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COMMONWEALTH OF PENNSYLVANIA  
PUBLIC UTILITY COMMISSION

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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-943271C00128  
: :  
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Pages 193 through 391 Hearing Room 3  
North Office Building  
Harrisburg, Pennsylvania  
Thursday, March 23, 1995  
Met, pursuant to adjournment, at 10:00 a.m.

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FILED

BEFORE:

ALLISON K. TURNER, Chief Administrative Law Judge  
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>	
1			
2			
3	✓4 (Response to OTS-RB-69) ✓	238	243
4	✓5 (Response to OTS-RS-10D) ✓	239	243
5	✓6 (Response to OTS-RB-51) ✓ PROPRIETARY)	242	243
6	✓7 (Response to OTS-RB-26D) ✓	347	348
7	✓8 (Response to OTS-RB-29D) ✓	347	348
8	<u>Office of Consumer Advocate Cross-Examination Exhibits</u>		
9	✓6 (Response to OCA-V-47) ✓	281	287
10	✓7 (Data Request-PROPRIETARY) ✓	286	287
11	<u>PPLICA Cross-Examination Exhibits</u>		
12	✓4 (Rate Schedule LP-5 Tariff) ✓	314	316
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P R O C E E D I N G S

1  
2 CHIEF ADMINISTRATIVE LAW JUDGE ALLISON K. TURNER:

3 Let's go on the record.

4 Now is the time and place for the second of the  
5 evidentiary hearings in the matter of Pennsylvania Public  
6 Utility Commission et al. versus Pennsylvania Power & Light  
7 Company at Docket No. R-00943271.

8 I would like to state that yesterday, I gave a number  
9 of formal complainants which I know is too small, and  
10 someone spoke to me and said they believe the correct number  
11 was 128 formal complainants of this point. Is that correct?

12 MR. GADSDEN: That's approximately right.

13 JUDGE TURNER: That's approximately correct.

14 Appearing for OTS today will be Mr. John Simms.  
15 You'll be the lead counsel?

16 MR. SIMMS: That's correct, Your Honor.

17 JUDGE TURNER: And for OCA, will it be you today, Ms.  
18 McCloskey?

19 MS. McCLOSKEY: Yes, Your Honor.

20 JUDGE TURNER: Tanya McCloskey.

21 Ms. Karen Oill Moury will be here for the OSBA; Mr.  
22 Kleppinger for the Industrial Consumers Association; Mr.  
23 McCormick for the federal agencies; and the lead counsel for  
24 today for the company will be Mr. Gadsden.

25 Is there any counsel or pro se person that I missed?

1 MS. BRANDEIS: Yes, Your Honor, Joan Brandeis for  
2 Bethlehem Steel Corporation.

3 JUDGE TURNER: And you have signed the appearance  
4 sheet?

5 MS. BRANDEIS: Yes, I have.

6 JUDGE TURNER: I do believe that Mr. Epstein will be  
7 here later. He had said he was not going to be here in the  
8 morning.

9 Why don't we begin, then, as planned with Mr. Slivka.

10 MR. SIMMS: Your Honor, before we proceed, I believe  
11 at our last evidentiary hearing there was a question  
12 regarding an on-the-record data request made by Mr. Mickens  
13 from our office.

14 I believe there has been some discussion between Mr.  
15 Mickens and Mr. Russell regarding that on-the-record data  
16 request as to whether or not the company could in fact  
17 provide an answer to that request.

18 JUDGE TURNER: And?

19 MR. RUSSELL: That's right, Your Honor. We went back  
20 and reviewed our records. We can break down salvage value  
21 into the categories Trial Staff requested for recent years.

22 We're not sure if we can break it down as we go into  
23 past years. And the understanding between the company and  
24 the Trial Staff is, we'll break down as many years as we can  
25 and provide that within the ten-day period that was

1 established.

2 MR. SIMMS: That's my understanding, Your Honor.

3 JUDGE TURNER: Are there any other matters before we  
4 begin with our first witness?

5 (No response.)

6 JUDGE TURNER: In that case, let's begin with Mr.  
7 Slivka, who I believe his testimony and exhibit will come in  
8 on affidavit; is that correct?

9 MR. GADSDEN: That's correct, Your Honor.

10 At the prehearing conference, we distributed Mr.  
11 Slivka's testimony and the exhibit which he is sponsoring,  
12 the exhibit itself consisting of a four-page attachment to  
13 his testimony but separately marked for identification  
14 purposes.

15 At this time, I would ask that Mr. Slivka's testimony  
16 be marked for identification as PP&L Statement No. 6; that  
17 his exhibit, which consists as I indicated previously of  
18 four pages, be marked as Exhibit JJS-1.

19 JUDGE TURNER: It may be so marked.

20 (Whereupon, the documents were marked  
21 as PP&L Statement No. 5 and PP&L  
22 Exhibit JJS-1 for identification.)

23 MR. GADSDEN: Thank you, Your Honor.

24 We are submitting to the court reporter and to Your  
25 Honor and to the parties an affidavit executed by Mr. Slivka

1 indicating that his testimony and exhibit and materials  
2 contained therein are true and correct to the best of his  
3 knowledge, information and belief, and I would represent  
4 that he would so testify if he were present today.

5 You will note, Your Honor, that attached to Mr.  
6 Slivka's affidavit and referenced in the affidavit are two  
7 interrogatories, those being PP&L Industrial Customer  
8 Alliance Interrogatory Set I, No. 20 and Office of Trial  
9 Staff Interrogatory RB-60.

10 As you may recall, at Tuesday's hearing Mr. Simms  
11 indicated that he did not have any cross-examination for Mr.  
12 Slivka, with the caveat that we would be amenable to moving  
13 in several interrogatory responses which Mr. Slivka  
14 sponsored, and we are proposing to accommodate that request  
15 through Mr. Slivka's affidavit.

16 JUDGE TURNER: That would be OTS Question 20 and  
17 OTS-RB-60?

18 MR. GADSDEN: Yes. It's my understanding that Mr.  
19 Simms had planned on making those two interrogatories a  
20 separate Trial Staff cross-examination exhibit, and I guess  
21 the value of this affidavit is just simply to indicate that  
22 we stand by those responses and have no objection to their  
23 admission.

24 JUDGE TURNER: Did I correctly identify them, Mr.  
25 Simms?

1 MR. SIMMS: Your Honor, I believe that it's OTS  
2 Interrogatory RB-60 and PP&L Industrial Customer Alliance  
3 Set I, Question 20.

4 JUDGE TURNER: So PPLICA Set I, Question 20, and the  
5 answer.

6 Ms. Moury, were you able to satisfactorily get  
7 answers to the issues you might have raised had you been  
8 cross-examining?

9 MS. MOURY: Yes, Your Honor. What I did was I sent  
10 three follow-up interrogatories to the company, which I  
11 understand they'll either answer or object to within the  
12 time period allowed, and that should enable us to  
13 incorporate any information that would be provided in our  
14 case at the appropriate time.

15 JUDGE TURNER: All right. Is there any objection  
16 from any party to admitting Statement 6, JJS Exhibit 1,  
17 which is attached to it, and PPLICA Set I, Question 20, the  
18 answer provided by the company to that, and OTS-RB-60, and  
19 the company-provided answer to that, into this record?

20 MR. SIMMS: Your Honor, I don't have an objection to  
21 it, but just for a reference point, could I have -- I  
22 provided to the parties, to the court reporter and to Your  
23 Honor a cross-examination exhibit. Could I have that  
24 identified No. 3, which will be OTS-RB-60 and the Industrial  
25 Customer Alliance Question 20, Interrogatory 20? Could I

1 have that marked for a reference point as OTS Cross-  
2 Examination Exhibit No. 3?

3 JUDGE TURNER: My first response to that is that I  
4 would prefer not to mark it because I think it gets  
5 confusing. We're going to have those exhibits in on  
6 affidavit. I don't think we need them in again as a  
7 separate reference point.

8 MR. SIMMS: The only problem with that, what is that  
9 data going to be marked in terms of a reference point? What  
10 exhibit is it going to be identified as?

11 MR. GADSDEN: If it makes it easier, we can mark Mr.  
12 Slivka's affidavit and the two interrogatory answers  
13 attached to it as Exhibit JJS-2.

14 MR. SIMMS: That's fine. I just want a reference  
15 point.

16 JUDGE TURNER: I'm not sure I understand the problem,  
17 but I want it with the affidavit that supports it.

18 MR. GADSDEN: Certainly. It would be all three  
19 pages.

20 MR. SIMMS: The problem is that when we get to  
21 briefing, there is going to be a reference by other  
22 witnesses to it. The only thing we have is the affidavit  
23 and the attached -- I don't want to go into a long --

24 JUDGE TURNER: Let's discuss it off the record.

25 (Discussion off the record.)

1 JUDGE TURNER: Back on the record.

2 Mr. Simms and Mr. Gadsden clarified the matter for  
3 me, and the exhibit attached to the affidavit will be  
4 company JJS-2, PP&L Exhibit JJS-2, and then that can be the  
5 reference in cross-examination and briefing.

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

9 JUDGE TURNER: Now, are we prepared to allow this  
10 into the record without objection?

11 (No response.)

12 MR. GADSDEN: If there is no objection, then, Your  
13 Honor, we would move the admission of Mr. Slivka's Statement  
14 No. 6 and his exhibits, PP&L Exhibits JJS-1 and JJS-2.

15 JUDGE TURNER: And the supporting affidavit.

16 MR. GADSDEN: Correct.

17 JUDGE TURNER: It is hereby admitted.

18 (Whereupon, the documents marked as  
19 PP&L Statement No. 6 and PP&L  
20 Exhibits Nos. JJS-1 and JJS-2 were  
21 received in evidence.)

22 MR. GADSDEN: Thank you, Your Honor.

23 JUDGE TURNER: I believe Mr. Sipics is the next  
24 witness.

25 MR. GADSDEN: Yes, Your Honor. At this time the

1 company calls Mr. Sipics.

2 Whereupon,

3 JOHN F. SIPICS

4 having been duly sworn, testified as follows:

5 JUDGE TURNER: Will you state your name and spell it  
6 for the record?

7 THE WITNESS: John Sipics, S-i-p-i-c-s.

8 JUDGE TURNER: Middle initial "F", right?

9 THE WITNESS: Right.

10 JUDGE TURNER: Thank you. Please be seated.

11 MR. GADSDEN: Your Honor, at the prehearing  
12 conference the company distributed to the court reporter,  
13 having previously distributed same to the parties and to the  
14 Commission, copies of three documents which Mr. Sipics is  
15 going to be sponsoring this morning and which need to be  
16 marked for identification at this time. The first is a  
17 multi-page document consisting of 15 pages of questions and  
18 answers styled "Direct Testimony of John F. Sipics," which I  
19 would ask be marked for identification as PP&L Statement No.  
20 9. Secondly, a one-page table styled "Pennsylvania Power &  
21 Light Company Load and Capacity Forecast, 1994-2003." That  
22 document I would ask be marked as Exhibit JFS-1. And  
23 finally, a single-page document styled "1993-94 Winter  
24 Forecast Conditions Versus Actual Conditions," and I would  
25 ask that that document be marked as Exhibit JFS-2.

1 JUDGE TURNER: They may be so marked.

2 (Whereupon, the documents were marked  
3 as PP&L Statement No. 9 and PP&L  
4 Exhibits Nos. JFS-1 and JFS-2 for  
5 identification.)

6 DIRECT EXAMINATION

7 BY MR. GADSDEN:

8 Q. Mr. Sipics, by whom are you employed and in what  
9 capacity?

10 A. Pennsylvania Power & Light Company as General  
11 Manager of Power Systems Support.

12 Q. Mr. Sipics, do you have a copy of the document  
13 which has been marked as PP&L Statement No. 9?

14 A. Yes, I do.

15 Q. Was that statement of direct testimony prepared  
16 by you or under your direction and supervision?

17 A. It was prepared under my supervision.

18 Q. Are there any corrections or revisions to  
19 Statement No. 9 that you need to make at this time?

20 A. No, there are not.

21 Q. If I were to ask you the questions set forth in  
22 Statement No. 9 today, would your answers be as contained  
23 therein?

24 A. Yes, they would.

25 Q. And would they be true and correct to the best

1 of your knowledge?

2 A. Yes.

3 Q. Mr. Sipics, turning now to Exhibits JFS-1 and  
4 JFS-2, was the data that is presented in those exhibits  
5 assembled or compiled under your direction and supervision?

6 A. Yes, it was.

7 Q. Is that data true and correct to the best of  
8 your knowledge?

9 A. Yes.

10 MR. GADSDEN: Your Honor, at this time I would move  
11 the admission of PP&L Statement 9, Exhibits JFS-1 and JFS-2,  
12 subject to the standard qualifications and conditions, and  
13 offer Mr. Sipics for cross-examination.

14 JUDGE TURNER: Before I rule on that I would like to  
15 note that Mr. Sipics has with him a very large white plastic  
16 three-ring binder. What is that?

17 THE WITNESS: It's my direct testimony, the  
18 statements and interrogatory responses that I was  
19 responsible for.

20 JUDGE TURNER: It's no additional charts, tables or  
21 information?

22 THE WITNESS: No.

23 JUDGE TURNER: Thank you.

24 There being no objection from any party, the  
25 identified documents are admitted, subject to motions to

1 strike, objections, et cetera.

2 (Whereupon, the documents marked as  
3 PP&L Statement No. 9 and PP&L  
4 Exhibits Nos. JFS-1 and JFS-2 were  
5 received in evidence.)

6 MR. GADSDEN: Thank you, Your Honor.

7 JUDGE TURNER: Mr. Simms.

8 MR. SIMMS: Thank you, Your Honor.

9 CROSS-EXAMINATION

10 BY MR. SIMMS:

11 Q. Good morning, Mr. Sipics.

12 A. Good morning.

13 Q. My name is Johnnie Simms. I'm one of the  
14 attorneys representing the Office of Trial Staff in this  
15 proceeding.

16 I would like to refer you to your Exhibit JFS-1. Do  
17 you have that before you, sir?

18 A. I have it.

19 Q. I want to ask you a few questions to clarify for  
20 the record what we have in these columns and so forth. Now,  
21 am I not correct that the column titled "Winter Peak Load"  
22 includes the energy need for the Electric Utility Division  
23 of UGI?

24 A. Yes, it does.

25 Q. Does it also include the energy need for the 16

1 municipal customers and Citizens Electric?

2 A. Yes, it does.

3 Q. Now, the column titled "Firm Capacity Sales"  
4 includes the sale of energy and capacity, does it not?

5 A. Firm capacity sales are sales of actual units on  
6 PP&L, or portions of units on PP&L; firm capacity and  
7 energy, yes.

8 Q. Now, for the record, you have several  
9 abbreviations. Just so the record is clear, NUG, which is  
10 N-U-G, stands for non-utility generation, does it not?

11 A. Yes.

12 Q. And the abbreviation IL stands for interruptible  
13 load; correct?

14 A. Yes, it does.

15 Q. And the abbreviation CC sales stands for  
16 capacity credit sales to other utilities; correct?

17 A. Yes.

18 Q. Now, looking at the exhibit, the derivation of  
19 net resources at the time of peak are developed by  
20 subtracting firm capacity sales to other utilities from PP&L  
21 owned and leased capacity; correct?

22 A. Yes, that's right, sir. I think I have a  
23 correction to what we said right in the beginning here. On  
24 winter peak load, we're talking about PP&L company load at  
25 this time, which does include supply to the 16 municipals

1 and to Citizens Electric, but I don't believe includes  
2 supply to the Luzerne Electric Division of UGI.

3 Q. So the winter peak load does not include energy  
4 need for the energy utility of UGI; is that correct?

5 A. Yes.

6 Q. Is the energy need for UGI identified on this  
7 exhibit?

8 A. That's a good question. I'm having trouble  
9 remembering. We used company load, system load and group  
10 load. In one case it's only PP&L by itself. In another  
11 case system load means supply to the net requirements of  
12 Luzerne Electric Division of UGI and company load, which  
13 includes the supply to 16 municipals and Citizens Electric.  
14 And then the third case we show our load plus UGI's load,  
15 without recognition of the fact that they own capacity to  
16 supply a portion of that load, and then show their capacity  
17 elsewhere.

18 I know we're not using group load here, which would  
19 be the sum of the two.

20 JUDGE TURNER: If we went off the record would you be  
21 able to ascertain that from documents here in the hearing  
22 room?

23 THE WITNESS: Yes, I would.

24 JUDGE TURNER: Do any parties have any objection to  
25 that?

1 MR. SIMMS: I have no objection, Your Honor.

2 JUDGE TURNER: Let's go off the record then.

3 (Discussion off the record.)

4 JUDGE TURNER: Let's go back on the record.

5 This witness has consulted with other PP&L employees  
6 in the room and looked at some documents here also.

7 Can you now give the correct answer to that question?

8 THE WITNESS: Yes, I can, Your Honor. I'm sorry for  
9 the confusion. We use load so many different ways.

10 This is PP&L system load. When we talk about the  
11 system load, that does include the net requirement supply to  
12 Luzerne Electric Division, so the first answer I gave you is  
13 actually the correct answer.

14 MR. SIMMS: Okay. Thank you.

15 JUDGE TURNER: So UGI's energy needs are reflected on  
16 this exhibit?

17 THE WITNESS: Their net requirements. It recognizes  
18 the fact that they own some generation at Hunlock and a  
19 piece of Conemaugh; so it doesn't reflect their total load,  
20 but it reflects their net load, which is what we're  
21 responsible for supplying.

22 JUDGE TURNER: Are you ready to proceed, Mr. Simms?

23 MR. SIMMS: Yes, I am.  
24  
25

1 BY MR. SIMMS:

2 Q. You may have answered this question, but let me  
3 go back to it again. The derivation of net resources at the  
4 time of peak are developed by subtracting firm capacity  
5 sales to other utilities from the PP&L owned and leased  
6 capacity; correct?

7 A. Yes, sir.

8 Q. And the reserves at the time of peak was then  
9 calculated by subtracting the net resources at the time of  
10 peak from the winter peak load; correct?

11 A. Well, actually the opposite; subtracting the  
12 winter peak load from the net resources at the time of the  
13 peak.

14 Q. Okay. Thank you.

15 Now, the column on this exhibit titled "Reserves at  
16 the Time of Peak" also illustrate the reserves at the time  
17 of peak as a percentage of the winter peak load; correct?

18 A. Yes, sir.

19 Q. Now, you would agree, would you not, that  
20 reserves at the time of peak are resources that exist over  
21 and above the winter peak demand?

22 A. Yes, they are resources over and above winter  
23 peak demand. There are obviously reasons for having  
24 resources beyond your absolute winter peak.

25 Q. And you would agree, would you not, that a

1 utility needs to have reserves over and above its winter  
2 peak demand in order to provide reliable service to its  
3 customers; correct?

4 A. Yes, sir.

5 Q. The reserve percentages that are listed in the  
6 column titled "Reserves at the Time of Peak" are commonly  
7 referred to as the reserve margin; correct?

8 A. Yes, sir.

9 Q. Now, would you agree that the reserve margin  
10 shown in this column ranges from a low of 9.1 percent in the  
11 winter of 1995-1996 to a high of 14.9 percent in the winter  
12 of the year 2000-2001?

13 A. Yes.

14 Q. Keeping that exhibit in front of you, I would  
15 like to refer you to page 8, lines 10 through 13, of your  
16 testimony.

17 You can let me know when you've located that.

18 A. I have that.

19 Q. Now, in this testimony you testified that PP&L  
20 is a member of PJM and PJM requires PP&L to have a 12  
21 percent reserve requirement during the winter peak load;  
22 correct?

23 A. PJM requires PP&L, as a member of PJM, to  
24 provide an installed capacity obligation that when you  
25 express it as a percentage of our winter peak load

1 translates into 12 percent, yes.

2 Q. Let me refer you to your response to OTS-RB-53.

3 MR. SIMMS: Your Honor, at this time, while the  
4 witness is locating that, I'm going to ask that the company  
5 responses to RB-62, RB-27D, RB-28D, RB-52, RB-53, RB-55 and  
6 RB-57 be marked for identification as OTS Cross-Examination  
7 Exhibit No. 3. May it be so identified?

8 JUDGE TURNER: This is a multi-paged --

9 MR. SIMMS: A multi-page document; that's correct.

10 JUDGE TURNER: -- tabbed document.

11 MR. SIMMS: Yes.

12 JUDGE TURNER: It may be so marked as OTS Cross-  
13 Examination Exhibit 3.

14 (Whereupon, the document was marked  
15 as OTS Cross-Examination Exhibit No.  
16 3 for identification.)

17 (Pause.)

18 JUDGE TURNER: Is there a problem with a copy for the  
19 witness?

20 MR. GADSDEN: I think we're okay.

21 JUDGE TURNER: Did you just receive them?

22 THE WITNESS: Yes. I have them. They were prepared  
23 under my direction. I have copies of them here.

24 JUDGE TURNER: So you don't need time to review them?

25 THE WITNESS: No.

1 JUDGE TURNER: Okay, Mr. Simms.

2 MR. SIMMS: Your Honor, for the record, copies have  
3 been provided to the court reporter and to the parties in  
4 the case.

5 BY MR. SIMMS:

6 Q. Mr. Sipics, did you prepare this response to  
7 OTS-RB-53?

8 A. This response was prepared under my direction.

9 Q. On page 2 of the response you show how the 12  
10 percent reserve margin is calculated, do you not?

11 A. Yes, sir.

12 JUDGE TURNER: I'm sorry, Mr. Simms, which --

13 MR. SIMMS: Page 2 of RB-53.

14 JUDGE TURNER: RB-53.

15 MR. SIMMS: Yes.

16 BY MR. SIMMS:

17 Q. Am I not correct that the 12 percent reserve  
18 requirement is calculated by taking the difference of the  
19 system resource requirement and the system forecast winter  
20 peak load and dividing the difference by the system forecast  
21 winter peak?

22 A. Yes, you're correct.

23 Q. Comparing your response on page 2 of RB-53 and  
24 your Exhibit JFS-1, when we look at the column titled  
25 "Reserve at the Time of Peak" on Exhibit JFS-1 -- do you

1 have that?

2 A. Yes, I do.

3 Q. Would you agree that reserves at the time of  
4 peak expressed as a percentage are calculated exactly the  
5 same way as your response to OTS-RB-53?

6 A. Yes, they are. They're both on the percentage  
7 of winter peak load. There could be a slight difference in  
8 the sense that our installed capacity obligation is a  
9 forward instrument, those commitments are made two years  
10 ahead of time, so the load forecast could be different in  
11 the numbers that you're seeing as the basis for the 1994-95  
12 installed capacity obligation runs and what you see in  
13 JFS-1. In other words, the load forecast shown on JFS-1 for  
14 1994-95 is our latest load forecast. The load forecast  
15 that's the basis for the installed capacity obligation was,  
16 I believe, something like 30 megawatts different. It wasn't  
17 significantly different but there was a difference.

18 JUDGE TURNER: And that's what is reflected in OTS-  
19 RB-53, page 2?

20 THE WITNESS: OTS-RB-53, page 2, the 6575, is the  
21 1994-95 load forecast done in 1992. So that's why you see a  
22 slight different there, 6575 versus 6605 in JFS-1.

23 BY MR. SIMMS:

24 Q. Now, the amounts listed under percentage -- I'm  
25 looking at your JFS-1 -- are fairly close to the PJM reserve

1 requirement; are they not?

2 A. Yes, they are.

3 Q. The 12 percent requirement basically indicates  
4 that PP&L's installed generating resources are 12 percent  
5 greater than PP&L's forecasted peak loads; correct?

6 A. Generally. It varies over the time frame.

7 JUDGE TURNER: May I ask a clarifying question here?  
8 Would you mind, Mr. Simms?

9 MR. SIMMS: No.

10 JUDGE TURNER: How close is PP&L's winter peak to its  
11 summer peak?

12 THE WITNESS: I can probably get the numbers, but  
13 winter peak is probably a thousand megawatts higher than the  
14 summer peak.

15 JUDGE TURNER: Okay. Thanks.

16 BY MR. SIMMS:

17 Q. If PP&L's forecasted winter peak load was  
18 lower -- I'm looking at your response to OTS-RB-53 -- would  
19 the PJM requirement be higher than 12 percent?

20 A. Maybe I didn't quite understand that. Could you  
21 repeat that?

22 Q. Looking at your response to OTS-RB-53, page 2,  
23 if PP&L's forecasted winter peak load was lower, would the  
24 PJM requirement be higher than 12 percent?

25 A. If our forecast winter peak load were lower and

1 you didn't change our summer peak load, and nothing else  
2 changed, then the percentage installed capacity obligation  
3 would be a little bit higher, I would suggest.

4 Q. A little bit. Could you quantify that?

5 A. Well, it's tough to do these calculations in my  
6 head, but there's a sharing of winter/summer diversity and  
7 we get 50 percent of that, so depending on -- if our winter  
8 peak were lowered and our summer peak stayed the same, you  
9 would wind up with a smaller diversity credit, which would  
10 increase your obligation as a percentage of your winter peak  
11 load. That's why it doesn't stay exactly the same.

12 Q. PP&L is a winter peaking utility, is it not?

13 A. Yes, sir.

14 Q. Would PP&L's reserve requirement be higher if it  
15 were a summer peaking utility?

16 A. On the percentage of our peak load.

17 Q. Yes.

18 A. Yes, because the rest of PJM is a -- PJM is a  
19 summer peaking pool.

20 Q. You would agree, would you not, that reserve  
21 requirement is needed in case of unavailable generating  
22 capacity due to planned and unplanned outages and the  
23 potential that customers' demand could exceed forecasted  
24 peaks?

25 A. Those are two of the significant reasons, yes,

1 that you need reserves above forecasted peak load.

2 Q. The 12 percent reserve requirement protects PP&L  
3 and its customers from forced outages, does it not?

4 A. Excuse me, sir?

5 Q. The 12 percent reserve requirement protects PP&L  
6 and its customers from forced outages?

7 A. The fact that we have reserves insures that we  
8 could continue to supply load even when there are forced  
9 outages.

10 JUDGE TURNER: Excuse me. Can you answer that yes or  
11 no?

12 THE WITNESS: I was trying. I have a little  
13 difficulty just saying a straight yes. I mean certainly the  
14 fact that you have reserves gives you a better probability  
15 of carrying the load than if you didn't have reserves, so I  
16 guess it's a qualified yes.

17 JUDGE TURNER: And you can go ahead and explain your  
18 answer.

19 THE WITNESS: What I wanted to go on and explain then  
20 was the fact that no level of reserves would guarantee, of  
21 course, that you have the ability to supply your load under  
22 all conditions. You just have to look back to last January  
23 19 where on PJM we had as many as 21,000 megawatts  
24 unavailable at one time, and that's not something you would  
25 deem prudent to calculate reserves, to carry it through

1 those kinds of conditions. But certainly the fact that we  
2 have a 12 percent reserve is consistent with our idea that  
3 you supply customer demand under reasonable conditions to a  
4 loss of load criteria of one event in ten years.

5 BY MR. SIMMS:

6 Q. That, in fact, is the purpose of the 12 percent  
7 reserve requirement; correct?

8 A. Yes. The purpose of the reserve requirement is  
9 to insure sufficient reserves to meet the load when the  
10 criteria of no more than one event in ten years was  
11 insufficient.

12 Q. Let's look at, once again, your Exhibit JFS-1.  
13 You agree, do you not, that the winter of '94-'95, that the  
14 company had 735 megawatts in excess of its forecasted peak  
15 load?

16 A. Yes.

17 Q. Now, to translate that in layman's terms, that  
18 means that the company could have forced outages of 735  
19 megawatts and still be able to meet its peak load?

20 A. Yes. It goes beyond that. Partly it gets to  
21 the energy supply. When we operate in PJM, one of the  
22 advantages is that you don't always try to supply your own  
23 load with your own generation. One of the reasons our  
24 reserve requirement is as low as it is is because we  
25 recognize that help is available from other utilities. But

1 you're right, your straight question that we could have 735  
2 megawatts of forced outage and still carry our load with our  
3 own generation is correct.

4 Q. Let's look at the column on Exhibit JFS-1 titled  
5 "Interruptible Load." This column represents the company's  
6 estimate of load that will be available during peak demand  
7 if it was interruptible, does it not?

8 A. Yes. This column represents the estimate of the  
9 excess of anticipated demand over the firm demand levels of  
10 those interruptible customers, and it's the capacity  
11 equivalent of that excess.

12 Q. And the interruptible load is projected on this  
13 exhibit as 345 megawatts for the next ten years; correct?

14 A. Yes. What that represents is the capacity  
15 equivalents of the interruptible load that we forecast at  
16 that time, so there's really -- the difference between what  
17 we would serve without interruptible contracts and the firm  
18 levels that a customer has agreed to go down to is actually  
19 290 megawatts. Then when you take into account you do not  
20 need to supply reserves on that level, it translates into an  
21 equivalent capacity number of 345 megawatts. That's the  
22 number you see there.

23 Q. Am I not correct that the interruptible load  
24 actually increases the reserve at the time of peak?

25 A. To the extent we would ask the customers to go

1 down to firm levels, yes, sir.

2 Q. Now, in the next column you show the reserves at  
3 the time of peak by combining PP&L's owned and leased  
4 capacity with the interruptible load; correct?

5 A. Yes, sir.

6 Q. Looking at the reserve percentages for the  
7 interruptible load adjustment, we see a range of reserve  
8 margins from a low of 14.2 percent to a high of 19.6  
9 percent; correct?

10 A. Yes.

11 Q. You would agree that the 19.6 percent reserve  
12 margin, the company has 19.6 percent greater reserve than  
13 its winter peak load forecast; correct?

14 A. Yes, taking into account the fact that you  
15 wouldn't be supplying some of that load because some of  
16 those resources are the interruptible customers. But the  
17 percentage is calculated on the basis of full supply to  
18 those customers.

19 Q. Let me refer you to page 11, lines 20 through  
20 30, of your testimony.

21 Do you have that?

22 A. Yes, I do.

23 Q. Is it my understanding that it is your testimony  
24 that the most appropriate basis for assessing PP&L's reserve  
25 margins in this rate proceeding is to only reflect the

1 company's owned and leased capacity and the interruptible  
2 load?

3 A. Yes, it is.

4 Q. So when we examine Exhibit JFS-1, it is your  
5 belief that the reserves at the time of peak with  
6 interruptible load included is a sufficient reserve margin  
7 to meet your customers' reliability needs?

8 A. Yes, sir. Those are our actual reserve margins.

9 Q. Pardon?

10 A. Those are our actual reserve margins over the  
11 forecast load.

12 Q. So it's your testimony that any generating  
13 resources above the reserves at the time of peak with the  
14 interruptible load would be excess capacity in PP&L's  
15 opinion?

16 A. No, I wouldn't agree with that assertion. I  
17 think there's several reasons, some of which we discussed in  
18 direct testimony, why it might be appropriate to have  
19 reserves above the minimum level required for reliable  
20 operation in PJM.

21 Q. Let me refer you now to your Exhibit JFS-1, the  
22 column titled "NUG," N-U-G. You would agree, would you not,  
23 that the NUG generation is projected to be 474 megawatts  
24 from the winter of '95-'96 through the year 2003?

25 A. Yes, sir. Actually, from June '95 until the

1 year 2003 we project 474 megawatts.

2 Q. So if NUG power were considered by the company  
3 to be a legitimate reserve at the time of peak, the company  
4 would have at least 474 megawatts of excess capacity, would  
5 it not?

6 A. I wouldn't characterize it as excess capacity.  
7 We would have an additional 474 megawatts available.

8 Q. Let me refer you to your response to OTS-RB-52,  
9 part b). Let me know when you have it before you.

10 A. I have it.

11 Q. Am I not correct that your response in essence  
12 suggests that most of the non-utility generation in PP&L's  
13 service territory has achieved a level of reliability that  
14 parallels utility generation? Correct?

15 A. As measured by the capacity factor, yes.

16 Q. As you have identified in your direct testimony  
17 on page 12, federal law required that the company purchase  
18 NUG power to satisfy the conditions and provisions under  
19 Section 210 of the Public Utility Regulatory Policy Act of  
20 1978; correct?

21 A. Yes.

22 Q. Does the NUG generation that you were referring  
23 to in part b) of OTS-RB-52 satisfy Section 210 of the Public  
24 Utility Regulatory Policy Act of 1978?

25 A. Yes, it does in my understanding.

1 Q. I think we did agree earlier or you testified  
2 earlier that PP&L does not consider NUG generation in its  
3 net resources at the time of peak; is that a correct  
4 statement?

5 A. What I think we were suggesting was that for  
6 purposes of a rate case, the appropriate calculation of  
7 reserve would be excluding NUGs since we had no control over  
8 the addition of NUGs to our resources. I would suggest  
9 that --

10 JUDGE TURNER: Would you answer his question yes or  
11 no, please?

12 THE WITNESS: Okay. I guess then I need to have it  
13 repeated since I was probably off wandering.

14 BY MR. SIMMS:

15 Q. I think we agreed earlier or at least you  
16 testified earlier that the company does not consider NUG  
17 generation in its net resources at the time of peak; is that  
18 correct?

19 A. No. I'll say, no, we did not indicate -- we  
20 don't consider it as a resource at the time of peak. We do  
21 use it in meeting our peak and installed capacity  
22 obligation. It allows us to make additional capacity credit  
23 sales and increase revenues to the company, which are flowed  
24 through to customers. We were suggesting that it was not  
25 appropriate to include NUG in the reserve calculation for

1 purposes of this rate proceeding.

2 Q. Why is that?

3 A. Well, one of the elements of a rate proceeding  
4 is to look at whether what capacity we've built is  
5 appropriate and prudent and used and useful. I don't know  
6 why you would consider capacity that we purchased after our  
7 last units that we built in making that determination.

8 Q. The last capacity addition made by PP&L was  
9 Susquehanna Nuclear Unit 2, was it not?

10 A. Yes. Can I clarify just a second? We do some  
11 modifications of capacity along the way. I understand your  
12 question as a capacity addition to be the building of a unit  
13 that adds to our capacity as opposed to something like an  
14 upgrade project that increases capacity available to us.

15 Q. That's right.

16 A. So in that case the answer is yes.

17 Q. To the best of your knowledge, do you know,  
18 while PP&L was planning Susquehanna Units 1 and 2, was the  
19 company aware of any NUG construction?

20 A. Certainly not when we undertook construction.  
21 That was a long lead-time project. We were talking about  
22 Susquehanna when I started with PP&L back in 1970. I know I  
23 had no idea of non-utility generation coming along. I guess  
24 my paradigm was a little bit different. I suspect that was  
25 true of most people, although I can't speak for everybody

1 else.

2 Q. Now, as you indicated I think in your response,  
3 the NUG daily capacity factor for the most recent peak day  
4 was 79.3 percent. Do you recall that?

5 A. I don't recall the exact number, but that sounds  
6 about right.

7 Q. How did the company's generating units compare  
8 to that number?

9 A. Let me see if I can find a cite.

10 (Witness perusing document.)

11 A. I can't find the source of that right now.

12 Q. I think it was RB-61.

13 JUDGE TURNER: Is it part of the cross-examination  
14 exhibit?

15 MR. SIMMS: No, it's not.

16 BY MR. SIMMS:

17 Q. I said RB-61. I don't know if that's -- are you  
18 looking for the document to compare the company's generating  
19 units?

20 A. I was looking for OTS-RB-61.

21 JUDGE TURNER: Let's go off the record.

22 (Discussion off the record.)

23 JUDGE TURNER: Let's go back on the record.

24 You have a question pending?  
25

1 BY MR. SIMMS:

2 Q. Yes, I have a question pending: how did the  
3 company's generating units compare to the 79.3 percent  
4 capacity factor for NUGs? And your answer?

5 A. I don't have that data available, although I  
6 guess I would ask, if it's possible, ask the purpose of the  
7 question, because if you look at capacity factors, what  
8 that's going to tell you is what they ran at the time of the  
9 peak, which is a combination of reliability and economy.  
10 Now, with non-utility generation they're almost the same,  
11 because non-utility generation is essentially must run; if  
12 it's available it runs. With PP&L generation, if combustion  
13 turbines aren't required, we don't run six combustion  
14 turbines to supply load. So giving you a capacity factor --  
15 I don't know what your purpose is, but giving you a capacity  
16 factor to look at reliability isn't probably the appropriate  
17 element to look at.

18 JUDGE TURNER: Nonetheless, you could provide  
19 information, and perhaps off the record a data request could  
20 be fashioned that would satisfy you.

21 MR. SIMMS: Yes. We'll make an on-the-record data  
22 request, and we will speak to you off the witness stand and  
23 try to do that informally, if possible.

24 THE WITNESS: Okay. Thank you.

25 JUDGE TURNER: Is the on-the-record data request

1 clear at this point, or are you going to make it clear off  
2 the record?

3 MR. GADSDEN: It's not clear to me because there was  
4 no time frame given. If we're talking about a peak day,  
5 then that's one thing, if we're talking about over an annual  
6 period, then that's something else. But I'm sure we can  
7 square this away with Mr. Simms off the record.

8 MR. SIMMS: Yes.

9 JUDGE TURNER: Okay. Fine. Let's move on then.

10 BY MR. SIMMS:

11 Q. Let's refer you back now to your Exhibit JFS-1.  
12 You would agree with me, would you not, that if NUG power  
13 was included in the resources at the time of peak, that the  
14 reserve margins range from a low of 21 percent to a high of  
15 26 percent; correct?

16 A. Yes, sir.

17 Q. Your next column on Exhibit JFS-1 shows capacity  
18 credit sales to other PJM utilities; correct?

19 A. Yes.

20 Q. Would you agree that capacity sales to other PJM  
21 utilities is different from firm capacity sales to other  
22 utilities that we discussed earlier that you have listed in  
23 the fourth column on this sheet?

24 A. Yes.

25 Q. Would you agree that capacity credit sales to

1 other PJM utilities is a transaction where an installed  
2 capacity deficient PJM member utility can purchase the right  
3 to claim a portion of the installed capacity of a PJM member  
4 utility that has sufficient capacity reserves in order to  
5 meet its capacity obligation under the PJM agreement?

6 A. Yes.

7 Q. A capacity credit sale is neither energy or  
8 capacity involved; isn't that correct?

9 A. Yes. It doesn't involve energy. It does  
10 involve capacity for the purposes of installed capacity  
11 accounting. For no other purpose.

12 JUDGE TURNER: So your answer is yes?

13 THE WITNESS: As I understood the question, it's a  
14 yes and no, I guess.

15 JUDGE TURNER: It sounded contradictory to me.  
16 That's the only reason I asked.

17 BY MR. SIMMS:

18 Q. Maybe this question here will clarify. In  
19 essence, a capacity credit sale is a paper transaction, is  
20 it not?

21 A. It's an installed capacity accounting  
22 transaction, so it is a paper transaction. We don't give  
23 anybody ownership rights to our capacity. So I guess that's  
24 a no.

25 Q. Would you agree that a capacity sale credit is

1 labeled as a penalty payment from a capacity deficient PJM  
2 member to a capacity excess PJM member?

3 A. Yes. I guess as PJM installed capacity  
4 accounting defines a short company and a long company, I  
5 would agree.

6 Q. Is it your position that capacity credit sales  
7 should not be included in the calculation of reserves at the  
8 time of peak?

9 A. I guess it would depend on what purpose you were  
10 making that calculation for. Obviously, if you were trying  
11 to calculate it for purposes of PJM installed capacity  
12 obligation, you would need to reflect those capacity credit  
13 sales. If you're looking at it for your sufficiency to meet  
14 load, I would not.

15 MR. SIMMS: Your Honor, might I approach the witness?

16 JUDGE TURNER: Certainly. Consult with his counsel  
17 first.

18 (Pause.)

19 BY MR. SIMMS:

20 Q. I recognize that this is not your response to an  
21 OTS interrogatory. Did you have an opportunity to utilize  
22 those numbers in your calculation of your Exhibit JFS-1?

23 (Document shown to witness.)

24 JUDGE TURNER: Could we identify what you have shown  
25 him?

1 MR. SIMMS: I'm showing him the company's response to  
2 OTS-RB-26D that was responded to by Mr. Kleha.

3 BY MR. SIMMS:

4 Q. If you don't recall, just say you don't recall  
5 and I can ask Mr. Kleha.

6 JUDGE TURNER: You're simply asking if he used those  
7 numbers in calculations for one of his responses?

8 MR. SIMMS: Yes. In calculations for his JFS-1.

9 THE WITNESS: These numbers reflect dollars and  
10 revenues, and the numbers in JFS-1 are megawatts, so I  
11 didn't use these numbers at all in JFS-1. They're not  
12 really relevant. We're looking at megawatts rather than  
13 dollars.

14 JUDGE TURNER: You're saying there is no connection  
15 between them?

16 THE WITNESS: Well, there would be a connection  
17 because the capacity credit sales result in revenues that  
18 probably result in the number you see on this sheet. It  
19 really doesn't have anything to do with what I was doing in  
20 JFS-1.

21 JUDGE TURNER: Would you be able to trace them from  
22 one to the other?

23 THE WITNESS: You should be able to look at the  
24 megawatts of capacity credit sales and ultimately the  
25 associated revenue.

1 JUDGE TURNER: And find where they appear on there?

2 THE WITNESS: No, you wouldn't be able to find where  
3 they appear on there.

4 JUDGE TURNER: Okay. Thank you.

5 Mr. Simms, pardon the interruption.

6 BY MR. SIMMS:

7 Q. So I can understand your answer clearly, are you  
8 suggesting that capacity credit sales to other PJM utilities  
9 is not the same as the off-system sales referred to in  
10 OTS-RB-26?

11 A. It's one part of those sales. It's not the  
12 same, no.

13 Q. Let me now refer you to your response to  
14 OTS-RB-57, Attachment 3.

15 Do you have that before you?

16 A. I have that response.

17 Q. If I took the total listed in this attachment of  
18 approximately 3.5 million megawatts -- do you see that total  
19 down there, 3.5?

20 A. Yes, I do.

21 Q. -- and divided that by the approximate 8,760  
22 hours per year, would I be correct in saying that the  
23 projected future test year forced outages are 405 megawatts?

24 A. You would not be correct in saying that it was  
25 the forced megawatts. What you would have done I think is

1 translate the unserved energy into an average unserved  
2 energy in an hour as a result of forced outages.

3 Q. So you're saying that if I divide the total by  
4 the number of hours in a year, I will not derive the  
5 projected megawatts of forced outages?

6 A. I'm trying to remember if we did this -- I guess  
7 this could have been a straight way of doing that, but lost  
8 generation actually varies from that. Okay. I guess the  
9 way we did this, it would approximate the average forced  
10 outages megawatts. The lost generation could vary because  
11 capacity may not have been called on to run in a given hour.  
12 So I guess what the variation is, is the number here rather  
13 than the average forced outage megawatts. So yes, your 405  
14 is an approximation of the average forced outage megawatts.

15 Q. Four-oh-five?

16 A. Assuming your division was correct. I didn't do  
17 it.

18 JUDGE TURNER: The number was 405 or 45?

19 MR. SIMMS: Four-oh-five.

20 BY MR. SIMMS:

21 Q. In your testimony you testify that the reserve  
22 margin should be looked at as a range, do you not?

23 A. Yes, sir.

24 Q. If PJM requires a minimum reserve margin of 12  
25 percent, and PP&L uses the megawatts associated with the 12

1 percent during a winter peak, isn't it true that PP&L could  
2 and should be able to rely on PJM for any resources needed  
3 after the 12 percent?

4 A. Yes. One of the benefits of being a member of  
5 PJM is to get the benefits of diversity where your forced  
6 outages might occur at a time that their's didn't, but there  
7 still are a lot of reasons why you would want to go above 12  
8 percent. That's a minimum level that we will have --

9 JUDGE TURNER: Excuse me. Your answer to that  
10 question is yes?

11 THE WITNESS: Yes.

12 BY MR. SIMMS:

13 Q. Does the benefit of PP&L being the only PJM  
14 member that peaks during the winter time reduce the upper  
15 limit of the company's reserve margin range?

16 A. Yes. The benefit of -- well, it reduces the  
17 base number itself. The fact that we're a winter peaking  
18 company, the diversity that we get by being a winter peaking  
19 company in a summer peaking pool is a part of the reason our  
20 reserve requirement is 12 percent as opposed to 22 percent,  
21 which is the actual PJM reserve requirement number. So I  
22 guess I wouldn't suggest it reduces the upper limit of the  
23 range. It's one of the factors that you come up with 12  
24 percent in the first place, which is the lower limit in the  
25 range.

1 Q. And the fact that PP&L is the only winter peak  
2 company reduces the range itself, does it not?

3 A. It reduces the minimum number in the range.  
4 It's a reason for 12 percent as opposed to 22. In fact, I  
5 would suggest that maybe winter diversity is one reason why  
6 we would want to have beyond 12 percent. The number is that  
7 low now because we're a winter peaking company in a summer  
8 peaking pool, but for one thing, with the competition --

9 JUDGE TURNER: Excuse me. Could we go off the record  
10 for a minute?

11 (Discussion off the record.)

12 JUDGE TURNER: Back on the record.

13 BY MR. SIMMS:

14 Q. I know there's a minimum range of 12 percent.  
15 Is there not an upper range?

16 A. I have a little difficulty putting an upper  
17 limit on a range. We talked about some factors that would  
18 cause you to want to install more than 12 percent, and I can  
19 discuss those if you wish.

20 Q. Earlier in your testimony you had made reference  
21 to last winter, I believe.

22 A. Yes, sir.

23 Q. Are you the best witness to discuss the rolling  
24 brownouts that occurred last January 18 and 19 of 1994?

25 A. I was manager of system operating at that time,

1 so yes, I guess, of the people we have here.

2 Q. To the best of your knowledge, which day did  
3 PP&L incur the rolling brownouts?

4 A. January 19, a Wednesday.

5 Q. Would I be correct that the temperatures  
6 recorded during those days, January 18 and 19, were the  
7 coldest temperatures recorded in a hundred years?

8 A. Yes, to my recollection.

9 Q. So you would agree, would you not, that the  
10 temperature and weather conditions were abnormal?

11 A. Yes, sir.

12 Q. Do you recall which generating units were out  
13 during this time?

14 A. I don't recall all of them. I know there were a  
15 lot all over PJM. As I said, at one point there were 21,000  
16 megawatts out between planned and forced outages.

17 JUDGE TURNER: In the PJM pool?

18 THE WITNESS: In the pool, yes.

19 BY MR. SIMMS:

20 Q. Am I correct that Susquehanna 1 and 2 were out  
21 because of mechanical difficulty with a rod crane?

22 A. No, sir. My recollection is that the one unit  
23 that was on an extended maintenance outage was out on the  
24 19th, but the other unit was available on the 19th, it is my  
25 recollection.

1 Q. Let me refer you to Attachment 1-B-2b, page 16  
2 of 33. Do you have that?

3 MR. GADSDEN: Attachment to what?

4 JUDGE TURNER: Are you referring to your cross-  
5 examination exhibit?

6 MR. SIMMS: No, it's not a cross-examination exhibit.  
7 It's Mr. --

8 JUDGE TURNER: Let's go off the record for a minute.  
9 (Discussion off the record.)

10 JUDGE TURNER: Let's go back on the record.

11 Mr. Simms has referred you to PP&L-1, Volume I, and  
12 then I need help after that with the page number.

13 THE WITNESS: It looks like it's page 16 of 33.

14 MR. GADSDEN: It's Attachment 1-B-2b, page 16 of 33.

15 JUDGE TURNER: Okay. And the witness has it?

16 THE WITNESS: Yes, I do.

17 JUDGE TURNER: Do you have a question pending?

18 MR. SIMMS: Yes, I do.

19 JUDGE TURNER: Do you remember the question?

20 MR. SIMMS: No. I didn't phrase it yet.

21 BY MR. SIMMS:

22 Q. Let me refer you to the schedule captioned  
23 "Refueling Susquehanna No. 1." Do you see that?

24 A. Yes, I do.

25 Q. Now, the start date for refueling was September

1 25, 1993; correct?

2 A. Yes, sir.

3 Q. And the refueling lasted until mid January;  
4 correct?

5 A. Yes, it did. This is the unit I recall being  
6 out during the emergency.

7 Q. Now, you would agree, would you not, that more  
8 action occurred at this scheduled outage other than  
9 refueling; correct?

10 A. Yes, sir. I'm not intimately familiar with the  
11 particulars, but that was our worst refueling outage by far.

12 Q. In fact, one of the problems was the jet pump  
13 beam brackets; do you recall that?

14 A. I recall there was discussion about the need to  
15 replace some jet pump beams, but again, I'm not too familiar  
16 with the nuclear plant or its operation.

17 Q. Would you also agree that the problems  
18 associated with the refueling mast and the jet pump beam  
19 brackets extended the outage time of the refueling?

20 A. Yes, they did, to my recollection.

21 Q. So you would agree that a normal refueling would  
22 have been completed by the first of December; correct?

23 A. I don't know. I guess.

24 Q. Is there anyone in the company you can identify  
25 to ask that question?

1 JUDGE TURNER: Let's go off the record while you  
2 check that.

3 (Discussion off the record.)

4 JUDGE TURNER: Let's go back on the record.

5 Mr. Simms, do you have an on-the-record data request?

6 MR. SIMMS: My on-the-record data request is to have  
7 the company provide a record identifying when a normal  
8 refueling of Susquehanna 1 would have been completed.

9 JUDGE TURNER: And the company can provide that?

10 MR. GADSDEN: Yes, we can.

11 JUDGE TURNER: Within ten days?

12 MR. GADSDEN: Yes.

13 JUDGE TURNER: Okay.

14 (Pause.)

15 JUDGE TURNER: Do you have other questions?

16 MR. SIMMS: Yes, I do.

17 BY MR. SIMMS:

18 Q. Mr. Sipics, did you prepare the company's  
19 response to OTS-RB-69?

20 A. Yes, I did.

21 JUDGE TURNER: Is that in OTS Cross-Examination  
22 Exhibit 3?

23 MR. SIMMS: No, it's not. It's separate.

24 MR. GADSDEN: Is this going to be 4?

25 MR. SIMMS: Yes.

1 THE WITNESS: Sixty-nine was prepared under my  
2 direction.

3 MR. SIMMS: Your Honor, I'm going to ask that the  
4 company's response to that interrogatory be marked for  
5 identification as OTS Cross-Examination Exhibit No. 4. May  
6 it be so identified?

7 JUDGE TURNER: I have two remaining OTS Cross-  
8 Examination Exhibits.

9 MR. SIMMS: Yes.

10 JUDGE TURNER: Which one is it?

11 MR. SIMMS: It's RB-69.

12 JUDGE TURNER: Thank you. You did say that before.  
13 That's No. 4, right?

14 MR. SIMMS: That's correct.

15 JUDGE TURNER: It may be so marked.

16 (Whereupon, the document was marked  
17 as OTS Cross-Examination Exhibit No.  
18 4 for identification.)

19 BY MR. SIMMS:

20 Q. Mr. Sipics, did you prepare the company's  
21 response to OTS-RS-10D?

22 MR. SIMMS: While the witness is looking for that,  
23 Your Honor, and the parties, this document which I have  
24 handed to the parties is an excerpt of the company's full  
25 response to that interrogatory. In speaking with the

1 company, Mr. Gadsden indicated they had no problem with us  
2 excerpting certain schedules out of the documents so we  
3 would not have to copy the entire document.

4 JUDGE TURNER: And you want that marked as No. 5?

5 MR. SIMMS: Number 5, that's correct.

6 JUDGE TURNER: Thank you for identifying that it's an  
7 excerpt, Mr. Simms.

8 (Whereupon, the document was marked  
9 as OTS Cross-Examination Exhibit No.  
10 5 for identification.)

11 THE WITNESS: Is that in this packet?

12 JUDGE TURNER: No; it's a separate one. Do you not  
13 have it?

14 THE WITNESS: I don't have the attachments to that  
15 response.

16 JUDGE TURNER: Would you like to use mine?

17 THE WITNESS: I would appreciate it. Thank you, Your  
18 Honor.

19 (Document handed to witness.)

20 JUDGE TURNER: Would you agree that you prepared this  
21 response?

22 THE WITNESS: This interrogatory response, again, was  
23 prepared under my supervision.

24 MR. SIMMS: May I approach the witness, Your Honor?

25 JUDGE TURNER: Certainly, but you should approach his

1 counsel.

2 MR. SIMMS: Yes. I have already.

3 JUDGE TURNER: I'm sorry. Okay.

4 BY MR. SIMMS:

5 Q. Mr. Sipics, did you prepare the company's  
6 response to OTS-RB-51?

7 A. Again, that was prepared under my supervision,  
8 yes.

9 MR. SIMMS: Your Honor, this response was presented  
10 to OTS under the cover of proprietary agreement between the  
11 Office of Trial Staff and the company. I would ask that it  
12 be afforded proprietary protection by the Court. I would  
13 also rely upon the company to indicate which parties who are  
14 present today can receive a copy of this exhibit, and I  
15 would ask that it be marked for identification as OTS Cross-  
16 Examination Exhibit No. 6. May it be so identified?

17 JUDGE TURNER: Are you saying that the full exhibit  
18 should be admitted under seal?

19 MR. SIMMS: That's correct, Your Honor.

20 JUDGE TURNER: And the testimony that is adduced, if  
21 you use it for cross-examination --

22 MR. SIMMS: I'm not going to use it -- I'm sorry.

23 JUDGE TURNER: Go ahead.

24 MR. SIMMS: I'm not going to use it for cross-  
25 examination purposes. It's sufficient to have the responses

1 that Mr. Sipics has provided to us.

2 JUDGE TURNER: So no part of the transcript has to be  
3 sealed?

4 MR. SIMMS: That's correct.

5 JUDGE TURNER: The company is going to identify what  
6 other parties can receive it?

7 MR. MacGREGOR: Yes, Your Honor. To date the Office  
8 of Trial Staff, the Office of Consumer Advocate and the PP&L  
9 Industrial Customer Alliance have signed protective  
10 agreements.

11 JUDGE TURNER: That means that those counsel who have  
12 received it cannot show it to any other counsel in the room  
13 but can show it to their expert witnesses; is that correct?

14 MR. MacGREGOR: To the extent that their experts have  
15 signed Appendix A to the protective agreement, that is  
16 correct.

17 JUDGE TURNER: All right. We're up to OTS-6.

18 MR. SIMMS: That's correct.

19 JUDGE TURNER: And all you're asking is that it be  
20 marked and that it be sealed at this point?

21 MR. SIMMS: That's correct.

22 JUDGE TURNER: It may be marked, and the court  
23 reporter, when he submits the transcript and the exhibits,  
24 should include these exhibits in a sealed envelope and note  
25 that it's OTS Cross-Examination Exhibit No. 6 submitted

1 under a proprietary agreement and that it is under seal, and  
2 only those who signed the agreement may review it, except  
3 for the Commissioners, I guess, and the Judge; is that  
4 correct?

5 (Whereupon, the document was marked  
6 as OTS Cross-Examination Exhibit No.  
7 6-PROPRIETARY for identification.)

8 MS. BRANDEIS: Your Honor?

9 JUDGE TURNER: Yes, ma'am. Ms. Brandeis.

10 MS. BRANDEIS: May I request of PP&L that Bethlehem  
11 Steel be given a proprietary agreement to review so that we  
12 may see this exhibit?

13 JUDGE TURNER: Certainly. I would imagine they would  
14 be willing to talk to you at a break or over lunch and  
15 negotiate whether, in fact, you and they can reach an  
16 agreement to sign it.

17 Mr. McCormick, do you wish to do likewise?

18 MR. McCORMICK: Yes. I would like to have an  
19 opportunity to look at the proprietary agreement and perhaps  
20 execute it, if possible.

21 JUDGE TURNER: Fine. The company will talk with you  
22 and see if that can be worked out.

23 MR. MacGREGOR: We will consider it and talk about it  
24 over lunch.

25 JUDGE TURNER: Fine.

1 Are the confidentiality arrangements that I've put on  
2 the record about this exhibit satisfactory to the company  
3 and to the parties who have signed the agreement?

4 MR. MacGREGOR: Yes, they're satisfactory to the  
5 company, Your Honor.

6 MS. McCLOSKEY: Yes, Your Honor.

7 JUDGE TURNER: Okay. Mr. Simms, will you proceed?

8 MR. SIMMS: With that, Your Honor, I ask for the  
9 admission of OTS Cross-Examination Exhibit No. 3, No. 4, No.  
10 5 and No. 6 into the record, and that concludes my cross-  
11 examination.

12 JUDGE TURNER: So you have no questions on 4 and 5?

13 MR. SIMMS: That's correct, Your Honor.

14 JUDGE TURNER: Does the company object?

15 MR. GADSDEN: No. No objection.

16 JUDGE TURNER: They are admitted.

17 (Whereupon, the documents marked as  
18 OTS Cross-Examination Exhibits Nos.  
19 3 through 5 and 6-PROPRIETARY were  
20 received in evidence.)

21 JUDGE TURNER: Let's go off the record.

22 (Discussion off the record.)

23 JUDGE TURNER: Back on the record.

24 I would like to note that Mr. Eric Epstein, who is  
25 appearing pro se, has signed the appearance sheet. He was

1 not here when we began this morning. I know that he is  
2 aware that he will accept the record as it stands in his  
3 absence.

4 Also, I have been informed by Ms. McCloskey that she  
5 will be beginning cross-examination with some questions on  
6 proprietary material; she will try to keep her questions  
7 general enough so that the transcript does not have to be  
8 sealed; and that if the company feels that she is crossing  
9 the proprietary line, that they will raise an objection and  
10 we'll see if we can arrange to have cross-examination at a  
11 time when it could be proprietary. I prefer not to have to  
12 clear the courtroom but to do it either at the end of our  
13 morning session or the beginning of the afternoon session.

14 With that caveat, do you want to begin, Ms.  
15 McCloskey?

16 MS. McCLOSKEY: Yes. Thank you, Your Honor.

17 CROSS-EXAMINATION

18 BY MS. McCLOSKEY:

19 Q. Good morning, Mr. Sipics. My name is Tanya  
20 McCloskey. I'm with the Office of Consumer Advocate.

21 A. Good morning.

22 Q. I would like to begin by following up on a  
23 response that you gave to Mr. Simms. I believe you  
24 indicated to him that as you understand it, one of the  
25 determinations in this proceeding is whether the capacity

1 that the company has built is used and useful in service to  
2 the ratepayers.

3 A. Yes.

4 Q. As I understand the company's claim, are you  
5 aware that PP&L is seeking to include an equity return on  
6 Susquehanna Unit 2 in this case?

7 A. Yes, I am aware of that.

8 Q. And you are aware that previously the Commission  
9 had denied that equity return in the company's last base  
10 rate case upon finding that the company had excess  
11 generating capacity?

12 A. Yes, I am aware of that.

13 Q. Am I correct then that the purpose of your  
14 testimony is in support of the determination that the  
15 capacity on PP&L's system is used and useful by showing that  
16 PP&L has an adequate or a reasonable reserve margin?

17 A. Yes.

18 Q. When we're looking at reserve margin, would you  
19 agree with me that that's often referred to in Pennsylvania  
20 as the physical excess capacity determination?

21 A. I guess. I don't know.

22 Q. Are you familiar with the concept in  
23 Pennsylvania of economic excess capacity?

24 A. Generally, but I'm not familiar with the regs in  
25 any specificity.

1 Q. You are familiar with examining capacity  
2 resources to determine whether they produce net economic  
3 benefits in the test year or a reasonable time thereafter in  
4 Pennsylvania?

5 A. Generally.

6 Q. Are you sponsoring any evidence regarding the  
7 issue of economic excess capacity in this case?

8 A. Not in the direct testimony or these exhibits.  
9 I guess in response to some interrogatories.

10 Q. And you have responded to some interrogatories  
11 regarding that issue; is that correct?

12 A. Yes, I have.

13 Q. As far as you know, has PP&L presented any other  
14 evidence or any other witness in this proceeding regarding  
15 the issue of economic excess capacity as it relates to the  
16 Susquehanna Unit 2?

17 A. I'm not aware of any.

18 Q. Does PP&L conduct economic studies from time to  
19 time concerning the Susquehanna nuclear plant?

20 A. Yes, we do.

21 Q. Are you generally familiar with those studies?

22 A. Generally, yes.

23 Q. In fact, in response to an OCA interrogatory I  
24 believe you provided us with a number of those studies; is  
25 that correct?

1 A. Yes, I believe so.

2 JUDGE TURNER: Are those studies proprietary?

3 MS. McCLOSKEY: Yes.

4 BY MS. McCLOSKEY:

5 Q. Three of those studies that you provided us with  
6 were marked as proprietary; is that correct?

7 A. I believe so. I'm trying to find the  
8 interrogatory number.

9 Q. It's Set V, No. 37.

10 JUDGE TURNER: OCA Set V?

11 MS. McCLOSKEY: OCA Set V, No. 37.

12 JUDGE TURNER: And Mr. Sipics answered that?

13 THE WITNESS: Yes, I did -- well, among others. It's  
14 designated "various," and I'm one of the various.

15 BY MS. McCLOSKEY:

16 Q. Am I correct that in at least one of these  
17 studies the company has examined or analyzed the cost  
18 effectiveness of Susquehanna by comparing its revenue  
19 requirement cost to the market value of the electric power  
20 that it supplies?

21 A. Yes, generally you're correct. What I would  
22 like to qualify that on is that the market value that we  
23 used in that study was an estimate of what the world might  
24 be like if you had a fully competitive generation market by  
25 the year 2000 and it steps into a fully competitive

1 generation market between 1994 and 2000, so that's obviously  
2 different than the world we're in right now. But looking  
3 into a fully competitive generation market, I would put a  
4 benchmark out there of what one estimate of market clearing  
5 price might be.

6 Q. I believe you assisted in the preparation of  
7 what a market clearing price might be as we step into the  
8 year 2000?

9 A. I am generally familiar with it. I was not a  
10 direct participant in the studies, but people in our group  
11 were.

12 JUDGE TURNER: In other words, you did not assist in  
13 developing that price?

14 THE WITNESS: I was not personally, directly involved  
15 in the production of that number.

16 BY MS. McCLOSKEY:

17 Q. But you are familiar with that number that was  
18 produced?

19 A. Yes.

20 Q. Would you agree with me that the results of the  
21 study that was performed showed that the revenue requirement  
22 of Susquehanna would exceed the market value of the power  
23 supply which that unit can be expected to produce?

24 A. Again, if you qualify it by suggesting that that  
25 benchmark number is one estimate of one possible future with

1 a fully competitive generation market, when you benchmark  
2 Susquehanna's current performance against that, you get a  
3 lower level of revenues in a fully competitive market than  
4 you would in a regulated marketplace, yes.

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1 Q. And in fact, are you aware of the amount of the  
2 net present value penalty that was derived from that study  
3 when you benchmark Susquehanna against --

4 A. I'm aware of the value of --

5 JUDGE TURNER: You can't both talk at once. Let her  
6 finish her question.

7 THE WITNESS: I'm sorry.

8 BY MS. McCLOSKEY:

9 Q. Are you aware of the net present value penalty  
10 that results when you compare Susquehanna to the market  
11 value as you had established it for the study?

12 A. Yes, I am.

13 Q. Is that total number a proprietary number or is  
14 that a number that you can give us?

15 MR. MacGREGOR: That is a proprietary number, Your  
16 Honor. We're happy to have him disclose it, but we would  
17 like the transcript sealed and the hearing room cleared at  
18 whatever point you want it taken up.

19 MS. McCLOSKEY: Your Honor, my notes suggest that  
20 that might be the only number, and perhaps we could disclose  
21 it in a proprietary exhibit rather than clear the courtroom  
22 at this point.

23 JUDGE TURNER: I do think it would be good for the  
24 Commissioners to have it when they are reviewing the case so  
25 the Commissioners can have as much information as possible.

1 If it can be submitted in a proprietary exhibit, I think  
2 that would be satisfactory.

3 MR. MacGREGOR: That's an excellent idea, Your Honor.

4 JUDGE TURNER: Thank you, Ms. McCloskey. Go ahead.

5 BY MS. McCLOSKEY:

6 Q. Am I also correct that the study then identified  
7 the number of actions or initiatives that the company could  
8 pursue to attempt to mitigate that penalty?

9 A. Yes, you're right.

10 Q. Has the company committed at this time to  
11 pursuing those initiatives identified in the study?

12 A. I don't know how to characterize "committed." I  
13 mean, we're looking at the possibility of doing a number of  
14 the things mentioned in there. I'm not in the nuclear  
15 department. My primary role there was to provide them with  
16 this benchmark number to -- a number to benchmark themselves  
17 against and then the nuclear department determine what kind  
18 of initiatives they might take.

19 JUDGE TURNER: So would the best, correct answer be  
20 to your knowledge they have not committed to that, but they  
21 are still considering them positively?

22 THE WITNESS: That's to the best of my knowledge,  
23 yes.

24 BY MS. McCLOSKEY:

25 Q. If you know, Mr. Sipics, is it PP&L's position

1 that its retail ratepayers should pay the full revenue  
2 requirement costs of the Susquehanna plant even if it  
3 compares unfavorably to alternative power supplies or market  
4 prices?

5 A. I would suggest yes. We made the investment on  
6 behalf of our customers. The plant was built to supply  
7 customers, and the correct, I think, decision going forward  
8 is whether it is still economic to continue to operate that  
9 plant rather than replace it with something else.

10 If there were more economic options going forward, I  
11 would suggest it would not be appropriate for our customers  
12 to pay for it, but given where we are and the fact that it  
13 is an economic option going forward, I think it is  
14 appropriate.

15 Q. And you're referring to it as an economic option  
16 going forward, but that is not the result of the study that  
17 we have just been discussing as matters stand now; is that  
18 correct?

19 A. Well, I think when you make a decision as to  
20 whether to continue operation of the plant or not, you get  
21 into a question of sunk costs and incremental costs going  
22 forward. An economic decision to go forward looks at what  
23 additional costs you'd incur from this time forward as  
24 opposed to some other option.

25 I think what you saw in that study was a reflection

1 of recovering the fixed cost investments made in the past in  
2 addition to fuel and O&M and incremental capital from this  
3 point forward, so-called sustenance costs.

4 Q. So you're viewing it purely as a matter of  
5 continuing operation of the plant, and I think I was  
6 referring to a revenue requirement type of analysis. That's  
7 where we are sort of missing each other.

8 When you refer to the economics, you are looking at  
9 it as a matter of whether or not the plant should continue  
10 to operate; is that correct?

11 A. Yes. That's primarily what I discussed, but I'm  
12 not sure --

13 Q. In your analysis of whether the plant should  
14 continue to operate, you're not necessarily looking at  
15 recovery of the sunk costs; is that correct?

16 A. You would not consider sunk costs in the  
17 decision to continue to operate the plant, yes, that would  
18 be my point.

19 Q. Now, in our discussion, we've been referring to  
20 market prices, and again, the response to this question may  
21 be considered proprietary by the company and we can also put  
22 the exact number into a proprietary exhibit if we need it to  
23 be. But what is PP&L's current projection of market prices  
24 that it is using for planning purposes?

25 A. It is a range. I don't know if -- should I --

1 JUDGE TURNER: He can't tell you what to answer. You  
2 can just say whether it is proprietary or not. Then if it's  
3 not proprietary --

4 MR. MacGREGOR: May we go off the record a minute?

5 JUDGE TURNER: Yes, we may.

6 (Discussion off the record.)

7 JUDGE TURNER: Back on the record.

8 Counsel consulted with the witness to determine  
9 whether in fact his answer would include proprietary data.

10 And your answer, Mr. MacGregor, is?

11 MR. MacGREGOR: The witness is free to answer, Your  
12 Honor.

13 JUDGE TURNER: Go ahead.

14 THE WITNESS: Would you repeat the question?

15 BY MS. McCLOSKEY:

16 Q. The question was: what is PP&L's current  
17 projection of market prices that it is using for its  
18 planning purposes?

19 JUDGE TURNER: Susquehanna or in general?

20 MS. McCLOSKEY: In general.

21 THE WITNESS: We're using one market price to  
22 benchmark all of our plants against and, again, it is  
23 subject to a move to competition, and it is one estimate.  
24 There are a lot of other estimates out there with other  
25 companies.

1 We're using -- it starts at around --

2 MR. GADSDEN: Just hold on a minute. I hate to  
3 interrupt the witness. That information has been provided  
4 in an answer to an interrogatory, and that response was  
5 marked confidential.

6 JUDGE TURNER: So just as he is about to tell us what  
7 this price is, you're saying that it's --

8 MR. MacGREGOR: No. We're just trying to give him  
9 the information, Your Honor.

10 THE WITNESS: This is what I recall, so it's not a  
11 problem.

12 JUDGE TURNER: Can you tell us what that price is?

13 THE WITNESS: Yes, I can.

14 JUDGE TURNER: Can you state it?

15 THE WITNESS: It starts out in 1995 at around 2.7  
16 cents a kilowatt-hour, and it escalates to about 4 cents by  
17 the year 2000.

18 JUDGE TURNER: Ms. McCloskey?

19 BY MS. McCLOSKEY:

20 Q. Thank you, Mr. Sipics.

21 A. You're welcome.

22 Q. Now, I believe we are done with proprietary  
23 questions, and I'd like to turn your attention to the JFS-1.

24 JUDGE TURNER: Before we go on, who is going to  
25 submit the proprietary exhibit?

1 MS. McCLOSKEY: I can discuss that with Mr. Gadsden  
2 off the record. I suspect it would come in, perhaps, as an  
3 OCA cross-examination exhibit.

4 JUDGE TURNER: When do you intend to admit it?

5 MS. McCLOSKEY: Excuse me?

6 JUDGE TURNER: When do you intend to submit it?

7 MS. McCLOSKEY: I can discuss how Mr. Gadsden wishes  
8 to handle it, but we can submit it any time this week.

9 JUDGE TURNER: It would be very good to have it to  
10 this court reporter so that he can submit it with the  
11 transcript for today.

12 MS. McCLOSKEY: Okay. Certainly, we can do that.

13 JUDGE TURNER: So can you arrange that with Mr.  
14 Gadsden?

15 MS. McCLOSKEY: Yes.

16 JUDGE TURNER: Thank you. Now we can move on.

17 BY MS. McCLOSKEY:

18 Q. Turning to your Exhibit JFS-1 -- and I believe  
19 you covered a number of these things with Mr. Simms, so  
20 excuse me if I do skip around a little bit -- if you look at  
21 the column marked "NUG capacity," it is shown starting at  
22 504 megawatts and then dropping to 474 megawatts.

23 A. Yes.

24 Q. What is the cause of the drop?

25 A. In June of 1995, our contract to purchase the

1 output of a 30 megawatt unit at Bethlehem Steel expires.

2 Q. And do you anticipate that the contract will be  
3 renegotiated or renewed in any manner?

4 A. In here, we're anticipating that it would not be  
5 and that the current level of avoided cost would make it --  
6 the customer would be more interested in using it to supply  
7 his own load.

8 Q. So you're not anticipating that that unit will  
9 necessarily shut down, but that it will not be available to  
10 PP&L; is that correct?

11 A. That's right. We are not anticipating that it  
12 would shut down.

13 Q. Is the total of the 504 and then dropping to the  
14 474 megawatts the amount that is recognized by PJM for  
15 determining whether PP&L is meeting its PJM power pool  
16 capacity reserve obligation?

17 A. Yes, it is.

18 Q. And this is true even though the contracts with  
19 these NUGs have been termed energy-only contracts; correct?

20 A. Yes. The basis for the rates in there is energy  
21 only. We purchase output.

22 Q. And would you agree with me that PP&L counts  
23 this NUG capacity for its own resource planning purposes?

24 A. Yes, we do.

25 Q. And in fact, PP&L reflects the NUG capacity as

1 one element of the estimated resources that PP&L would have  
2 available to meet peak demands in its annual resource  
3 planning report that it files with the Commission; correct?

4 A. Yes, we do.

5 Q. Now, am I also correct that PP&L does not need  
6 the NUG capacity to support or serve its native load  
7 customers?

8 JUDGE TURNER: The NUG capacity as opposed to the NUG  
9 energy?

10 THE WITNESS: From what standpoint?

11 BY MS. McCLOSKEY:

12 Q. Yes. In terms of the NUG capacity as opposed to  
13 its energy, you do not require that to serve your native  
14 load customers; is that correct?

15 A. We would not require that to meet our minimum  
16 installed capacity obligation of PJM most of the time. That  
17 varies over the years, though, so I'm not sure exactly how  
18 to answer your question.

19 Q. Do you recall testifying in PP&L's ECR  
20 proceeding at Docket Number M-00930406?

21 A. I recall testifying in our ECR proceeding, yes,  
22 last year or the year before.

23 JUDGE TURNER: You accept the docket number subject  
24 to check?

25 THE WITNESS: Yes. I guess that's what I was trying

1 to say.

2 MS. McCLOSKEY: There were other docket numbers  
3 involved. I realize that.

4 BY MS. McCLOSKEY:

5 Q. And I asked you this question in that  
6 proceeding. Let me show you the transcript. Maybe that  
7 will refresh your memory.

8 JUDGE TURNER: Show it to counsel, please.

9 MS. McCLOSKEY: Sure.

10 (Pause.)

11 MR. KLEPPINGER: Counsel, could you identify the page  
12 number?

13 BY MS. McCLOSKEY:

14 Q. It is page 121 of that transcript, and it was  
15 either myself or Mr. Kleppinger that asked you the question.

16 A. Yes. I recall that statement; and in fact, I  
17 guess if I looked at JFS-1 and the reserves at the time of  
18 the peak with interruptible load, which is the column before  
19 we add non-utility generation, I see the minimum number in  
20 that time frame looks like 14.2 percent, which would exceed  
21 the 12 percent minimum reserve requirement we have for PJM.  
22 So on that basis, I would affirm the answer I gave a year-  
23 and-a-half ago.

24 JUDGE TURNER: For clarity of the record, would you  
25 either read the question and answer or submit a copy of the

1 page as a cross-examination exhibit?

2 MS. McCLOSKEY: It would be easier to read the  
3 question.

4 JUDGE TURNER: And part of the answer.

5 MS. McCLOSKEY: And the answer. It is a short  
6 question. There is a bit of a preface before the question  
7 was asked that explains some confusion with the prior  
8 question. But the question was: "Am I correct that PP&L  
9 does not need the NUGs to support or serve its native load  
10 customers?" And the answer was: "Yes. That is presuming  
11 NUGs are at the margin, I guess. You could say we can't  
12 meet interruptible load I suppose just as easily."

13 That is page 121 of the transcript from November 30,  
14 1993 at Docket Number M-00930406, C0001 through C0003.

15 JUDGE TURNER: Thank you.

16 BY MS. McCLOSKEY:

17 Q. I believe, just so we're clear, you've affirmed  
18 that answer as well?

19 A. Yes, on the basis of the numbers that we've  
20 provided in JFS-1.

21 Q. Let me ask you a bit of a hypothetical or an  
22 example then. If, for example, the 504 megawatts of NUG  
23 capacity disappeared from PP&L's system, hypothetically,  
24 PP&L planners would not need to replace part or all of the  
25 500 megawatts to serve its native load; is that correct?

1           A.    Hypothetically, we certainly wouldn't go out and  
2 replace it with the same kind of capacity or energy.  I  
3 don't know what exact effect that would have on our least-  
4 cost plan, whether we might add some peaking resources.

5           Q.    Under that example, would I be correct that PJM  
6 would view PP&L's projected reserve margins as adequate for  
7 PJM purposes since they would remain in the 12 to 14 percent  
8 range shown on your Exhibit JFS-1?

9           A.    Yes, that's right.

10          Q.    I'd like to look at the problem slightly  
11 differently and assume that PP&L retains the NUG capacity  
12 but instead decides to retire 500 megawatts of its own  
13 generating capacity.

14          In that case, would PP&L's reserves be considered  
15 adequate by PJM?

16          A.    We included the NUGs and retired 504 of our own  
17 capacity?

18          Q.    Yes, that's correct.

19          A.    So we'd wind up with the same percentages that  
20 we show in this column, and the answer would be the same.  
21 Yes, PJM would see that as satisfactory.

22          Q.    And what about PP&L planners; would they see  
23 that as satisfactory?

24          A.    For purposes of meeting our installed capacity  
25 obligation, yes.

1 Q. Now, I'd like to refer you to your testimony at  
2 page 13, lines 9 through 13, where you indicate that PP&L's  
3 reserve margins should be assessed on the basis of its owned  
4 and leased generation, including its interruptible load.

5 Did you rely upon any specific Commission regulation,  
6 statute or precedent in making that statement?

7 A. I wouldn't.

8 Q. You are not relying on PP&L practices of  
9 reliability planning when you make that recommendation;  
10 correct?

11 A. I'm not sure what you mean by PP&L practices of  
12 reliability planning. Could you explain that?

13 Q. Let me try and rephrase the question. In other  
14 words, PP&L's own reliability planning does not require it  
15 to rely solely on its owned or leased generation?

16 A. No. We would recognize whatever resources we  
17 had available to us to make best use of them, sure.

18 Q. Now, looking back at JFS-1, the far column where  
19 we see the reserves in the range of 20 to 25 percent -- and  
20 I believe you responded to Mr. Simms that these reserve  
21 margins would make it possible for the company to make off-  
22 system capacity sales. Do you recall that testimony?

23 A. Yes.

24 Q. And I believe you also told Mr. Simms that in  
25 making those capacity sales, it could benefit both the

1 company and its ratepayers. Do you recall that?

2 A. That's right.

3 Q. Now, has PP&L been attempting to market this  
4 capacity?

5 A. We've been -- when you say "this capacity," I  
6 mean we've been trying to sell a lot of bulk power products,  
7 whether it is capacity credits or output reservation sales  
8 or sales of capacity and/or energy.

9 Q. Could you briefly describe some of the company's  
10 efforts in attempting to market its bulk power?

11 A. Well, we've responded to some requests for  
12 proposals, a recent Jersey Central one, for example, for  
13 capacity and energy from 1997 to 2004; and in fact, we're on  
14 the short list and we are in negotiations on that agreement.  
15 We've responded to numerous requests for proposals outside  
16 of PJM also, sometimes unsuccessfully; mostly  
17 unsuccessfully, I guess.

18 Q. Are you familiar with the Old Dominion Electric  
19 Cooperative or ODEC?

20 A. Yes. That was several years ago when they were  
21 looking for supply outside of Delmarva. Yes, I'm familiar  
22 with that.

23 Q. In fact, in 1992, did ODEC conduct a capacity  
24 solicitation for 150 megawatts of capacity?

25 A. Yes, they did.

1 Q. Were utilities in the region invited to  
2 participate in that solicitation?

3 A. Several were. I don't know all of the ones that  
4 were. Yes.

5 Q. Was PP&L invited to participate?

6 A. Yes, we were.

7 Q. And did PP&L submit a bid?

8 A. No, we did not. We were at the stage where we  
9 weren't sure about what our proposal would be going forward.  
10 They were looking for a long-term deal, and we weren't sure  
11 about our firm transmission capabilities. I guess we didn't  
12 have a real firm bulk power strategy in place at that time,  
13 so we chose not to submit a bid on that RFP.

14 Q. Are you aware that the outcome of that  
15 solicitation was a ten-year 150 megawatt contract awarded to  
16 Public Service Electric and Gas Company?

17 A. Yes, I am.

18 Q. In your opinion, does PP&L have lower costs than  
19 Public Service Electric and Gas Company?

20 A. I guess it depends how you define costs.  
21 Certainly, our average embedded costs are lower than Public  
22 Service. When you are looking at these deals, I guess you  
23 could be looking at your marginal costs to serve, and I  
24 believe we're still lower but not certainly by the same  
25 margin as against their embedded cost.

1 Q. In 1993, did Baltimore Gas & Electric issue a  
2 solicitation for 140 megawatts of capacity?

3 A. Yes, they did.

4 Q. And were utilities permitted to participate in  
5 that solicitation?

6 A. Yes, they were.

7 Q. Did PP&L submit a bid?

8 A. If I recall, we did in that one, but I'm not  
9 positive about that, and we were unsuccessful. I know that  
10 is an interrogatory response, but I don't remember which  
11 one.

12 Q. I believe it might be your response to OCA  
13 Set V, No. 60.

14 MR. GADSDEN: That's correct.

15 THE WITNESS: OCA Set V --

16 MR. GADSDEN: No. 60.

17 BY MS. McCLOSKEY:

18 Q. Do you have that, Mr. Sipics?

19 A. Yes, I do. Okay. That's right. That was the  
20 one that was the long-term bid. We've had so many  
21 solicitations, I can't always remember. The long-term bid  
22 we did not submit a bid. Twenty-five years is much longer  
23 than I'm willing to make a commitment for in an era where  
24 the industry is changing so quickly.

25 Q. Do you know whether Baltimore Gas & Electric

1 refused to consider any contract shorter than the 25 years  
2 contained in the solicitation?

3 A. My understanding was that they wanted a 25-year  
4 bid.

5 Q. The winning bidder in that solicitation was PECO  
6 Energy; correct?

7 A. I believe so.

8 Q. Are you familiar with PECO's capacity resource  
9 situation in general?

10 A. In general, yes.

11 Q. Do you know whether PECO's excess generating  
12 capacity situation lasts until about 2010 under PECO's  
13 current projection?

14 MR. GADSDEN: Objection, Your Honor. I don't know  
15 how he could possibly answer that question.

16 JUDGE TURNER: Well, if he can answer it --

17 MR. GADSDEN: It calls for some definition of what  
18 excess capacity situation is. If Ms. McCloskey wants to  
19 give Mr. Sipics a specific reserve margin figure and then  
20 ask him whether PECO stays above that figure until the year  
21 2010, that's one thing. There has to be some definition to  
22 it.

23 JUDGE TURNER: Excuse me. Can you answer the  
24 question as asked?

25 THE WITNESS: Not as asked for a couple of reasons.

1 JUDGE TURNER: Can you redefine it?

2 MS. McCLOSKEY: Yes, I can certainly redefine it. I  
3 asked him if he was familiar with PECO's capacity resource  
4 situation, and he indicated he was.

5 THE WITNESS: Generally, yes.

6 BY MS. McCLOSKEY:

7 Q. And do you know whether PECO plans to add any  
8 capacity before the year 2010 under its current projections?

9 A. I'm not aware that they are, and I know they  
10 have greater reserves than we do.

11 Q. I believe you stated in your testimony that PP&L  
12 can add peaking capacity to its system for approximately  
13 \$300.00 per kilowatt.

14 Would you agree with me that PP&L's risks associated  
15 with submitting a long-term bid such as Baltimore Gas &  
16 Electric are reduced by being able to add peaking capacity  
17 at approximately \$300.00 per kilowatt?

18 A. It depends on whether all they wanted was the  
19 capacity. If you want energy with it, I wouldn't put a  
20 peaking unit in to provide that energy. Then you'd have to  
21 be able to count on the marketplace to provide energy to  
22 supplement that CT. It reduces your risk to an extent, but  
23 to the extent they're looking for firm capacity and energy,  
24 not sufficient in my mind.

25 JUDGE TURNER: I'm sorry. I didn't hear the last

1 words. Did you say "not sufficient in my mind"?

2 THE WITNESS: Yes.

3 JUDGE TURNER: Thank you.

4 THE WITNESS: I should have said sufficiently.

5 JUDGE TURNER: I'm sorry. Did I state it  
6 incorrectly?

7 THE WITNESS: No. I did. I should have said  
8 "sufficiently." I don't want my high school grammar teacher  
9 getting after me.

10 BY MS. McCLOSKEY:

11 Q. You had a discussion with Mr. Simms regarding  
12 the PJM reserve margin, and I believe you indicated to him  
13 that that is only one factor in determining PP&L's target  
14 reserve margins.

15 A. Yes.

16 Q. Is that a fair summary?

17 A. Yes, it is.

18 Q. Now, when PJM assigns a reserve margin to a  
19 company such as PP&L, does PJM conduct a reliability  
20 analysis or a series of analyses in determining each member  
21 company's reserve obligation?

22 A. You're trying to tie the reliability analysis to  
23 the obligation. There are two separate calculations that  
24 are done. The first one is a reliability calculation to  
25 establish a forecast requirement for the PJM pool; and then

1 following the establishment of that requirement, there is an  
2 allocation of that requirement to the member companies. So  
3 it is really a two-step process. There is a reliability  
4 analysis done to establish an overall level, and then there  
5 is an allocation process to allocate that level to the  
6 company.

7 Q. If you could turn to page 10 of your testimony  
8 beginning at lines 23 through 29, and I believe it carries  
9 over on page 11, you discuss your concerns regarding PP&L's  
10 control over its NUG capacity and its interruptible load.

11 A. Yes.

12 Q. Does PJM take into account the reliability of  
13 the interruptible load and the NUG capacity before it gives  
14 PP&L capacity credit for those resources?

15 A. In a way, yes. What we do is we look at the  
16 performance of interruptible load from the projected  
17 performance to where if they actually got down to firm  
18 level. So there is some recognition of that.

19 What we were referring to in here was the fact that  
20 those contracts are renewable annually. So it's not like I  
21 could say two years from now that I can guarantee that I'm  
22 going to have this available to me, and the customer could  
23 decide to get off of it for whatever reason.

24 So it's not so much the fact that they don't get down  
25 to their firm. That is recognized in the reliability

1 calculation.

2 Q. And do you disagree with PJM's reliability  
3 analysis as it regards PP&L's NUG capacity or interruptible  
4 load?

5 A. Disagree in what way?

6 Q. Do you disagree at all with their assessment of  
7 the reliability of PP&L's NUG capacity or interruptible  
8 load?

9 A. They allow us to claim that NUG capacity, so I  
10 guess they're not exactly assessing it, and they use a  
11 forced outage rate to get some idea of its value, and that  
12 is acceptable. We wouldn't be doing it if we didn't think  
13 it was.

14 Q. And that is acceptable to you then at this  
15 point?

16 A. Yes.

17 Q. Now, is the possibility of extreme weather taken  
18 into account by PJM when it evaluates reliability?

19 A. To an extent. The forecast loads that we use  
20 are essentially -- they are called 50/50 loads, so there is  
21 a 50 percent probability that the load is greater than or  
22 less than that, and there is a distribution around that. So  
23 there is a convolution of loads with available resources.

24 I have some difficulty with assuming there are  
25 independent variables, for example, so high loads wouldn't

1 necessarily occur at the time of a high forced outage. I  
2 think if you look at winter conditions, for example, on  
3 January 19th, we had extremely high forced outages along  
4 with high loads, and I think the cold weather contributed to  
5 both.

6 I mean, you had high forced outages of generating  
7 units because coal piles were frozen, because oil was  
8 congealed, because gas supplies were cut off, and you had  
9 high loads because customers were turning up the heat and  
10 you lost diversity in there.

11 Our reliability calculations aren't perfect. In  
12 fact, if I could just add one more item, our reliability  
13 standard is one day in ten years, which means you should  
14 have one loss of load event in ten years. A definition of a  
15 loss of load event in PJM's terms is a 5 percent voltage  
16 reduction. Since 1987, we've had seven 5 percent voltage  
17 reductions and one set of rotating blackouts on two  
18 different occasions on January 19th.

19 So I'm not so sure that I -- you know, if it were my  
20 own personal decision as to what reliability level to set on  
21 PJM, I wouldn't be setting it at 22 percent, but then I'm  
22 not the sole arbiter on what that level is.

23 JUDGE TURNER: I think it was brownouts rather than  
24 blackouts or was it blackouts?

25 THE WITNESS: Well, we call them rotating blackouts.

1 A brownout is a voltage reduction. You haven't actually  
2 dumped customers, but you've reduced the voltage to them.

3 JUDGE TURNER: That is the distinction I was making.  
4 You're saying you dumped customers?

5 THE WITNESS: On January 19th, yes.

6 JUDGE TURNER: But I believe you also stated to Mr.  
7 Simms that you have to look at that in a cost/benefit way.  
8 You don't necessarily have to incur the cost to avoid every  
9 worst case scenario.

10 THE WITNESS: Oh, absolutely. I'm not suggesting we  
11 should have a reserve level that would mean we would never  
12 interrupt customers or have a voltage reduction, no.

13 BY MS. McCLOSKEY:

14 Q. Now, if you could turn to page 7 of your  
15 testimony beginning at line 17 where you're discussing  
16 reliability concerns and examples of why a utility must  
17 maintain generating reserves, in your opinion, does PJM take  
18 these concerns into account when determining the reserves  
19 needed by the PJM power pool?

20 A. Well, the so-called lumpiness criteria, adding  
21 generation resources, you don't add it megawatt by megawatt.  
22 They can't take that into account. They set a level and you  
23 have to meet it. The fact that you can't meet it exactly,  
24 that you wind up at higher level, that's not in.

25 Other items like load shape and duration, they're

1 certainly recognized.

2 Q. Excuse me a second. I think we might be on two  
3 different pages. I'm on page 7, line 17.

4 A. Oh. I was down further on 7. I'm sorry.

5 JUDGE TURNER: Do you want to strike the answer then?

6 MS. McCLOSKEY: Actually, we're going to get to the  
7 lumpiness problem, so we'll come back to that one.

8 JUDGE TURNER: But you do want your original question  
9 answered; right?

10 MS. McCLOSKEY: Yes.

11 BY MS. McCLOSKEY:

12 Q. My original question is: where you're  
13 discussing these concerns, in your opinion, does PJM take  
14 these concerns into account when determining the reserves  
15 needed by the PJM pool?

16 A. Yes. There is an attempt to take these  
17 variables into account in setting PJM's reserve level.

18 Q. And does PJM take these concerns into account  
19 when it is assigning each member its reserve obligation?

20 A. Generally, yes, they take into account  
21 diversity, planned and unplanned outages.

22 Q. Mr. Sipics, are you familiar with other PJM  
23 utilities' planning practices?

24 A. Not to a great extent.

25 Q. Do you know whether other PJM utilities plan to

1 have reserve margins in excess of the reserve margin  
2 obligation assigned by PJM?

3 A. I guess I don't know whether they plan to. I  
4 know most of them do have reserve levels greater than their  
5 minimum requirement for PJM.

6 Q. Is there a benefit to PP&L of maintaining a  
7 reserve margin in excess of that assigned by PJM?

8 A. I think there are several. For one, we've  
9 talked in here like the obligation that we talked about is  
10 something that is cast in stone and never can be changed.  
11 This obligation we're using in here is set two years ahead  
12 of time, and we didn't want to get into the gory details of  
13 installed capacity accounting. You might recall we got into  
14 some of that back in the ECR case. But there is an after-  
15 the-fact accounting process that trues up the load forecast,  
16 the unavailability of your generation, forced and planned  
17 outages and also recognizes summer maintenance.

18 If you take units out between I think it's the weeks  
19 encompassing the 24th Wednesday of the year and the 36th  
20 Wednesday of the year, you incur an increased obligation.  
21 So, for example, in some recent PP&L years, we've actually  
22 had as much as a 300 megawatt increase in our obligation  
23 because of either changes to load, changes to unit  
24 performance or the fact that we've taken some units out in  
25 the summertime.

1           So I think it would be prudent to have a level above  
2 your planned level just to make sure you're okay in the  
3 accounted-for account.

4           Q.    Are you familiar with PJM procedures to deal  
5 with PJM-wide shortages?

6           A.    Yes.

7           JUDGE TURNER:  Excuse me.  I'm going to interrupt you  
8 for a moment and go off the record.

9           (Discussion off the record.)

10          JUDGE TURNER:  Let's go back on the record.

11          We had a brief off-the-record discussion of  
12 scheduling a lunch break and other matters.  Ms. McCloskey  
13 will complete this line of cross-examination; and when she  
14 indicates that she has completed that line of cross-  
15 examination, we will take an hour lunch break and return to  
16 the record.

17          Go ahead.

18          MS. McCLOSKEY:  Thank you, Your Honor.

19          BY MS. McCLOSKEY:

20          Q.    I believe you just stated, Mr. Sipics, that you  
21 are familiar with PJM procedures to deal with pool-wide  
22 shortages.  Are you familiar with a procedure known as  
23 maximum emergency generation?

24          A.    Yes.

25          Q.    If a PJM-wide shortage was imminent, would PP&L

1 be required by PJM to run its generators at emergency levels  
2 even if PP&L had adequate capacity for its native load?

3 A. Yes, we would, just as every other PJM company  
4 would.

5 Q. And is there a cost involved in operating at  
6 emergency levels?

7 A. Yes.

8 Q. Is voltage reduction another action which PJM  
9 might take in response to potential shortages?

10 A. Yes. It is actually the first defined loss of  
11 load event.

12 Q. Would PP&L be required to participate in voltage  
13 reductions in the case of pool-wide shortages even if it had  
14 sufficient capacity to serve its native load?

15 A. Yes. All companies participate in voltage  
16 reductions for pool-wide shortages.

17 Q. And in the same vein, if shortages occurred, is  
18 it possible that PP&L might have to participate in  
19 curtailments to help out the pool even if PP&L has adequate  
20 capacity?

21 A. Yes.

22 Q. Now, on the other side of the coin, if PP&L is  
23 just meeting its reserve obligation but experiences a  
24 temporary shortage, does it have the right to utilize  
25 available pool capacity?

1 A. Yes.

2 Q. So would you agree with me that the reliability  
3 benefit from PP&L maintaining surplus capacity is shared  
4 among the pool as a whole?

5 A. Yes, it is.

6 MS. McCLOSKEY: Thank you, Your Honor. That ends  
7 that line, and we'll return to lumpiness after lunch.

8 (Laughter.)

9 JUDGE TURNER: Just as long as we don't have  
10 lumpiness during lunch. Thank you very much.

11 (Witness temporarily excused.)

12 (Whereupon, at 12:13 p.m., the hearing was adjourned,  
13 to be reconvened at 1:13 p.m., this same day.)

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AFTERNOON SESSION

(1:23 p.m.)

1 JUDGE TURNER: Back on the record.

2 Ms. McCloskey, are you ready to begin?

3 MS. McCLOSKEY: Yes, Your Honor.

4 JUDGE TURNER: Please proceed.

5 MS. McCLOSKEY: Thank you, Your Honor.

6 Whereupon,

7 JOHN F. SIPICS

8 having previously been duly sworn, testified further as  
9 follows:

10 CROSS-EXAMINATION (Continued)

11 BY MS. McCLOSKEY:

12 Q. Mr. Sipics, if you could turn to page 10 of your  
13 testimony, lines 15 to 19, where you discuss the lumpiness  
14 problem.

15 A. Yes.

16 Q. And in general, can you quantify to what extent  
17 the lumpiness problem causes reserves to exceed target  
18 levels? For example, is it at the 2 percent or 5 percent  
19 level?

20 A. It depends on the unit size, of course. If you  
21 were trying to meet a minimum standard of reserve, say 12  
22 percent in the case of PP&L as a member of PJM and your next  
23 unit were a 500 megawatt unit, that would be roughly  
24  
25

1 10 percent of our peak load. So if you tried to be at the  
2 minimum and had to step up, you'd go 10 percentage points  
3 above it just for a 500 megawatt unit. Obviously, a bigger  
4 unit would be more, a smaller unit less.

5 Q. Would you agree that in recent years, some  
6 utilities have addressed this lumpiness problem by adding  
7 smaller sized generating units?

8 A. Yes. I would agree that the economies of scale  
9 are not what they were at one point in time.

10 Q. And is the use of the purchased power market  
11 another example of keeping reserve margins reasonably close  
12 to planned levels and avoiding this lumpiness problem?

13 A. To the extent you can get adequate contracts,  
14 yes.

15 Q. And would you agree with me that PP&L has no  
16 plans to add a large generating unit during the time period  
17 covered by your Exhibit JFS-1?

18 A. Yes, I would agree.

19 Q. And would you also agree that to the extent  
20 PP&L's reserves exceed the assigned PJM levels at this time,  
21 it is not due to the lumpiness of a new generating unit?

22 A. No, actually I wouldn't agree, because I would  
23 suggest that when we built our last couple of units they  
24 were rather large, a thousand megawatt class nuclear units,  
25 and they did cause us to get a fair amount above the minimum

1 level required for reliability, and we addressed that by  
2 capacity sales. You talked about using purchases to meet  
3 it. We've addressed it by capacity sales. And the reason I  
4 think we stay as consistent as we do now rather than having  
5 it decrease a lot as load goes up is, for example, the 945  
6 megawatt slice of system sale returns, 189 megawatts a year  
7 over five years; and that almost matches your load growth.

8 Q. But PP&L's last generating unit added to its  
9 system had a commercial operation date of late 1984 or early  
10 1985; correct?

11 A. That's right. We have had about 10 percent of  
12 our load --

13 JUDGE TURNER: Excuse me. There is not a question  
14 before you now.

15 BY MS. McCLOSKEY:

16 Q. Now, I do have a few questions for you about the  
17 company's acquisition of the NUG capacity that we discussed  
18 earlier.

19 MS. McCLOSKEY: I'd like to have marked for  
20 identification OCA Cross-Examination Exhibit No. 6, which is  
21 Mr. Sipics' response to OCA Set V, No. 47.

22 JUDGE TURNER: Have you provided copies?

23 MS. McCLOSKEY: Yes. I am distributing copies now,  
24 Your Honor.

25 JUDGE TURNER: Mr. Gadsden?

1 MR. GADSDEN: That's fine.

2 JUDGE TURNER: It shall be so marked.

3 (Whereupon, the document was marked  
4 as OCA Cross-Examination Exhibit No.  
5 6 for identification.)

6 BY MS. McCLOSKEY:

7 Q. Mr. Sipics, you provided this response, and it  
8 shows that PP&L entered into the contracts for the NUGs on  
9 its system in the 1984 to 1989 time frame; is that correct?

10 A. That's right.

11 Q. And these contracts were based upon PP&L's  
12 projections of avoided energy cost at approximately the time  
13 the contracts were entered; is that right?

14 A. That's right.

15 Q. And am I correct that one of the key assumptions  
16 driving PP&L's projections of avoided costs in that time  
17 frame was a high projection in the escalation of fuel  
18 prices?

19 A. To the best of my recollection, yes.

20 Q. And particularly, it was PP&L's projections of  
21 oil prices; is that correct?

22 A. I guess to the extent oil was on the margin,  
23 yes, although coal price escalation was fairly significant,  
24 too, so that was also a factor.

25 Q. And those avoided cost projections turned out to

1 be higher than PP&L's actually experienced avoided costs;  
2 correct?

3 A. Yes, they have.

4 Q. And -- I'm sorry. I don't think I heard your  
5 answer.

6 A. Yes, they have.

7 Q. And they are higher than those avoided costs  
8 PP&L expects to experience over the next several years;  
9 correct?

10 A. Yes.

11 Q. Now, at the time these contracts were entered  
12 into, am I correct that PP&L had both an avoided energy cost  
13 and a capacity and energy avoided cost?

14 A. I guess in a manner of speaking in that we  
15 didn't have the plan to actually add capacity, so we didn't  
16 have capacity and energy costs in the strict sense of the  
17 word.

18 Q. And in fact, the capacity and energy avoided  
19 cost was based on your Safe Harbor unit; correct?

20 A. Purchase of Safe Harbor, yes.

21 Q. And at that time, the energy-only avoided cost  
22 was the higher cost of the two; correct?

23 A. Yes.

24 Q. Now, the NUG entering a contract with PP&L would  
25 have to use that energy-only payment to cover all of its

1 costs, including its capacity related cost; correct?

2 A. Yes.

3 Q. Otherwise, the NUG would have no economic basis  
4 for entering into the contract; right?

5 A. Yes.

6 Q. Do you know for what other purposes the company  
7 was utilizing these energy cost projections at this time?

8 A. They would be used for planning purposes in  
9 evaluating the economics of adding various kinds of capacity  
10 or energy or continued operation of our existing unit.

11 Q. And do you know if they were being used in the  
12 company's rate case where the benefits of the Susquehanna  
13 station were being assessed?

14 A. Whether they were the identical numbers, I don't  
15 know, but certainly, similar numbers would have been used.

16 Q. I'd like to ask a few questions regarding the  
17 future use of generating sites. You responded to an OCA  
18 Interrogatory Set IV, No. 88. I'm taking from that, you're  
19 the proper witness for these questions.

20 A. Yes.

21 Q. Do you have that?

22 A. Yes, I have that.

23 Q. In that response, you indicated that PP&L has no  
24 firm plans to use the sites of its existing fossil fuel  
25 generating station subsequent to their retirement; is that

1 correct?

2 A. That's right.

3 Q. Am I correct that generally sites suitable for  
4 constructing new generating facilities are difficult and  
5 costly to obtain?

6 A. To the best of my knowledge. I'm not our siting  
7 person, but --

8 Q. And do you know whether obtaining the necessary  
9 licenses and permits to construct a facility at a new site  
10 would be more difficult than continuing the use of an  
11 existing site?

12 A. I guess so. Again, I'm not in the siting and  
13 generation.

14 JUDGE TURNER: I think this witness has indicated  
15 twice that siting and generation is outside of his  
16 expertise. So I would suggest that even though he is an  
17 appropriate witness to answer about that interrogatory,  
18 perhaps he is not appropriate to press on siting issues.

19 MS. McCLOSKEY: Okay.

20 BY MS. McCLOSKEY:

21 Q. Would there be a witness that you're aware of,  
22 Mr. Sipics or Mr. Gadsden, that would be more appropriate to  
23 answer some questions regarding new siting?

24 MR. GADSDEN: Doug Krall I think is the logical  
25 candidate.

1 JUDGE TURNER: Excuse me?

2 MR. GADSDEN: Doug Krall.

3 JUDGE TURNER: Who we heard on Tuesday?

4 MR. GADSDEN: That's correct.

5 JUDGE TURNER: Do you wish to recall him?

6 MR. GADSDEN: Or we can take a data request.

7 MS. McCLOSKEY: Your Honor, I actually only have one  
8 more question, and let me see what type of answer; and then  
9 when I review the transcript, maybe we can just summarize it  
10 in a data request.

11 JUDGE TURNER: All right.

12 BY MS. McCLOSKEY:

13 Q. In addition, if a new site was used, would you  
14 agree that it would generally require the construction of  
15 new transmission facilities to connect that site to the  
16 grid?

17 A. To the extent that you couldn't site it at an  
18 existing substation site, yes.

19 MS. McCLOSKEY: I think that is my last question.  
20 Before I conclude, Ms. Kenney returned with the proprietary  
21 exhibit that provides the response to the question that I  
22 had posed earlier.

23 JUDGE TURNER: Very good. So you will mark that and  
24 then we will move and admit --

25 MS. McCLOSKEY: Yes. I'm going to mark that as OCA

1 Cross-Examination Exhibit No. 7.

2 (Whereupon, the document was marked  
3 as OCA Cross-Examination Exhibit No.  
4 7 for identification.)

5 MS. McCLOSKEY: I'll note for the record that after I  
6 typed the question up, the company indicated that it would  
7 object to one word used in the question, and I then have  
8 handwritten a word that the company agrees to.

9 JUDGE TURNER: I can't really read that word myself.

10 MR. MacGREGOR: I don't mind if the word is on the  
11 record.

12 JUDGE TURNER: The word is deficiency,  
13 d-e-f-i-c-i-e-n-c-y?

14 MS. McCLOSKEY: Yes. I tried to squeeze it in the  
15 space.

16 JUDGE TURNER: For those who want to make theirs  
17 clearer, the word is "deficiency." That being so, the  
18 company hasn't objected to the marking of any of these  
19 exhibits, and I would assume they have no objection to the  
20 motion to admit them; is that correct?

21 MR. MacGREGOR: That's correct.

22 MS. McCLOSKEY: I would move for the admission of OCA  
23 Cross-Examination Exhibit No. 6 and the confidential  
24 exhibit, Cross-Examination Exhibit No. 7.

25 JUDGE TURNER: Didn't we have OCA No. 5 before?

1 MS. McCLOSKEY: Yes. We moved that on Tuesday.

2 JUDGE TURNER: They are admitted.

3 (Whereupon, the documents marked as  
4 OCA Cross-Examination Exhibits Nos.  
5 6 and 7 were received in evidence.)

6 MS. McCLOSKEY: Thank you, Mr. Sipics.

7 THE WITNESS: You're welcome.

8 JUDGE TURNER: Before Ms. Brandeis begins, I'd like  
9 to ask a question. This relates to your JFS-1. You may not  
10 know the answer; and if so, just say so.

11 I believe there is a remanded rate case which was  
12 filed by Citizens Electric which related to Bucknell  
13 beginning as a non-utility generator, and that is pending,  
14 negotiations on a PP&L tariff to Citizens.

15 I wonder, if Bucknell does come on line as a  
16 cogenerator, would that have any effect on this chart since  
17 Citizens is in there?

18 THE WITNESS: If they came on and they sold power to  
19 Citizens, that would affect the net supply that we had to  
20 Citizens Electric, so it would reduce the metered peak by  
21 some, assuming the unit were in service at the time of the  
22 peak.

23 JUDGE TURNER: Do you have any actual knowledge of  
24 this or are you just answering hypothetically?

25 THE WITNESS: No, I don't have specific knowledge.

1 JUDGE TURNER: Okay. Thank you.

2 THE WITNESS: You're welcome.

3 JUDGE TURNER: Ms. Brandeis?

4 MS. BRANDEIS: Thank you, Your Honor.

5 CROSS-EXAMINATION

6 BY MS. BRANDEIS:

7 Q. Good afternoon, Mr. Sipics. Joan Brandeis for  
8 Bethlehem Steel Corporation.

9 A. Good afternoon.

10 Q. Turning to your testimony on page 11 at lines 26  
11 and 27, you state that the reserve margins are based on  
12 PP&L's owned and leased generation and "the load likely to  
13 be available for interruption at the time of PP&L's peak."

14 Can you explain the methodology that you used to  
15 determine the amount of interruptible load which is likely  
16 to be available?

17 A. Yes. I can try. What we do is we look at  
18 customer load profiles, interruptible customers, and what  
19 they would be expected to contribute to our peak in the  
20 absence of an interruptible tariff, and then the  
21 interruptible tariffs specify firm load levels.

22 So you take the difference between their expected  
23 contribution to your peak and the firm load level, and that  
24 would be the value of interruptible load for the load value  
25 -- that would be the 290 number I had talked about earlier

1 -- and then translate that into a capacity number by  
2 acknowledging the fact that we don't need to supply reserve  
3 for that level, so you increase it by roughly 20 percent.  
4 That's where you get the 345 number that you see used in  
5 JFS-1.

6 Q. Right, in your exhibit. Is it my understanding  
7 that there is 500 megawatts of interruptible power under  
8 contract that are available on the system?

9 A. Looked at one way, yes. If what you do is sum  
10 up the maximum demand of all of these customers, you could  
11 come up with a 500 megawatt number. Now, if you did that,  
12 we would suggest our peak load would be, I don't know,  
13 probably 10,000 or 12,000 megawatts if you didn't recognize  
14 diversity.

15 Load really recognizes the contribution of each of  
16 those customers at the time of the peak, the fact that not  
17 everybody's water heater is on at the same time, electric  
18 heat is on and off, and even industrial customers who tend  
19 to have a little higher load factor, at least in most cases.

20 JUDGE TURNER: Excuse me. I need to interrupt you to  
21 understand something. You are saying that if you recognized  
22 500 megawatts of interruptible power, your JFS-1 would show  
23 your peak load as 10,000?

24 THE WITNESS: Something much higher.

25 JUDGE TURNER: What figure are we looking at on

1 JFS-1?

2 THE WITNESS: The winter peak load column, the 6605.

3 JUDGE TURNER: Are you saying that that would  
4 increase by at least 4,000?

5 THE WITNESS: I'm sure at least that. Actually, we  
6 should get our load people and talk about that, but I was  
7 trying to explain the concept of diversity. You can't just  
8 sum the maximum demands of all of these customers and say  
9 that is their value to us. It is what would they have  
10 contributed in the absence of this tariff, and that is where  
11 the 290 megawatts comes from instead of the 500 maximum.  
12 Otherwise, we would be giving too much recognition to the  
13 interruptible.

14 JUDGE TURNER: All right.

15 BY MS. BRANDEIS:

16 Q. Would it be accurate to say that PP&L needs its  
17 interruptible load to meet its own reserve margin  
18 requirements?

19 A. I guess it would depend on what combination of  
20 resources you choose to use. If you put in our own  
21 resources only, then in some years between 1994 and 2004,  
22 you would need some portion of it.

23 For example, if the reserve is 9.1 percent in  
24 1995-96, we need something beyond our own resources to meet  
25 our load. Now, whether that something is interruptible

1 non-utility generation or purchased capacity credits is a  
2 question.

3 Q. But you have testified that, in your view, NUG  
4 generation is not appropriate --

5 A. For purposes of a rate proceeding.

6 Q. For purposes of a reserve margin in this case.

7 A. For purposes of rate proceedings, yes, we have.

8 Q. Now, would you agree that a kw of owned  
9 generation or a kw of leased generation and a kw of  
10 interruptible load are of equal value in supplying the  
11 reserve margin for PP&L when it is needed?

12 A. In terms of a megawatt of interruptible versus a  
13 megawatt of owned capacity or purchased capacity, they all  
14 look the same on this table; so from that limited context.

15 Q. Right. Now, of those three components of  
16 reserve margin, historically, which has proven more  
17 reliable?

18 A. That's a fairly subjective question. I guess  
19 our own resources have had a pretty good forced outage rate.  
20 Non-utility generation hasn't been bad, and interruptible  
21 has performed pretty well for us. So I mean, they are  
22 reasonably good for their purpose.

23 I mean, there are lots of reasons why you need one  
24 instead of another in certain conditions. Interruptible is  
25 like a peaking resource, for example.

1 Q. On page 11 of your testimony at line 8 and  
2 following, you refer to unusually high unit unavailability  
3 due to a variety of icy cold weather problems.

4 A. Yes.

5 Q. Can you describe in some detail the type of fuel  
6 delivery problems that were experienced in the January  
7 emergency, what types of units were most affected?

8 A. I could try. We had some unavailable coal  
9 because of frozen coal piles. We don't have gas, so we  
10 didn't have the same gas problems that some of the other  
11 utilities had. Some of our combustion turbines were  
12 unavailable because of oil congealing in the lines between  
13 the storage tanks and the generating units themselves.  
14 That's about the extent of my knowledge.

15 Q. And with respect to the plant component  
16 failures, were they caused by the weather?

17 A. There were some; like conveyor belts that  
18 delivered the coal to the plant. I know we had some of  
19 those, some places where freeze protection was inadequate.

20 Q. Can you agree that the difficulties that you  
21 experienced -- fuel delivery and fuel handling, pump failure  
22 -- are related to and in fact are likely to occur in  
23 unusually cold weather, the kind which would require PP&L to  
24 draw on its reserve margin?

25 A. It certainly was the case in January, '94. Now,

1 we've had an extensive lessons learned review since that  
2 time, and some of the measures we've taken are: how do you  
3 shape coal piles to minimize problems of frozen coal?

4 Because some of our plants had worse problems than others,  
5 and there was a problem of drainage. Freeze protection has  
6 been improved. So we've taken a lot of steps to hopefully  
7 minimize that in the future, but that was the case last  
8 January.

9 Q. Now, on page 10 at lines 23 to 28, you testify  
10 that the level of control that the utility has over its  
11 plant resources affects the appropriate reserve margin, and  
12 you cite as an example of lack of control the fact that the  
13 term of interruptible service contracts are essentially a  
14 year, can be cancelled annually.

15 A. Right.

16 Q. How is the contract term for interruptible  
17 service set?

18 A. I don't know the details of it. I mean, it is a  
19 negotiation, I assume, between the company and PP&L.

20 Q. Has PP&L, to your knowledge, if you know,  
21 offered longer term contracts to its interruptible service  
22 customers?

23 A. I know in certain cases we've negotiated longer  
24 term contracts or we're in the process of negotiating some.

25 Q. So to the extent that you could get three or

1 five years, that would mitigate this problem that you cite  
2 of not knowing how long you'll have interruptible power  
3 available?

4 A. That would be one mitigating factor. There is  
5 still the idea that when we ask for people to go down to the  
6 firm load, the response is not within our control.  
7 Customers could refuse to go down. Now, there are economic  
8 penalties if they do that, but it is less under PP&L's  
9 control than our own resources.

10 Q. On pages 13 and 14, you testify that  
11 interruptible load is less desirable than peaking type  
12 generating units because the customer may not interrupt,  
13 just as you've just said, when requested.

14 Can you tell me with respect to the January, 1994  
15 emergency what percentage of PP&L's interruptible customers  
16 did not interrupt when you requested?

17 A. I can get you that number. I don't recall. I  
18 know there was a good response in January of '94.

19 Q. Essentially, you are saying when requested, the  
20 interruptible load interrupted?

21 A. To the best of my recollection, yes.

22 Q. Can you quantify that at all for us?

23 A. Not on the stand here, but I can get you the  
24 data; I'm sure.

25 JUDGE TURNER: Do you want to make an on-the-record

1 data request?

2 MS. BRANDEIS: I would make an on-the-record data  
3 request that you provide us, either in a percentage or  
4 actual numbers, however it would be easier for you to give  
5 us the figure, the --

6 THE WITNESS: Yes, we can provide that.

7 MS. BRANDEIS: -- compliance with interruptible  
8 requests.

9 JUDGE TURNER: And that is going to be provided for  
10 the record?

11 MS. BRANDEIS: Yes. I don't think it is  
12 confidential.

13 THE WITNESS: No.

14 JUDGE TURNER: It will be an exhibit that we will  
15 admit. Okay.

16 BY MS. BRANDEIS:

17 Q. Again, on pages 13 and 14, starting on line 27,  
18 you testify that interruptible load is less desirable for  
19 reserve margin purposes than peaking type generating unit  
20 because the interruptible load requires more lead time to  
21 initiate than a peaking unit.

22 Let me ask you this. Given modern weather  
23 forecasting and the state of communication in your own  
24 system, can't you generally know when there is going to be a  
25 need to call on the interruptible load well in advance of

1 the need to call on it?

2 A. Well, I would say generally, yes; and yet,  
3 again, if we go back to January 19th, 1994, my recollection  
4 was being awoken with a phone call sometime around 6:00 in  
5 the morning, give or take a half-an-hour, and we had  
6 instituted rotating blackouts by 7:05. So in that case, I  
7 know we didn't have two hours to get the customers off  
8 before we actually were instituting blackouts. But  
9 generally, we would hope to have that kind of notice.

10 Q. Generally speaking, you could use your spinning  
11 reserve as somewhat of a cushion to get the interruptible  
12 load off, between the time you needed it and getting them  
13 off?

14 A. You hope not to use up your spinning reserve or  
15 you don't have any ability to respond to the lost of the  
16 next unit.

17 Q. Now, I'm correct also that in your proposed Rate  
18 Schedule LP-6, you are offering an option of 30-minute  
19 notice?

20 A. I don't know the specifics of the rate schedule.

21 Q. I'll ask someone else.

22 A. I think maybe Ollie is the witness for that, Mr.  
23 Kasper.

24 JUDGE TURNER: Do we need to identify more accurately  
25 by page and exhibit LP-6 or will that come up with

1 Mr. Kasper?

2 MR. GADSDEN: I'm sure it will come up with Mr.  
3 Kasper.

4 MS. BRANDEIS: Your Honor, I will withdraw the  
5 question and re-ask it at the time.

6 BY MS. BRANDEIS:

7 Q. Mr. Sipics, on page 14 at line 7, you state that  
8 the value to PP&L of having interruptible load as well as  
9 the effect of such interruptible load on PP&L's cost  
10 structure, which you regard as the same, are properly  
11 determined by reference to the annual carrying costs of a  
12 combustion turbine peaking unit.

13 A. Yes.

14 Q. If one were to assume, which we do not, that  
15 that is the appropriate way to value interruptible power or  
16 the appropriate way to value interruptible power is by  
17 reference to a capacity equivalent resource, isn't the real  
18 value of an existing curtailable kw at least equivalent to  
19 PP&L's average embedded cost of generation?

20 A. I would say no; and the reason is that a  
21 combustion turbine, the reason that we characterize  
22 interruptible and peaking is you can only get a limited  
23 number of hours of output out of it. In fact, you get less  
24 hours out of an interruptible customer, a maximum of 200  
25 hours a year, than you can get out of a combustion turbine.

1           When you look at our base load units, the reason we  
2 spend a lot more capital than you would need to spend to  
3 build a combustion turbine is because we were looking to  
4 provide energy over greater periods of time. When you can  
5 divide that installed cost over lots of hours, it makes  
6 sense to spend more up front in capital in return for the  
7 greater operating efficiencies.

8           So when you look at a coal plant or a nuclear plant,  
9 for example, the capital costs are high, but their running  
10 rates are significantly lower than a combustion turbine or a  
11 peaking unit.

12           Q. But you have testified that the system itself  
13 doesn't know whether you're adding a kw or taking a kw away.

14           A. No, no. Let me rephrase that if that's what I  
15 testified. For purposes of looking at installed capacity  
16 accounting, which is purely a capacity item -- I mean, a  
17 megawatt is a megawatt on there -- the installed capacity  
18 accounting doesn't care whether it is a base load unit, an  
19 intermediate load unit or a peaking load unit.

20           For purposes of system reliability and system  
21 economics, that is a much different picture. You wouldn't  
22 build a system of all peaking units even though that is the  
23 lowest capital cost, because your energy cost would be much  
24 too high. People wouldn't be willing to pay it. In fact,  
25 those units aren't built to operate at high capacity

1 factors.

2 So if I misled you before, I'm sorry.

3 Q. You mentioned the limitation of 200 hours that  
4 is imposed at this point by the tariff itself is not set in  
5 stone.

6 A. No. I mean, the tariff is up to 20  
7 interruptions for up to 200 hours, as I recall it.

8 Q. Now, just to go over some ground to be sure I  
9 completely understand, in your Exhibit JFS-1, on the column  
10 labeled, "Winter Peak Load," how is interruptible load  
11 accounted for in that column? You testified it is not 500  
12 megawatts.

13 A. No. What is accounted for in here would be the  
14 expected contributions of the interruptible load customers  
15 as if we were serving them at the time of the peak. So  
16 given that we've calculated 290 as the difference between  
17 their expected contribution and the firm level, what is in  
18 here is 290 megawatts plus the firm level, not 500.

19 Again, Ollie -- I'm sorry -- probably Mr. Kasper  
20 could go into a little bit more detail or Mr. Slivka, who  
21 does the load forecasts, but I know enough to know that what  
22 we do is look at contributions to the peak rather than  
23 summation of maximum capabilities of those customers; and  
24 I'm sure we're consistent between the two.

25 Q. Is the figure shown as interruptible load -- let

1 me get it -- reserve at the time of the peak marked  
2 "interruptible load," would the number there and the number  
3 that is in the winter peak load be the same or related in  
4 any way?

5 A. I'm not sure I understand. We're still on  
6 JFS-1?

7 Q. Yes, still in your exhibit. I'm looking at  
8 interruptible load adjustment, the 345.

9 A. Yes.

10 JUDGE TURNER: That's column 7; right?

11 THE WITNESS: Yes.

12 JUDGE TURNER: And comparing it to?

13 MS. BRANDEIS: The winter peak load.

14 BY MS. BRANDEIS:

15 Q. Any relationship between interruptible in those  
16 two columns? They're the same?

17 A. No, not exactly. There is a relationship. The  
18 345 number is translating load into a capacity equivalent,  
19 so it is increasing the interruptible load amount by 20  
20 percent. So if you back that out and we go down to 290  
21 megawatts as the expected contribution of the interruptible  
22 portion of interruptible load to the peak load, that would  
23 be reflected in a winter peak load.

24 Now, those customers also have a firm level, and  
25 that's also in there. Has that made it clear?

1 Q. Yes.

2 Now, on page 14 at line 10, you refer to an analysis  
3 of the price to install and carry a combustion turbine. Can  
4 you detail the components of the analysis? Did it include  
5 just the cost of purchasing and installing? What did you  
6 include in that analysis?

7 A. I have the details. I'm trying to think if it  
8 is on the record anywhere. I believe it is, if you'll just  
9 give me a minute.

10 JUDGE TURNER: Why don't we go off the record for a  
11 minute while you look for that?

12 (Discussion off the record.)  
13  
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1 JUDGE TURNER: Back on the record.

2 You found it, Mr. Sipics?

3 THE WITNESS: Some of the items that were included in  
4 our estimate for the combustion turbine were engineering;  
5 material, which of course would include the combustion  
6 turbine itself and the control system, transformer;  
7 electrical equipment that you need to support it, which  
8 would be a breaker and a substation bay, connecting lines;  
9 gas delivery system, since we assumed that we would build a  
10 gas combustion turbine; fire protection, and site upgrades,  
11 and then some labor and a limited amount of allowance for  
12 funds during construction.

13 Q. Did you include any of the fuel costs of running  
14 a combustion turbine?

15 A. No. This is the installed cost, so fuel is not  
16 included in that.

17 Q. So the figure of \$300 a kw did not include fuel  
18 costs?

19 A. No, it would not.

20 Q. How about operating and maintenance costs?

21 A. No.

22 Q. If you know, is it generally true that such a  
23 combustion turbine would run higher fuel costs than other  
24 types of units?

25 A. Oh, yes, but it wouldn't run for very many

1 hours, so that's not a big portion of its overall cost.

2 Q. At page 14 at lines 24 and 25, you note that if  
3 the price of the interruptible power were determined by  
4 reference to its value in meeting PP&L's installed capacity  
5 obligation on the PJM system, it might be \$73 per kw, which  
6 was the capacity deficiency payment required by PJM for a  
7 utility which fails to meet its installed capacity  
8 requirement?

9 A. Yes.

10 Q. Am I correct that at the present time, utilities  
11 on the PJM system can purchase capacity credits instead of  
12 paying the deficiency at a price that's equal to 15 or 20  
13 percent of the price?

14 A. There have been transactions at those fractions  
15 of the PJM installed rate, yes.

16 Q. So would it be correct to infer that there is a  
17 large amount of excess capacity available generally on the  
18 system?

19 A. I guess the way I would characterize it is that  
20 that supply for installed capacity credits for purposes of  
21 meeting the PJM installed capacity accounting exceeds the  
22 demand at this time.

23 JUDGE TURNER: Can you quantify how much?

24 THE WITNESS: I could if I dug up the numbers. I  
25 don't remember the exact numbers, what the excess is. It's

1 probably on the order of 1,000 megawatts, I guess, on the  
2 system.

3 BY MS. BRANDEIS:

4 Q. Mr. Sipics, would it be accurate to say that  
5 PP&L views interruptible power as a capacity equivalent  
6 which it purchases from customers, which it draws on from  
7 customers?

8 A. We use --

9 Q. Would it be correct to say that you view  
10 interruptible power as a capacity equivalent, as opposed to  
11 a lesser service that you're selling?

12 A. As the capacity equivalent of combustion  
13 turbines, yes.

14 Q. In other words, you're viewing it as a capacity  
15 equivalent, not as a service?

16 A. That's right.

17 Q. An inferior service?

18 (No response.)

19 Q. Now, if you're the purchaser and the user of  
20 that power, does the customer with interruptible power have  
21 anywhere else to, quote, "sell" that power, or is PP&L the  
22 only purchaser, the only user of that interruptible power?

23 A. I'm not sure if I understand. You're not asking  
24 a retail wheeling question, whether --

25 Q. No, no, no. I'll plead innocent.

1 (Laughter.)

2 Q. I'm asking you, if you view it as a resource  
3 which you draw on instead of a combustion turbine, you're  
4 the only person who can draw on that resource, right? PP&L  
5 is the only person that can draw on --

6 A. As opposed to PECO, yes.

7 Q. One final question: Is it correct to say that  
8 in pricing --

9 MS. BRANDEIS: Your Honor, I withdraw the question  
10 because clearly Mr. Sipics is not the person to ask this  
11 question.

12 JUDGE TURNER: Okay.

13 MS. BRANDEIS: I don't think I have anything further.

14 JUDGE TURNER: Ms. Moury, you stated before you have  
15 no questions?

16 MS. MOURY: I have no questions.

17 JUDGE TURNER: Mr. Kleppinger, you said you had a few  
18 questions.

19 MR. KLEPPINGER: Yes. Thank you, Your Honor.

20 CROSS-EXAMINATION

21 BY MR. KLEPPINGER:

22 Q. Good afternoon, Mr. Sipics.

23 A. Good afternoon, Mr. Kleppinger.

24 Q. I just want to pick up where Ms. Brandeis left  
25 off regarding the outlets of the interruptible resource from

1 the customer's perspective.

2 I believe you indicated to her that at least at the  
3 present time, when viewing interruptible power as a capacity  
4 equivalent, the customer's only outlet for getting rid of  
5 that interruptible power is to make a sale to PP&L under the  
6 terms of the interruptible credit that's being received by  
7 them through their rates; is that a fair characterization of  
8 what you responded to Ms. Brandeis earlier?

9 A. I guess "getting rid of interruptible power" is  
10 kind of a strange term, but what you're suggesting is, if  
11 they didn't want to have firm service and they wanted  
12 interruptible, yes, they'd get it from us, and the value we  
13 get, only we get, not somebody else, yes.

14 Q. And in fact, PP&L is the only available  
15 purchaser or supplier of that interruptible power?

16 A. To the extent we're the only supplier to the  
17 customer, yes.

18 Q. Now, when we talk about the PJM capacity  
19 deficiency rate, isn't that rate not only set by PJM but a  
20 market has been created among PJM companies for the purchase  
21 and sale of capacity credits to meet capacity obligations  
22 within the PJM?

23 A. Yes.

24 Q. Is that correct?

25 A. Yes. The only thing I want to clarify is that,

1 when you say it's set by PJM, actually the eight member  
2 companies submit their estimates of the cost of building a  
3 combustion turbine and then the averaging of those eight  
4 estimates is what results in the number.

5 Q. Okay, that's a fair clarification.

6 But my point is that, in the market that creates the  
7 15 to 20 percent number that is referenced in your  
8 testimony, there are in fact multiple purchases and multiple  
9 suppliers of those capacity credits among the PJM companies;  
10 are there not?

11 A. Yes, the PJM companies themselves.

12 Q. Now, returning to your Exhibit JFS-1 for a  
13 minute, we heard testimony on Tuesday that the company has  
14 accelerated the deactivation dates of the Sunbury, the  
15 Holtwood and the Martins Creek 1 and 2 units to 2003.

16 Am I correct that those deactivation dates are not  
17 reflected in the loading capacity forecast on Exhibit JFS-1?

18 A. You're correct that there's no retirement of the  
19 Martins Creek units, the Sunbury units or Holtwood in this.  
20 I didn't hear the testimony Tuesday, but I would be  
21 surprised if we testified that we had changed the  
22 deactivation dates or retirement dates to that date. I know  
23 we decided to base depreciation on a different date, given  
24 that we face some potentially high Clean Air exposures.

25 Q. I accept the clarification to the depreciation

1 expense, but the retirements aren't included in the --

2 A. They are not.

3 Q. Now, if we move over to the column labeled,  
4 "Interruptible Load Adjustment," you've already clarified  
5 that that number was reached by taking 290 megawatts of  
6 interruptible load and creating a capacity equivalent by  
7 adding 20 percent, essentially.

8 A. Yes.

9 Q. You have not forecasted, have you, any increase  
10 in the level of interruptible load throughout this loading  
11 capacity forecast, have you?

12 A. I personally don't do the forecasts, but this  
13 does not show an increase in interruptible load, yes.

14 Q. Now, you were a witness, as mentioned earlier,  
15 in the PP&L case which led to the closure of the  
16 availability of the interruptible rate to new customers,  
17 correct?

18 A. Yes.

19 JUDGE TURNER: Was that the M-docket mentioned  
20 before?

21 MR. KLEPPINGER: Yes.

22 MS. McCLOSKEY: No.

23 THE WITNESS: No, it's a different case.

24 JUDGE TURNER: Let's identify that proceeding, if we  
25 can.

1 MR. KLEPPINGER: That docket number I don't have,  
2 Your Honor.

3 (Inaudible discussion.)

4 THE WITNESS: I think we have it.

5 JUDGE TURNER: Well, Ms. McCloskey knew it by heart,  
6 so would you state it for the record, please?

7 MS. McCLOSKEY: That was the R-943081.

8 MR. KLEPPINGER: Thank you, Ms. McCloskey. Your  
9 memory is better than mine.

10 (Laughter.)

11 BY MR. KLEPPINGER:

12 Q. Now, do you recall the outcome of that  
13 proceeding, Mr. Sipics?

14 A. The resulting closure of the rate?

15 Q. Yes.

16 A. Yes.

17 Q. So that the rate as we know it today at least is  
18 closed to adding new interruptible load?

19 A. Yes, qualified, in that what we did was set the  
20 firm levels so to the extent that when any interruptible  
21 customers added load, you could have a higher contribution  
22 to interruptible but the firm level can't go below the  
23 current levels.

24 Q. Any existing customer that's on the rate today,  
25 if their load grows, that load can be interruptible load?

1 A. Yes.

2 Q. And you're not projecting any of that load being  
3 interruptible under this loading capacity forecast?

4 A. Nothing is shown for any increase in here, yes.

5 Q. Now, are you familiar with the company's  
6 proposal in this proceeding to cap the amount of  
7 interruptible load at 500 megawatts?

8 A. I understand that we made it, yes. That's not  
9 one of my areas.

10 Q. You understand that that is part of the proposal  
11 in this case?

12 A. Yes.

13 Q. And for purposes of preparing a loading capacity  
14 forecast like you have in Exhibit JFS-1, would that 500  
15 megawatts of capped interruptible load be analogous to the  
16 290 megawatts that's embedded in this forecast?

17 A. Yes. That's actual measured load, so it would  
18 be equivalent to the 290.

19 Q. Right. That would be my understanding as well.  
20 So if in fact customers did increase interruptible loads up  
21 to the cap that's proposed in this case of 500 megawatts,  
22 and if that 500 megawatts was then converted into the  
23 capacity equivalent value, would not the column labeled,  
24 "Interruptible Load Adjustment" on Exhibit JFS-1 be 600  
25 megawatts?

1 A. Given that hypothetical, yes.

2 Q. If you would turn to your testimony at page 13,  
3 lines 21 and 22, you refer to a limited number of  
4 occurrences that you can call on interruptible load.

5 A. Yes.

6 Q. And just so the record is clear, is it your  
7 understanding in the tariff that PP&L has the ability to  
8 interrupt customers 20 times per calendar year if they are  
9 on the interruptible service?

10 A. Yes, my understanding that it's up to 20  
11 interruptions for up to 200 hours.

12 Q. And each interruption can last for a period of  
13 as many as ten hours in a given day?

14 A. That's my understanding.

15 Q. Did interruptions which were called in January  
16 of 1994 extend beyond ten hours at the voluntary  
17 contribution of interruptible customers, to your  
18 recollection?

19 A. Yes. We definitely went beyond three hours on  
20 January 19th and I believe also on January 20th.

21 Q. I'm sorry, you said beyond --

22 A. Ten hours.

23 Q. Ten hours, okay.

24 Now, you may not be the correct witness for this, and  
25 just tell me if you're not, but has the company conducted

1 any surveys or studies of its interruptible customers to  
2 identify whether or not those customers would accept a  
3 greater number of interruptions in exchange for a more  
4 significant price reduction for that service?

5 A. I'm not aware of those surveys.

6 Q. Are you familiar with other investor owned  
7 utility tariffs in Pennsylvania that may or may not include  
8 a greater number or an unlimited number of interruptions for  
9 interruptible customers?

10 A. I am not. I would suspect that Mr. Kasper is  
11 probably better equipped to answer that.

12 Q. He'll be glad to hear that, probably.

13 Now, one of the other criticisms in your testimony of  
14 interruptible load in terms of its value to the company is  
15 that it's not directly controlled by PP&L, correct?

16 A. Yes.

17 Q. Now, there are consequences to a customer, are  
18 there not, when that customer fails to interrupt?

19 A. Financial consequences, yes. I am generally  
20 aware of them, but again, the specific tariff provisions are  
21 probably better addressed to Mr. Kasper.

22 Q. But there are financial penalties, and we can go  
23 into the details of those with Mr. Kasper?

24 A. Yes, that's my understanding.

25 Q. You also mentioned earlier today the amount of

1 notice, I believe, that is typically given and you refer at  
2 page 14, line 2 to one to two hours under current  
3 interruptible service agreements.

4 A. That's my understanding of the tariff  
5 provisions.

6 Q. Is it your understanding that's a tariff  
7 requirement or a negotiated contract requirement?

8 A. I don't know.

9 JUDGE TURNER: What's the difference? Aren't the  
10 negotiated contracts then embodied in the tariff?

11 MR. KLEPPINGER: Well, Your Honor, I'd like to  
12 distribute the tariff to elucidate that subject.

13 JUDGE TURNER: Okay.

14 MR. KLEPPINGER: I'd like to have marked for  
15 identification as PPLICA Cross-Examination Exhibit No. 4 a  
16 copy of --

17 JUDGE TURNER: Has it been distributed?

18 MR. KLEPPINGER: Not yet -- PP&L's Rate Schedule  
19 LP-5, Supplement No. 53 to Electric - Pa. P.U.C. No. 200,  
20 which carries an effective date of February 15, 1995.

21 JUDGE TURNER: Thank you. The company has received  
22 it. Please let me know if you have any objections.  
23 Otherwise, I'll go ahead and mark it.

24 (Pause.)

25 JUDGE TURNER: Hearing no objection, it shall be

1 marked.

2 (Whereupon, the document was marked as PPLICA  
3 Cross-Examination Exhibit No. 4 for  
4 identification.)

5 BY MR. KLEPPINGER:

6 Q. Mr. Kasper, I'd like to draw your attention --

7 MR. GADSDEN: Sipics.

8 MR. KLEPPINGER: I'm sorry, Sipics.

9 THE WITNESS: I'm still here.

10 MR. KLEPPINGER: See, I've got a tariff in front of  
11 me, I'm thinking "Kasper."

12 THE WITNESS: Good thinking.

13 (Laughter.)

14 BY MR. KLEPPINGER:

15 Q. The last page of this exhibit under "Hours of  
16 Interruption," doesn't the tariff indicate in the second to  
17 the last sentence that, "Whenever possible, the customer  
18 will be notified in advance of a probable interruption and  
19 the estimated duration of the interruption"?

20 A. That's the way I read it.

21 Q. And do you see any reference there to a required  
22 one- to two-hour notice?

23 A. No, I don't.

24 Q. Lastly, Mr. Sipics, in response to questions I  
25 believe from Ms. McCloskey, you used a term, "fully

1 competitive generation market."

2 A. Yes.

3 Q. And I would like to have you provide your  
4 definition of what you mean by "fully competitive generation  
5 market".

6 A. My definition would be that the revenues that a  
7 generator produces are whatever he could get on a contract  
8 with a user. There's no tie between the company's  
9 generation and the company's customers' loads.

10 Q. And do you limit that market by PP&L service  
11 territory boundaries, or do you extend it beyond those  
12 boundaries?

13 A. No. It would be a regional marketplace,  
14 certainly.

15 Q. And would that regional marketplace include all  
16 buyers of power and all sellers of power?

17 A. That's the basis, yes.

18 MR. KLEPPINGER: Thank you for that clarification.  
19 That's all I have, Your Honor.

20 JUDGE TURNER: Mr. McCormick?

21 MR. MCCORMICK: I have no cross, Your Honor.

22 JUDGE TURNER: Mr. Epstein?

23 MR. EPSTEIN: About five, six minutes at the most.

24 JUDGE TURNER: Go ahead.  
25

## CROSS-EXAMINATION

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BY MR. EPSTEIN:

Q. Mr. Sipics, how are you doing?

A. All right, Mr. Epstein.

Q. I'm Mr. Epstein, representing Mr. Epstein.

Just a couple questions for you. What percent of the electrical generation does the Susquehanna nuclear power plant contribute to PP&L's total capacity?

A. You're asking that question on a capacity basis?

Q. Right.

A. It's around 25 percent. I can get you a more exact number, if you want.

Q. Yeah, I would.

MR. EPSTEIN: Do I need to make an on-the-record data request for that?

JUDGE TURNER: Yes.

MR. GADSDEN: We can make that calculation if you'd like.

MR. EPSTEIN: Okay, thanks.

JUDGE TURNER: Okay, fine.

BY MR. EPSTEIN:

Q. Do you feel this constitutes an over-reliance on one source of electrical generating?

A. I don't believe so. We have probably twice that in coal resources and our other options I guess are gas and

1 oil, and so 25 percent in nuclear.

2 Q. But one-fourth of the capacity would be coming  
3 from the two units at the Susquehanna nuclear power plant?

4 A. That's right. One of the reasons we're able to  
5 build units that size is because of being a member of PJM,  
6 so you take advantage of the diversity of outages on PJM.

7 Q. In your opinion, then, does the Susquehanna  
8 nuclear power plant provide reliable reserves of electrical  
9 capacity?

10 A. I would say yes. We just came off, in fact we  
11 haven't quite yet come off of a record run of Susquehanna, a  
12 world record for two unit BWRs. It's 280 days and counting,  
13 I don't know, 280-how many.

14 It will end when the refueling outage starts I think  
15 on the weekend.

16 Q. I read about it in my annual report.

17 JUDGE TURNER: Just to be clear, most of us  
18 understand that BW means "boiling water."

19 THE WITNESS: Boiling water reactors, yes.

20 BY MR. EPSTEIN:

21 Q. Okay, the Susquehanna Nuclear power plant Unit 1  
22 was shut down until January 22, 1994; is that correct?

23 A. On an extended refueling outage, yes.

24 Q. Can you explain the circumstances, why it had to  
25 be shut down longer than you anticipated?

1           A. I think I testified earlier, I don't know all of  
2 the gory details. The nuclear people could probably talk  
3 about it better.

4           But I know there was an extension for a couple of  
5 reasons. They had some problems on a refueling bridge, and  
6 I think the most significant problem was we felt it was  
7 necessary to replace jet pump support beams. They  
8 discovered a problem on one of the similar reactors  
9 elsewhere, and we decided it was prudent to do that while we  
10 had the unit out of service.

11          Q. I believe it was in a reactor in Mississippi.

12          A. I believe you're right.

13          Q. Can you describe why Unit 2 was also shut down  
14 during a similar period of time? I believe Unit 1 came back  
15 on line on January 22nd and then Unit 1 went off line on  
16 that date.

17          A. Yes, Unit 2 I believe tripped on January 20th,  
18 early in the morning of January 20th, but I don't recall the  
19 reason.

20          Q. Just so I understand correctly, a generating  
21 station that provides 25 percent of your capacity, which you  
22 would consider to be reliable, was unavailable when it was  
23 most needed?

24          A. For that snapshot of time, it was unavailable.

25          Q. You're aware, I'm sure, that PP&L has

1 contractual agreements to sell electricity to Baltimore Gas  
2 & Electric?

3 A. Yes.

4 Q. Jersey Central Power & Light?

5 A. Yes.

6 Q. Atlantic City Electric?

7 A. Yes.

8 Q. What percentage of PP&L's generating capacity is  
9 sold through these contractual arrangements, just to these  
10 PJM companies?

11 A. Again, it's roughly 125 megawatts to Baltimore  
12 Gas & Electric; 125 megawatts, plus or minus a couple, to  
13 Atlantic Electric; and 945 megawatts to Jersey Central.

14 So if you sum that up, we're somewhere around 1,200,  
15 and we can provide the exact percentage.

16 Q. Okay, I would appreciate that. Those agreements  
17 then are profitable for the company, the sale of that  
18 electricity to these three companies in particular?

19 A. When you say "profitable," I guess --

20 Q. You make money off the transaction?

21 A. We've negotiated those sales on a cost of  
22 service basis, so those utilities are paying us the same  
23 costs that our customers pay for similar capacity. It's  
24 different in each case. Sometimes it's nuclear in the case  
25 of Baltimore; it's coal in the case of Atlantic City; and

1 it's a slice of system in the case of Jersey Central.

2 Q. But you're not losing money when you make the  
3 sale to these companies?

4 A. No.

5 Q. Okay, so it would be a net gain for the company?

6 A. Well, if they were in rate base, we'd be getting  
7 the same revenues.

8 Q. Okay. What percentage of electricity is sold to  
9 companies off the grid?

10 A. It's hard to put into a percentage because our  
11 sales off the grid are sometimes strange sales like output  
12 reservations, and there's not a lot of energy associated  
13 with them. It's kind of an option for somebody to use our  
14 capacity. So I'm not sure how exactly to answer that.

15 Q. I'm just curious. Would it be greater or less  
16 than the sales to companies within the grid?

17 A. Less.

18 Q. Are ratepayers then at any point -- and I'm  
19 unclear to this, so I'm kind of naive, I guess -- are they  
20 additionally assessed for the sale of any of this  
21 electricity to other companies?

22 In other words, you sell the electricity to the  
23 companies; do the ratepayers pick up any additional fee on  
24 top of that?

25 A. No. In the case of the firm sales you talked

1 about to the PJM companies, we're recovering the revenues  
2 from the companies we're selling them to, and so we're not  
3 collecting anything from our customers on the slice of  
4 system to Jersey and the others.

5 Q. So there wouldn't be any double-billing on that?

6 A. No double-billing. And in the case of sales  
7 outside the pool, those are generally reflected through the  
8 ECR to the extent there are energy related revenues.  
9 They're reflected in the rate base to the extent there's  
10 capacity related revenues.

11 Q. Just one last question, and I'll let you go for  
12 the day, hopefully. I was curious as to what impact -- I  
13 know that Power Markets has received approval from the  
14 Public Utility Commission, Securities Exchange Commission  
15 and the Nuclear Regulatory Commission.

16 When they generate electricity, what kind of impact  
17 would that have? I know the electricity is going to be  
18 obviously some way that it wouldn't be able to be  
19 communicated to our rate base.

20 A. At this point, they have no resources to  
21 generate electricity with. What they would probably do is  
22 invest in projects somewhere, whatever. It could even be  
23 overseas. So there wouldn't be a connection to --

24 Q. Okay, but currently, they have \$50 million set  
25 aside for such investments?

1           A.    That was money that we provided to PMD to get  
2 them started, but we didn't provide any resources, any  
3 generating resources with that.

4           Q.    Do you know if that money came from ratepayer,  
5 from the ratepayers?

6           A.    I don't know, but I think it was a bottom line  
7 transfer, so I would say no. But again, I hate to say that,  
8 since I'm not --

9           MR. EPSTEIN: Mr. Gadsden, do you know who I might be  
10 able to address that question to?

11          MR. GADSDEN: Mr. Hill, who will be here Monday  
12 morning.

13          MR. EPSTEIN: Okay, thanks.

14          Have a wonderful day in the neighborhood.

15          JUDGE TURNER: Are you through, Misterogers?

16          (Laughter.)

17          MR. EPSTEIN: I think so. He might not be around  
18 next year, but I think we're all okay right now.

19          JUDGE TURNER: I have a couple questions I'd like to  
20 ask. References were made throughout cross-examination and  
21 your answers to 500 megawatts of interruptible and 290  
22 megawatts. Since there are no equivalent figures on JFS-1,  
23 on what columns would we find that 290 or where would the  
24 500 be?

25          THE WITNESS: The 500, as far I'm concerned, isn't

1 relevant to JFS-1 because we're showing on here what our  
2 resources are or are anticipated to be.

3 I don't make that forecast, but the people who did  
4 deemed that the 290 was appropriate, probably reflecting --

5 JUDGE TURNER: Where is the 290?

6 THE WITNESS: The 290 is essentially reflected in  
7 Column 7, where it says, "Interruptible Load Adjustment."  
8 What you see there is 345, which is really 290 increased to  
9 20 percent to recognize we don't have to carry the reserves  
10 on it. So you won't see the 290 number itself, but you'll  
11 see the capacity equivalent of that 290 number, and that's  
12 that 345.

13 JUDGE TURNER: And the 500 number which you say is  
14 not relevant would really replace the 345, and that is why  
15 concomitantly the winter peak load would go up?

16 THE WITNESS: No. I think, as Mr. Kleppinger put it,  
17 the 500, if we've got that, if you get interruptible  
18 customers up to 500, nobody went off but we got additional  
19 ones, and then you did the same translation to capacity  
20 equivalents by multiplying by 20 percent, you'd actually put  
21 a 600 here rather than 345.

22 JUDGE TURNER: And then that would increase your  
23 winter peak load accordingly?

24 THE WITNESS: Well, I guess it would have to, since  
25 the only way to get it, due to closure, would be existing

1 customers increasing their load, so you'd have an increase  
2 in load but you'd have an offsetting increase in available  
3 interruptible load adjustment.

4 JUDGE TURNER: Didn't you say that your winter peak  
5 load would then be over 10,000?

6 THE WITNESS: Maybe I should clarify that. When Ms.  
7 Brandeis asked about, isn't the sum of the interruptible  
8 load that we have on the system greater than 290, what I was  
9 suggesting was, if you summed up their potential maximum  
10 demands, it would be.

11 But a parallel to that then, why I was suggesting  
12 that wasn't a prudent thing to do, as a parallel to that,  
13 you'd have to sum up the maximum demands of all your  
14 customers when you reported your winter peak load and you'd  
15 report a much greater number than 6,605.

16 If I misled anybody by getting into that explanation,  
17 just leave it aside.

18 JUDGE TURNER: I don't think you misled anybody.  
19 Probably everybody else understands it, but I didn't, and I  
20 asked just to be clear.

21 I think that is my last clarifying question. I guess  
22 one other thing: You said that your definition of a  
23 competitive market was, there was no tie between the  
24 customers' needs and the company's capacity; is that right?

25 THE WITNESS: Yes. I mean, there could be

1 contractual ties, certainly.

2 JUDGE TURNER: What about the relationship between  
3 the company's costs and the price at which they would sell  
4 their power?

5 THE WITNESS: Those are some of the details we have  
6 to work out in our transition to competition, the stranded  
7 investment concern.

8 JUDGE TURNER: But would you say there would or would  
9 not be a relationship? You could charge whatever you  
10 wanted, despite what your costs were; is that correct?

11 THE WITNESS: In a fully competitive market, yes.

12 JUDGE TURNER: Thank you.

13 Mr. Gadsden, do you have any redirect?

14 MR. DeCUSATIS: I think Mr. Kleppinger has some  
15 additional cross.

16 JUDGE TURNER: I'm sorry.

17 MR. KLEPPINGER: No, I just didn't move my exhibit.

18 JUDGE TURNER: Oh, thank you for reminding me.

19 MR. KLEPPINGER: PPLICA No. 4, I'd like to move for  
20 that at this time, and if the parties would hold on to that,  
21 because we will probably be getting back to that exhibit  
22 next week.

23 JUDGE TURNER: Okay. I would expect the parties  
24 would hold to it. Since there was no objection at the time  
25 of marking, it will be admitted.

1 (Whereupon, the document marked as PPLICA  
2 Cross-Examination Exhibit No. 4 was received  
3 in evidence.)

4 JUDGE TURNER: Mr. Gadsden?

5 MR. GADSDEN: If I could have perhaps five minutes to  
6 discuss with Mr. Sipics, I think we may have some very  
7 limited redirect.

8 JUDGE TURNER: Okay. We'll expect to go back on the  
9 record at 2:35.

10 (Recess.)

11 JUDGE TURNER: Back on the record.

12 REDIRECT EXAMINATION

13 BY MR. GADSDEN:

14 Q. Mr. Sipics, do you still have a copy of what was  
15 admitted as Office of Trial Staff Cross-Examination Exhibit  
16 No. 3?

17 A. Yes, I do.

18 Q. Attached as part of that exhibit, and in fact  
19 comprising the last four pages of it is the company's  
20 response to Office of Trial Staff Interrogatory RB-57, and  
21 you were asked certain questions by Mr. Simms with respect  
22 to that question and specifically Attachment No. 3.

23 Do you recall his questions and your answers?

24 A. Yes, generally.

25 Q. And do you recall having him ask you to accept

1 subject to check that if one were to divide a certain figure  
2 at the bottom of the column, estimated loss generation from  
3 unscheduled outages, by period hours of 8,760, one would  
4 develop a figure of 405 megawatts?

5 A. Yes, I do.

6 Q. You recall that. And do you recall that being  
7 characterized as an average forced outage rate?

8 A. Yes, I do.

9 Q. What forced outage rate is implicit in the  
10 company's 12 percent installed capacity obligation to the  
11 PJM interconnection?

12 A. Approximately 9.7 percent.

13 Q. And could you tell us what that translates into  
14 in terms of numbers of megawatts?

15 A. Well, if I tried to apply that to PP&L's  
16 installed capacity on a winter basis using the installed  
17 capacity in Attachment I-B-2 to I guess PP&L's Exhibit 1,  
18 Volume I --

19 JUDGE TURNER: So you're not referring to the OTS  
20 Cross-Examination Exhibit anymore?

21 THE WITNESS: No. At this point, I'm trying to get a  
22 capacity number to apply the 9.71 percent to, 9,014 for the  
23 winter of 1995. That would be about 875 megawatts.

24 JUDGE TURNER: I interrupted you while you were  
25 identifying that. Would you --

1 THE WITNESS: I believe it's PP&L Exhibit 1, Volume  
2 I, and its Attachment I-B-2.

3 JUDGE TURNER: What page number? Is there page  
4 number?

5 MR. GADSDEN: That's the page designation, is  
6 Attachment I-B-2. It's one page.

7 BY MR. GADSDEN:

8 Q. Mr. Sipics, if you could explain to us what the  
9 difference is between the 875 megawatt figure that you just  
10 calculated and the 405 megawatt figure that you calculated  
11 during the course of your cross-examination by Mr. Simms?

12 A. The 875 megawatt figure would take our average  
13 forced outage rate and apply it to our installed capacity.  
14 So if you tried to get I guess I'd characterize it as an  
15 expected value of forced outage megawatts, given the 9,000  
16 megawatt installed capacity number, you'd get 875.

17 What we did in OTS-RB-57 was try to calculate the  
18 average amount of generation lost by forced outages, and the  
19 difference there would be that at times, units would not be  
20 called on to run or wouldn't be called on to be run at full  
21 load, and so you would get a number that would be less than  
22 the average expected to be forced out at any given time.

23 JUDGE TURNER: And the last item that you referred to  
24 is a part of OTS Cross-Examination Exhibit No. 3?

25 THE WITNESS: Yes, it is.

1 BY MR. GADSDEN:

2 Q. During your cross by Mr. Epstein on behalf of  
3 Mr. Epstein, you were asked what percentage the Susquehanna  
4 plant comprised of PP&L's total owned and leased capacity,  
5 and you gave a figure of approximately 25 percent. Can you  
6 be any more precise?

7 A. It's 23 percent, if you -- you could look at the  
8 same exhibit we just referenced from, PP&L Exhibit 1, Volume  
9 I, Attachment I-B-2, and you would get 23 percent.

10 Q. Now, finally, Mr. Sipics, during Mr.  
11 Kleppinger's cross-examination, it was brought out that the  
12 company as part of this tariff filing had proposed to cap  
13 interruptible load at 500 megawatts. Do you recall that  
14 line of questioning?

15 A. Yes, I do.

16 Q. And in further answer, you indicated that  
17 assuming that cap were achieved and one were to look at your  
18 Exhibit JFS-1, it would be appropriate to substitute the 500  
19 megawatt figure for the 290 megawatt figure which you  
20 indicated was implicit in Column 7 before being factored up  
21 to reflect reserve margin. Do you recall that response?

22 A. Yes, I do.

23 Q. And have you had an opportunity to review that  
24 matter further, and if so, do you have any further comments  
25 respect to that?

1           A.    Yes.  I had a misunderstanding of what we meant  
2 by the 500 megawatt cap.  It turns out what we meant was,  
3 the 500 megawatts of undiversified maximum demand, and you'd  
4 have to translate that to a diversified demand, which is  
5 somewhere between 300 and 350 megawatts.  You can't be too  
6 precise on it.

7           So now, if I were trying to characterize that number  
8 in this column, it would range from 120 percent of 300 or  
9 360 to 120 percent of 350 or 420.

10          So when I was trying to do that number off of 500, I  
11 was assuming that 500 was already a diversified number, but  
12 it's not.  The 500 number is an undiversified summation of  
13 the maximum output of the interruptible loads.

14          JUDGE TURNER:  So you're saying, instead of the 600  
15 figure that you gave Mr. Kleppinger, the correct figure --

16          THE WITNESS:  Somewhere between 360 and 420, because  
17 the underlying figure would be between 300 and 350.

18          MR. GADSDEN:  Just for the parties' benefit, Your  
19 Honor, that particular issue is addressed specifically by  
20 Mr. Kasper in his Statement 8 at page 15.

21          With that, we present Mr. Sipics for recross.

22          JUDGE TURNER:  Mr. Simms?

23          MR. SIMMS:  Your Honor, I do not have any recross for  
24 the witness.  However, I wish to reserve some time after  
25 redirect to pose an on-the-record data request to the

1 witness.

2 JUDGE TURNER: I'm sorry, I'm not sure I understand.  
3 You want to reserve some time after redirect?

4 MR. SIMMS: I want to reserve, after all the parties  
5 have had an opportunity to redirect, to clarify an on-the-  
6 record data request to the witness.

7 JUDGE TURNER: Ms. McCloskey?

8 MS. McCLOSKEY: I have no recross, Your Honor.

9 JUDGE TURNER: Mr. Kleppinger?

10 MR. KLEPPINGER: Yes, Your Honor.

11 RECCROSS-EXAMINATION

12 BY MR. KLEPPINGER:

13 Q. As I understand the import of the testimony you  
14 have just given Mr. Gadsden, on Exhibit JFS-1, at Footnote  
15 7, the 290 megawatt number is specifically referenced in  
16 that footnote?

17 A. Yes, it is.

18 Q. And what you're saying now is that between 1995  
19 and the year 2003, PP&L would not expect to add any more  
20 than 10 megawatts to 60 megawatts of additional  
21 interruptible load; is that correct?

22 A. I didn't make the forecast, but --

23 Q. But that's --

24 A. -- yes, but that's essentially what's --

25 Q. -- what's implicit in your answer?

1 A. Yes.

2 JUDGE TURNER: Please wait.

3 Ask your question, Mr. Kleppinger.

4 BY MR. KLEPPINGER:

5 Q. Implicit in the answer you gave to Mr. Gadsden,  
6 though, is that the 290 over this forecast period can only  
7 grow to between 300 and 350 megawatts, correct?

8 A. On net, yes.

9 Q. And then likewise, the interruptible load  
10 adjustment on Exhibit JFS-1 during this forecast period  
11 would only have the potential to grow from 340 megawatts as  
12 stated on Exhibit JFS-1 now to something in the range of 360  
13 megawatts to 420 megawatts?

14 A. As I understand what we've proposed, yes. Maybe  
15 Mr. Kasper will be able to shed some other light on the  
16 subject.

17 MR. KLEPPINGER: That really was my next question to  
18 Mr. Gadsden, whether we should await Mr. Kasper to explain  
19 the use of the 500 megawatts as it's embodied in the  
20 proposed tariff.

21 MR. GADSDEN: Yes.

22 MR. KLEPPINGER: Thank you, Mr. Sipics.

23 THE WITNESS: You're welcome.

24 JUDGE TURNER: Mr. Epstein?

25 MR. EPSTEIN: Yes, I have two quick questions over

1 here.

2 RE CROSS-EXAMINATION

3 BY MR. EPSTEIN:

4 Q. The 23 percent figure that you represented, your  
5 total capacity for generated and leased, what I had asked  
6 was, what was the capacity that PP&L generates.

7 So my question to you, is the 25 percent figure the  
8 amount that Susquehanna nuclear station generates without  
9 regard to lease?

10 A. Are you asking for electrical output, like  
11 energy output, kilowatt-hours, or --

12 Q. I just wanted to clarify, because the first  
13 figure I got on the capacity figure from the Susquehanna  
14 nuclear power plant was 25 percent.

15 On redirect, we got 23 percent, so I'm confused. I  
16 just want to clarify without, you know, factoring in the  
17 lease capacity, how much does the Susquehanna nuclear power  
18 plant contribute to the capacity of PP&L as overall  
19 capacity.

20 A. When you say "without factoring in the leased,"  
21 you mean I should, in the denominator, you wanted the  
22 capacity with sales removed?

23 Q. The electricity that you generate without  
24 purchasing juice from elsewhere.

25 A. Oh, okay. See, what we calculated is

1 essentially the percentage of our capacity resources that  
2 are Susquehanna on a megawatt basis. Now, it sounds like  
3 what you are asking for is the energy output of Susquehanna  
4 as a portion of our total --

5 Q. Right. Would that be different?

6 A. -- energy. That would definitely be a different  
7 number. We'd need to get that.

8 JUDGE TURNER: If I can at this point, on his  
9 original cross-examination, you gave 25 percent as an  
10 estimated number, and there was an on-the-record data  
11 request that you were going to give an actual calculation.

12 THE WITNESS: And we did that on what our  
13 understanding of his question was, and that was 23.

14 JUDGE TURNER: And now you have to give a different  
15 on-the-record data request and a different answer?

16 MR. GADSDEN: We had interpreted his initial question  
17 in terms of the percentage which Susquehanna made up of our  
18 leased and owned installed capacity, and as it turns out,  
19 Mr. Epstein's question relates to electric output as opposed  
20 to capacity resources. We may or may not be able to answer  
21 the question.

22 THE WITNESS: I would think we could, if we just had  
23 a couple minutes to calculate it.

24 JUDGE TURNER: Why don't we go off the record.

25 (Discussion off the record.)

1 JUDGE TURNER: Let's go back on the record.  
2 The way you understand his question?

3 THE WITNESS: Okay, the way I understand your  
4 question, Mr. Epstein, Susquehanna produced 31 percent of  
5 PP&L's energy in 1993.

6 MR. EPSTEIN: Okay.

7 JUDGE TURNER: And you're talking about total energy  
8 output.

9 THE WITNESS: That's energy, right. The numbers we  
10 had talked about previously are on a capacity basis.

11 BY MR. EPSTEIN:

12 Q. Because what had confused me, when I got on  
13 LEXUS last night and looked at your 10-K, it said 36.4, and  
14 that's why I was astonished at the 23, 25.

15 A. Yes, that's the difference. We're talking  
16 energy versus capacity.

17 Q. Just one question. I was wondering if you were  
18 able to retrieve the data on what percentage of electricity  
19 you sell to electric companies outside the PJM grid, if you  
20 were able to determine in our brief break.

21 If not, I think I already made a request and I can  
22 get it later.

23 MR. GADSDEN: We'll take that as an on-the-record  
24 data request.

25 MR. EPSTEIN: Thanks.

1 JUDGE TURNER: Is that it, Mr. Epstein?

2 MR. EPSTEIN: Yes. Did I get my annual report back?

3 (Document handed to Mr. Epstein.)

4 JUDGE TURNER: It seems to me that in light of this  
5 colloquy, we might need to clarify for Mr. Epstein your  
6 answer to his question on sales to Baltimore Gas & Electric  
7 and the two other companies.

8 Are those sales of energy or of capacity?

9 THE WITNESS: I did those on the capacity basis,  
10 also.

11 JUDGE TURNER: Those were on a capacity basis?

12 THE WITNESS: Yes. If he wants them on --

13 JUDGE TURNER: Is that how you understood the answer,  
14 Mr. Epstein?

15 MR. EPSTEIN: I'd have to think about that, to be  
16 honest. I'd be dishonest if I said -- it takes a little  
17 time for me to percolate down.

18 JUDGE TURNER: Well, if you need a clarification, I'm  
19 sure you can come back and make that request.

20 MR. EPSTEIN: Okay, thank you, Your Honor.

21 JUDGE TURNER: Now, you had an on-the-record data  
22 request?

23 MR. SIMMS: Yes, Your Honor. If you'll recall,  
24 during my cross-examination, we had requested an opportunity  
25 to have off-the-record discussion as opposed to posing an

1 on-the-record data request of the company.

2 The on-the-record data request, Mr. Sipics, is for  
3 the peak day, February 6, 1995, could the company compare  
4 the NUG capacity factor with PP&L's availability percentage  
5 of its generating units that were operating?

6 THE WITNESS: Yes. We can provide that.

7 MR. SIMMS: Thank you.

8 JUDGE TURNER: And as we stated before, Mr. Gadsden I  
9 believe said once that was clear, he could do that within  
10 ten days.

11 MR. GADSDEN: Yes.

12 JUDGE TURNER: Is there anything else before we allow  
13 this witness to step down?

14 (No response.)

15 JUDGE TURNER: You may be excused. Thank you, Mr.  
16 Sipics.

17 THE WITNESS: Thank you, Your Honor.

18 (Witness excused.)

19 JUDGE TURNER: Mr. Gadsden, are you ready to proceed  
20 with Mr. Kleha?

21 MR. GADSDEN: Yes, and Mr. MacGregor will be  
22 presenting him.

23 JUDGE TURNER: Mr. MacGregor?

24 MR. MacGREGOR: Yes, thank you, Your Honor. We'd  
25 like to call Mr. Kleha at this time.

1 JUDGE TURNER: Good afternoon, Mr. Kleha.

2 MR. KLEHA: Good afternoon.

3 Whereupon,

4 JOSEPH M. KLEHA

5 having been duly sworn, testified as follows:

6 JUDGE TURNER: Will you state your name and spell it  
7 for the record?

8 THE WITNESS: My name is Joseph M. Kleha, spelled  
9 K-L-E-H-A.

10 JUDGE TURNER: Let's go off the record.

11 (Discussion off the record.)

12 JUDGE TURNER: Let's go back on the record.

13 We'll note that while we were off the record, Mr.

14 Simms passed out two exhibits which I believe will be  
15 identified during his cross-examination as OTS cross-  
16 examination exhibits.

17 Are there any other cross-examination exhibits to be  
18 passed out now?

19 (No response.)

20 JUDGE TURNER: Can counsel and the pro se person  
21 identify about how much time they have?

22 MR. SIMMS: I have very short, less than five  
23 minutes.

24 JUDGE TURNER: Ms. McCloskey?

25 MS. McCLOSKEY: I have about half of what I had for

1 Mr. Sipics, and I'm hoping a half-hour.

2 JUDGE TURNER: I'm just wondering, are we going to go  
3 until 4:30 or 5:00 or are we going to go later? That's  
4 really information for the court reporter who is doing one-  
5 day delivery.

6 It seems like we will be finished by five, then, by  
7 present projections.

8 MR. KLEPPINGER: My guess is that a lot of what Ms.  
9 McCloskey will do will be similar to mine, so it should be  
10 short. I think the same issues will be addressed.

11 JUDGE TURNER: I didn't mean to overlook you, but I  
12 thought I had eye contact and saw your head nodding, so I  
13 thought that you were going along with the 5:00. I'm sorry.

14 MR. KLEPPINGER: Oh, yes, yes, I was.

15 MR. EPSTEIN: I have to pick up my daughter at day  
16 care in 45 minutes, and I was wondering if the order could  
17 possibly be changed so I could leave before then. I don't  
18 know if that would be a problem or not.

19 JUDGE TURNER: How much time do you need?

20 MR. EPSTEIN: Five minutes.

21 JUDGE TURNER: Why don't we let Mr. Simms go first,  
22 and then you can go second, if that's all right with you.

23 MS. McCLOSKEY: That's fine with me, Your Honor.

24 JUDGE TURNER: All right.

25 Mr. Simms?

1 MR. MacGREGOR: Your Honor, I need to identify some  
2 documents with respect to Mr. Kleha.

3 JUDGE TURNER: Mr. MacGregor?

4 MR. MacGREGOR: Thank you. The first one is  
5 captioned, Pennsylvania Power & Light Company Direct  
6 Testimony of Joseph M. Kleha.

7 It was distributed as part of the company's original  
8 filing and also supplied to the court reporter at the  
9 prehearing conference, and I would ask that it be marked for  
10 purposes of identification as PP&L Statement No. 7.

11 JUDGE TURNER: It may be so marked.

12 (Whereupon, the document was marked as PP&L  
13 Statement No. 7 for identification.)

14 MR. MacGREGOR: In addition, there is a document  
15 captioned, Pennsylvania Power & Light Company Cost  
16 Allocation Study, Test Year Ended September 30, 1994, and I  
17 would ask that that document be marked for identification as  
18 Exhibit JMK-1.

19 JUDGE TURNER: It may be so marked.

20 (Whereupon, the document was marked as PP&L  
21 Exhibit No. JMK-1 for identification.)

22 MR. MacGREGOR: The next document is entitled,  
23 Pennsylvania Power & Light Company Cost Allocation Study,  
24 Test Year Ended September 30, 1995, and I would ask that  
25 that document be marked for identification as Exhibit JMK-2.

1 JUDGE TURNER: It may be so marked.

2 (Whereupon, the document was marked as PP&L  
3 Exhibit No. JMK-2 for identification.)

4 MR. MacGREGOR: And finally, the last document is  
5 captioned, Pennsylvania Power & Light Company Distribution  
6 Subfunctionalization/Classification Studies, Allocation of  
7 Meter Costs, and I would ask it be marked as Exhibit JMK-3.

8 JUDGE TURNER: It may be so marked.

9 (Whereupon, the document was marked as PP&L  
10 Exhibit No. JMK-3 for identification.)

11 DIRECT EXAMINATION

12 BY MR. MacGREGOR:

13 Q. Mr. Kleha, do you have before you a copy of PP&L  
14 Statement No. 7?

15 A. I do.

16 Q. Is that a copy of your direct testimony in this  
17 proceeding?

18 A. It is.

19 Q. Was this document prepared either by you or  
20 under your direct supervision?

21 A. It was.

22 Q. Do you have any changes, additions or  
23 corrections to make to Statement No. 7 at this time?

24 A. No, I do not.

25 Q. And if I were to ask you the same questions

1 contained in Statement 7 again today, would your answers be  
2 the same as those contained therein?

3 A. They would.

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

6 A. They are.

7 Q. Mr. Kleha, were you also responsible for the  
8 preparation of the three exhibits that were marked for  
9 identification as Exhibit JMK-1, JMK-2 and JMK-3?

10 A. They were prepared under my direction.

11 Q. Do you have any additions or corrections to make  
12 to those exhibits at this time?

13 A. Yes, I do. In Exhibit JMK-1, if the parties  
14 would turn to page 56, line 16, under the column marked,  
15 "Net Electric Department Generation Level Energy," the  
16 number shown is 34,760,962. It should read, 34,772,881.

17 The same line --

18 JUDGE TURNER: Would you repeat that for those of us  
19 who don't write as fast as you talk?

20 THE WITNESS: Surely. The number that is currently  
21 shown there is 34,760,962. It should be 34,772,881.

22 JUDGE TURNER: Thank you.

23 THE WITNESS: And the same line item under the column  
24 marked, "Pennsylvania Jurisdiction," the number now reads,  
25 33,333,634. It should read, 33,334,553.

1 JUDGE TURNER: In my volume, it reads, "3-2-2", not  
2 "3-3-3".

3 THE WITNESS: I'm sorry, "3-2-2". I had it crossed  
4 out, hard to read.

5 JUDGE TURNER: So it's "3-3-4" --

6 THE WITNESS: "5-5-3".

7 If the parties would in that same exhibit turn to  
8 page 178, under the column headed --

9 JUDGE TURNER: I don't see to have a page 178.  
10 Perhaps I'm in the wrong exhibit. JMK-1?

11 THE WITNESS: Page 178.

12 JUDGE TURNER: My last page is 167.

13 THE WITNESS: That's not a full exhibit, then.

14 JUDGE TURNER: Let's go off the record.

15 (Discussion off the record.)

16 JUDGE TURNER: Let's go back on the record.

17 THE WITNESS: On page 178, Exhibit JMK-1, under the  
18 column headed, "Annualized Sales Generation Level, MWH," the  
19 second figure shown on there for the RS rate class is  
20 12,140,483. It should be 12,140,467.

21 The sixth figure down for the LP-5 rate class right  
22 now is shown as 5,779,999. It should read 5,780,001.

23 The 11th number down, listed as total PUC, now reads  
24 33,159,068. It should read 33,334,553.

25 And the last figure in that column, total system

1 sales, now reads 34,597,396. It should read 34,772,881.

2 I would indicate that the corrections I just made had  
3 no effect on the calculations in Part III of this exhibit.

4 BY MR. MacGREGOR:

5 Q. Does that complete your corrections?

6 A. I have one correction to Exhibit JMK-2. It's on  
7 page 199 of Exhibit JMK-2. Under the column shown as  
8 "Annualized Sales Generation Level," the 10th line down, for  
9 the LP-EP group, it's shown as a blank. The number should  
10 be 152,923.

11 Two lines below that, total PUC now reads 33,311,631.  
12 It should read 33,464,555.

13 And the final correction is the last figure on that  
14 column, total system sales. It now reads 34,734,197. It  
15 should read 34,887,121.

16 Again, I would add that that correction has no effect  
17 on Part III of this exhibit, which is the calculations.

18 Q. Does that complete your corrections?

19 A. It does.

20 Q. With those corrections, Mr. Kleha, is the  
21 information contained in Exhibits JMK-1, JMK-2 and JMK-3  
22 true and correct to the best of your knowledge?

23 A. It is.

24 JUDGE TURNER: Your Honor, I would like at this time  
25 to move the admission of PP&L Statement 7 and Exhibits

1 JMK-1, 2 and 3, subject to cross-examination and motions.

2 JUDGE TURNER: Before we do that, did you at the  
3 pre-hearing conference submit these exhibits?

4 MR. MacGREGOR: Yes, Your Honor.

5 JUDGE TURNER: And they've been admitted into the  
6 record?

7 MR. MacGREGOR: They were not admitted into the  
8 record. Copies were provided to the court reporter.

9 JUDGE TURNER: And that's what the court reporter  
10 will submit with the transcript, and is that what's on file  
11 with the filing?

12 MR. MacGREGOR: Yes.

13 JUDGE TURNER: How do you propose to handle the  
14 corrections to those copies?

15 MR. MacGREGOR: I would say the corrections were  
16 noted on the transcript. Do they need to be marked on --

17 JUDGE TURNER: I think that corrected pages should be  
18 provided for the ones in the Commission files, and perhaps  
19 also for the court reporter, so that no copy is floating  
20 around without a correction in it, because some people may  
21 look at them without a transcript. That's my concern.

22 MR. MacGREGOR: We can supply those, Your Honor.

23 JUDGE TURNER: Okay, then we'll take care of doing  
24 that.

25 MR. MacGREGOR: Your Honor, I just would note that

1 Mr. Kleha is available for cross-examination, but in  
2 accordance with the letter I sent out last week to the  
3 parties setting out the schedule, Mr. Kleha is appearing  
4 today for cross-examination on all issues other than his  
5 cost of service study, and he will be appearing next week  
6 for cross-examination on the cost of service study.

7 JUDGE TURNER: And everyone is prepared for that?

8 MR. SIMMS: Yes, Your Honor.

9 MS. McCLOSKEY: Yes, Your Honor.

10 JUDGE TURNER: Are you done, Mr. MacGregor?

11 MR. MacGREGOR: Yes, I am, Your Honor.

12 JUDGE TURNER: In that case, I will admit the  
13 statement and exhibits that have been identified subject to  
14 any motions to strike or objections that are raised during  
15 cross-examination.

16 (Whereupon, the documents marked as PP&L  
17 Statement No. 7 and PP&L Exhibits Nos. JMK-1,  
18 JMK-2 and JMK-3 were received in evidence.)

19 JUDGE TURNER: We will turn to Mr. Simms, and he will  
20 be followed by Mr. Epstein.

21 MR. SIMMS: Thank you, Your Honor.

22 CROSS-EXAMINATION

23 BY MR. SIMMS:

24 Q. Good afternoon, Mr. Kleha.

25 A. Good afternoon, Mr. Simms.

1 MR. SIMMS: Your Honor, at this time, I would like to  
2 have the company's response to OTS Interrogatory RB-26D  
3 marked for identification as OTS Cross-Examination Exhibit  
4 No. 7. May it be so identified?

5 JUDGE TURNER: I'm sorry, I didn't hear the last two  
6 digits and --

7 MR. SIMMS: OTS-RB-26D.

8 JUDGE TURNER: And that's number --

9 MR. SIMMS: Seven.

10 JUDGE TURNER: Seven?

11 MR. SIMMS: Yes. Also, Your Honor, I'd like to have  
12 the company's response to OTS-RB-29D be marked for  
13 identification as OTS Cross-Examination Exhibit No. 8. May  
14 it be so identified?

15 JUDGE TURNER: Hearing no objection from the company,  
16 they may be so marked.

17 (Whereupon, the documents were marked as OTS  
18 Cross-Examination Exhibits Nos. 7 and 8 for  
19 identification.)

20 BY MR. SIMMS:

21 Q. Mr. Kleha, did you provide the response to  
22 OTS-RB-26D?

23 A. Yes, I did.

24 Q. In looking at the schedule on the second page,  
25 do the off-system sales as referred to here include the

1 capacity credit sales to other PJM utilities?

2 A. Yes, they do. They are under the caption there  
3 or the line item, "PJM Installed Capacity Credit".

4 Q. Thank you. And looking at OTS-RB-29D, did you  
5 cosponsor the answer to this interrogatory?

6 A. Yes, I did.

7 MR. SIMMS: Your Honor, at this time, I'd like to  
8 move for the admission of OTS Cross-Examination Exhibit No.  
9 7 and OTS Cross-Examination Exhibit No. 8.

10 MR. MacGREGOR: No objection, Your Honor.

11 MR. SIMMS: And that concludes my cross-examination.

12 JUDGE TURNER: They may be admitted.

13 (Whereupon, the documents marked as OTS  
14 Cross-Examination Exhibits Nos. 7 and 8  
15 were received in evidence.)

16 JUDGE TURNER: Mr. Epstein?

17 CROSS-EXAMINATION

18 BY MR. EPSTEIN:

19 Q. How are you doing, Mr. Kleha?

20 A. I'm fine, sir.

21 Q. This may be redundant, it might have come out in  
22 the ECR hearing, but it will take just a moment.

23 Does PP&L own or lease the fuel it uses at the  
24 Susquehanna nuclear station?

25 A. I believe it leases it.

1 Q. Who is it leased from?

2 A. I do not know the name of the corporation.

3 Q. So you wouldn't be aware of the conditions under  
4 which it's leased?

5 A. No, sir.

6 Q. Would you consider that fuel property held for  
7 future use?

8 A. No, sir.

9 Q. Therefore, you wouldn't have any plans to  
10 reprocess it to use at Susquehanna or any other facility?

11 A. I don't know enough about the reprocessing  
12 action to tell you whether we in fact would even be involved  
13 in something like that.

14 Q. Perhaps there's somebody else I could ask that  
15 question.

16 JUDGE TURNER: Excuse me. Is there someone else he  
17 can ask that question?

18 MR. MacGREGOR: Not really, among the lineup of  
19 witnesses we have. We'd be happy to try to answer a data  
20 request about it, if you've got --

21 MR. EPSTEIN: The two questions would be, since you  
22 don't own the fuel that you use in Susquehanna, who owns it,  
23 what are the conditions for the contract.

24 MR. MacGREGOR: That's no problem. We can answer  
25 that.

1 MR. EPSTEIN: And in addition, are there any plans to  
2 sell this fuel through reprocessing arrangements.

3 MR. MacGREGOR: You're talking about the spent fuel  
4 there, or --

5 MR. EPSTEIN: Yes, the spent fuel.

6 MR. MacGREGOR: We can answer that.

7 MR. EPSTEIN: Thank you.

8 BY MR. EPSTEIN:

9 Q. Would you consider -- and again, this may not be  
10 in your domain -- uranium dioxide an asset or liability, the  
11 fuel itself that's used at Susquehanna?

12 A. No, we don't consider it an asset. It's not  
13 listed on the books of the company as an asset.

14 Q. Do you know how it's listed as?

15 A. I don't believe it would be listed on the  
16 company's books.

17 Q. So it's not listed on the books as an asset and  
18 liability or anything else, okay.

19 JUDGE TURNER: I'm sorry, I'm not clear on what we're  
20 talking about. Are we still talking about spent fuel?

21 MR. EPSTEIN: No, we're talking about the fuel itself  
22 now. I was asking whether the fuel itself, uranium dioxide,  
23 is listed as an asset or a liability.

24 JUDGE TURNER: You don't have any fuel inventory?  
25 You have coal inventory.

1 THE WITNESS: We purchase fuel -- I don't know enough  
2 about the uranium fuel to give you a precise answer, but I  
3 know we purchase uranium and it goes immediately to the  
4 corporation that we lease the fuel back from. They process  
5 it and make it into fuel that's usable in the reactor.

6 JUDGE TURNER: So it's held by a subsidiary?

7 THE WITNESS: No, it's not a subsidiary of PP&L.

8 JUDGE TURNER: Completely separate corporation?

9 THE WITNESS: Yes.

10 BY MR. EPSTEIN:

11 Q. So then, whoever that corporate entity is -- or  
12 I think it might be the government, in fact -- they would  
13 assume liability for the fuel and then also for the spent  
14 fuel; would it be reasonable to conclude that also, since --

15 JUDGE TURNER: I'm not sure he's the witness to  
16 answer that question.

17 THE WITNESS: Okay.

18 MR. MacGREGOR: He's not, that's right. That is  
19 absolutely clear.

20 MR. GADSDEN: We'd stipulate to that.

21 MR. EPSTEIN: Is there a human being who works for  
22 the corporation who may be able to answer that?

23 MR. MacGREGOR: There are many of them who could.  
24 None of them are currently witnesses in the case. Mr.  
25 Berish on Monday or Mr. Bernini are our basic accounting

1 witnesses, and it's likely that they could answer most of  
2 those questions.

3 JUDGE TURNER: Or else you could handle them as data  
4 requests.

5 MR. MacGREGOR: Absolutely.

6 MR. EPSTEIN: Well, then, I'll save the remainder of  
7 these questions on that portion for them, and save energy.

8 BY MR. EPSTEIN:

9 Q. Just two other lines of quick questioning: I  
10 was wondering if you were aware of the Financial Accounting  
11 Standards Board which is reviewing accounting for removal  
12 costs.

13 A. I am.

14 Q. Do you think that would have any impact at all  
15 on the energy cost rates at Susquehanna?

16 A. No.

17 Q. Okay, so that would be a -- we don't know yet,  
18 because I don't believe that review has been completed.

19 A. I don't think that the effect of their ruling  
20 will have any effect on the energy costs of Susquehanna.

21 Q. Okay. And just a couple brief questions, and  
22 I'll be out of your hair, seeing that you have some hair.

23 (Laughter.)

24 Q. Would you consider radioactive contaminated  
25 components, like the turbines or generators, not now -- or

1 let's just say now -- would you consider these materials at  
2 the Susquehanna nuclear station as property held for future  
3 use?

4 A. No, sir.

5 Q. Okay. Do you know if you have any intent to use  
6 this metal after the useful life of the plant, to sell it as  
7 salvage or scrap, or is that something that would not be --

8 A. I believe that question can be addressed by Mr.  
9 LaGuardia, who prepared the decommissioning studies and  
10 estimates for PP&L.

11 Q. My only concern would be, I don't believe Mr.  
12 LaGuardia works for the company. I think he's with TL&G.

13 What I was trying to discern is whether or not this  
14 metal, after the used and useful portion of the nuclear  
15 plant's life, is going to be resold on the market; if so,  
16 where are those proceeds going to go; do they go to the  
17 company, do they go to the ratepayer? I don't know if Mr.  
18 LaGuardia would be able to answer that.

19 A. I think he can, because if they were resold,  
20 they would obviously affect the salvage and removal cost,  
21 and reduce it.

22 MR. EPSTEIN: That's it.

23 JUDGE TURNER: Since Mr. Epstein will be leaving  
24 shortly, would you have any redirect based on his questions?

25 MR. MacGREGOR: No, Your Honor.

1 JUDGE TURNER: Thank you very much, Mr. Epstein.

2 MR. EPSTEIN: See you next week.

3 JUDGE TURNER: Ms. McCloskey?

4 MS. McCLOSKEY: Thank you, Your Honor.

5 CROSS-EXAMINATION

6 BY MS. McCLOSKEY:

7 Q. Good afternoon, Mr. Kleha.

8 A. Good afternoon.

9 Q. If you could turn to page 14 of your testimony  
10 where you discuss the company's acquisition of what we've  
11 been calling NUG power, and I believe is referred to in your  
12 testimony as QFs at some point.

13 Does the company receive dollar-for-dollar recovery  
14 of the contract payments that it makes to the QFs through  
15 the ECR mechanism?

16 A. Yes, it does.

17 Q. And what's the approximate cost per  
18 kilowatt-hour of this QF power?

19 A. If my memory is correct, I think it's about 60  
20 mills.

21 Q. Which is about 6 or 6.1 cents per kilowatt-hour?

22 A. That's correct.

23 Q. And do you know if that number will escalate  
24 over time?

25 A. I think the number will probably go down.

1 Q. Now, Mr. Sipics testified earlier that this cost  
2 is in excess of PP&L's actually experienced avoided cost and  
3 its currently projected cost. Were you here for that  
4 testimony?

5 A. Yes, I was.

6 Q. And were you also here when he testified that  
7 those contracts were based on PP&L's energy only avoided  
8 costs at the time the contracts were signed?

9 A. Yes.

10 Q. Under the regulatory treatment of these costs,  
11 would you agree with me that the ratepayer is paying for the  
12 inaccuracy of these avoided cost projections?

13 A. I believe the ratepayer is paying exactly what  
14 the Commission approved. The Commission approved the  
15 contracts for PP&L's purchase of NUG output or output from  
16 these qualified facilities, and that's all that the company  
17 has been allowed to charge the customer.

18 Q. But the ratepayer is paying the 6 cents, which  
19 Mr. Sipics has testified is above PP&L's current avoided  
20 cost; is that correct?

21 A. That's true.

22 Q. Now, has PP&L looked into the possibility of  
23 renegotiating or buying out any of these QF contracts?

24 A. I think it's an area that is being considered by  
25 the company, but I don't have any direct knowledge of what

1 aspects or what avenues the company is approaching on that.

2 JUDGE TURNER: Is your answer no, as far as you know?

3 THE WITNESS: As far as I know, no.

4 MS. McCLOSKEY: I believe his answer was --

5 THE WITNESS: Yes. Originally, I said it was yes,  
6 yes.

7 JUDGE TURNER: Yes, as far as he knows, okay.

8 THE WITNESS: Yes.

9 BY MS. McCLOSKEY:

10 Q. And do you know if there's a witness in this  
11 proceeding who would have more knowledge of the company's  
12 activities in that area?

13 (No response.)

14 JUDGE TURNER: Mr. Kleha doesn't know, but counsel  
15 are consulting.

16 MR. MacGREGOR: Probably Mr. Sipics, Your Honor,  
17 although --

18 JUDGE TURNER: You didn't send him home, did you?

19 MR. MacGREGOR: I can turn around and look; is he  
20 still here? Yes, he's back in the back.

21 MR. GADSDEN: Unfortunately, he hasn't left yet.

22 (Laughter.)

23 MS. McCLOSKEY: Why don't I hold on to those  
24 questions?

25 MR. MacGREGOR: We can check at a break and see if he

1 does know.

2 JUDGE TURNER: And then you can recall him if  
3 necessary, and we will consider him as still under oath,  
4 although he can relax in the interim.

5 (Laughter.)

6 BY MS. McCLOSKEY:

7 Q. At page 21 of your testimony beginning at line  
8 11, you identify PP&L's proposal to roll into the ECR the  
9 non-energy revenue requirements associated with expiring  
10 on-system capacity sales, and you use the JCP&L sale as an  
11 example.

12 During the next several years, are there any other  
13 expiring or phasing out capacity sales contracts?

14 A. The Atlantic City Electric agreement will phase  
15 out around the year 2000, 2001. I'm not sure exactly the  
16 date. At that same time, the Baltimore Gas & Electric  
17 contract will also expire. So it's around the year 2000,  
18 2001 that they expire.

19 Q. And assuming your proposal is adopted and is  
20 still in effect in the year 2000, you would propose to bring  
21 in the non-energy revenue requirements associated with those  
22 sales as well?

23 A. That's correct.

24 Q. Now, would you agree with me that when a utility  
25 loses a customer, the utility is typically not permitted to

1 recover the revenue requirements associated with the  
2 capacity that that customer is taking through a fuel clause  
3 mechanism?

4 A. Typically, when a utility loses a customer of  
5 great magnitude, it would probably file for a base rate  
6 change, and so the revenue requirements or non-fuel revenue  
7 requirements would be in a base rate proceeding.

8 Q. They would not include fuel costs; is that  
9 correct?

10 A. That's correct.

11 Q. Now, the JCP&L contract is on a slice of the  
12 system basis, correct?

13 A. That's right.

14 Q. And do the rates that JCP&L pays include just  
15 the PP&L generating units?

16 JUDGE TURNER: As opposed to what?

17 MS. McCLOSKEY: As opposed to any leased generation  
18 or for example as opposed to the NUGs.

19 THE WITNESS: That's correct. They don't pay for the  
20 NUGs. They pay for PP&L's own capacity, whether it be  
21 wholly owned or jointly owned.

22 BY MS. McCLOSKEY:

23 Q. And that slice of the system would include a  
24 slice of Susquehanna Unit 1?

25 A. And 2.

1 Q. And it also includes Unit 2?

2 A. Yes.

3 Q. Now, I believe that your testimony identifies  
4 that beginning in 1996, PP&L will begin receiving back 189  
5 megawatts under the JCP&L contract.

6 A. That's correct.

7 Q. And is PP&L currently negotiating with JCP&L to  
8 renew that contract?

9 A. It's my understanding there are ongoing  
10 negotiations between PP&L and the GPU Corporation. Whether  
11 it's specifically JCP&L, that I can't verify, but there are  
12 ongoing discussions about a potential future contract which  
13 may or may not look anything like the current contract.

14 JUDGE TURNER: Meaning, you don't know if it's a  
15 renewal, but there's contract negotiations?

16 THE WITNESS: Yes.

17 BY MS. McCLOSKEY:

18 Q. So, is there some prospect that less than the  
19 189 megawatts or perhaps none of the 189 megawatts will  
20 return to PP&L in 1996 if those negotiations are successful?

21 A. That's possible.

22 Q. Now, are the current rates to JCP&L based on  
23 PP&L's cost of service?

24 A. Yes, they are.

25 Q. They are not a market based rate?

1 A. No, ma'am.

2 Q. And how do those rates compare to PP&L's  
3 projections of the market value of purchased power which Mr.  
4 Sipics discussed with us earlier?

5 A. I'm not sure I recall exactly what figures he  
6 quoted, but I think the contract rate now is somewhere  
7 around 4.5 to 5 cents.

8 Q. That's helpful, thank you.

9 Now, the 189 megawatts of non-energy revenue  
10 requirements translates into \$35.25 million per year, and I  
11 believe you provided that number in OCA Set V, No. 63; is  
12 that correct?

13 A. Subject to check, yes.

14 Q. Would you like to check that now?

15 A. What was that question?

16 Q. OCA Set V, No. 63.

17 JUDGE TURNER: Do you have that with you, Mr. Kleha?

18 THE WITNESS: Yes, I do.

19 (Witness perusing document.)

20 MR. KLEPPINGER: Your Honor, again, that's one that I  
21 actually had as a potential exhibit, if he's having trouble  
22 finding it.

23 THE WITNESS: I found it.

24 MR. KLEPPINGER: Okay.

25 JUDGE TURNER: Good. I was just about to go off the

1 record while you looked for it, but since you've found it,  
2 let's proceed.

3 THE WITNESS: You quoted the number of 35 --

4 BY MS. McCLOSKEY:

5 Q. Point two five million, per year.

6 A. Point five two.

7 JUDGE TURNER: All right, let's get the whole -- what  
8 is the annual number?

9 THE WITNESS: \$35.52 million.

10 BY MS. McCLOSKEY:

11 Q. I think I might have reversed some numbers there  
12 when I was reading it.

13 And by the end of the five-year phase-out period,  
14 PP&L's ratepayers would be paying approximately \$177 million  
15 per year for the non-energy revenue requirements that are  
16 returning to the ECR; is that correct?

17 A. That's correct.

18 Q. And that would be in addition to the  
19 \$261 million request in this case?

20 A. Yes.

21 Q. Now, under your proposal, does the returning  
22 capacity go into the ECR regardless of whether PP&L is able  
23 to renew the contract with JCP&L or sell the capacity to  
24 another utility?

25 A. No. Under the proposal that PP&L has made, if

1 the capacity that is currently out of rates is resold in  
2 whole or in part, that level of capacity and energy would  
3 not go into the ECR.

4 JUDGE TURNER: Is that different than now? You said,  
5 "under the proposal."

6 THE WITNESS: Yes, because at the present time, the  
7 way it's structured, PP&L has no avenue to recover those  
8 costs absent a base rate filing.

9 The proposal would create an avenue, that is recovery  
10 automatically through the ECR.

11 BY MS. McCLOSKEY:

12 Q. I'd like to give you a hypothetical question,  
13 then. Say that PP&L is able to sell the capacity but for  
14 less than the \$35 million, say for example \$20 million.

15 Would it be more attractive to PP&L to put the  
16 \$35 million in the ECR or to accept the \$20 million that it  
17 could receive from the sale?

18 A. If PP&L were to have this proposal accepted and  
19 the capacity were sold, either an extension of the current  
20 agreement or renegotiation of the current agreement or to  
21 someone else, for whatever price, there would not be  
22 anything that would go into the ECR. There would be zero  
23 dollars that would go into the ECR.

24 So whatever PP&L sold it for to another entity would  
25 be outside of rates.

1 Q. If your proposal is adopted, Mr. Kleha, what  
2 incentive is provided to the company to sell the 189  
3 megawatts or the capacity that is being freed up if the  
4 company receives automatic ECR recovery for the non-energy  
5 revenue requirements?

6 A. To the extent that the company could keep its  
7 customer rates lower by reselling that capacity and energy,  
8 that's its incentive.

9 Q. Would you agree with me that as the wholesale  
10 markets become more competitive, there's a possibility that  
11 the rate that PP&L will be able to sell the power at will be  
12 lower than under its current contract?

13 A. I would agree with that.  
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1           Q.    And if the company can receive full recovery on  
2 an automatic basis through the ECR mechanism, does the  
3 company have an incentive to pursue sales that may be more  
4 competitive and result in less revenue?

5           A.    I believe it does.

6           Q.    How is that?

7           A.    Well, your hypothetical or your suggestion was  
8 that the competitive market might not produce revenues  
9 equivalent to what the current level of revenue requirement  
10 is under the existing contract, but the level of revenue  
11 requirement can fall over time given changes to the  
12 operation and maintenance costs and the general overall  
13 capital costs associated with that capacity energy, so the  
14 market value and the revenue requirement's value may be  
15 equal, or the revenue requirement's value may be lower than  
16 the market value.

17          Q.    Would those lower revenue requirements be  
18 reflected to ratepayers if you returned it automatically to  
19 the ECR?

20          A.    Yes.

21          Q.    And you would propose to reflect efficiency  
22 gains or productivity improvements, say, for example, made  
23 at the plants --

24          A.    Yes.

25          Q.    -- in lower revenue requirement in the ECR?

1 A. Yes.

2 Q. On an average.

3 A. Yes.

4 Q. Assuming again that the 189 megawatts returns as  
5 scheduled in 1996, does the 189 megawatts provide a capacity  
6 benefit to PP&L's retail ratepayers?

7 A. Yes.

8 Q. Does it offset any capacity additions that PP&L  
9 is planning?

10 A. I am unaware of any capacity additions that PP&L  
11 is planning, but it would help to offset them, certainly.

12 Q. But at this time they're not planning any in  
13 that time frame; correct?

14 A. No, because I believe our reserve margins are  
15 reasonable given that returning capacity over time.

16 Q. Does PP&L propose an earnings test to accompany  
17 the inclusion of this returning capacity in an ECR?

18 A. No.

19 Q. Let's assume hypothetically for a minute that  
20 absent your ECR proposal the return of the 189 megawatts  
21 causes PP&L to earn less than its authorized rate of return,  
22 would PP&L still retain the right to file a base rate case  
23 as might be needed to recover those returning non-energy  
24 revenues?

25 A. Yes.

1 Q. On page 24 of your testimony, lines 11 through  
2 20, and then continuing on to page 25 --

3 A. I'm sorry; could you --

4 Q. On page 24, lines 11 through 20, and continuing  
5 on to the top of page 25, where you're noting that if your  
6 proposal is rejected, the Commission should not include off-  
7 system capacity sales revenue in the ECR. Is that a fair  
8 summary?

9 A. It sure is.

10 Q. I believe throughout your testimony you identify  
11 three types of off-system capacity sales that were also  
12 shown on OTS Cross-Examination Exhibit No. 7, the installed  
13 capacity credit sales, the output reservation sales, and the  
14 transmission entitlement sales.

15 A. Yes.

16 Q. Also on OTS Cross-Examination Exhibit No. 7 it  
17 shows \$20,884,000 on a PUC jurisdictional basis for these  
18 sales for the 12 months ended September 30.

19 A. That's correct.

20 Q. In this proceeding have you reflected those  
21 revenues to the benefit of retail ratepayers?

22 A. Yes.

23 Q. Where have they been reflected in this case?

24 A. In Exhibit JMK-2, Section III, Part III, page  
25 83.

1 Q. Part III, Section III, page 83?

2 A. Yes. As the footnote on that Attachment 1 to  
3 OTS-RB-26D indicates.

4 Q. Which is part of OTS Cross-Examination Exhibit  
5 No. 7?

6 A. That's correct.

7 Q. Could you explain to me how you provided a  
8 credit to retail ratepayers for that \$20,884,000?

9 A. Surely.

10 Q. In narrative terms.

11 A. Basically, the revenues that show as a credit to  
12 the customers -- revenue other than rate revenue is a  
13 revenue credit to customers in a cost allocation revenue  
14 requirement study, and what we have done is shown the \$20  
15 million, \$20.9 million, as that revenue credit to customers.  
16 So we have reduced their revenue requirement by that \$20.9  
17 million.

18 Q. Now, I have another question for you that is a  
19 bit of a hybrid question. If you would like me to ask you  
20 it again next week, let me know. As to the sales to your  
21 municipal customers, have you treated that as providing a  
22 revenue credit to retail ratepayers, or have you also made a  
23 jurisdictional cost allocation associated with those sales?

24 A. The sales to non-jurisdictional customers,  
25 whether it be to a bulk power customer or to a requirements

1 customer such as the municipalities, are handled through the  
2 cost allocation study; that is, the associated investment  
3 related to serving those customers and operating costs are  
4 excluded from the PUC jurisdictional revenue requirement.

5 Q. Now, I have a few questions for you concerning  
6 the Atlantic Electric capacity sale. I believe you stated  
7 earlier that you believe that sale terminates around the  
8 year 2000?

9 A. Yes. I don't know the exact date.

10 Q. That sale, as I understand it, is based on the  
11 cost of PP&L's wholly-owned coal units; is that correct?

12 A. That's correct.

13 Q. Can you tell me how that cost of the coal-fired  
14 power supply compares to the slice of the system cost?

15 A. In terms of?

16 Q. Is it greater than or less than the slice of the  
17 system cost on a cents per kilowatt-hour basis?

18 A. I think it may be less, but I honestly haven't  
19 done the calculation.

20 JUDGE TURNER: Do you need to have the calculation  
21 performed?

22 MS. McCLOSKEY: I think, Your Honor, that a  
23 calculation has been performed in the interrogatory  
24 responses that we can utilize.

25 JUDGE TURNER: Thank you.

1 BY MS. McCLOSKEY:

2 Q. In your jurisdictional allocation study did you  
3 allocate to Atlantic Electric 125 megawatts of the wholly-  
4 owned coal units?

5 A. Yes, all the investment costs and all the  
6 operating costs associated with that capacity and energy.

7 Q. And you did not allocate that as a slice of the  
8 system?

9 A. That's correct. We're getting off from the cost  
10 of service here, but basically the way PP&L's cost of  
11 service is set up, we take great pains to break our costs  
12 apart such that we can allocate costs to the appropriate  
13 contracts and customers as much as possible.

14 Q. Now, the Atlantic Electric contract revenues  
15 were in what was called your SBRCA or your special base rate  
16 base credit adjustment?

17 A. That's correct.

18 Q. Which was a rider mechanism. In this case  
19 you're proposing to move it into a jurisdictional allocation  
20 type of treatment. Is there a reason the company prefers  
21 jurisdictional allocation treatment for this sale?

22 A. No.

23 Q. Is there a reason you made this proposal?

24 A. Simply for consistency. The other contracts,  
25 the Jersey Central contract, the Baltimore Gas & Electric

1 contract, and the sale to our other non-jurisdictional  
2 customers, UGI and the municipalities, is handled through  
3 the cost allocation study, and we had indicated, when we  
4 filed for the change in the SBRCA to include the Atlantic  
5 Electric contract at that point, that at the time of our  
6 next base rate filing we would include it in a  
7 jurisdictional cost allocation fashion.

8 Q. Is it your expectation that the capacity revenue  
9 PP&L receives from Atlantic Energy will increase over time?

10 A. I'm sorry, capacity revenue?

11 Q. The revenues that it's receiving.

12 A. The revenue it receives for the contract?

13 Q. For the contract, right, under the contract.

14 A. The contract is a cost of service contract, so  
15 to the extent that the cost to serve goes up, yes, there  
16 will be more revenues, to the extent they fall, there will  
17 be less revenues.

18 Q. But it is based under cost of service --

19 A. That's correct.

20 Q. Mr. Kleha, I have a couple of revenue  
21 requirements questions for you that were deferred from  
22 cross-examination earlier regarding depreciation expense,  
23 and you sponsored an interrogatory answer.

24 A. Yes.

25 Q. I would also like to --

1 MS. McCLOSKEY: If I may approach him. I'm just  
2 going to show him the two --

3 MR. MacGREGOR: Sure.

4 BY MS. McCLOSKEY:

5 Q. I believe on Tuesday Mr. Hoch told us that the  
6 company's increased claim for depreciation expense is  
7 \$30,388,074 and the revenue requirement for that was  
8 \$39,626,810.

9 A. Yes.

10 Q. And you derived the revenue requirement. Could  
11 you provide a brief explanation of the process for deriving  
12 that?

13 A. Sure. The increase in depreciation expense of  
14 \$30,388,074 is on a total company basis; that is simply the  
15 level of cost increase in the future test year. The \$30.4  
16 million then has to be translated down to Pennsylvania  
17 jurisdictional level, and that would be approximately \$23.8  
18 million. When you change depreciation expense in this  
19 fashion, you also have a corresponding impact on tax  
20 depreciation, and that tax depreciation would change the  
21 level of deferred taxes in your test year. So as you impact  
22 the depreciation by \$30.4 million, you have a corresponding  
23 change in deferred taxes of about \$8.8 million. On a  
24 jurisdictional basis that is equivalent to \$23.8 million for  
25 depreciation and approximately \$6.9 million for deferred

1 taxes. The net income effect of those two items is \$16.9  
2 million on a PUC jurisdictional basis. When you gross that  
3 figure up for taxes to a revenue requirements basis it's  
4 approximately \$30.6 million, as shown in this response to  
5 OCA Set III, Question No. 6.

6 Q. And I believe that's been marked for the record  
7 as PPLICA Cross-Examination Exhibit No. 2.

8 A. Yes.

9 MS. McCLOSKEY: Let me show counsel the other revenue  
10 requirements --

11 MR. MacGREGOR: That's fine.

12 BY MS. McCLOSKEY:

13 Q. It's your response to OCA Set I, No. 33. Do you  
14 have a copy of that?

15 A. Yes, I probably have it, if you'll bear with me  
16 for one minute.

17 (Pause.)

18 JUDGE TURNER: Let's go off the record while he looks  
19 for it.

20 THE WITNESS: I found it.

21 JUDGE TURNER: Okay. Let's not go off the record.

22 BY MS. McCLOSKEY:

23 Q. Here we're trying to ascertain the electric  
24 plant in service value for the Susquehanna Station. On this  
25 interrogatory response you have identified, for the 12

1 months ended September 30, 1995, \$3,191,830,000 as the  
2 electric plant in service value of the Susquehanna Station  
3 as of September 30, 1995; is that correct?

4 A. That's correct.

5 Q. Could you tell us, is that the PA PUC  
6 jurisdictional number?

7 A. It is.

8 Q. In the far column you show a variance number of  
9 \$312,794,000, which is the difference between PP&L's  
10 electric plant in service claim at the end of its last base  
11 rate case, or on March 31, 1985, and its current claim of  
12 September 30, 1995. That variance, would that be the  
13 company's Pennsylvania jurisdictional claim related to the  
14 capital additions associated with the Susquehanna Station?

15 A. Can I make just one correction?

16 Q. Sure.

17 A. The column listed as the 12 months ended March  
18 31, 1985, the figure of \$2,879,036,000, that was the allowed  
19 figure, not the claimed; the allowed figure.

20 Q. Okay.

21 A. The \$3,191,830,000 figure shown for the 12  
22 months ended September 30, 1995 is the claimed figure in  
23 this case, and the variance -- they're both on a  
24 Pennsylvania jurisdictional basis, and the variance is  
25 simply the difference between those two numbers, the allowed

1 Pennsylvania jurisdictional and the claimed Pennsylvania  
2 jurisdictional in this case.

3 Q. And the variance would reflect, then, additions,  
4 capital additions, to the Susquehanna Station over that  
5 approximate ten-year period; is that correct?

6 A. That's correct.

7 MS. McCLOSKEY: That clears up our two revenue  
8 requirements questions, and that concludes my cross-  
9 examination.

10 Thank you, Your Honor.

11 JUDGE TURNER: Are you going to make a decision about  
12 Mr. Sipics? Do you want to allow the rest of cross-  
13 examination and then you can make a decision?

14 MS. McCLOSKEY: Yes; that might work better, Your  
15 Honor.

16 JUDGE TURNER: Ms. Moury?

17 MS. MOURY: I have nothing, Your Honor.

18 JUDGE TURNER: Mr. Kleppinger?

19 MR. KLEPPINGER: Thank you, Your Honor.  
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## CROSS-EXAMINATION

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BY MR. KLEPPINGER:

Q. Good afternoon, Mr. Kleha.

A. Good afternoon.

Q. If you'd turn your attention to your testimony at page 16, line 11, where you discuss output reservation sales.

A. Yes.

Q. Now, when you characterize these on line 13 as negotiated, non-refundable demand-related reservation fees, am I correct that the revenues that the company receives pursuant to those fees are not typically credited to customers in the energy cost rate?

A. That's correct.

Q. And are those revenues being credited in the ECR to any extent today?

A. Not in the current ECR, but in PP&L's proposed ECR.

Q. Now, beginning at line 19 on page 16 and carrying over to lines 1 through 4 on page 17, you are discussing here transmission entitlement transactions.

A. That is correct.

Q. And at line 3, you use the language that PP&L may reflect the foregone savings credit in the ECR. Are you indicating that that is discretionary on PP&L's part to

1 include that foregone savings?

2 A. What I'm saying basically is that PP&L will have  
3 to make a determination as to whether a foregone savings  
4 transaction or -- excuse me -- an interchange transaction  
5 could have taken place which could give rise to a foregone  
6 savings credit.

7 Q. And if in fact your determination leads to the  
8 conclusion that there has been a foregone savings, will PP&L  
9 definitely reflect that in the ECR?

10 A. Yes.

11 Q. Now, if the purchasing utility of that  
12 transmission entitlement does not actually utilize the  
13 reserve transmission capacity, then PP&L will typically  
14 retain the revenues from that transmission entitlement and  
15 not credit the ECR?

16 A. That's correct.

17 Q. Now, you referenced the Joint Petition for  
18 Settlement regarding some of the issues we've been  
19 discussing. Is it your testimony that in that Joint  
20 Petition for Settlement, the revenues from transmission  
21 entitlement sales or output reservation sales are not being  
22 credited in the ECR today?

23 A. That's correct; they are not.

24 Q. The only off-system sale type that is being  
25 credited in the ECR today are the capacity credit sales?

1           A.     That is correct, that one-third level of revenue  
2 PP&L receives for those types of sales.

3           Q.     And is it your proposal in this case that if the  
4 JCP&L proposal that was discussed with Ms. McCloskey is  
5 approved, that 100 percent of all output reservation sales,  
6 all transmission entitlement sales and all capacity credit  
7 sales will be credited in the ECR?

8           A.     Yes.

9           Q.     Now, I think you responded to Ms. McCloskey that  
10 that 100 percent credit, if you will, has been reflected in  
11 the cost of service study.

12          A.     That is correct.

13          MR. KLEPPINGER: I'm not sure, Your Honor, if this is  
14 the time to get into that detail or waiting until Tuesday.  
15 I think for the clarity of the record it may be better to  
16 get into that now if Mr. Kleha is prepared to do that, but I  
17 would be referring to the cost of service study exhibit.

18          MR. MacGREGOR: That's fine, as far as I'm concerned.

19          BY MR. KLEPPINGER:

20          Q.     You referenced Ms. McCloskey to page 83 of  
21 Exhibit JMK-2.

22          A.     That's correct.

23          Q.     Do you have that page?

24          A.     Yes, I do.

25          Q.     Are you referring to line 20 where it mentions

1 capacity and transmission entitlements and a number of  
2 \$20,884,000 reflected there?

3 A. That's correct.

4 Q. Now, my question relates to line 4 of that cost  
5 of service study, which is labeled, "Energy Revenue Present  
6 Level ECR." There you'll see the number negative  
7 \$21,487,000.

8 A. Yes.

9 Q. Doesn't that number reflect a reduction to the  
10 company's jurisdictional revenues associated with the  
11 credits that are already flowing through the ECR?

12 A. Yes. That \$20.9 million that we just talked  
13 about on line 4 would be part of that \$21.5 million credit  
14 in the ECR revenue. Effectively, what happens is, as you're  
15 well aware, the ECR is outside the confines of a base rate  
16 proceeding. So in order to make the revenue requirements in  
17 this proceeding exclude the ECR effect of a flow-through of  
18 100 percent of those capacity, output reservation and  
19 transmission entitlement sales, there were two input items.  
20 There was the positive figure of \$20.9 million shown on line  
21 20 of page 83 and the credit of \$21.5 on line number 4 in  
22 order to make the revenue requirements balance out.

23 JUDGE TURNER: Excuse me. Your former testimony just  
24 referred to line 4 as having \$20.9 million. I think you  
25 should just correct that line 20 has \$20.9 million and line

1 4 has \$21.5 million.

2 THE WITNESS: That's correct. I'm sorry.

3 BY MR. KLEPPINGER:

4 Q. If I understand your answer, what your cost  
5 study has done is made it blind, if you will, to the off-  
6 system sales revenue in the sense that you took Pennsylvania  
7 jurisdictional revenues and at line 4 reduced them because  
8 of the ECR effect and then at line 20 added it back in,  
9 which in effect in my mind is concluding that in the cost of  
10 service study there is not a reflection of 100 percent of  
11 the revenues received from capacity sales.

12 A. One could argue it in that fashion, yes.

13 Q. Well, other than argue, can you agree with me?

14 A. Yes, I'll agree with you. You're a nice guy.

15 Q. Thank you. That makes life easier.

16 A. Can I make one other clarification?

17 Q. While we're being agreeable, you might as well.

18 A. The intent of doing it in exactly this fashion  
19 was that if the Commission were to disallow PP&L's proposal  
20 to adopt the Jersey Central Power & Light or the off -- the  
21 --

22 JUDGE TURNER: Do you want to start again?

23 THE WITNESS: -- the terminating contract proposal  
24 for the ECR, that PP&L would revert to a traditional  
25 regulatory ratemaking treatment of off-system sales. So

1 line 20 would remain in tact, because that's the way you  
2 would typically treat off-system sales for cost allocation  
3 purposes, and line number 4 would go to zero.

4 BY MR. KLEPPINGER:

5 Q. You anticipated my next question, and I think  
6 the record is clear on that now, because it was assuming  
7 your JCP&L proposal is rejected by the Commission, then what  
8 we will have is traditional test year cost of service  
9 treatment of off-system sales, and line 4 is removed; line  
10 20 remains?

11 A. That's correct.

12 (Pause.)

13 MR. KLEPPINGER: If I could have a moment, Your  
14 Honor. I'm making sure these were covered by Ms. McCloskey.

15 JUDGE TURNER: Let's go off the record for a moment.

16 (Discussion off the record.)

17 JUDGE TURNER: Back on the record.

18 BY MR. KLEPPINGER:

19 Q. Mr. Kleha, going back to I believe a question  
20 that was referred to you earlier in the week regarding the  
21 proposal for AFUDC treatment on land held for future use.

22 A. Yes.

23 Q. Do you recall that the total plant land held for  
24 future use was approximately \$31 million?

25 A. I believe that is correct.

1 Q. Do you know what the AFUDC component will be on  
2 that \$31 million?

3 A. No, I don't. I don't have a calculation right  
4 now. We can provide that.

5 MR. KLEPPINGER: Perhaps when Mr. Kleha reappears on  
6 Tuesday, he can just read that into the record.

7 MR. MacGREGOR: Can we have that by then?

8 THE WITNESS: Yes.

9 MR. MacGREGOR: Fine.

10 MR. KLEPPINGER: That concludes my cross-examination.  
11 Thank you, Your Honor.

12 JUDGE TURNER: That on-the-record data request has  
13 been accepted and will be responded to.

14 Mr. McCormick?

15 MR. McCORMICK: No cross.

16 JUDGE TURNER: I think the record should reflect that  
17 Ms. Brandeis left the hearing room earlier and therefore has  
18 waved her right to cross-examine the witness on this portion  
19 of the testimony and will have to accept the record as it  
20 stands.

21 MS. McCLOSKEY: Your Honor, in light of Mr.  
22 Kleppinger's cross, may I ask a clarifying question of Mr.  
23 Kleha?

24 JUDGE TURNER: Normally, I would say no. You had  
25 your opportunity to ask questions. Can you tell me why you

1 didn't have the opportunity to ask it before?

2 MS. McCLOSKEY: I had asked Mr. Kleha whether the  
3 benefit of the off-system sales had been reflected to retail  
4 ratepayers and he had responded yes, in his cost of service  
5 study, but in light of Mr. Kleppinger's cross, I believe it  
6 came out that that was a wash. I'd like to clear that point  
7 up.

8 JUDGE TURNER: Yes.

9 MS. McCLOSKEY: And then understand his answer a  
10 little better.

11 JUDGE TURNER: Fine. Go ahead.

12 FURTHER CROSS-EXAMINATION

13 BY MS. McCLOSKEY:

14 Q. Mr. Kleha, I had asked you a question as to  
15 whether the off-system sales revenues were credited to the  
16 benefit of ratepayers in the cost of service study, and you  
17 had answered yes, it was in the cost allocation study. But  
18 in light of Mr. Kleppinger's cross-examination, you've also  
19 offset those same off-system sales revenues in the cost of  
20 service study. So actually, it's a little worse than a  
21 wash. I think the offsetting number was 21 million and the  
22 number credited was 20 million; is that correct?

23 JUDGE TURNER: 20.9.

24 THE WITNESS: That's correct, because gross receipts  
25 is the applicable difference. I apologize for misleading

1 you. It is the difficulty of having to deal with the ECR  
2 and base rates together here.

3 The explanation I gave Mr. Kleppinger was indeed  
4 correct that it basically is a wash in here, but the \$21.5  
5 million is sitting out here to be credited to customers in  
6 the ECR. So from a total rate standpoint to customers in  
7 this rate proceeding, they are getting the benefit of those  
8 off-system sales.

9 Q. But the 21 million will not be credited to  
10 customers unless your ECR proposal for the returning JCP&L  
11 capacity is accepted; is that correct?

12 A. The \$20.9 million equates to the 21.5. So to  
13 the extent you take away the credit figure of 21.5 on line 4  
14 of page 83 and leave in the 20.9 on line 20 and then there  
15 is an applicable gross receipts portion down in the expense  
16 portion, customers get the benefit of the \$21 million.

17 Q. Only if your proposal for JCP&L is accepted?

18 A. No; under all circumstances. If the proposal  
19 for Jersey Central Power & Light Company -- I'll rephrase  
20 it. If PP&L's proposal for ECR treatment of the non-energy  
21 revenue requirements associated with expiring capacity and  
22 energy agreements is approved by the Commission, the  
23 customers will receive the benefit of 100 percent of those  
24 off-system sales as a credit through the ECR from now until  
25 whenever that terminates.

1           If the Commission disallows PP&L's proposal with  
2 regard to the non-energy revenue requirements of those  
3 expiring capacity energy agreements, the customers will  
4 receive the benefit of the test year level of those off-  
5 system sales, which is \$21.9 million plus applicable gross  
6 receipts.

7           So in either case, the customer gets \$21.4 or 5  
8 million.

9           JUDGE TURNER: You previously stated that under  
10 certain circumstances, line 4 would go to zero?

11          THE WITNESS: That's correct.

12          JUDGE TURNER: What are those circumstances?

13          THE WITNESS: If the Commission disallows PP&L's  
14 proposal to include the non-energy revenue requirements  
15 associated with expiring capacity energy agreements in the  
16 ECR.

17          JUDGE TURNER: Excuse me, Ms. McCloskey. Does that

18 --

19          MS. McCLOSKEY: I think that is the best I can  
20 understand it at this point in time. Thank you, Your Honor.

21          JUDGE TURNER: Okay.

22          THE WITNESS: If we could go off the record, maybe I  
23 can give --

24          JUDGE TURNER: Yes, we can.

25          (Discussion off the record.)

1 JUDGE TURNER: Let's go back on the record.

2 Off the record, for my benefit, Mr. Kleha gave a  
3 lengthy and very lucid explanation of the relationship  
4 between the off-system sales credit and debit on lines 4 and  
5 20 of JMK-2, page 83, and the thing that I thought needed to  
6 be highlighted for this record and for the Commission's  
7 benefit is that a portion of the off-system sales under  
8 settlement in a recent case -- I do not have the docket.  
9 Does anyone have the docket?

10 THE WITNESS: Yes, I do. I have it, Your Honor. It  
11 is M-00930406. That was the final controlling docket  
12 number.

13 JUDGE TURNER: And under that settlement, one-third  
14 of off-system sales were to go through --

15 THE WITNESS: From installed capacity credit  
16 transactions.

17 JUDGE TURNER: Were to go through the ECR?

18 THE WITNESS: That's correct.

19 JUDGE TURNER: And in this case, the company's  
20 proposal would possibly eliminate that treatment of off-  
21 system sales.

22 THE WITNESS: It will have -- the company's proposal  
23 is to increase the one-third flow-back of installed capacity  
24 credit revenues to 100 percent, also to include 100 percent  
25 of the revenues associated with output reservation

1 transactions and transmission entitlement transactions.

2 JUDGE TURNER: But if the company's proposal is not  
3 accepted, then all off-system sales will be in base rates.

4 THE WITNESS: That's correct.

5 JUDGE TURNER: So the settlement provisions would  
6 then no longer exist. However, that was anticipated by all  
7 the parties under the settlement that this settlement was  
8 only lasting until the next base rate case. Is that a  
9 correct statement?

10 THE WITNESS: That is correct.

11 JUDGE TURNER: Is there anything else from the off-  
12 the-record colloquy that any party feels needs to be  
13 restated on the record?

14 MR. MacGREGOR: No, Your Honor.

15 MS. McCLOSKEY: No, Your Honor.

16 JUDGE TURNER: Thank you very much.

17 Redirect?

18 MR. MacGREGOR: No redirect, Your Honor.

19 JUDGE TURNER: All right. Thank you. Then we can  
20 excuse Mr. Kleha?

21 MR. MacGREGOR: Yes, Your Honor.

22 MR. GADSDEN: Till Tuesday.

23 JUDGE TURNER: Till Tuesday.

24 (Witness excused.)

25 JUDGE TURNER: I wanted to go over with the parties

1 at this point the order of witnesses. Going over the  
2 letters and lists that I have received from Judge  
3 Christianson that the parties have sent in, as I understand  
4 it, on Monday, the 27th, Mr. Berish, Mr. Bernini and Mr.  
5 Hill are scheduled.

6 MR. MacGREGOR: Yes. We'd like to start with Mr.  
7 Hill, if that is possible. I expect he is going to be  
8 shorter than the others and he needs to get back to  
9 Allentown.

10 JUDGE TURNER: Okay. Then on the 28th, I have noted  
11 Mr. LaGuardia, Mr. Kleha and Mr. Kasper?

12 MR. MacGREGOR: That's right, in that order.

13 JUDGE TURNER: And then on the 29th, Farber and  
14 Stathos?

15 MR. MacGREGOR: Yes. We need to start with Farber on  
16 the 29th even if we're not finished with Kasper for some  
17 reason.

18 JUDGE TURNER: I would like to explore with you now  
19 if there is any witness that can be treated in the way that  
20 we did Mr. Slivka this morning. Is there any witness for  
21 which no one has significant cross-examination and could  
22 come in on affidavit?

23 MS. McCLOSKEY: Your Honor, I think we can let the  
24 company know on Monday as to Mr. Stathos. He would be the  
25 one witness that we might not have cross-examination for.

1 JUDGE TURNER: Mr. Simms?

2 MS. McCLOSKEY: I'm not quite certain yet about Mr.  
3 Farber.

4 MR. SIMMS: I know we will have cross-examination for  
5 Mr. Stathos. In terms of Mr. Farber, I will let the company  
6 know on Monday.

7 JUDGE TURNER: All right. So it is a possibility  
8 that Mr. Farber can be done.

9 MR. MacGREGOR: As long as we know sometime early  
10 next week, that would be fine.

11 JUDGE TURNER: All right. I would like to say that I  
12 think that every witness to the extent possible should be  
13 ready to go a day early and every counsel should be ready.  
14 In other words, if for some reason Mr. Berish, Mr. Bernini  
15 and Mr. Hill are completed early, we should be able to call  
16 one of the witnesses scheduled for the 28th.

17 MR. MacGREGOR: Yes. It would not be Mr. LaGuardia,  
18 but one of the other witnesses could move up. Mr. Kleha  
19 will be here.

20 JUDGE TURNER: Mr. Kleha or Mr. Kasper. And then to  
21 the extent possible, Mr. Farber and Mr. Stathos should be  
22 able to move up to the 28th.

23 Now, if you say that there is a scheduling problem  
24 like there was with Mr. Hill that we couldn't move him up to  
25 Thursday, maybe Mr. Stathos will still have to go on the

1 29th; but to the extent that we can consolidate hearing  
2 time, I'd like to do that.

3 MR. MacGREGOR: We'll check into that, Your Honor. I  
4 anticipate that Tuesday is going to be an extremely full day  
5 with the witnesses we have on there because of the number of  
6 parties who have questions for Kasper and Kleha. That is  
7 the whole rate design, tariff, cost of service, which  
8 traditionally -- I mean, I think the risk is that we won't  
9 finish them on the 28th and some of that will have to be  
10 carried over.

11 JUDGE TURNER: Well, there may be more advantage  
12 maybe to starting Mr. Kleha again on the 27th again, if  
13 there is room.

14 MR. MacGREGOR: Yes. He will be here and available.

15 JUDGE TURNER: All right. Once again, if there are  
16 no questions for Mr. Farber, we can handle him the same way.

17 Is there anything else any party would like to bring  
18 up?

19 MR. MacGREGOR: No, Your Honor.

20 JUDGE TURNER: In that case, I believe we'll be  
21 starting at 10:00 on Monday, the 27th. I believe that Judge  
22 Christianson will be presiding. If not, I will be here. I  
23 believe Mr. Epstein said that he was going to bring his  
24 class in on Monday.

25 MR. MacGREGOR: On when?

1 JUDGE TURNER: Monday. So perhaps some extra copies  
2 of testimony could be available and even some time for an  
3 explanation at some point on a break or lunch or something.

4 I have nothing further at this point. Thank you very  
5 much. We stand adjourned.

6 (Whereupon, at 4:17 p.m., the hearing was adjourned,  
7 to be reconvened at 10:00 a.m., Monday, March 27, 1995, in  
8 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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