indicated that you had not developed such a method.  
12 Is that still the case?

13 A. That's still the case.

14 Q. Do you intend to make a proposal?

15 A. At the time of the reallocation, yes, if it is  
16 required.

17 Q. So you're talking about after the Commission's  
18 Order?

19 A. Yes.

20 Q. Would you agree that in determining the  
21 appropriate method for allocating a lower amount that it  
22 would be important to consider the amount of progress toward  
23 cost-based rates that each class would make under your  
24 proposed revenue distribution?

25 A. Yes.

1 Q. Would you also agree that a similar amount of  
2 progress should occur at whatever revenue award is finally  
3 authorized?

4 A. Yes.

5 Q. Would you agree that a proportionate scale-back  
6 of the proposed rates would not necessarily result in the  
7 same amount of progress towards cost-based rates for all  
8 customer classes as you have proposed?

9 A. That's correct.

10 Q. I think I only have one other question, and it  
11 is more of a clarification, too. If you refer to the last  
12 OTS Cross-Examination Exhibit, I think it was No. 13.

13 JUDGE CHRISTIANSON: Yes. Mr. Mickens had this this  
14 afternoon.

15 MS. MOURY: Right.

16 BY MS. MOURY:

17 Q. I again just need to have a clarification of two  
18 numbers, which I'm not going to pass this other response out  
19 to everyone, but I thought I'd give it to the Judge and the  
20 witness for purposes of moving things along. It is the  
21 response to OSBA No. 12. It was actually a response by Mr.  
22 Slivka and Mr. Kleha, but I'm just hoping that you can  
23 clarify the difference between your response and their  
24 response.

25 (Document handed to Judge Christianson and witness.)

1 Q. On Attachment 1 of your response to OTS-RS-4D,  
2 which is part of OTS Cross Exhibit 13, under the column for  
3 GS-1, you show a figure at line 29 of \$19.88, which appear  
4 to be customer-related costs for that class; correct?

5 A. Right.

6 Q. If you would refer to the company's response to  
7 OSBA-12, to Attachment 1, there it shows -- this is labeled  
8 as a cost curve for a GS customer with a demand of 4 KW, but  
9 then each page increases the number of KW of demand. But  
10 throughout that document, the column labeled, "Customer  
11 Component" shows a figure of \$24.56.

12 I guess I have two questions about that. First, if  
13 you know why the number, \$24.56, is higher than the number,  
14 \$19.88; and also, if you can answer the second question, why  
15 the \$24.56 stays the same through the increasing levels of  
16 demand.

17 A. I cannot explain why the difference in the two  
18 numbers. We'll have to do that in a data request.

19 Q. All right. That would be fine. Thank you.

20 A. But from the customer component side, that does  
21 not vary with load factor. That is a customer related.  
22 Whether the customer is not using any energy whatsoever or  
23 at 100 percent load factor, the customer component will  
24 remain constant for this type of a calculation.

25 Q. And does that customer component number stay the

1 same even if the customer has a different size of meter?

2 Should that stay the same for varying sizes of meters?

3 A. I believe there we'll dealing with an average  
4 customer component. Okay?

5 Q. Okay. That answers my question.

6 A. If you looked at specific customer, it may be  
7 different, but this deals with an average.

8 MS. MOURY: I think that's all I have, Your Honor, if  
9 I can just take one skim through my notes here.

10 JUDGE CHRISTIANSON: We can pause. Let's be shown as  
11 off the record.

12 (Discussion off the record.)

13 JUDGE CHRISTIANSON: Back on the record.

14 We've decided to have mercy on all of us and be done  
15 about 5:00. Mr. Kleppinger has about an hour or more. We  
16 can start off tomorrow at 9:30 and see where we go. There  
17 are some technical problems from Bethlehem Steel.

18 MS. BRANDEIS: Yes. I apologize, Your Honor. On our  
19 exhibit, Bethlehem Steel Cross-Examination Exhibit No. 1,  
20 there is a listing of four things in the right-hand corner.  
21 The first figure where it says 1984 should be 1985, and the  
22 second figure where it says 1985 should be 1986. With that,  
23 I believe this exhibit is correct subject, of course, to  
24 check by the company.

25 MR. MacGREGOR: I apologize. Can you read those to

1 me again, please?

2 JUDGE CHRISTIANSON: Yes.

3 MS. BRANDEIS: In the upper right-hand corner, the  
4 first number says 1984. The correct date is 1985.

5 MR. MacGREGOR: So '84 should be '85?

6 MS. BRANDEIS: That's right. And '85 should be '86.

7 MR. MacGREGOR: Thank you.

8 MS. BRANDEIS: Thank you, and thank you, Your Honor.

9 JUDGE CHRISTIANSON: Yes. I think you people  
10 corrected each other orally when you were doing the cross.

11 MS. BRANDEIS: I think I may have gotten somewhat  
12 confused. This is the correct information.

13 JUDGE CHRISTIANSON: That's correct. Then that as  
14 corrected stands. So then we can start at 9 -- yes; go  
15 ahead.

16 MS. MOURY: May I move my OSBA Cross-Examination  
17 Exhibit No. 2 into the record, please?

18 MR. MacGREGOR: No objection.

19 JUDGE CHRISTIANSON: Then it is accepted into the  
20 record.

21 (Whereupon, the document marked as  
22 OSBA Cross-Examination Exhibit No. 2  
23 was received in evidence.)

24 MS. MOURY: Thank you.

25 JUDGE CHRISTIANSON: And we can be done for the day

1 and start at 9:30 tomorrow.

2 (Witness temporarily excused.)

3 JUDGE CHRISTIANSON: I'm looking to probably not a  
4 very long day tomorrow.

5 MR. MacGREGOR: I don't think so.

6 JUDGE CHRISTIANSON: One never knows for sure.

7 Then we will be off the record for tonight.

8 (Whereupon, at 5:05 p.m., the hearing was adjourned,  
9 to be reconvened at 9:30 a.m., Wednesday, March 29, 1995, in  
10 Harrisburg, Pennsylvania.)

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## C E R T I F I C A T E

I hereby certify, as the stenographic reporter, that the foregoing proceedings were taken stenographically by me, and thereafter reduced to typewriting by me or under my direction; and that this transcript is a true and accurate record to the best of my ability.

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