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COMMONWEALTH OF PENNSYLVANIA

PUBLIC UTILITY COMMISSION

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 4 Pennsylvania Public Utility Commission :
 4 versus Pennsylvania Power & Light Company : Docket Nos.
 5 Investigation into a proposed \$261,000,000 : R-943271
 5 annual rate increase : R-943271C0001
 6 : through
 6 Further Hearing : R-943271C00128
 7 :
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DOCUMENT
FORM

Pages 392 through 547 Hearing Room No. 2
North Office Building
Harrisburg, Pennsylvania

ORIGINAL

Monday, March 27, 1995

Net, pursuant to adjournment, at 10:11 a.m.

BEFORE:

ROBERT A. CHRISTIANSON, Administrative Law Judge

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C O N T E N T S

<u>WITNESS</u>	<u>DIRECT</u>	<u>CROSS</u>	<u>REDIRECT</u>	<u>RECROSS</u>
Ronald E. Hill				
By Mr. MacGregor	397	---	---	---
By Mr. Mickens	---	399	---	---
By Ms. Kenney	---	404	---	---
By Ms. Moury	---	424	---	---
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Michael J. Berish				
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E X H I B I T S

<u>NUMBER</u>	<u>FOR IDENTIFICATION</u>	<u>IN EVIDENCE</u>
<u>Pennsylvania Power & Light Company</u>		
	<i>SEE EXHIBIT FOLDED TO TEST 3/21/95 FOR STMTS</i>	
✓ Statement No. 1 (Hill)	397	398
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<u>OCA Cross-Examination Exhibits</u>		
✓ 8 (Response to OCA-IV-84)	419	424
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E X H I B I T S (Continued)

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✓ 12 (Response to OCA-IV-11) ✓	527	545
✓ 13 (Response to OCA-IV-118) ✓	537	545
<u>OSBA Cross-Examination Exhibits</u>		
1 (Response to OTS-RE-55D)	428	WITHDRAWN (433)
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<u>OTS Cross-Examination Exhibits</u>		
✓ 9 (Response to OTS-RE-36D) ✓	469	474
✓ 10 (Various Interrogatory Responses) ✓	471	474
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✓ 12 (Various Interrogatory Responses) ✓	514	522

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1 recent case, one of my telephone cases. I can't remember
2 what it was, but in talking about the witness' testimony,
3 both sides, counsel agreed, that the witness probably wrote
4 that particular element when he was coming down with the flu
5 because it was very questionable, and that explained it.
6 But he did have flu in that case and we delayed him most of
7 a week. He had a bad case of it. But it worked out finally
8 in that. It was one of these application cases in
9 telephone.

10 We'll work it out somehow in this case, but we might
11 be using Thursday morning. If we do use Thursday morning,
12 we might try to start a little bit early because the public
13 input over here at the museum, I think it is, is Thursday at
14 1:30, and I'll be presiding Thursday.

15 As I mentioned off the record, the Chief will
16 probably be taking Friday in Lancaster, Friday afternoon and
17 evening. Other than that, I'll be presiding at the public
18 input hearings as well, including the schedule we have for
19 next week, I guess it is, starting in Williamsport and going
20 around.

21 I have nothing else preliminary at this point.
22 Unless counsel has something, we can start with the first
23 witness.

24 MR. MacGREGOR: Thank you, Your Honor. Our first
25 witness today is Mr. Ronald E. Hill.

1 JUDGE CHRISTIANSON: Maybe at some break or at some
2 point we'll discuss the case a little further in case I have
3 to catch up on some minor elements. I'll go ahead and swear
4 in the witness.

5 Will you raise your right hand?

6 Whereupon,

7 RONALD E. HILL

8 having been duly sworn, testified as follows:

9 JUDGE CHRISTIANSON: Fine. Be seated.

10 Oh, one minor thing I'll mention as the witness gets
11 settled. As many of you know, I did the PP&L case about ten
12 years ago, and I just glanced at what I have left of my
13 recommended decision. I think that decision came in well
14 under a hundred pages. I was working at brevity back then.
15 I have not been working at brevity lately, but it can be
16 done under a hundred pages.

17 Go ahead and introduce your witness.

18 MR. MacGREGOR: Thank you, Your Honor.

19 Preliminarily, I would like to mark for
20 identification a document entitled "Pennsylvania Power &
21 Light Company, Direct Testimony of Ronald E. Hill," which
22 was distributed as part of the company's initial filing and
23 supplied to the court reporter at the prehearing conference.
24 I would ask that it be marked for identification as PP&L
25 Statement No. 1.

1 JUDGE CHRISTIANSON: So identified, your Statement
2 No. 1.

3 (Whereupon, the document was marked
4 as PP&L Statement No. 1 for
5 identification.)

6 DIRECT EXAMINATION

7 BY MR. MacGREGOR:

8 Q. Mr. Hill, do you have before you a copy of the
9 document that has been marked for identification as PP&L
10 Statement 1?

11 A. Yes, I do.

12 Q. Is that a copy of your direct testimony in this
13 proceeding?

14 A. Yes, it is.

15 Q. Was this document prepared either by you or
16 under your direct supervision?

17 A. Yes, it was.

18 Q. If I were to ask you the questions contained in
19 Statement No. 1 again today, would your answers be the same
20 as those contained therein?

21 A. Yes, they would.

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

24 A. Yes.

25 Q. Mr. Hill, are you also responsible for the

1 preparation of certain portions of the company's statement
2 of reasons which is included as part of Exhibit Future 1 in
3 this proceeding?

4 A. Yes, I am.

5 Q. Were you also responsible for the preparation of
6 certain portions of the company's initial filing in this
7 proceeding that has been marked as PP&L Exhibit I?

8 A. Yes, I was.

9 Q. Is the information contained in those portions
10 of those documents for which you are responsible true and
11 correct to the best of your knowledge?

12 A. Yes.

13 MR. MacGREGOR: Your Honor, I would like to move the
14 admission of PP&L Statement No. 1 at this time, subject to
15 cross-examination and motions.

16 JUDGE CHRISTIANSON: Yes. Subject to those standard
17 conditions, Statement 1 is now accepted into the record.

18 (Whereupon, the document marked as
19 PP&L Statement No. 1 was received in
20 evidence.)

21 MR. MacGREGOR: Mr. Hill is available for cross-
22 examination.

23 JUDGE CHRISTIANSON: I don't know what pattern you
24 followed in the past. Usually Staff may be first or last,
25 depending on what they would rather.

1 Do you want to be first?

2 MR. MICKENS: Yes, I'll be first, Your Honor.

3 JUDGE CHRISTIANSON: Go ahead.

4 MR. MICKENS: Thank you very much.

5 CROSS-EXAMINATION

6 BY MR. MICKENS:

7 Q. Good morning, Mr. Hill.

8 A. Good morning.

9 Q. My name is Ken Mickens. I represent the Office
10 of Trial Staff.

11 Would you refer briefly to your Exhibit Future 1,
12 page D-11?

13 A. Yes.

14 Q. Concerning the Susquehanna nuclear
15 decommissioning fund, if you'll look down at the line which
16 states "Value of Trust at September 30, 1995," do you see
17 that?

18 A. Yes, I see it.

19 Q. Would you agree that it indicates that the value
20 of the trust, the fund, at September 30, 1995 is
21 approximately \$98,265,000?

22 A. Yes, I would.

23 Q. Do you happen to have an update at this point
24 with regard to the value of the Susquehanna nuclear reserve
25 fund?

1 A. Not with me.

2 Q. So you don't know what that is as you sit there?

3 A. I could find out what it was at the end of 1994.

4 It's in the annual report. But I don't have it with me
5 today as to what the value is today.

6 Q. Would you refer to your Statement No. 1, page
7 number 9? Do you have that?

8 A. Yes, I do.

9 Q. Roughly at lines 19 through 21, here you
10 indicate that PP&L has requested that the Commission
11 eliminate the Black Lung restrictions on the type of
12 securities in which PP&L can invest its nuclear
13 decommissioning reserve fund regarding Susquehanna; is that
14 correct?

15 A. That's correct.

16 Q. I take it from this request that you believe
17 that under the current restrictions, the fund will not be
18 able to earn a sufficient return in the future; is that
19 correct?

20 A. No, I don't believe it is sufficient. I think
21 by lifting the restrictions, the fund would be able to earn
22 a greater rate of return than it could had the restrictions
23 not been lifted.

24 Q. So that even with the restrictions, if the Black
25 Lung restrictions were continued, it is your opinion that

1 the fund would be able to earn a satisfactory return?

2 A. It would earn a return commensurate with the
3 securities that in fact we could invest in, and I think that
4 would be lower than the return that it could earn absent
5 those restrictions, which would mean that we would require
6 more money from customers because it would earn a lower rate
7 of return of the monies being invested.

8 Q. You say it would mean that you would require
9 more money from customers?

10 A. That's my opinion, yes.

11 JUDGE CHRISTIANSON: I guess the number which is
12 fixed is the number you need in the future when you
13 decommission.

14 THE WITNESS: That's correct, and your assumed rate
15 of return that you earn on the monies in the fund would have
16 an impact on how much you would ultimately have to collect
17 from customers. The higher the rate of return you earn, the
18 less you would have to collect from customers.

19 JUDGE CHRISTIANSON: All right.

20 BY MR. MICKENS:

21 Q. What kind of analysis did you do to reach that
22 conclusion?

23 A. What we've done is taken a look at the rate of
24 return of various types of securities over an extended
25 period of time, and common equities over the last 68 years

1 have averaged higher than the returns that currently would
2 be earned on the Black Lung securities. So by adding common
3 equities into the portfolio, you could increase the overall
4 rate of return.

5 Q. What securities did you --

6 A. Equity securities. Common stocks.

7 JUDGE CHRISTIANSON: You believe those ads for the
8 stock market, that you get more return overall on common
9 stocks?

10 THE WITNESS: In common stocks, yes, over a long
11 period of time; yes.

12 BY MR. MICKENS:

13 Q. Mr. Hill, with regard to the Susquehanna nuclear
14 reserve fund, at the time of decommissioning of the units at
15 Susquehanna, if at that time there is an excess in the
16 fund -- and what I mean by excess is there is more money in
17 the fund than is necessary to pay for decommissioning of the
18 Susquehanna units -- what happens to that excess in the
19 fund?

20 A. I believe that excess should be returned to
21 customers.

22 Q. You say you believe that excess should be
23 returned to customers. Is that what PP&L plans to do?

24 A. Yes, that's what PP&L would plan to do.

25 Q. When you say returned to customers, what

1 customers are you talking about? Are you talking about
2 future customers or the customers then, or some combination
3 of customers that are currently paying into that fund now,
4 or which customers are you referring to?

5 A. I think at that point in time, when we're out
6 almost 30 years from now, I think it would be very difficult
7 to return the monies to the customers today. I think there
8 would have to be some way of returning the money to
9 customers at that point in time, whenever, in fact, the
10 excess has been determined, and then come up with a
11 reasonable way of returning it to customers. We really
12 haven't established a definitive way of doing that at this
13 point in time.

14 Q. And all that you have established is that any
15 excess will be returned to customers?

16 A. That's correct.

17 Q. Would you agree that the nuclear decommissioning
18 reserve fund is set aside based upon an estimate of an
19 expense that will be incurred in the future?

20 A. Yes, I would agree to that.

21 Q. Would you also acknowledge that this estimate
22 may or may not be accurate at this point?

23 A. Yes, I would agree to that.

24 Q. Just a general question, Mr. Hill, with regard
25 to your feeling about the building and dismantling of

1 utility property. Would you agree that that's something
2 that is normally done during the course of running a public
3 utility; that you have to build certain units and/or
4 establish certain property and possibly retire or dismantle
5 that property in the future?

6 A. Yes, I believe that's part of the ongoing part
7 of doing business in the electric utility industry.

8 Q. With regard to non-nuclear property, up until
9 now would you agree with me that PP&L has recovered its
10 expenses for property that is retired from public utility
11 service on an after-the-fact basis?

12 A. Yes, I would agree with that.

13 Q. Would you also agree with me that PP&L's
14 shareholders have not yet expended any funds in connection
15 with the retirement of Susquehanna nuclear units?

16 A. Yes, I would agree that shareholders have not
17 expended any funds at this point in time.

18 MR. MICKENS: Thank you very much, Mr. Hill.

19 That's all I have for this witness, Your Honor.

20 JUDGE CHRISTIANSON: Fine. Then Consumer Advocate.

21 MS. KENNEY: Thank you, Your Honor.

22 CROSS-EXAMINATION

23 BY MS. KENNEY:

24 Q. Good morning, Mr. Hill.

25 A. Good morning.

1 Q. My name is Mary Kenney. I represent the Office
2 of Consumer Advocate.

3 I would like to follow up on some cross that Mr.
4 Kleppinger did last week. In this proceeding PP&L is
5 requesting a 13 percent return on equity. What is the
6 revenue requirement associated with each percentage point or
7 100 basis points of the company's return on equity claim?

8 A. I believe that approximates about \$40 million,
9 subject to check.

10 Q. I would like to refer you to your testimony at
11 page 7.

12 A. Yes.

13 Q. I would like to ask you a few questions
14 regarding planned financings during the test year. Am I
15 correct that you supplied the company's capitalization data
16 to Mr. Moul for use in this proceeding?

17 A. Yes, I did.

18 Q. On page 7, at line 15, you refer to a
19 refinancing of \$55 million of pollution control bonds at
20 6-1/2 percent interest rate. Would you agree that long-term
21 interest rates have declined since the filing of your
22 testimony?

23 A. They have declined slightly, yes.

24 Q. Can you quantify by about how much they have
25 declined?

1 A. I think the long-term bond is down about 40
2 basis points from whenever I did that.

3 Q. Is the company still estimating a 6-1/2 percent
4 cost rate on the refinancing?

5 A. I have not gone back and recalculated what that
6 financing would be.

7 Q. Will PP&L reevaluate that projection prior to
8 the planned refinancing?

9 A. Yes, we will.

10 Q. Does the company expect to be updating its
11 capitalization data and debt cost at the time it files
12 rebuttal testimony?

13 A. Yes, I would expect that we would.

14 Q. At that time would the company be willing to
15 provide an update on the interest rate assumption if the
16 company's estimate has changed on that refinancing?

17 A. Yes, we would.

18 Q. Also on page 7 you discuss a \$100 million public
19 offering of common equity scheduled in August of 1995. What
20 actions has PP&L taken to date concerning that offering?

21 A. What we are currently doing, we are under the
22 process of discussing with several investment bankers,
23 investment managers, as to the feasibility of selling that
24 stock today, the timing of it, what the market might be, and
25 we're making an assessment as to when to go ahead with it.

1 Q. When does PP&L expect to request PUC approval of
2 the stock issuance?

3 A. I would think that would be within the next
4 month or so.

5 Q. Do you agree, Mr. Hill, that if PP&L fails to
6 undertake the stock issuance prior to a final PUC order in
7 this proceeding, that this equity should not be included in
8 the PUC's authorized capital structure and rate of return?

9 MR. MacGREGOR: Objection.

10 JUDGE CHRISTIANSON: Go ahead with your objection.

11 MR. MacGREGOR: It is a conclusion of law as to what
12 the proper ratemaking treatment would be if the equity is
13 not issued within the test year.

14 JUDGE CHRISTIANSON: Well, she can ask him for his
15 opinion. It's not a conclusion of law, clearly.

16 Do you want to make a response?

17 THE WITNESS: Would you repeat the question, please?

18 BY MS. KENNEY:

19 Q. Yes. If PP&L fails to undertake the stock
20 issuance prior to the entry of a final PUC order in this
21 proceeding, would you agree that the equity should not be
22 included in the PUC's authorized capital structure and rate
23 of return in this case?

24 JUDGE CHRISTIANSON: He can't really agree as a
25 matter of law, as such, but do you want to respond to the

1 question?

2 MR. MacGREGOR: Your Honor, the capital structure
3 depends on a number of factors, and there are a number of
4 precedents about when and whether you include equity
5 issuances.

6 JUDGE CHRISTIANSON: Yes. He's not the rate --

7 MR. MacGREGOR: I just don't think it's a fair
8 question to ask this witness. If he has an answer, he can
9 go ahead.

10 JUDGE CHRISTIANSON: And he's not the rate of return
11 witness.

12 MS. KENNEY: He did supply all the capitalization
13 data on the capital structure to the rate of return witness,
14 Your Honor. I can rephrase the question.

15 BY MS. KENNEY:

16 Q. If the equity issuance does not take place,
17 should that equity be included in the company's capital
18 structure?

19 MR. MacGREGOR: Your Honor, he is really not the
20 witness. We've put a rate of return witness on who is
21 sponsoring our equity, debt and preferred stock claims, the
22 cost and the capital structure. I think the question is
23 really for that witness and not for Mr. Hill.

24 JUDGE CHRISTIANSON: Again, I'll ask the witness to
25 give his own view, if he desires to. If he doesn't have a

1 view, go ahead and say you don't have a view.

2 THE WITNESS: Whether it should or should not be
3 included I think is up to the Commission to decide.

4 BY MS. KENNEY:

5 Q. If it's not issued, should it be included?

6 A. Pardon?

7 Q. If it's not issued, then it is your opinion that
8 it should be still included?

9 A. I think that's up to the Commission to decide.

10 JUDGE CHRISTIANSON: I guess his view is that PP&L
11 can still press for it.

12 BY MS. KENNEY:

13 Q. If this issuance occurs prior to the entry of a
14 final PUC order in this proceeding, would PP&L be willing to
15 notify the parties and the Commission as to the date of the
16 issuance and the amount of any net proceeds from this
17 issuance?

18 A. Yes, we would be willing to do that.

19 Q. Is it still your estimate that dividend
20 reinvestments in the test year will be \$78 million?

21 A. Yes, it is.

22 Q. Has PP&L made any changes to the near-term
23 financial plan described in your testimony?

24 A. No, we have not.

25 Q. Do you have a copy of Mr. Moul's schedules in

1 this proceeding?

2 A. Not with me up here.

3 MR. MacGREGOR: We can supply them to him. Which
4 ones do you want?

5 MS. KENNEY: I have copies of the one that I'll be
6 referencing, which is Schedule 4.

7 If I may, Your Honor?

8 JUDGE CHRISTIANSON: Go ahead, hand that out.
9 Meanwhile they'll find the whole thing if they want. I
10 didn't carry everything either.

11 (Document distributed by Counsel Kenney.)

12 JUDGE CHRISTIANSON: I have been handed just a one-
13 page excerpt, Schedule 4. There's much more paper, I'm
14 sure, with this.

15 MS. KENNEY: Yes.

16 BY MS. KENNEY:

17 Q. Mr. Hill, I've handed you Schedule 4, which is
18 part of Mr. Moul's schedules, Exhibit PJM-1. Looking at
19 Schedule 4, in the column under long-term debt labeled "Lost
20 on Reacquired Debt," do you see that?

21 A. Yes, I do.

22 Q. Mr. Moul subtracts out \$115.9 million from the
23 debt balance in deriving the capital structure ratios. Did
24 he make that adjustment at your recommendation?

25 A. Mr. Moul did that on his own. That was his

1 position. This is what the company has done internally,
2 also, though. I concur with it.

3 Q. Why was this adjustment to debt balance made?

4 A. What this does is represent monies that the
5 company has paid in a premium to reacquire long-term debt,
6 and it's appropriate to back it off of -- we had to sell
7 more long-term debt to redeem these securities. We had to
8 sell \$115 million, in essence, of more long-term debt, so
9 this backs that out of the capital structure to what it
10 would be without having incurred those premiums.

11 Q. Am I correct that the balance mostly comes from
12 call premiums incurred by the company to reduce its cost of
13 debt?

14 A. That's correct.

15 Q. As a general matter, has the company obtained
16 savings from these refinancings?

17 A. Yes, they have.

18 Q. Over what period of time did the refinancings
19 that we are discussing occur?

20 A. Over the last ten years.

21 Q. Would you agree with me that the interest
22 savings from refinancings contributed to PP&L's
23 profitability since the mid or late 1980s?

24 A. I would say interest savings were there. They
25 reduced our total costs.

1 Q. Was PP&L able to take the call premiums
2 associated with the \$115 million as a tax deductible expense
3 in the year it was incurred?

4 A. Yes, I believe we could.

5 Q. Thus, would you agree that the call premiums
6 lowered PP&L's tax bill?

7 A. Yes.

8 Q. Now, I would also like to refer you to one of
9 the exhibits with the filing. It would be in Part III of
10 what I believe has been marked as PP&L Exhibit I, and I'm
11 referring you to page 5 of the balance sheet. And in the
12 interest of saving time I also made copies of that.

13 MS. KENNEY: If I may?

14 JUDGE CHRISTIANSON: Yes. Go ahead.

15 MS. KENNEY: This is already part of the record.

16 JUDGE CHRISTIANSON: Yes. It's just a matter of
17 finding the page you're looking at.

18 MS. KENNEY: To clarify, this is page 5 of the
19 balance sheet contained in the Form 10-Q provided in
20 Attachment III-F-1 in Volume III of the company's filing
21 requirements.

22 (Document distributed by Counsel Kenney.)

23 BY MS. KENNEY:

24 Q. Are you familiar with the balance sheet that I
25 have provided?

1 A. Yes, I am.

2 Q. Is it your understanding that PP&L has booked
3 the call premiums incurred to refinance the high-cost debt
4 as an asset on your balance sheet?

5 A. It's in a deferred debit, yes, and it's on the
6 asset side, but it is a deferred cost.

7 Q. Am I correct that the incurrence of these debt
8 call premiums does not serve to reduce PP&L's common equity?

9 A. They are being amortized over the life of the
10 bonds, so although they're deferred initially, they are
11 charged to expense over the life of the new bonds and the
12 old bonds, and as such, have become a cost since the time
13 that the bonds were redeemed; so that a portion of this has
14 been charged to expense already.

15 Q. Is the purpose or effect of the creation of the
16 regulatory asset to keep the common equity balance
17 unaffected by call premiums?

18 A. No. It's really subject to FERC regulations.
19 The Uniform System of Accounts requires us to account for it
20 this way.

21 JUDGE CHRISTIANSON: It's sort of like a depreciation
22 or amortization.

23 THE WITNESS: Yes. There's a specific account, I
24 believe it's 181, in the Uniform System of Accounts that
25 these gains and losses must be recorded in and then

1 amortized.

2 BY MS. KENNEY:

3 Q. Does the company account for preferred stock
4 related call premiums in the same way?

5 A. No, it does not.

6 Q. Can you explain why?

7 A. Because the Uniform System of Accounts does not
8 provide for the deferral of an equity premium. Where you
9 paid a premium to retire an equity security, that has to be
10 charged against retained earnings.

11 JUDGE CHRISTIANSON: As a one-shot deal.

12 THE WITNESS: Yes. So that does in fact reduce
13 stockholders equity at the time that the premium is
14 incurred.

15 BY MS. KENNEY:

16 Q. Would you agree with me that for financial
17 reporting purposes, PP&L does not subtract the \$115 million
18 unamortized balance from the debt balance when reporting its
19 long-term debt balance?

20 A. Yes, I agree with that.

21 Q. Would you agree with me that credit rating
22 agencies such as Standard & Poor's do not make the
23 adjustment that Mr. Moul made when they report PP&L's
24 capital structure?

25 A. They do not, to my knowledge.

1 Q. Would you agree that the call premium debt
2 balance adjustment is not typically made by financial
3 analysts when evaluating a company's financial risk?

4 A. Whenever you say financial risk, I think they
5 are taking into account the amount of deferred costs on
6 regulatory assets that a utility currently has on its books,
7 so from that perspective they do take that into
8 consideration. The magnitude of deferred costs on a
9 utility's books.

10 Q. I would like to ask you some questions now about
11 the nuclear decommissioning trust fund and refer you to your
12 testimony at page 8, line 19. You had some discussion
13 earlier with Mr. Mickens about this same subject matter.

14 At page 8, line 19, you discuss the fact that the
15 Energy Policy Act lifted the Black Lung investment
16 restrictions. When did that change take effect?

17 A. That was 1992 that the Energy Policy Act removed
18 that provision of the Black Lung.

19 Q. Am I correct that under federal law PP&L should
20 have begun to invest in other securities as of that date?

21 A. That's not entirely clear because the Federal
22 Energy Regulatory Commission still requires that investments
23 be made in the Black Lung. They issued an order. So as
24 part of federal law -- they have the regulatory
25 responsibility from a federal point of view -- they still

1 require that the investments be held in Black Lung benefits.
2 They are currently reviewing that though, the status of
3 that.

4 Q. Now, referring to your testimony on page 9, line
5 19, am I correct that PP&L is now seeking permission from
6 the Commission to alter its trust fund restrictions to the
7 prudent person standard?

8 A. That's correct.

9 Q. Why did PP&L wait until 1995 to seek this
10 change?

11 A. Well, we had to come to the Commission to do
12 that, and part of it is because of the whole uncertainty
13 with the Federal Energy Regulatory Commission and the
14 Pennsylvania Public Utility Commission. So we waited for an
15 opportunity to come and hopefully resolve these about the
16 same time, because FERC is now looking at it also and
17 reassessing the Black Lung. So we have to get both the FERC
18 and the State Commission on board and decide whether or not
19 we can invest in securities other than Black Lung.

20 Q. Are you familiar with this Commission's orders
21 in the proceedings involving Penn Power's and PECO's
22 requests to modify the investment methodologies for nuclear
23 decommissioning trust funds?

24 A. I have seen those orders quite a long time ago.
25 I can't recall them specifically, though.

1 Q. I'm referring to the petition of PECO Energy
2 Company at Docket No. P-00940835 and the petition of Penn
3 Power Company at Docket No. P-00940882.

4 Is PP&L requesting the same investment standard that
5 the Commission approved for PECO and Penn Power?

6 A. As I said, I'm familiar with those but I don't
7 recall the specific provisions of them, so I can't answer
8 that.

9 Q. The specific provision that I'm referring to is
10 that the Commission required an investment standard of the
11 use of the reasonable person standard but with express
12 limitations on the quality of investments and proportion of
13 fund assets that the trustee may invest in particular
14 classes of assets over the life of the fund. Is that the
15 same standard that PP&L is requesting?

16 A. No. In fact, PP&L is requesting that no
17 standard be established, but should the Commission require a
18 standard, that it just be the reasonable person standard
19 without any other limitations.

20 Q. Assuming that the Commission grants your request
21 on the matter, can you describe for us PP&L's investment
22 strategy?

23 A. Yes. PP&L would seek to invest approximately 30
24 percent of the funds in common stock equities, probably an
25 index fund. The balance, 70 percent, would be invested

1 approximately in equal amounts, depending upon the rates of
2 return that could be achieved, through either corporate
3 bonds or government bonds.

4 Q. Has PP&L retained financial consultants or
5 advisors to help develop this plan?

6 A. We have two financial investment advisors, yes,
7 and we also have an in-house expert, financial man, who
8 looks at this.

9 Q. Can you describe any studies or analysis
10 undertaken by PP&L to determine the most appropriate
11 strategy or asset allocation?

12 A. I believe I responded to that in one of the
13 interrogatories; that what we've really done is compared
14 internally and looked at it with respect to a pension plan
15 where approximately 50 to 60 percent of our securities are
16 currently in equities but because of the nature of the
17 pension plan, in which we have thousands of participants
18 that extend over an extended period of time, we think it is
19 appropriate to have more equities in that type of fund than
20 the decommissioning fund in which you're dealing really with
21 two units and more uncertainty, maybe, because you're only
22 talking of two events in the ultimate decommissioning. So
23 we thought it was inappropriate to have that amount of
24 equity, and therefore came up with a 30 percent equity, with
25 the balance being in fixed income securities.

1 Q. Has PP&L conducted any studies or surveys of the
2 asset allocations or investment strategies of other nuclear
3 utilities?

4 A. We have not conducted any specific surveys, but
5 we have participated in industry meetings regarding these
6 and the investments, and it's more or less an informal
7 discussion among other utilities and what their objectives
8 are and what their investment strategies are. But no
9 official surveys.

10 MS. KENNEY: I would like at this time to have marked
11 for identification as OCA Cross-Examination Exhibit No. 8
12 the company's response to OCA Interrogatory Set IV, No. 84,
13 for which Mr. Hill is the sponsor.

14 JUDGE CHRISTIANSON: So identified.

15 (Whereupon, the document was marked
16 as OCA Cross-Examination Exhibit No.
17 8 for identification.)

18 BY MS. KENNEY:

19 Q. Mr. Hill, are you familiar with the material
20 contained in what has been marked as OCA Cross-Examination
21 Exhibit No. 8?

22 A. Yes, I am.

23 Q. What are you assuming in this rate case
24 concerning the rate of return on trust fund assets?

25 A. Five-and-a-half percent after tax.

1 Q. Is that after tax?

2 A. Yes, it is.

3 Q. What debt component are you assuming?

4 A. Seventy percent debt.

5 Q. What debt component return are you assuming?

6 A. We're assuming for this purpose a pre-tax return
7 on long-term government bonds of 5.5 percent; long-term
8 corporate bonds, 6 percent. After-tax return on long-term
9 government bonds of 4.4 percent; after-tax return on long-
10 term corporate bonds of 4.8 percent.

11 Q. Do you know of any forecasting organization
12 which is projecting that future Treasury or corporate bonds
13 will decline to the 5.5 to 6 percent levels used in your
14 assumptions?

15 A. No, I do not.

16 Q. Am I correct that at the present time Treasury
17 bonds are yielding about 7.5 percent, and corporate bonds
18 about 8.5 percent?

19 A. That's correct.

20 Q. What is your assumption concerning equity
21 returns?

22 A. The equity return is a 10 percent assumed rate
23 of return.

24 Q. In your opinion, does this equity return
25 assumption comport with the view of investors in general?

1 That is, do investors in general expect equities will
2 provide a 10 percent return?

3 A. I really can't say what investors in general are
4 speculating on the rate of return. This represents our
5 estimate on a long-term basis of what equities have
6 generated over an extended period of time.

7 Q. Are you familiar with Mr. Moul's testimony on
8 cost of equity?

9 A. Yes.

10 Q. Would you agree that Mr. Moul's risk premium and
11 CAPM studies indicate that market expectation is for a long-
12 term return on equities of above 14 percent?

13 A. I can accept, yes, subject to check. I can't
14 recall the detail.

15 Q. Am I correct that in this case Mr. Moul has
16 recommended a market required return on PP&L common stock of
17 13 percent?

18 A. Yes, he has.

19 Q. Do you disagree with Mr. Moul in his
20 recommendation?

21 A. No, I don't.

22 Q. In your opinion, is it consistent to assume that
23 the return on the decommissioning trust fund equities will
24 average only 10 percent while the return on PP&L's stock
25 will average 13 percent?

1 A. Yes, I do.

2 Q. Would you agree that for setting the
3 decommissioning revenue requirements, the best available
4 data and information should be used to project trust fund
5 earnings?

6 A. I'm sorry; would you repeat the question? I
7 didn't understand it.

8 Q. Would you agree that for setting the
9 decommissioning revenue requirements, the best available
10 data and information should be used to project trust fund
11 earnings?

12 A. I think the information that should be used is
13 one that purports to generate and produce a reasonable rate
14 of return given the nature of the obligations that are going
15 to be invested in.

16 Q. Could you explain what you mean by that?

17 A. Well, you can take current market conditions,
18 for example, and predict what they would be, for example,
19 the current government bond is yielding 7.5 percent, but
20 we're looking at really a 30-year time period almost, and I
21 think it's more appropriate to use basically historical
22 data, which is taking trends whenever yields on bonds have
23 been 8, 9, 10 and also 3, 4, high and low, and relate that,
24 really, relate that to the assumed rate of inflation that we
25 have here. We've got an assumed rate of inflation of 4

1 percent. So I think the rates of return that we've included
2 here produce a realistic real rate of return consistent with
3 the 4 percent rate of inflation we've assumed.

4 Q. Over what period of time was the historical data
5 that you believe should be relied upon?

6 A. We've looked at data over 40, 50 and 68-year
7 periods.

8 Q. I would like to refer your attention again to
9 OCA Cross-Examination Exhibit No. 8. At the bottom of that
10 exhibit the response uses a 0.3 percent annual fee. Am I
11 correct that that's 0.3 percent of assets?

12 A. That's correct.

13 Q. What is the source of that figure for fees and
14 transactions?

15 A. Basically, that represents about 0.2 percent for
16 management fees -- let me get my detail on that -- 0.2
17 percent annual management fees; 0.025 percent trustee fee;
18 0.033 percent being the -- let me back off for a minute.
19 0.2 percent, yes, is the management fee. The trustee fee is
20 0.025 percent, and that approximates the 0.033. Then what
21 we've also included in there are transaction fees, that is
22 whenever you sell securities in and out, about 0.083
23 percent. The total coming up to 0.341 pre-tax, after 20
24 percent tax rate rounded down to about 0.3 percent.

25 So it consists of management fees, transactions fees.

1 Q. Is it reasonable to assume that the expense
2 ratio percentage will decline over time as the trust fund
3 increases in size?

4 A. No, I don't know that that's reasonable to
5 assume at all.

6 MS. KENNEY: Thank you, Mr. Hill.

7 Your Honor, that's all the cross-examination I have
8 for Mr. Hill. I would like to move into evidence OCA Cross-
9 Examination Exhibit No. 8.

10 MR. MacGREGOR: No objection.

11 JUDGE CHRISTIANSON: Your Cross-Examination 8 is
12 accepted into the record.

13 (Whereupon, the document marked as
14 OCA Cross-Examination Exhibit No. 8
15 was received in evidence.)

16 JUDGE CHRISTIANSON: Then we can check, anything from
17 Small Business?

18 MS. MOURY: Yes, Your Honor.

19 JUDGE CHRISTIANSON: Go ahead.

20 CROSS-EXAMINATION

21 BY MS. MOURY:

22 Q. Good morning, Mr. Hill.

23 A. Good morning.

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

1 At page 3, Mr. Hill, of your testimony you discuss
2 the company's overall rate philosophy, and I believe you
3 specifically identify two ratemaking objectives. One would
4 be to maintain rate stability, and two, to pass through cost
5 reductions; is that correct?

6 A. That's correct.

7 Q. Now, would you agree with me that moving class
8 rates toward class cost of service is also an important
9 ratemaking objective?

10 A. Yes, I would agree.

11 Q. With regard to the objective of rate stability,
12 would you agree that there might be situations where that
13 factor would be outweighed by a desire to more closely match
14 class costs with class rates?

15 A. I don't know if I can agree with that or not.

16 Q. If a rate class were providing a rate of return
17 that was twice the system average return over a period of
18 years, would you think that that class might prefer the
19 utility actually file a rate case somewhat earlier so that
20 it could begin the process of moving toward cost-based
21 rates?

22 A. I think my response would be speculation on what
23 that class would want or wouldn't want.

24 Q. On page 4 of your testimony, beginning at line
25 21, and then continuing on to page, you discuss generally

1 effective and efficient management. Would you agree with me
2 that effective and efficient management should probably
3 entail a periodic review of how closely class rates match
4 class costs?

5 A. I would agree that is something management
6 should look at, yes.

7 Q. Would you also agree that if great disparity
8 would be found between class costs and class rates during
9 that review, that the company should take some action to
10 rectify that disparity?

11 A. I don't know that that by itself is an action
12 that the company should take specifically to correct that at
13 a particular point in time.

14 Q. Would it be fair to say that the company's
15 proposal in this case is structured to result in another
16 long hiatus between rate cases?

17 A. No, I don't think that's really the point. I
18 think we're trying to address a number of issues that, for
19 one reason, because we have been out for such an extended
20 period of time, have to be resolved and can only be resolved
21 through the regulatory process, but I'm not too sure this
22 postures us to be out for another ten years. That's not
23 necessarily an objective of this filing.

24 Q. But you're familiar with Mr. Hoch's testimony
25 regarding the proposed change in the depreciation method for

1 Susquehanna, are you not?

2 A. Yes, I am.

3 Q. And he does specifically testify that that
4 change primarily -- that one of the primary objectives of
5 that change is to delay filing a future rate case?

6 A. Oh, yes. Within the next three years or so,
7 yes.

8 Q. In deciding to propose the change in the
9 Susquehanna depreciation method, did the company consider
10 what the impact of that would be on small general service
11 customers? Namely, did the company consider the effect,
12 really, of delaying a future rate case on the interests of
13 small business customers?

14 A. No, I don't believe we did.

15 Q. Now, I don't want to get too far -- I realize
16 I'm already treading in the cost of service area. I don't
17 want to do that. I have a couple more questions which I'm
18 going to try. If you don't feel comfortable, just let me
19 know.

20 I'm assuming that you're generally familiar with the
21 results of the company's cost of service study. Is that a
22 fair assumption?

23 A. I'm generally familiar with it, yes.

24 Q. You're probably also aware that the company's
25 small general service classes are assigned to receive below

1 system average increases?

2 A. Yes, I am.

3 Q. Are you aware that despite below system average
4 increases, the GS-1 rate class would provide a rate of
5 return at proposed rates which is about 50 percent higher
6 than the system average return?

7 A. I am not familiar with that fact.

8 Q. Would you agree that generally the company is
9 hampered in moving classes toward cost of service by the
10 concept of gradualism?

11 A. I really don't know what you mean by gradualism.

12 MS. MOURY: Your Honor, I'm distributing what I would
13 ask be marked as OSBA Cross-Examination Exhibit No. 1. It
14 is the company's response to OTS-RE-55D. It is not Mr.
15 Hill's response; however, I'm hoping he can answer a couple
16 of questions about it.

17 JUDGE CHRISTIANSON: Okay; it's your first Cross-
18 Examination Exhibit, No. 1.

19 (Whereupon, the document was marked
20 as OSBA Cross-Examination Exhibit
21 No. 1 for identification.)

22 JUDGE CHRISTIANSON: This is a several-page exhibit.

23 MS. MOURY: I'm sorry, Your Honor, I should have
24 identified that. It's an excerpt, Your Honor, from the
25 company's response to OTS-RE-55D. I do have the entire

1 response with me if anyone would like to review it. I
2 didn't want to burden the record. It's quite a bit longer
3 than the excerpt.

4 JUDGE CHRISTIANSON: Is it the basic two pages plus
5 Attachment 1?

6 MS. MOURY: What I did was I gave the company's two-
7 page response, the cover sheet to the attachment, the table
8 of contents, and then two pages from the attachment.

9 JUDGE CHRISTIANSON: Okay; fine. Yes. Pages 11 and
10 12.

11 Go ahead. If people have to hold you up, we can hold
12 you up later.

13 BY MS. MOURY:

14 Q. Mr. Hill, I realize you're not the witness who
15 provided this response, and for that reason I will avoid any
16 lengthy questioning about this, but I did have a couple of
17 questions.

18 Are you generally familiar with this report prepared
19 by the Social Initiatives Task Force?

20 A. Yes, generally familiar.

21 Q. And that task force is made up of PP&L
22 employees; is that right?

23 A. Yes.

24 Q. Now, I would like to direct your attention, Mr.
25 Hill, to page 11 -- page 10, I'm sorry, page 10 of that

1 report.

2 JUDGE CHRISTIANSON: You've given him 11 and 12.

3 MS. MOURY: It must be page 11. I'm sorry. I can't
4 believe I did this.

5 JUDGE CHRISTIANSON: If you need page 10, they
6 probably have a copy of it somewhere.

7 MS. MOURY: I do have a copy of it. I think that's
8 exactly what I did. I needed page 10, 11 and 12.

9 Can I handle this by a revised cross-examination
10 exhibit at the next hearing?

11 JUDGE CHRISTIANSON: Yes, ultimately. So what the
12 court reporter has now will be replaced.

13 MS. MOURY: Right. I apologize for that.

14 JUDGE CHRISTIANSON: You may have to do some sharing
15 of this exhibit.

16 MS. MOURY: Yes. I don't even have another copy of
17 it myself, but I think I can get through okay.

18 BY MS. MOURY:

19 Q. I would like to direct your attention, Mr. Hill,
20 to where the report discusses the small business program
21 that is being proposed by the company.

22 A. Yes.

23 Q. And specifically, I would refer you to the line
24 that states that the small business customer is the
25 forgotten customer of PP&L. Do you see that?

1 A. Yes, I see that.

2 Q. And it goes on then to say that as a group, the
3 small general service customers pay the highest electric
4 rates and receive the least amount of customer service and
5 support from the company.

6 JUDGE CHRISTIANSON: Is this still on page 10?

7 MS. MOURY: That's right, Your Honor.

8 JUDGE CHRISTIANSON: Okay. Go ahead.

9 BY MS. MOURY:

10 Q. Now, my question to you is: essentially, how do
11 those statements reflect on your claim of efficient and
12 effective management if there is an entire group within the
13 company that has been identified by your own task force as
14 being the forgotten customer?

15 A. I think overall the statements in my prepared
16 testimony relate to the total operations of the company, and
17 that relates to our efforts to increase revenues, to reduce
18 costs, complete reorganization of the company, a number of
19 issues that we've taken to maintain base rate stability.
20 That doesn't mean we're perfect and that there are areas in
21 which we can improve and continue to improve. So that I
22 don't think this is inconsistent at all with the statement
23 that management has been efficient and effective. It just
24 says that there are areas that we can continue to improve.

25 Q. Besides the one small business program that I

1 believe is discussed by the testimony that will be sponsored
2 by Mr. Stathos, is PP&L proposing anything else to rectify
3 the situation that's being faced by the company's small
4 business customers?

5 MR. MacGREGOR: Your Honor, --

6 THE WITNESS: Not that I'm aware of, but I really
7 don't know everything that is going on in that area, to be
8 honest with you.

9 JUDGE CHRISTIANSON: He's answered enough. Counsel
10 is happy enough.

11 MR. MacGREGOR: I'm happy with that answer, Your
12 Honor.

13 MS. MOURY: And I am. I have no further questions,
14 Your Honor.

15 JUDGE CHRISTIANSON: Counsel are more prudent than
16 their witnesses sometimes, which is why they're paid.

17 MS. MOURY: Your Honor, would you prefer that I note
18 move this into the record at this point? Perhaps it would
19 be better to do it after I've added the page that was
20 missing, and then I could also have it admitted through Mr.
21 Stathos, who would be the more appropriate witness.

22 JUDGE CHRISTIANSON: Okay. Then let's have it
23 withdrawn at this point, to come back with page 10 to be
24 included, presumably.

25 MS. MOURY: All right.

1 JUDGE CHRISTIANSON: So we'll not show it as
2 identified at this point.

3 MS. MOURY: Thank you, Your Honor.

4 (Whereupon, the document marked as
5 OSBA Cross-Examination Exhibit No. 1
6 was withdrawn.)

7 MS. MOURY: That's all I have.

8 JUDGE CHRISTIANSON: Then having unidentified that
9 last exhibit, anything from Mr. Kleppinger?

10 MR. KLEPPINGER: Yes, Your Honor.

11 JUDGE CHRISTIANSON: Go ahead.

12 CROSS-EXAMINATION

13 BY MR. KLEPPINGER:

14 Q. Good morning, Mr. Hill.

15 A. Good morning, Mr. Kleppinger.

16 Q. If you could turn back to OCA Cross-Examination
17 Exhibit No. 8, I just had one question that was not asked by
18 the OCA on that exhibit. Would I be correct that if the
19 fund were to invest in the equities of any of the barometer
20 companies included in Mr. Moul's testimony, that the pre-tax
21 return on those barometer group companies would exceed the
22 10 percent that's listed on OCA Cross-Examination Exhibit
23 No. 8?

24 A. I would have to look at the barometer company
25 returns. I don't know what they were.

1 Q. You don't know today?

2 A. No, I don't.

3 Q. You're not that familiar with the barometer
4 group?

5 A. I don't know.

6 JUDGE CHRISTIANSON: Those numbers are presumably in
7 the record.

8 MR. KLEPPINGER: They are in the record, yes, Your
9 Honor.

10 JUDGE CHRISTIANSON: Now, one thing, and PP&L might
11 do this on redirect. We may be talking about different
12 terms here, 30 years versus the foreseeable future, as far
13 as rates of return are concerned. Usually rates are set for
14 more or less the immediate future even though the DCF goes
15 forever in theory. But that's just a remark.

16 Go ahead.

17 BY MR. KLEPPINGER:

18 Q. Switching gears with you, Mr. Hill, could you
19 turn to page 3 of your testimony?

20 A. Yes.

21 Q. At line 8 you refer to the first objective of
22 ratemaking for the company as being rate stability. Do you
23 see that reference?

24 A. Yes, I do.

25 Q. And the remainder of that paragraph essentially

1 discusses the company's efforts to stay out of base rate
2 case relief for a period of over ten years; correct?

3 A. That's correct.

4 Q. Now, does the concept of rate stability in your
5 mind only relate to the timing between base rate cases, or
6 does the concept of rate stability also concern itself with
7 the levels of increases that are proposed in any given rate
8 increase case?

9 A. In this particular case what we're talking about
10 is maintaining base rate stability during that time period,
11 not increasing rates for as long as we could.

12 Q. So when you use the term rate stability at this
13 portion of your testimony, are you not referring at all to
14 whether a 15 percent increase creates less rate stability
15 than a 5 percent increase?

16 MR. MacGREGOR: Objection, --

17 THE WITNESS: No.

18 MR. MacGREGOR: -- Your Honor. He's already answered
19 the question.

20 JUDGE CHRISTIANSON: I think it's a fair question.
21 Go ahead. I might have a remark later.

22 BY MR. KLEPPINGER:

23 Q. Would you characterize, Mr. Hill, a proposed
24 increase of 15 percent as maintaining PP&L's objective of
25 rate stability?

1 MR. MacGREGOR: Objection. Do you mean overall rate
2 increase or a rate increase to a specific customer or
3 customer class?

4 MR. KLEPPINGER: Well, let's begin with overall.

5 MR. MacGREGOR: That's the only subject his testimony
6 addresses. We have a separate witness who is going to be on
7 tomorrow, Your Honor, who was responsible for how we
8 allocated the increase among the customer classes, and that
9 witness I think would be the more appropriate witness to
10 take those questions rather than asking Mr. Hill, who has
11 already said that that was not what he encompassed within
12 his testimony.

13 JUDGE CHRISTIANSON: Yes. Small Business got a bit
14 into that. Go ahead, let Mr. Kleppinger try. We'll be
15 alert to -- I think he's alert as well to the differences in
16 witnesses.

17 BY MR. KLEPPINGER:

18 Q. I believe the question then stands, Mr. Hill, as
19 to whether or not in your opinion an overall system increase
20 of 15 percent would maintain PP&L's objective of rate
21 stability.

22 A. Well, I think it's clear that any increase does
23 not maintain rate base stability. My testimony says that
24 over the prior years, the past ten years, our objective has
25 been to try to maintain rate stability, and I think we've

1 done that. We have reached the point, however, where we can
2 no longer maintain that base rate stability.

3 JUDGE CHRISTIANSON: Then the stable period of ten
4 years produces the 15 percent or whatever increase.

5 THE WITNESS: It certainly impacts it, yes, it does,
6 Your Honor.

7 BY MR. KLEPPINGER:

8 Q. At page 6 of your testimony you indicate at
9 lines 4 and 5 that the company has made a major commitment
10 to economic development to retain existing industry and
11 attract new businesses. Do you see that reference?

12 A. Yes, I do.

13 Q. Now, at the time you prepared your testimony,
14 Mr. Hill, were you aware of how the company was proposing to
15 distribute this rate increase among the customer classes?

16 A. No, I was not.

17 Q. Are you aware of that proposal now?

18 A. In general terms, yes.

19 Q. Are you aware of what the proposed increases are
20 on a total rate schedule basis or to individual customer
21 groups within given rate schedules?

22 JUDGE CHRISTIANSON: You mean small use and --

23 MR. KLEPPINGER: Primarily the distinction, Your
24 Honor, would be between firm and interruptible customers.
25 If he is aware.

1 JUDGE CHRISTIANSON: Because there's so many
2 distinctions going on here.

3 THE WITNESS: I am aware of a general distinction,
4 not specific amounts, no.

5 BY MR. KLEPPINGER:

6 Q. So you would not be aware today what the
7 proposed increase is in this case, for example, to the LP-5
8 interruptible class of customers?

9 A. No, I am not.

10 Q. You're not aware of that.

11 In conjunction with the company's commitment to
12 economic development to retain existing industry, as
13 referenced at page 6, line 5, of your testimony, are you
14 familiar with what portion of the large industrial Rate
15 Schedule LP-5 sales are attributable to customers taking
16 interruptible service?

17 A. No, I am not.

18 Q. You had responded I believe to Ms. Moury's
19 question regarding gradualism as something that you at least
20 didn't know what she meant by that; do you recall that?

21 A. That's correct.

22 Q. Again, getting back to your definition of rate
23 stability, does your concept of rate stability as used in
24 your testimony imply any issue with respect to gradualism?

25 MR. MacGREGOR: Objection, Your Honor. He's already

1 said he doesn't know what gradualism means. How can he
2 possibly answer the question?

3 JUDGE CHRISTIANSON: Let me help Mr. Kleppinger and I
4 think it will help the witness as well. To me gradualism
5 means a rate design standard whereby no class jumps really
6 quickly. Are you into rate design in that sense?

7 THE WITNESS: No, I'm not, Your Honor.

8 MR. KLEPPINGER: Okay. That's fine.

9 BY MR. KLEPPINGER:

10 Q. Your use of the term rate stability at page 3,
11 line 8, of your testimony, again, does your use of that term
12 imply any concept of avoiding rate shock, if you are
13 familiar with the term rate shock?

14 A. I'm familiar with that term. Again, yes, for
15 the ten years, part of the objective in maintaining that
16 rate stability would have been to avoid rate shock. I would
17 agree with that.

18 Q. Does the concept of rate shock raise in your
19 mind any type of a percentage increase that tends to violate
20 that principle of avoiding rate shock?

21 A. Not specifically that I can think of.

22 Q. So you wouldn't be able to testify whether a 15
23 or a 20 or a 30 percent rate increase would violate your
24 concept of rate shock?

25 A. I would think that would depend on too many

1 variables as to whether or not one percentage constitutes
2 rate shock.

3 JUDGE CHRISTIANSON: I think in the last case the
4 increase was about 20 overall.

5 THE WITNESS: Twenty-three percent or something like
6 that.

7 JUDGE CHRISTIANSON: You did a phase-in proposal in
8 the last case.

9 THE WITNESS: We had a method of depreciation which
10 tended to reduce it a little bit. We didn't really have a
11 phase-in. If we did, we proposed it and it wasn't accepted.
12 I can't remember.

13 JUDGE CHRISTIANSON: Yes, I think it was proposed and
14 not accepted.

15 THE WITNESS: I think it was proposed and not
16 accepted.

17 JUDGE CHRISTIANSON: Right.

18 BY MR. KLEPPINGER:

19 Q. And you testified in the last PP&L base rate
20 case?

21 A. No, I did not.

22 Q. I didn't remember that.

23 MR. KLEPPINGER: Thank you, Mr. Hill. That's all the
24 questions I have.

25 JUDGE CHRISTIANSON: Then we have Eric Epstein. Do

1 you have questions?

2 MR. EPSTEIN: Yes, I do, Your Honor.

3 JUDGE CHRISTIANSON: Go ahead.

4 CROSS-EXAMINATION

5 BY MR. EPSTEIN:

6 Q. Mr. Hill, how are you doing this morning?

7 A. Fine. Thank you.

8 Q. Earlier witnesses had asked me to redirect some
9 questions to you, Mr. Sipics and Mr. Kleha, so hopefully
10 you'll be the witness who will be able to answer these
11 questions.

12 A. I'll try.

13 Q. Does PP&L own any subsidiaries or holding
14 companies?

15 A. Well, PP&L owns subsidiaries. We are in the
16 process of forming a holding company which would eventually
17 be the parent of Pennsylvania Power & Light Company.

18 Q. Can you identify that company?

19 A. It's now currently named PP&L Resources. We
20 have received regulatory approvals but it's still subject to
21 shareholder approval.

22 Q. Would that company supervise the investments of
23 Power Markets Development?

24 A. It would have oversight. The Board of Directors
25 of Power Markets Development itself would oversee the direct

1 investments of --

2 Q. Can you explain what Power Markets Development
3 is? I'm having a hard time -- from what I understand, Power
4 Markets Development is going to be investing in electrical
5 generation in foreign countries. Can you offer any more
6 information on what their activities will be?

7 A. Yes. That's one of the alternative investments
8 that Power Markets Development would look at. It would also
9 look at investing domestically in power generation
10 alternatives. So it's a subsidiary that was formed to
11 invest in power-related activities, generation, primarily,
12 projects, either domestically or foreign.

13 Q. Do you know where the revenues came to form that
14 corporation?

15 A. The revenues came from PP&L. PP&L made a
16 capital contribution to Power Markets Development.

17 Q. Were any of those revenues generated from
18 ratepayer contributions?

19 A. Well, almost all the revenue that PP&L received
20 at any point in time comes from ratepayers, but this was
21 really, in essence, a capital contribution which came from
22 monies after expenses and from shareholders.

23 JUDGE CHRISTIANSON: You view this as coming out of
24 profits, basically.

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

1 BY MR. EPSTEIN:

2 Q. So, in essence, profits that came in part from
3 ratepayers are going to be invested in non-regulated type
4 business activity?

5 A. That's correct.

6 Q. You don't find anything unethical about that?

7 A. Not at all.

8 JUDGE CHRISTIANSON: One minor follow-up on what he's
9 asked. You're talking about investing in generation. Would
10 you control certain projects? Would the subsidiary control
11 certain projects?

12 THE WITNESS: It could. It could be a partner. It
13 could own a minority interest; it could own a majority
14 interest. It could operate. A whole spectrum of
15 possibilities.

16 JUDGE CHRISTIANSON: That's enough response for me.

17 Go ahead.

18 BY MR. EPSTEIN:

19 Q. Is it possible that if the investments in Power
20 Markets Development didn't realize their potential, they
21 could materially adversely impact the company?

22 A. I don't believe at this point, no.

23 Q. So in essence you don't feel that a poor
24 investment by this company could adversely impact the PP&L
25 ratepayer?

1 A. No. That's one of the reasons we're setting up
2 the holding company, because the holding company would
3 segregate Pennsylvania Power & Light Company, the regulated
4 utility, from Power Markets Development, the unregulated
5 entity.

6 Q. So this company which in part was derived from
7 revenues from the ratepayer will in no way directly profit
8 the ratepayer; in other words, the ratepayer will not get
9 any of the profits that this corporation may make?

10 A. Whenever you say the ratepayer, I guess I have
11 some trouble with that. The stockholder is entitled to a
12 fair return on the investment, and I think the stockholder
13 should have the ability to invest those monies to generate a
14 return from it. So although the revenue comes from
15 ratepayers, in fact, what we're using is stockholders' money
16 to make this investment.

17 JUDGE CHRISTIANSON: In response to his question,
18 this money would not be flowing back to ratepayers?

19 THE WITNESS: No, it would not. Power Markets
20 Development would eventually be a subsidiary of the holding
21 company, not PP&L.

22 BY MR. EPSTEIN:

23 Q. Just so I understand, the money, some of the
24 money, did come from ratepayers, but in essence the
25 shareholders would profit if the company did well?

1 A. I think I have to repeat my answer again. The
2 money came from return, stockholder return. It was a
3 capital contribution from the stockholders that went into
4 Power Markets Development as a capital contribution, and as
5 a result any return or loss would be impacted by the common
6 stock holders of, in this case, PP&L Resources, the holding
7 company, once it's formed, and would not benefit or harm
8 ratepayers.

9 Q. I'll pursue another line of questioning right
10 now.

11 In your opinion, are you aware that the Financial --
12 first let me just ask you: are you aware that the Financial
13 Accounting Standards Board from the Securities & Exchange
14 Commission is reviewing decommissioning financing practices?

15 A. I'm aware that the FASB is reviewing
16 decommissioning, yes.

17 Q. Do you think that that may adversely impact your
18 estimate of how much money should be approved for
19 decommissioning?

20 A. No, I don't think that will affect the amount of
21 monies we believe should be accrued. It may affect how we
22 record the liability on the company's books, and the timing
23 of when that liability is recorded.

24 Q. Okay. Give me a second. I can't write as fast
25 as you're talking.

1 If I remember correctly, you said earlier in response
2 to a question that the rate of return on the decommissioning
3 trust fund was 10 percent. Is that right?

4 A. No. I said we assumed a 5.5 percent after-tax
5 rate of return.

6 Q. Can you tell me what the rate of return was for
7 this year for the trust fund?

8 A. No, I cannot.

9 Q. Are you aware that the annual report stipulated
10 that the decommissioning fund actually lost \$2.3 million
11 this year?

12 A. I'm not aware. It may have because it's on
13 market value, and markets go up and down.

14 Q. So, in other words, they didn't gain 5.5 percent
15 but there was actually a loss this year?

16 A. You can have years with --

17 JUDGE CHRISTIANSON: You're saying for calendar '94,
18 basically?

19 MR. EPSTEIN: Yes. Annual report. If you want, I
20 can offer it into evidence. I have copies.

21 JUDGE CHRISTIANSON: It's not important. Ninety-four
22 was not a very good year for the stock market.

23 THE WITNESS: No, it wasn't, Your Honor.

24 BY MR. EPSTEIN:

25 Q. Therefore, it wasn't a good year for the

1 decommissioning trust fund either.

2 A. Nor our pension plan.

3 Q. Any of this money in the decommissioning trust
4 fund, does any of this go towards public relations campaigns
5 of any kind, for instance, to ask the Mescalero Indians to
6 use their land as a high level radioactive waste site?

7 A. No.

8 Q. Do you know where that money would come from to
9 convince the Mescalero Apache to use their land as a high
10 level radioactive waste site?

11 A. It's a corporate expense.

12 Q. Then it is not an expense the ratepayers pay?

13 A. Yes. We're charging it as an expense.

14 Q. So the ratepayers would be helping to finance
15 this campaign to convince the Mescaleros to store nuclear
16 waste on their land?

17 A. Just as they're also paying the 1 mill per
18 kilowatt-hour we're paying to the federal government for
19 ultimate disposal of nuclear fuel; yes.

20 Q. Now, OTS asked earlier that if there was a
21 surplus in the decommissioning trust fund, you believe that
22 money should revert to the ratepayer; is that correct?

23 A. Yes, I do.

24 Q. If there is a deficit, do you think the
25 ratepayer should pick up the deficit, or do you feel the

1 shareholders should pick up the deficit if there's not
2 enough money at the time of decommissioning to finance the
3 decommissioning plan?

4 A. I believe the ratepayers should pick up the
5 deficit.

6 Q. A couple other questions. Are you aware that
7 PP&L's share of decommissioning is estimated to be \$724
8 million?

9 A. That's the most recent estimate in 1993 dollars,
10 yes.

11 Q. Which represents about 90 percent of your share
12 to decommission the plant?

13 A. It represents PP&L's 90 percent ownership of the
14 plant, yes.

15 Q. Where is the other 10 percent coming from?

16 A. Allegheny Electric Cooperative is a 10 percent
17 owner of the plant and, as such, is obligated to provide its
18 10 percent share of the costs to decommission the plant.

19 Q. Have you read Allegheny Electric Cooperative's
20 annual report from last year by any chance?

21 A. I believe I glanced at it last year, but I can't
22 recall specifics.

23 Q. Let me quote from the report; that Allegheny's
24 portion of the estimate cost of decommissioning the plant is
25 approximately \$37.8 million and is being accrued over an

1 estimated useful life of the plant. Are you aware that
2 \$37.8 million is only 5 percent? In other words, according
3 to what you're saying, you're putting aside \$724 million.
4 The 10 percent that Allegheny should be putting aside should
5 be \$78 million. Can you tell me why they're only putting
6 aside \$37.8 million?

7 A. Not specifically except they're probably using a
8 different estimate than we used.

9 JUDGE CHRISTIANSON: Does the Co-op's share state 10
10 percent? I thought they backed out after --

11 THE WITNESS: No. They own 10 percent of
12 Susquehanna, Your Honor.

13 JUDGE CHRISTIANSON: Just flat out.

14 THE WITNESS: Yes.

15 JUDGE CHRISTIANSON: Okay.

16 BY MR. EPSTEIN:

17 Q. What I'm curious, there is a 5 percent share
18 that's not being saved for. In other words, we have about a
19 \$38 million shortfall already. Are you aware why we have
20 that large of a shortfall?

21 A. Well, my opinion is that the shortfall at this
22 point in time is even greater than and that what we're
23 trying to do is make up that shortfall over the remaining
24 life of the plant, and I would expect Allegheny Electric
25 also to revise their estimate periodically and make up the

1 shortfall over the remaining part of the life of the plant.

2 JUDGE CHRISTIANSON: Let me try to clarify then. In
3 your view there's no systematic 5 percent shortfall, it's
4 just a difference in estimation.

5 THE WITNESS: I believe it's a timing situation; that
6 ultimately they will redo their estimate and bring their
7 funding up to the appropriate level.

8 BY MR. EPSTEIN:

9 Q. Let me understand. Is there any coordination in
10 the decommissioning estimate? In other words, you right now
11 are planning decommissioning based on safe store. Allegheny
12 could be planning it on entomb, they could be planning it on
13 decon.

14 A. They could be basing their estimate on the NRC
15 required funding level, too. There are several different
16 methodologies of coming up with the estimate to decommission
17 the plants.

18 Q. But it's possible that you could be putting
19 aside money -- I believe, actually, your method is decon and
20 their method could be safe store.

21 A. I don't know what their method is. I don't
22 believe it's safe store.

23 Q. But there is actually no coordination?

24 A. There is coordination, but they're under no
25 obligation to accept our estimate and to fund in the same

1 manner that we do. They are obligated to come up with their
2 share of the money at the end.

3 JUDGE CHRISTIANSON: Coordination but no control.

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

5 BY MR. EPSTEIN:

6 Q. Do you know what method right now they're
7 anticipating Susquehanna will be decommissioned as?

8 A. No, I don't.

9 Q. So it is possible they may be envisioning the
10 decommissioning of Susquehanna, say, as entomb, whereas
11 right now you're envisioning it as decon?

12 A. They may.

13 Q. So we could have a scenario at the end where 90
14 percent of the plant would be decontaminated and 10 percent
15 would be entombed?

16 A. I think ultimately PP&L, as the primary
17 licensee, will determine the manner in which it is
18 decommissioned, and Allegheny Electric will be responsible
19 for their 10 percent share of that cost.

20 Q. Even though they may not be saving --

21 A. Even though -- I'm sorry. Even though they may
22 not be funding in that manner at this point in time.

23 Q. That's interesting. It seems like we're tuned
24 to WITF and you guys are tuned to the Disney Channel.

25 MR. MacGREGOR: Objection, Your Honor.

1 JUDGE CHRISTIANSON: I'll accept some comments as we
2 go along.

3 MR. EPSTEIN: It's amazing to me.

4 BY MR. EPSTEIN:

5 Q. I have one final question for you. You have
6 expertise on effective and efficient management of your
7 power plants within the PP&L system?

8 A. What was the question again?

9 Q. Do you have expertise on effective and efficient
10 management of power plants within your system?

11 A. I personally am not an operating individual, so
12 I can't -- when you say do I have expertise in efficient
13 operation of a power plant, I personally don't have that.

14 Q. In your opinion, let me put it this way, is the
15 Susquehanna nuclear power plant operated in an efficient and
16 effective manner?

17 A. Yes, in my opinion.

18 MR. EPSTEIN: Can I offer something as evidence, Your
19 Honor?

20 JUDGE CHRISTIANSON: You can try.

21 MR. EPSTEIN: Well, you know what, Your Honor, I'm
22 real persistent. I remember you from ten years ago. I
23 don't know if you remember me. I'll probably be here ten
24 years down the road.

25 JUDGE CHRISTIANSON: Yes. I do recall you.

1 MR. EPSTEIN: Yes, I'm sure, and at the Met-Ed
2 hearings.

3 BY MR. EPSTEIN:

4 Q. Let me give you a copy of these. I don't know
5 if you've seen these before. These are all the problems
6 that have occurred at the Susquehanna nuclear power plant
7 since '79. The source of this material is the Nuclear
8 Regulatory Commission. I don't know if you need a minute to
9 look it over.

10 (Document handed to witness.)

11 A. I probably need an hour.

12 Q. You probably need more than that, actually.

13 MR. MacGREGOR: I can cut this short because I object
14 to its admission right now, Your Honor.

15 MR. EPSTEIN: Why?

16 MR. MacGREGOR: It's not from a Nuclear Regulatory
17 Commission document. It's prepared from it, purports to be
18 prepared from it. It's not sponsored by any witness. And
19 Mr. Hill is not a witness on the operation of the
20 Susquehanna plant. So I think we can short-circuit it right
21 now.

22 MR. EPSTEIN: I like the nuclear metaphor, short-
23 circuit.

24 MR. MacGREGOR: I don't care whether you like it or
25 not. I object to the admission of the document.

1 MR. EPSTEIN: What I tried to do is save the Court
2 lengthy documentation. I have all these NRC documents,
3 which, if you want, I can bring them in. What I did,
4 everything is documented from NRC inspection reports, and to
5 make it easy I even gave the exact inspection report number.
6 Anything that is not from an NRC inspection report is
7 footnoted. I have provided a glossary so it was easy to
8 understand.

9 All I'm trying to say is I believe this witness says
10 he believes Susquehanna is run in an effective and efficient
11 manner. I want to counter that by saying: take a look at
12 these violations, some which are rather serious, some which
13 encompass fines of \$50,000.

14 JUDGE CHRISTIANSON: You have a right to counter.
15 I'm not sure you have a right to do that by cross-
16 examination exhibit. In any case, this is identified as
17 Epstein Cross-Examination Exhibit 1.

18 (Whereupon, the document was marked
19 as Epstein Cross-Examination Exhibit
20 No. 1 for identification.)

21 JUDGE CHRISTIANSON: Now, this witness is more a
22 financial person rather than an operating person, obviously,
23 so he's probably not the best person to respond to the
24 document. The company has objected to allowing it in as
25 evidence at this point. If you want to cross briefly on it,

1 go ahead, and we'll just see where you're going with it.

2 MR. EPSTEIN: Well, no, because I think the witness
3 said it would take him a considerable amount of time to
4 review the document, so perhaps what we might be able to do
5 is introduce it to a person from the company who has
6 expertise on this particular issue.

7 JUDGE CHRISTIANSON: Let me just suggest this to the
8 company. It's possible to allow it in, subject to motion.
9 I don't know how much time you need to really respond to it,
10 to be sure about the contents.

11 MR. MacGREGOR: Your Honor, I have no idea what I'm
12 responding to. These are typewritten pages that purport to
13 be a summary of NRC documents, which I don't have the NRC
14 backup documents. I don't know what this is. It's
15 something Mr. Epstein has typed up and put together as an
16 exhibit. It's not sponsored by a witness. It's not
17 authenticated. There's no basis for admitting it into
18 evidence in this proceeding.

19 JUDGE CHRISTIANSON: This witness really doesn't
20 recognize it in detail. I think I'm going to hold off on
21 it. It's identified at this point.

22 MR. EPSTEIN: Maybe we can reintroduce it with Mr.
23 LaGuardia, who I believe is an expert in nuclear
24 decommissioning.

25 MR. MacGREGOR: No. He knows nothing about the

1 operations of the Susquehanna plant.

2 JUDGE CHRISTIANSON: That's the problem, it's more an
3 operation thing. As a matter of fact, I'm trying to read it
4 quickly myself.

5 MR. EPSTEIN: Yes, but it does speak to Mr.
6 LaGuardia, because his estimates are based on the fact that
7 Susquehanna will operate for 40 years. I think this
8 document indicates that there are serious problems at
9 Susquehanna, and the likelihood that it will operate for 40
10 years is not very likely.

11 MR. MacGREGOR: There is no basis for that at all,
12 Your Honor. No basis for presentation of that fact into
13 evidence. Mr. LaGuardia is responsible for the
14 decommissioning claim.

15 MR. EPSTEIN: But his methodology is based on the
16 fact that the plant will operate for 40 years; is that not
17 correct?

18 MR. MacGREGOR: I'm not sure that's true.

19 MR. EPSTEIN: That is true. He said it in his
20 testimony. He said it several times.

21 JUDGE CHRISTIANSON: We can worry about LaGuardia
22 when he's here on the stand. At this point I'm not
23 accepting it at the moment. Mr. Epstein can bring the
24 matter up again. We can even discuss the matter perhaps
25 tomorrow at some point, briefly.

1 MR. EPSTEIN: I won't be here tomorrow. I'm taking
2 personal days to be here. I will be here for Mr. LaGuardia.
3 Today will be the final day I'm here.

4 JUDGE CHRISTIANSON: Then one minor problem with
5 LaGuardia. I guess it's pretty clear he won't be here
6 tomorrow.

7 MR. MacGREGOR: No. Thursday, Your Honor.

8 JUDGE CHRISTIANSON: Thursday; we're presuming not
9 before Thursday.

10 So we'll discuss the matter again when Mr. Epstein is
11 here again, which presumably will be Thursday.

12 MR. MacGREGOR: That's fine, Your Honor.

13 JUDGE CHRISTIANSON: I don't see him responding.

14 MR. EPSTEIN: That's no problem, Your Honor.

15 JUDGE CHRISTIANSON: So let's hold it till Thursday.

16 MR. EPSTEIN: Sure.

17 JUDGE CHRISTIANSON: On Thursday, we're hoping for
18 Thursday -- this is subject to some logistics problems, but
19 we can probably solve those problems by the end of today and
20 let you know when to be available.

21 MR. EPSTEIN: And what I'll do on Thursday, I'll
22 bring all the substantiating documents that relate to this
23 chronology.

24 JUDGE CHRISTIANSON: Yes.

25 MR. EPSTEIN: Not a problem.

1 JUDGE CHRISTIANSON: How big a stack is that?

2 MR. EPSTEIN: It's pretty substantial.

3 JUDGE CHRISTIANSON: Well, as long as you can carry
4 it, I guess.

5 MR. EPSTEIN: It's not a problem. If you've read an
6 inspection report, they can range anywhere from ten to 50
7 pages. And there's about -- I think I've footnoted several
8 hundred here.

9 JUDGE CHRISTIANSON: Well, the company meanwhile
10 might check its own resources to some degree.

11 MR. MacGREGOR: Also, Your Honor, that doesn't make
12 it admissible, in my opinion anyway.

13 JUDGE CHRISTIANSON: No. I agree with that. I'm not
14 going to have LaGuardia necessarily bless it if he can, but
15 we'll deal with it.

16 MR. EPSTEIN: Logically, one way also to resolve this
17 is that all these records are available in the public
18 document room and are accessible at any time.

19 JUDGE CHRISTIANSON: Yes. The company probably has
20 their own copies of these things somewhere or other, but I
21 don't know if the lawyers can find it immediately.

22 MR. MacGREGOR: We probably do, Your Honor. Again,
23 that doesn't make them admissible without a witness to
24 sponsor them.

25 JUDGE CHRISTIANSON: Yes. That's why I'm deferring

1 it. Ultimately the company may be able to accept the
2 chronology as essentially correct, but we'll certainly need
3 more time with it, so at this point we'll give them more
4 time. We'll just decide later how much more time. So it's
5 identified and not yet accepted into the record.

6 Any more cross for the witness?

7 MR. EPSTEIN: No.

8 Thanks, Mr. Hill.

9 JUDGE CHRISTIANSON: Let me just check one question.
10 This brought to my mind one question, which I might as well
11 ask, very briefly.

12 There's a lot of movement in the electric industry of
13 breaking out the companies into production, transmission and
14 distribution. In 25 words or less, maybe, where is PP&L in
15 this evolution?

16 THE WITNESS: We have undergone a corporate
17 restructuring but not in the business line aspect that
18 you're talking about where we've established separate
19 business units for generation, transmission and
20 distribution. We're still managing basically on an
21 integrated basis.

22 JUDGE CHRISTIANSON: As are many companies, I think.
23 There's a lot of talk about it.

24 THE WITNESS: There's a lot of talk but we have not
25 reorganized along those lines, nor are we planning to at

1 this point in time.

2 JUDGE CHRISTIANSON: That's enough for me for that
3 response.

4 Then I gather we're done with cross for the witness,
5 and let's be off the record very briefly.

6 (Discussion off the record.)

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1 JUDGE CHRISTIANSON: Let's go back on the record.
2 Off the record, we checked a few minor logistics
3 problems, but I think we can work them out; and we have the
4 next witness in the witness box.

5 If you can stand and raise your right hand, I'll go
6 ahead and swear in the witness, and we can proceed.

7 Whereupon,

8 MICHAEL J. BERISH
9 having been duly sworn, testified as follows:

10 JUDGE CHRISTIANSON: I do sort of recall you in the
11 last case, the name more than the face. In any case,
12 counsel can go ahead and introduce the witness.

13 MR. GADSDEN: Thank you, Your Honor.

14 DIRECT EXAMINATION

15 BY MR. GADSDEN:

16 Q. Mr. Berish, would you state your full name for
17 the record and spell your last name?

18 A. Sure. Michael J. Berish. That is B-e-r-i-s-h.

19 Q. Mr. Berish, by whom are you employed and in what
20 capacity?

21 A. I am employed by the Pennsylvania Power & Light
22 Company in the position of Manager of Financial Planning.

23 MR. GADSDEN: Your Honor, Mr. Berish will be
24 sponsoring a statement of direct testimony as well as eight
25 separate exhibits which will need to be identified at this

1 time, and I'll go through them slowly.

2 JUDGE CHRISTIANSON: Yes.

3 MR. GADSDEN: First, as Pennsylvania Power & Light
4 Company Statement No. 2, a multi-page document consisting of
5 14 pages of questions and answers styled, "Direct Testimony
6 of Michael J. Berish."

7 As a preface to introducing the exhibits, Your Honor,
8 I would note that all eight of Mr. Berish's exhibits are
9 contained in the same stand-alone volume.

10 JUDGE CHRISTIANSON: Yes. You have a system of black
11 folders for the exhibits associated with the witnesses, and
12 the green and the general color codes.

13 MR. GADSDEN: As Exhibit MJB-1, a document styled,
14 "Introduction to the Budget Manual, Chapter 110." As
15 Exhibit MJB-2, a document styled, "Specialized Data Provided
16 for the Operating Budget." As MJB-3, a two-page document
17 styled, "Cost Areas as of September 1, 1994." As Exhibit
18 MJB-4, a document entitled, "1995 Budget Preparation
19 Schedule," consisting of nine pages. As Exhibit MJB-5, a
20 one-page document titled, "Budget Item Codes." As Exhibit
21 MJB-6, a document entitled, "Operating Budget Data, 12
22 Months Ended September 30, 1995." As Exhibit MJB-7, a
23 document entitled, "Electric Operating Budget Data by
24 Quarters, 12 Months Ended September 30, 1995." And finally,
25 as Exhibit MJB-8, a document entitled, "Estimated Cost of

1 Voluntarily Early Retirement Program."

2 Now, with respect to Exhibit MJB-8, Your Honor, that
3 is a one-page sheet. We are distributing at this time a
4 Revised MJB-8. As Mr. Berish will explain subsequently, the
5 figures in MJB-8 were aligned with the wrong definition in
6 the far left-hand column. We have corrected that. As Mr.
7 Berish will further indicate, this particular exhibit even
8 as corrected will need to be updated, and we will walk
9 through that.

10 JUDGE CHRISTIANSON: Okay. Go ahead and hand it out
11 or your colleagues can hand it out. Basically, the numbers
12 will change.

13 MR. GADSDEN: Your Honor, may Statement No. 2 and
14 Exhibits MJB-1 through 8 be identified as so indicated?

15 JUDGE CHRISTIANSON: So identified. Statement 2 is
16 his statement; 1 through 8 are his personal exhibits you
17 might call it.

18 (Whereupon, the documents were marked
19 as PP&L Statement No. 2 and PP&L
20 Exhibits MJB-1 through MJB-8 for
21 identification.)

22 MR. GADSDEN: Thank you, Your Honor.

23 BY MR. GADSDEN:

24 Q. Mr. Berish, do you have a copy of the document
25 that has been marked for identification as PP&L Statement

1 No. 2?

2 A. Yes, I do.

3 Q. Was that statement of direct testimony prepared
4 by you or under your direct supervision?

5 A. Yes, it was.

6 Q. Are there any revisions or corrections to
7 Statement No. 2 that you wish to make at this time?

8 A. No, there is not.

9 Q. If I were to ask you the questions set forth in
10 Statement No. 2 today, would your answers be as contained
11 therein?

12 A. Yes.

13 Q. And would they be true and correct to the best
14 of your knowledge?

15 A. Yes, sir.

16 Q. Mr. Berish, do you have copies of documents
17 which have been marked as Exhibits MJB-1 through 8?

18 A. Yes, I do.

19 Q. Were those documents assembled or compiled under
20 your direction and supervision?

21 A. Yes, they were.

22 Q. Can you just very briefly explain the need to
23 submit a Revised MJB-8?

24 A. Yes. On the original submittal, the two lines
25 that were labeled, "Social Security Bridge" and "Pension

1 Supplement," both in the top part and the bottom part of
2 that document, should have been reversed. The first line
3 should have said, "Pension Supplement," and the second line,
4 "Social Security Bridge."

5 JUDGE CHRISTIANSON: So it's just sort of a typo.
6 The numbers are correct?

7 THE WITNESS: That's correct.

8 JUDGE CHRISTIANSON: So if people want to just draw
9 arrows, they can just use the original exhibit?

10 THE WITNESS: That's correct.

11 BY MR. GADSDEN:

12 Q. Mr. Berish, am I correct that subsequent to the
13 filing of this case, additional data became available to you
14 regarding the estimated costs and savings of the company's
15 voluntary early retirement program?

16 A. Yes. At the time this was prepared, Exhibit
17 MJB-8 was based on an estimate of the number of people that
18 we thought would be taking the voluntary early retirement
19 program.

20 Subsequent to that filing and near the end of the
21 year, we knew at that time how many people actually took the
22 voluntary early retirement program. The actual cost of the
23 people actually taking the voluntary early retirement
24 program and an updated estimate of the savings is set forth
25 in response to an interrogatory, OCA, Office of Consumer

1 Advocate, Set IV, Question No. 75. That response contains
2 an update based on the actual employees taking the voluntary
3 early retirement program.

4 Q. Is it the company's intention as part of the
5 rebuttal phase of this case to submit a Revised Schedule
6 D-10, which would recalculate the company's claim based on
7 known data?

8 A. Yes, it is our intention to do that.

9 Q. Mr. Berish, in addition to your responsibilities
10 with respect to Exhibits MJB-1 through 8, am I correct that
11 you are also responsible for portions of what have
12 previously been marked as PP&L Exhibit 1, that comprising
13 the company's responses to the Commission's standard filing
14 requirements, as well as the company's two principal
15 accounting exhibits, those being PP&L Exhibit Historic 1 and
16 PP&L Exhibit Future 1?

17 A. Yes.

18 Q. Am I also correct that one of your areas of
19 responsibility in this case relates to the company's claim
20 for pension expense?

21 A. Yes, sir, it is.

22 Q. And you are aware, are you not, that during the
23 hearings last week, the company submitted to all parties an
24 updated February, 1995 pension expense report prepared by
25 the company's outside actuary, Towers & Perrin?

1 A. Yes, sir.

2 Q. And I believe when Mr. Beers was presented that
3 he indicated that the company's pension expense claim would
4 likely decrease as a result of that updated analysis; is
5 that correct?

6 A. Yes, sir, it is.

7 Q. Have you calculated the impact on the company's
8 claim?

9 A. Yes, sir, we have.

10 MR. GADSDEN: Your Honor, I apologize. I have only
11 three copies of what is a revised and updated response by
12 the company to Office of Consumer Advocate Interrogatory Set
13 IV, No. 102. It will be officially distributed by mail
14 either this afternoon or sometime tomorrow, but since Mr.
15 Berish is here, I thought it appropriate to get into the
16 parties' hands a copy of that update. As I indicated,
17 unfortunately, I only have three.

18 JUDGE CHRISTIANSON: Especially Consumer Advocate
19 since it's their interrogatory, and we can share. If
20 counsel want to use it now or later, we'll just worry about
21 that as we go along.

22 This is an update based on actual activity?

23 THE WITNESS: It's an update based on a new actuarial
24 report that we just received.

25 JUDGE CHRISTIANSON: Okay, a report.

1 BY MR. GADSDEN:

2 Q. Mr. Berish, with those revisions and comments,
3 is the data set forth in Exhibits MJB-1 through 8, as well
4 as those portions of Exhibit Historic 1 and Exhibit Future 1
5 for which you were responsible, is that data true and
6 correct to the best of your knowledge?

7 A. To the best of knowledge, yes.

8 MR. GADSDEN: Your Honor, at this time I would move
9 the admission of PP&L Statement 2, Exhibits MJB-1 through 8,
10 all subject to the standard conditions, and offer Mr. Berish
11 for cross-examination.

12 JUDGE CHRISTIANSON: Under the standard conditions,
13 the statement and those eight exhibits are accepted into the
14 record.

15 MR. GADSDEN: Thank you, Your Honor.

16 (Whereupon, the documents marked as
17 PP&L Statement No. 2 and PP&L
18 Exhibits MJB-1 through MJB-8 were
19 received in evidence.)

20 JUDGE CHRISTIANSON: We might as well start cross
21 again with Trial Staff, if they would like to go ahead.

22 MR. SIMMS: Thank you, Your Honor.

23 CROSS-EXAMINATION

24 BY MR. SIMMS:

25 Q. Good afternoon, Mr. Berish.

1 A. Good afternoon, sir.

2 Q. My name is Johnnie Simms. I am with the Office
3 of Trial Staff in this proceeding.

4 I would like to refer you to your response to
5 OTS-RE-36D.

6 JUDGE CHRISTIANSON: Off the record just for a
7 moment.

8 (Discussion off the record.)

9 JUDGE CHRISTIANSON: Let's be back on.

10 We have two documents. Go ahead, counsel.

11 MR. SIMMS: Your Honor, at this time I would like to
12 have the company's response to OTS-RE-36D marked for
13 identification as OTS Cross-Examination Exhibit No. 9. May
14 it be so identified?

15 JUDGE CHRISTIANSON: All right, No. 9. It is 36D.
16 That is the smaller one.

17 MR. SIMMS: That is correct.

18 JUDGE CHRISTIANSON: All right. Go ahead. So
19 identified.

20 (Whereupon, the document was marked
21 as OTS Cross-Examination Exhibit No.
22 9 for identification.)

23 BY MR. SIMMS:

24 Q. Mr. Berish, do you have that document before
25 you?

1 A. Yes, sir, I do.

2 Q. If we look at Attachment 1 to the document, am I
3 not correct that this response details the company's claim
4 of \$16,932,000 for the uncollectible accounts expense?

5 A. Yes, sir, it does.

6 Q. The company's claim for uncollectible accounts
7 expense related to electric service accounts receivable is
8 \$16.8 million; correct?

9 A. Yes, sir, it is.

10 Q. Now, Footnote 1 provides a computation of the
11 \$16.8 million; correct?

12 A. Yes, sir.

13 Q. Now, it is my understanding that in this
14 schedule, the company is establishing a provision for
15 uncollectible accounts expense in the amount of \$30,719,000;
16 correct?

17 A. Yes, sir.

18 Q. Now, am I correct that the \$16.8 million is the
19 amount needed to fully fund the provision? Is that correct?

20 A. It is the amount to get the provision up to the
21 \$30,719,000, which is the estimated amount needed for the
22 accounts receivable balance that is shown on Attachment 1,
23 yes.

24 Q. Now, while the \$16.8 million is requested to
25 fund the provision, the company actually projects to only

1 have actual write-offs of \$15,566,000 per the schedule;
2 correct?

3 A. Yes, sir.

4 Q. Let me now refer you to another document, your
5 response to a number of interrogatories regarding payroll
6 wages and company benefits.

7 Do you have that document in front of you? I handed
8 one to your attorney.

9 A. Yes, sir, I do.

10 Q. By the way, before we move on, you are the
11 sponsoring witness for OTS-RE-36D, are you not?

12 A. Yes, sir.

13 MR. SIMMS: Your Honor, at this time I'm going to ask
14 that the multi-page document, which are the company's
15 responses to a number of interrogatories propounded by the
16 Office of Trial Staff and the Office of Consumer Advocate,
17 be marked for identification as OTS Cross-Examination
18 Exhibit No. 10. May it be so identified?

19 JUDGE CHRISTIANSON: So identified, your No. 10, the
20 larger of the two you've handed out.

21 (Whereupon, the document was marked
22 as OTS Cross-Examination Exhibit No.
23 10 for identification.)

24 BY MR. SIMMS:

25 Q. Mr. Berish, could you take a few minutes and

1 review the document for the purposes of identifying whether
2 or not you are the person who sponsored the responses?

3 (Witness perusing document.)

4 A. Yes, sir. I am generally listed on -- depending
5 upon your question, there are some other witnesses listed
6 there, too.

7 Q. Well, I'm just going to have a few questions. I
8 assume that the responses are true and correct, are they
9 not?

10 A. Yes, sir.

11 Q. And you either sponsored or co-sponsored the
12 responses to the interrogatories?

13 A. Yes, I did.

14 Q. Let me just refer you to OTS-RE-5D Revised.

15 JUDGE CHRISTIANSON: That is a bit of the way through
16 the document.

17 THE WITNESS: Yes, sir, I have it.

18 BY MR. SIMMS:

19 Q. Am I correct that the changes that were made are
20 that the future test year wage increase for union and non-
21 union personnel is a change from 3.25 percent to 3 percent?
22 Is that correct?

23 A. Yes. The 3.25 percent was put in the response
24 in error. It should have been 3 percent.

25 Q. Now, with this change, is it necessary to adjust

1 the future test year payroll claim?

2 A. No, it is not.

3 JUDGE CHRISTIANSON: Maybe you can say why not.
4 Because the mistake wasn't carried or it just doesn't
5 matter?

6 THE WITNESS: The 3.25 was put on the response to the
7 interrogatory in error. It should have been 3 percent.

8 JUDGE CHRISTIANSON: So it was not an error that
9 carried into other stuff?

10 THE WITNESS: No, it was not.

11 BY MR. SIMMS:

12 Q. Just so I understand, the error is solely on
13 your response to OTS-5D; is that correct?

14 A. The original response to 5D, yes, sir.

15 Q. So when we look at your reference to D-10, Part
16 D, that in fact includes 3 percent?

17 A. That's right.

18 Q. Now, I believe from your documents, there is a
19 \$6.3 million wage increase for union employees and a \$5.5
20 million increase for non-union employees. Is that correct,
21 those numbers?

22 A. Where --

23 Q. I'm looking at reference II-D-10, or better yet,
24 let me look at your answer to OCA Interrogatory Set IV,
25 Question 63.

1 Do you have that before you?

2 A. Yes, sir, I do.

3 Q. My question to you: out of the \$413 million
4 that is set forth on the total wages, are the approximately
5 \$6.3 million wage increase for union employees and
6 approximately \$5.5 million wage increase for non-union
7 employees included in the \$413 million?

8 A. I'm not so sure of the specific amount, but
9 there is a 3 percent wage increase included in the \$413
10 million for both union and non-union employees.

11 MR. SIMMS: Thank you. That concludes my cross-
12 examination, Your Honor. I would ask that OTS Cross-
13 Examination Exhibit No. 9 and OTS Cross-Examination Exhibit
14 No. 10 be admitted into the record.

15 JUDGE CHRISTIANSON: Yes. I gather there is no
16 opposition. No. 9 and No. 10 are accepted.

17 (Whereupon, the documents marked as
18 OTS Cross-Examination Exhibits Nos.
19 9 and 10 were received in evidence.)

20 JUDGE CHRISTIANSON: I don't know if Judge Turner did
21 it, but we can probably agree that the utility can agree to
22 authenticity but not relevance necessarily of other
23 responses to interrogatories. So if this witness didn't
24 bless absolutely all of it, it's not a problem about being
25 authentic. Relevance is another problem.

1 MR. GADSDEN: I'm assuming -- and this has happened
2 on several prior occasions where cross-examination exhibits
3 have included multiple responses as to which the witness may
4 not have been asked any questions with regard to some of
5 those -- that it is anticipated that some witness presented
6 by the Trial Staff will be addressing those.

7 MR. SIMMS: Well --

8 MR. GADSDEN: My concern simply being -- and I don't
9 anticipate we'll have this problem -- my concern being that
10 we suddenly have to defend adjustments proposed for the
11 first time in brief.

12 MR. SIMMS: No. We will make whatever adjustment we
13 need to make. With respect to, for example, the company
14 response to OTS-RE-74D, the names listed on there are M.J.
15 Berish and T.L. Rosbaugh. Now, the only witness in this
16 case is Mr. Berish, so I have no way of authenticating this
17 exhibit through Mr. Rosbaugh.

18 JUDGE CHRISTIANSON: You don't want to bring this guy
19 just to authenticate a second area?

20 MR. SIMMS: That's correct. I assume that Mr.
21 Berish, being the first name, is the one who is primarily
22 responsible.

23 JUDGE CHRISTIANSON: You're quite right, counsel, but
24 I just said for the company, this stuff that comes in more
25 or less omnibus or en masse is for fair use. I don't expect

1 that people will be sneaking up on the company in reply
2 briefs or something like that.

3 MR. GADSDEN: Thank you, Your Honor.

4 JUDGE CHRISTIANSON: Just because it's in doesn't
5 mean it's fair to use it, but Mr. Simms has it in for a
6 reason I'm sure.

7 MR. SIMMS: Yes, Your Honor, to the extent that we
8 intend to make adjustments and rely upon the company
9 responses, they will be set forth in our direct testimony.

10 JUDGE CHRISTIANSON: Fine. Thank you. That's what I
11 wanted to hear.

12 MR. GADSDEN: Thank you, Mr. Simms.

13 JUDGE CHRISTIANSON: So those two are accepted into
14 the record. We'll move to Consumer Advocate cross.

15 MS. KENNEY: Thank you, Your Honor.

16 CROSS-EXAMINATION

17 BY MS. KENNEY:

18 Q. Good afternoon, Mr. Berish. My name is Mary
19 Kenney. I represent the Office of Consumer Advocate.

20 MS. KENNEY: I would like to have marked for
21 identification as OCA Cross-Examination Exhibit No. 9 the
22 company's response to OCA Interrogatory Set IX, No. 14.

23 JUDGE CHRISTIANSON: So identified. Go ahead and
24 hand them out.

25

1 (Whereupon, the document was marked
2 as OCA Cross-Examination Exhibit No.
3 9 for identification.)

4 JUDGE CHRISTIANSON: I just looked over my Order from
5 ten years ago. I had 100 numbered documents in that Order
6 without the company filing. I hope we don't go too much
7 beyond that here, but this is No. 9. I expect we'll
8 probably have a bigger record here than ten years ago just
9 because copy machines are working faster these days.

10 So this is identified as Cross-Examination Exhibit
11 No. 9 for Consumer Advocate. Not to mention fax machines.

12 BY MS. KENNEY:

13 Q. Mr. Berish, this exhibit shows the calculation
14 of the historic test year and the future test year amounts
15 for deferral and amortization of the refueling outage costs.
16 Over what time period will the costs of refueling outage for
17 Unit 2, Reload 7 be amortized?

18 A. Unit 2, Reload 7, the amortization will commence
19 at the end of the refueling outage and continue on until the
20 end of the next refueling outage, whenever that period would
21 be.

22 Q. Could you give me, when you say a time frame,
23 over what period of time that would be, when it would start
24 and when it would end?

25 A. I don't have that information right in front me

1 here, but surely I can provide it.

2 MS. KENNEY: I'd like to make that an on-the-record
3 data request, for the amortization period for the refueling
4 outage costs for Unit 2, Reload 7.

5 JUDGE CHRISTIANSON: That's clear enough; and again,
6 a data request is normally ten days or quicker, if you can.

7 THE WITNESS: That's an outage that we determined
8 plans to commence on 9/16/95 and ends on November 13, '95.
9 So it would start on November 13th or thereabouts and
10 continue on; and I don't know when the next refueling outage
11 is scheduled for that particular unit.

12 BY MS. KENNEY:

13 Q. So you will be providing me the time frame on
14 the amortization?

15 A. Yes, ma'am.

16 Q. Thank you. I'd like to refer you to page 3 of
17 Attachment II-D-1b of the company's filing requirements, and
18 I do have a copy of that available, if it would save time.

19 JUDGE CHRISTIANSON: Go ahead and give it to the
20 witness and those who think they need it.

21 BY MS. KENNEY:

22 Q. I'd like to refer you to page 3 of 4 of
23 Attachment II-D-1b. Are you familiar with this exhibit?

24 A. Yes, ma'am, I am.

25 Q. Would you agree that one of the factors cited

1 for the increase in miscellaneous O&M expenses from the
2 historic test year to the future test year is the inclusion
3 of change management training costs?

4 A. Yes, ma'am.

5 Q. Am I correct that the amount of change
6 management training costs included in the future test year
7 is \$850,000?

8 A. Yes, ma'am.

9 Q. Is this change management training a special,
10 new program?

11 A. It's a program dealing with basically the new
12 processes, computer type equipment that we plan on
13 introducing relative to our customer service organization.

14 Q. Is it a new program?

15 A. It's essentially a re-engineering of our
16 existing processes. I don't know that I'd call it a new
17 program. I think the terminology, "change management,"
18 basically meant that there would be a change and the people
19 that were affected by that change would have to be trained
20 to use whatever new equipment, new process changes would be
21 introduced.

22 Q. Has the company contracted for the training with
23 an outside agency or consultant?

24 (Pause.)

25 A. I don't know.

1 MS. KENNEY: I'd like to make an on-the-record data
2 request for the information of whether the company has
3 contracted for training with an outside agency or
4 consultant. If it is an outside agency, I'd like to know
5 who the outside agency is, the length of the contract, and
6 the total amount of the contract.

7 JUDGE CHRISTIANSON: This is a matter which might be
8 past and present as well as future. I don't know.

9 MS. KENNEY: That is one of my questions.

10 BY MS. KENNEY:

11 Q. Is this program, this change management program,
12 expected to be an ongoing training program or is a one-time
13 occurrence?

14 A. I don't know. I'll have to find that out.

15 MS. KENNEY: I would also include that in the on-the-
16 record data request. If it is not an outside agency or
17 consulting firm that is providing the training, I'd like to
18 request the basis for the estimated cost of \$850,000 and who
19 will be providing the training.

20 JUDGE CHRISTIANSON: Okay. They got the request and
21 they'll get back.

22 MS. KENNEY: Right. And if you require any
23 clarification, we'd be happy to discuss that.

24 JUDGE CHRISTIANSON: Yes.
25

1 BY MS. KENNEY:

2 Q. I'd like to now return to the issue of pension
3 costs. Mr. Berish, at the beginning of your testimony
4 today, you provided an update to the company's pension
5 costs.

6 What is the company's current pension expense claim
7 as a result of this update?

8 A. Subject to check, I believe the portion that
9 would go to expense relative to PUC jurisdictional customers
10 would be \$6,779,000, approximately.

11 Q. Now, you provided a revised response to OCA Set
12 IV, Question 102. Am I correct that that is the total 1995
13 projected pension cost?

14 A. That's right.

15 Q. And what you provided me now is the company's
16 claim in this proceeding for pension cost, the revised
17 claim?

18 A. Right. That total was \$11,867,000. The portion
19 applicable to expense accounts we would estimate to be
20 \$7,829,000. And based on the jurisdictional, the PUC
21 jurisdictional piece of that, it would be \$6,779,000.

22 Q. Now, referring to the voluntary early retirement
23 program, which is known as VERP, am I correct that \$55.4
24 million of the total cost of the VERP are associated with
25 the company's retirement or pension program?

1 A. Yes, ma'am.

2 Q. Am I also correct that the company is proposing
3 to recover VERP costs by amortizing them over five years?

4 A. Yes, ma'am.

5 Q. Would you agree that this results in recovery of
6 the \$55.4 million of pension-related costs at the rate of
7 approximately \$11.1 million per year?

8 A. If that's the 55 divided by 5, yes, I would
9 agree.

10 Q. When the company collects this money, what does
11 it intend to do with the funds?

12 A. I think the collection of this amount would
13 essentially go to offset some of the savings. In other
14 words, there is going to be a cost and there is also going
15 to be savings associated with the VERP. All it's saying is
16 if we can utilize a portion of the savings to pay the costs
17 of the VERP, the difference being passed on to the customer
18 through rates.

19 Q. If the VERP costs are included as part of the
20 company's pension expense under FAS-87, would you agree that
21 the company should not be allowed to amortize the separately
22 recovered \$55.4 million of pension-related costs?

23 A. Would you repeat that question, please?

24 Q. If VERP costs, the costs we were just
25 discussing, related to pension are included as part of the

1 company's pension expense under FAS-87, would you agree that
2 the company should not be allowed to amortize and separately
3 recover the \$55.4 million of pension-related costs?

4 A. They are not included as FAS-87 costs.

5 JUDGE CHRISTIANSON: He might be able to agree with
6 you, but he says factually it is not included.

7 BY MS. KENNEY:

8 Q. So the company has not revised its FAS-87 to
9 include the voluntary early retirement program costs?

10 A. The company has revised its FAS-87 pension
11 expense based on the number of active employees it has,
12 which now reflects the people that are going as a result of
13 the voluntary early retirement program.

14 The provision of FAS-87, our normal pensions costs,
15 is that an employee would get 100 percent of their normal
16 pension credit at age 62. If they retire any earlier than
17 that -- for example, age 65 -- they would get a lower
18 percentage, 55 percent of whatever their pension credit is
19 at that point in time.

20 The only thing the 55 million did was it resulted in
21 an unreduced pension amount, so that that 55 percent in the
22 example that we're working with was taken up to 100 percent.
23 It was supplementing the FAS-87 pension calculation.

24 Q. If the company is separately recovering the
25 \$55.4 million of pension-related costs as part of the VERP,

1 would you agree that that \$55.4 million would be available
2 and should be used to fund the contributions to the pension
3 fund when they are required?

4 A. Can I have that again?

5 JUDGE CHRISTIANSON: Let me try to understand it
6 myself. Is this a special fund that you don't use regular
7 retirement funding for the special programs?

8 THE WITNESS: It's an amount that has been
9 established in the pension calculation to fund the payment
10 of pension for the life of the employees that have
11 volunteered to take the early retirement program. In the
12 case of an employee that takes the early retirement before
13 age 62, they do not have to accept a reduced portion of
14 their pension costs. They now would get 100 percent of
15 their pension credit.

16 JUDGE CHRISTIANSON: You might call this sort of a
17 sweetener? Is that independent of your regular pension
18 system?

19 THE WITNESS: Yes.

20 JUDGE CHRISTIANSON: Okay. Go ahead. We can call it
21 a sweetener if that helps the terminology.

22 MS. KENNEY: Okay.

23 BY MS. KENNEY:

24 Q. That \$55.4 million that is being collected as
25 part of the pension expense component of the VERP, am I

1 correct that what that \$55.4 million relates to is to
2 pension expense costs?

3 A. It is to provide them with an unreduced pension
4 benefit which they otherwise would have had to have accepted
5 if they retire prior to age 62.

6 Q. My question is: would those funds be available
7 to be used as contributions to the pension plan when they
8 are required, once the company is required to make a cash
9 contribution to the pension fund?

10 JUDGE CHRISTIANSON: If you can, try to say yes or no
11 and explain. I think she might be trying to compare apples
12 to oranges sort of as far as you view it.

13 THE WITNESS: Yes. I don't know. I don't quite
14 understand your question.

15 JUDGE CHRISTIANSON: Conceptually for him, the \$55.4
16 million is something independent. It is a special shot.

17 BY MS. KENNEY:

18 Q. The \$55.4 million cannot be considered part of
19 the company's -- to your understanding, it is not part of
20 the company's pension-related expense related to those
21 employees?

22 A. I thought I had you until the last part of your
23 sentence, and then it confused me again.

24 Q. Am I correct that the pension expense that we're
25 talking about, the \$55.4 million, is a separate payment that

1 is to be made to these employees that retire early --

2 JUDGE CHRISTIANSON: The funding for a series of --

3 BY MS. KENNEY:

4 Q. -- to compensate for the fact that they have
5 retired early instead of retiring at the normal age as
6 required by the pension plan? Is that correct?

7 A. Yes, I think so.

8 JUDGE CHRISTIANSON: And I think it is paid out so it
9 wouldn't fit into the rest that they otherwise would get.

10 BY MS. KENNEY:

11 Q. Do you know what PP&L's allowed pension expense
12 was in the last rate case?

13 A. No, I do not.

14 MS. KENNEY: Can I make that an on-the-record data
15 request? We have attempted to locate that information and
16 have been unable to.

17 THE WITNESS: Sure.

18 JUDGE CHRISTIANSON: As filed by the company or as
19 determined by the Commission?

20 MS. KENNEY: As determined by the Commission.

21 JUDGE CHRISTIANSON: If you can find it. If you
22 can't find it, maybe the company can't either.

23 MS. KENNEY: Well, I would imagine that the company
24 should know what they've been recovering for pension in
25 rates.

1 JUDGE CHRISTIANSON: Yes, they should. So what was
2 associated with the Commission Order. And if you can't find
3 it there, you'd find it in your filing, but do the best you
4 can to determine what the ongoing number has been.

5 BY MS. KENNEY:

6 Q. Mr. Berish, I'm going to turn to the issue of
7 environmental remediation costs and refer you to Exhibit
8 D-16 of the Future Exhibit 1. I have a copy of that, if
9 that would help.

10 JUDGE CHRISTIANSON: While you're doing that, I'll
11 just mention we don't have Cross-Examination Exhibit No. 9
12 in the record yet. We can wait on it, but I thought I'd
13 just mention it.

14 MS. KENNEY: Okay. I would move it in at this time.

15 JUDGE CHRISTIANSON: Is there any trouble with No. 9?
16 (No response.)

17 THE WITNESS: Yes, ma'am, I have it.

18 JUDGE CHRISTIANSON: In any case, No. 9 is accepted
19 into the record subject to the standard conditions.

20 MR. GADSDEN: No objection.

21 JUDGE CHRISTIANSON: Fine.

22 (Whereupon, the document marked as
23 OCA Cross-Examination Exhibit No. 9
24 was received in evidence.)

25 JUDGE CHRISTIANSON: Then we'll go ahead with the

1 next topic.

2 BY MS. KENNEY:

3 Q. Referring to Schedule D-16 of Exhibit Future 1,
4 am I correct that this indicates that the company is seeking
5 a total allowance for environmental remediation expense of
6 \$5.4 million?

7 A. Yes, ma'am, that's correct.

8 Q. Is the reason that an increase in expense is
9 shown on this schedule is because the budget for the October
10 through December, 1994 portion of the test year did not
11 include any allowance for environmental remediation costs?

12 A. The amount shown here in the budget, in the test
13 year budget, which encompassed the period for this rate
14 filing of January 1st, 1995 until September 30th, 1995, had
15 an amount in the budget which would be equivalent to \$5.4
16 million on an annualized basis. That period of time,
17 January through September, the expense that was budgeted was
18 \$4,050,000.

19 The adjustment here is to in effect annualize that
20 portion of the year.

21 Q. Because for the period October through December,
22 1994, there was no allowance for environmental remediation
23 costs included in the budget; is that correct?

24 A. That's right.

25 Q. So an addition of \$1,350,000 was added for those

1 three months?

2 A. Yes.

3 Q. Would you agree or accept subject to check that
4 this budget level of expense of \$5.4 million for the future
5 test year equates to an average expenditure of \$450,000 per
6 month?

7 A. I'll accept that subject to check.

8 MS. KENNEY: I'd like to have marked for
9 identification as OCA Cross-Examination Exhibit No. 10 the
10 company's response to OCA Set IV, No. 99, which was
11 sponsored by Mr. Berish and Mr. Bernini.

12 JUDGE CHRISTIANSON: So identified, IV-99.

13 (Whereupon, the document was marked
14 as OCA Cross-Examination Exhibit No.
15 10 for identification.)

16 BY MS. KENNEY:

17 Q. Mr. Berish, are you familiar with the
18 information contained in OCA Cross-Examination Exhibit No.
19 10?

20 A. Yes, ma'am.

21 MS. KENNEY: I think as everyone will note, the pages
22 are out of order in this. It goes Attachment 2 and then
23 Attachment 1.

24 BY MS. KENNEY:

25 Q. Keeping that in mind, am I correct that

1 Attachment 1 to this response shows the company's actual
2 environmental remediation expenses for the historic test
3 year and that Attachment 2 shows the first three months
4 environmental remediation expenses of the future test year?

5 A. That's right.

6 Q. During the historic test year, the total
7 expenditure is \$1,450,854. Would you agree or accept
8 subject to check that this represents an average monthly
9 expenditure of around \$121,000?

10 A. I'll agree subject to check.

11 Q. For the first three months of the future test
12 year, the total expenditures were \$454,629. Would you agree
13 or accept subject to check that this equals approximately
14 \$151,000 per month?

15 A. I'll agree subject to check.

16 Q. Do you know what the actual expenditures for
17 environmental remediation were in January and February of
18 1995?

19 A. I don't have that information with me, but we
20 can provide it if you would care.

21 MS. KENNEY: I would like to ask for that as an on-
22 the-record data request.

23 JUDGE CHRISTIANSON: Just January. I guess you don't
24 have February yet.

25 MS. KENNEY: January and February, if that

1 information is available. And we would ask that it be
2 updated through the proceeding.

3 BY MS. KENNEY:

4 Q. Mr. Berish, I have some questions regarding
5 nuclear O&M expenses. These may be more appropriately
6 referred to Mr. Bernini. So if it is proper to defer these
7 questions, just let me know.

8 What level of funding is PP&L currently reflecting
9 for decommissioning?

10 A. That would be more appropriately Mr. Bernini.

11 MS. KENNEY: Your Honor, at this time I would like to
12 mark for identification as OCA Cross-Examination Exhibit No.
13 11 the company's responses to OCA Set I, No. 17, Set I, No.
14 18, and Set I, No. 39. I would note that Mr. Berish is the
15 co-sponsor of OCA Set I, No. 17 with a Mr. G.T. Jones, and
16 that Mr. Jones was responsible for the other responses.

17 JUDGE CHRISTIANSON: Okay. But again, there is no
18 trouble about them being authentic, just that the witness
19 knows about the information. So marked.

20 (Whereupon, the document was marked
21 as OCA Cross-Examination Exhibit No.
22 11 for identification.)

23 (Document handed to Judge Christianson by Counsel
24 Moury.)

25 JUDGE CHRISTIANSON: Thank you. You're a credit to

1 your office. Bernie always hands things up.

2 MS. KENNEY: As always, the OCA would like to thank
3 the Office of Small Business Advocate for their able
4 assistance throughout the proceeding.

5 JUDGE CHRISTIANSON: Her boss has longer arms, but
6 she does the work well enough.

7 BY MS. KENNEY:

8 Q. Mr. Berish, are you familiar with the
9 information provided in OCA Cross-Examination Exhibit No.
10 11?

11 A. Would you repeat that?

12 Q. Are you familiar with the information provided
13 in the interrogatory responses contained in OCA Cross-
14 Examination Exhibit No. 11?

15 A. OCA --

16 Q. This is the one I just handed to you, Cross-
17 Examination Exhibit No. 11.

18 A. I was looking at Question 17, and that's where
19 you confused me. I've got it.

20 Q. Okay. I note that you are a co-sponsor of OCA
21 Set I, No. 17 with a G.T. Jones. Who is G.T. Jones?

22 A. George T. Jones is Vice-President and, subject
23 to check, Vice-President of Nuclear Engineering.

24 Q. Am I correct he has not been named or called as
25 a witness by the company in this proceeding?

1 A. That is correct.

2 Q. Are you familiar with the information contained
3 in the interrogatory responses attached to the OCA Cross-
4 Examination Exhibit No. 11, which were provided by Mr.
5 Jones?

6 A. I'm familiar that the number of employees that
7 are shown here applicable to the Nuclear Department are
8 correct.

9 Q. I'd like to refer you to pages 1 and 2 of OCA
10 Cross-Examination Exhibit No. 11, the responses to OCA Set
11 I, No. 17 and to OCA Set I, No. 18.

12 Would you accept subject to check that between 1994
13 and 1995, the number of full-time personnel assigned to the
14 Nuclear Department increased by approximately 187 employees?

15 A. Yes. There was a transfer into the Nuclear
16 Department from one of our other groups.

17 Q. Also during that time, am I correct that the
18 number of contract employees in the Nuclear Department
19 increased by 66 contractors or 66 contract employees?

20 JUDGE CHRISTIANSON: Are you taking 156 from 212?

21 MS. KENNEY: Yes.

22 THE WITNESS: Within the nuclear organization, yes.

23 BY MS. KENNEY:

24 Q. What are the reasons for this increase in
25 personnel by over 250 people in one year in this department?

1 A. I don't know why the increase in the
2 contractors. The increase in the employees was due to a
3 transfer of a number of physical workers which formerly had
4 been in what we call our Construction Department, and those
5 employees were moved to our Nuclear Department.

6 Q. I'd like to refer you to the third page of OCA
7 Cross-Examination Exhibit No. 11, your response to OCA Set
8 I, No. 39.

9 Has the effect of a change to a 24-month operating
10 cycle as opposed to the current 18-month operating cycle
11 been factored into the company's O&M claim?

12 A. I believe the information that has been factored
13 into the claim is basically the 18-month cycle. That is the
14 refueling cycle that we're currently operating under.

15 JUDGE CHRISTIANSON: This response says, "currently
16 studying," so I guess you haven't worked out the detail that
17 you need for a projection yet.

18 BY MS. KENNEY:

19 Q. If a change to a 24-month operating cycle is
20 made, would that reduce expected O&M costs?

21 JUDGE CHRISTIANSON: You might have to be a nuclear
22 expert to answer that.

23 THE WITNESS: Yes. The outages would be further.
24 They would be spaced on a two-year interval, but I believe,
25 subject to check, they would be longer outages. So I'm not

1 sure if the cost would increase or decrease.

2 MS. KENNEY: Your Honor, may I just have a moment?

3 JUDGE CHRISTIANSON: Yes. We can pause.

4 (Pause.)

5 MS. KENNEY: Thank you, Your Honor. Your Honor, that
6 is all the cross I have for Mr. Berish. I would like to
7 move into evidence OCA Cross-Examination Exhibits 10 and 11.

8 JUDGE CHRISTIANSON: Any objection to those last
9 exhibits?

10 MS. KENNEY: And I would just like to note, regarding
11 Mr. Jones, he has answered a number of interrogatories in
12 this proceeding, and the OCA and the company are discussing
13 the submission of selected interrogatory responses in lieu
14 of calling Mr. Jones as a witness. We will be probably
15 discussing that further this week.

16 JUDGE CHRISTIANSON: Okay. You need more information
17 in this area from the company?

18 MS. KENNEY: Yes.

19 JUDGE CHRISTIANSON: That's noted. It probably will
20 be worked out by the parties. I hear no objection to 10 and
21 11, and those two are accepted into the record. Nine we
22 already got.

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1 (Whereupon, the documents marked as
2 OCA Cross-Examination Exhibits Nos.
3 10 and 11 were received in
4 evidence.)

5 JUDGE CHRISTIANSON: We might as well go ahead with
6 the witness. We probably want to break fairly soon. As Mr.
7 DeCusatis will authenticate, we had trouble last week in the
8 water case. We broke for lunch shortly after 3:00. So I
9 don't want to do that again today.

10 Does Small Business have something for the witness?

11 MS. MOURY: I have no questions, Your Honor.

12 JUDGE CHRISTIANSON: Mr. Kleppinger?

13 MR. KLEPPINGER: Just a couple follow-up questions.

14 CROSS-EXAMINATION

15 BY MR. KLEPPINGER:

16 Q. Good afternoon, Mr. Berish.

17 A. Good afternoon, Mr. Kleppinger.

18 Q. My questions relate to the voluntary early
19 retirement program. If I understand the update that has
20 been provided on the actual numbers now for that program,
21 the total VERP expense is now \$75.8 million? And that is
22 from OCA Set IV, No. 75.

23 A. Yes, sir, you're correct.

24 Q. Now, if I understand that interrogatory
25 correctly, the lump sum payment amount is \$18.9 or almost

1 \$19 million; is that correct?

2 A. That's correct.

3 Q. Now, is that the cash expenditure that PP&L was
4 required to make in the future test year for the initial
5 lump sum payments to the people that took the program?

6 A. Yes.

7 Q. So that would be actually paid out in the future
8 test year in this case?

9 A. That was based on one week's salary for each
10 year of service; yes, sir.

11 Q. And Attachment 2 to OCA Set IV, No. 75 provides
12 a calculation of the wage savings associated with the
13 voluntary early retirement program; correct?

14 A. Yes, sir.

15 Q. Would I read that correctly that the net savings
16 to expense would total approximately \$28 million?

17 A. Yes, sir, that's correct.

18 Q. Of that \$28 million -- that's an annual number,
19 I guess; is that correct?

20 A. Yes.

21 Q. So that in the future test year, 9/12ths of
22 that, namely from January 1, '95 to September 30, '95, would
23 actually be experienced in the future test year; is that
24 right?

25 A. Yes. That would be the portion that normally

1 you would see in the period January 1 through September 30,
2 approximately.

3 Q. Would you agree with me that if we were to take
4 9/12ths of that \$27.9 million, that that level of savings
5 would more than offset the \$18.9 million in lump sum
6 payments being made in the future test year?

7 A. I haven't calculated what that would be.

8 Q. Would you accept that subject to check; that
9 9/12th of \$27.9 million is greater than \$18.9 million?

10 A. I'll accept it subject to check.

11 MR. KLEPPINGER: Thank you. I have nothing further,
12 Your Honor.

13 JUDGE CHRISTIANSON: Okay. I didn't bring my
14 calculator with me today either.

15 I assume we're done with cross for the witness then
16 at this point. Let's be off the record briefly.

17 (Discussion off the record.)

18 JUDGE CHRISTIANSON: We're back on the record.

19 I understand there is some redirect, and you may
20 proceed.

21 MR. GADSDEN: A question or two, Your Honor, by way
22 of clarification.

23 REDIRECT EXAMINATION

24 BY MR. GADSDEN:

25 Q. Mr. Berish, during your cross-examination by

1 Mr. Simms, you were referred to the company's response to
2 OCA Interrogatory Set IV, No. 63, which is contained in what
3 has been admitted as Office of Trial Staff Cross-Examination
4 Exhibit No. 10. Do you recall that?

5 A. Yes, sir.

6 Q. You were specifically asked whether the
7 3 percent union and non-union future test year wage
8 increases were reflected in the data set forth in the
9 company's response to Question 63, and you indicated that it
10 was.

11 Are those wage increases reflected on an annualized
12 basis or on an pro rate basis?

13 A. On a pro rata basis. In that same set of
14 interrogatories is contained OTS-RE-5D of the Office of
15 Trial Staff, and in there it shows that the 3 percent non-
16 union wage increase was effective or estimated to be
17 effective February 27, 1995, and the union 3 percent
18 increase effective May 22, 1995.

19 Q. So the figures shown in response to OCA Set IV,
20 No. 63 would only reflect the impact of those wage increases
21 during the period of the future test year in which they were
22 in effect?

23 A. Yes, sir.

24 MR. GADSDEN: That's all we have, Your Honor.

25 JUDGE CHRISTIANSON: Any follow-up?

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MR. SIMMS: No questions, Your Honor.

JUDGE CHRISTIANSON: Then we seem to be done with the witness, and the witness is excused.

(Witness excused.)

JUDGE CHRISTIANSON: I suggest that we go ahead and have lunch. At this point, let's be off the record.

(Whereupon, at 12:48 p.m., the hearing was adjourned, to be reconvened at 2:00 p.m., this same day.)

AFTERNOON SESSION

(2:05 p.m.)

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

I gather that we have at least one more witness for today, and the company may proceed.

MR. GADSDEN: Thank you, Your Honor.

The company calls as its final witness for today Mr. Bernini.

Whereupon,

RONALD J. BERNINI

having been duly sworn, testified as follows:

JUDGE CHRISTIANSON: Proceed.

DIRECT EXAMINATION

BY MR. GADSDEN:

Q. Mr. Bernini, would you please state your full name for the record and spell your last name, please?

A. My name is Ronald J. Bernini, B-E-R-N-I-N-I.

MR. GADSDEN: Your Honor, Mr. Bernini will be sponsoring testimony this afternoon as well as portions of exhibits which have previously been identified.

His testimony, however, is not, and I would therefore ask at this time that a multi-page document styled, "Direct Testimony of Ronald J. Bernini" be marked as Pennsylvania Power & Light Company Statement No. 3.

1 JUDGE CHRISTIANSON: So identified, your Statement 3.
2 (Whereupon, the document was marked as PP&L
3 Statement No. 3 for identification.)

4 BY MR. GADSDEN:

5 Q. Mr. Bernini, do you have a copy of the document
6 which has been identified as Statement No. 3?

7 A. I do.

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

10 A. It was.

11 Q. Are there any corrections or revisions to
12 Statement No. 3 that need to be brought to our attention?

13 A. I have one change to make on page 10, line 14.
14 The 42 days shown there for customers with 20-day due dates
15 should be changed to 40 days.

16 Q. With that revision, if I were to ask you the
17 questions set forth in Statement No. 3 today, would your
18 answers be as contained therein?

19 A. They would.

20 Q. And would they be true and correct to the best
21 of your knowledge?

22 A. They would.

23 Q. Mr. Bernini, am I correct that you are
24 co-sponsoring PP&L Exhibit 1, PP&L Exhibit Historic 1 and
25 PP&L Exhibit Future 1?

1 A. That's correct.

2 Q. With respect to the data contained in those
3 exhibits relating to various rate base and/or expense claims
4 made by the company in this case, are there any updates or
5 revisions that you would like to make at this time?

6 A. There are.

7 Q. Please proceed.

8 A. The first change that I would like to note will
9 affect both Historic and Future 1. It's Schedule C-4, page
10 2. The correction is to change the lag between the billing
11 date and payment applicable to 20-day due date customers
12 from 24 days to 22 days.

13 This information is provided in response to Question
14 OTS-RE-19D, the interrogatories of the Office of Trial Staff
15 dated January 13, 1995.

16 The second change again will affect Historic 1 and
17 Exhibit Future 1. It relates to Schedule C-4, page 3, and
18 this correction is in the column headed, "PUC Annual
19 Assessment," to reflect the unamortized balance which
20 existed at the end of each month.

21 Through an error on my part, I forgot to list those
22 unamortized balances. The information was provided in
23 Attachment 1 to the response to Question OTS-RE-28D, the
24 interrogatories of the Office of Trial Staff dated January
25 13, 1995.

1 The third change again will affect both Historic 1
2 and Exhibit Future 1. It relates to Schedule D-10, and Mr.
3 Berish this morning indicated the changes which would occur
4 in that schedule.

5 But for the record, the information is provided in
6 response to Question 75 of the interrogatories of the Office
7 of Consumer Advocate, Set IV, dated February 1, 1995.

8 The fourth change again will reflect both the Exhibit
9 Historic 1 and Exhibit Future 1. It relates to Schedule
10 D-11, pages 2 through 6.

11 It corrects the decommissioning in 1994 dollars for
12 our fossil fuel plants to agree with the cost of
13 decommissioning set forth in Exhibit TSL-1.

14 The information that I utilized in the development of
15 that schedule was preliminary. The final information was
16 provided by TLG Services, and this information is provided
17 on page 7-2 of Exhibit TSL-1, which is the dismantling cost
18 study.

19 The fifth change again will affect Exhibits Historic
20 1 and Future 1. It relates to Schedule D-14. This is the
21 amortization for the early window deferrals.

22 In the initial filing, I neglected to reflect the
23 higher income taxes which were incurred because of the costs
24 incurred during the window period.

25 The amount of the income tax is set forth in

1 Footnote A to the response to Question OTS-RE-12D, the
2 interrogatories of the Office of Trial Staff dated January
3 13, 1995.

4 And the final change again will impact both Exhibit
5 Historic 1 and Exhibit Future 1, Schedule D-15. It's a
6 correction of the amounts applicable to each of the social
7 programs set forth therein. The total won't change, just
8 the allocation amongst the programs.

9 The information is provided in response to Question
10 97 of the interrogatories of the Office of Consumer
11 Advocate, Set IV, dated February 1, 1995.

12 That summarizes all the changes that I'm aware of.

13 Q. Mr. Bernini, would it be your intention to
14 reflect those changes and revisions in the company's final
15 accounting exhibit to be submitted during the rebuttal phase
16 of this case?

17 A. That is correct. We will supply a Revised
18 Future 1, incorporating those changes.

19 Q. But in the interim, if the parties wish to get
20 an understanding of the quantification of those changes,
21 they could simply go to the answers to the interrogatories
22 which you referred to?

23 A. That's correct.

24 Q. Mr. Bernini, with those revisions noted and
25 limiting yourself to those areas of the exhibits for which

1 you are responsible, is the data contained in Exhibit
2 PP&L-1, Exhibit Historic 1 and Exhibit Future 1 true and
3 correct to the best of your knowledge?

4 A. It is.

5 MR. GADSDEN: Your Honor, at this time, I would ask
6 that Mr. Bernini's Statement No. 3 be admitted to the record
7 subject to the standard qualifications.

8 JUDGE CHRISTIANSON: Yes. This is now accepted into
9 the record.

10 (Whereupon, the document marked as PP&L
11 Statement No. 3 was received in evidence.)

12 MR. GADSDEN: And Mr. Bernini is available for
13 cross-examination.

14 JUDGE CHRISTIANSON: Once again, we can start with
15 Staff, unless somebody has questions about his changes.

16 (No response.)

17 JUDGE CHRISTIANSON: Everybody's okay for the moment.
18 Go ahead if you're ready to cross.

19 MR. SIMMS: Thank you, Your Honor.

20 CROSS-EXAMINATION

21 BY MR. SIMMS:

22 Q. Good afternoon, Mr. Bernini.

23 A. Good afternoon.

24 Q. My name is Johnnie Simms. I'm with the Office
25 of Trial Staff in this proceeding.

1 Your last correction, you made a reference to social
2 programs, did you not?

3 A. I did.

4 Q. Would I not be correct that you are the
5 principal witness in respect to tax matters in this
6 particular proceeding for the company?

7 A. That is correct.

8 Q. One of the programs that the company is seeking
9 to have implemented in this proceeding is a social program
10 dealing with neighborhood assistance; do you recall that?

11 (No response.)

12 Q. Build a Neighborhood Program?

13 A. Okay, set forth on D-15?

14 Q. Yes. Do you recall that?

15 A. Yes.

16 Q. As a tax witness in this case, if the Commission
17 approves the Build a Neighborhood Program, does the company
18 intend to seek tax recognition through the neighborhood
19 assistance tax credit?

20 A. If that would come under that portion of the tax
21 regulation, I would say yes.

22 Q. So whatever contribution the company makes to
23 the Build a Neighborhood Program, the company will seek tax
24 credit recognition through the Commonwealth regulations; is
25 that correct?

1 A. Again, subject to check, I would say that if in
2 fact the company does make this expenditure in the expenses,
3 that it would become a tax deduction.

4 Q. Thank you.

5 MR. SIMMS: Your Honor, at this time, I'm going to
6 ask that the company's response to OTS-RE-12D, OTS-RE-6D,
7 OCA Set IV, Question 74, OTS-RE-7D, OTS-RE-13D and OCA Set
8 IV, Question 99 be marked for identification as OTS Cross-
9 Examination Exhibit No. 11. May it be so identified?

10 JUDGE CHRISTIANSON: Yes, your No. 11.

11 (Whereupon, the document was marked as OTS
12 Cross-Examination Exhibit No. 11 for
13 identification.)

14 BY MR. SIMMS:

15 Q. I'd like to refer you to your response to
16 OTS-RE-12D. Do you have that before you, sir?

17 A. Yes.

18 Q. Am I correct that this is your response which
19 addresses the company's early window expense claims for
20 Susquehanna Units 1 and 2?

21 A. That is correct.

22 Q. Am I correct that these early window claims
23 represent those costs incurred between the unit's commercial
24 operation date and the date you received rate recognition?

25 A. That is correct.

1 Q. Now, Unit 1 went into service on June 8, 1983
2 and was recognized in rates effective August 27, 1983; is
3 that correct?

4 A. Correct.

5 Q. Now, the company's base rate case was filed on
6 July 27, 1984. Did the company make a claim for the Unit 1
7 early window expenses in that case?

8 A. They did not.

9 Q. Now, Unit 2 went into service on February 12,
10 1985 and was recognized in rates effective April 26, 1985;
11 is this correct?

12 A. That's correct.

13 Q. Has PP&L made any type of filing with this
14 Commission to recover these early window expenses between
15 April 26, 1985 and the filing date of this base rate case?

16 A. Have we made a filing to recover these?

17 Q. Yes.

18 A. We have not.

19 Q. Let me now refer you to the next interrogatory,
20 OTS-RD-6D. Do you have that before you?

21 A. Okay.

22 Q. In this response, you make a reference to the
23 Pennsylvania Supreme Court review of the Commonwealth
24 Court's decision; do you not?

25 A. I do.

1 Q. Has there been any determination or decision in
2 the Supreme Court case, to the best of your knowledge?

3 A. To the best of my knowledge, the Supreme Court
4 has not yet ruled as to whether or not it will review the
5 Commonwealth case.

6 Q. Now, I'd like to show you and have you look at
7 OCA Interrogatory Set IV, Question 74. Do you have that
8 before you?

9 A. I do.

10 Q. Have you calculated what the interest rate would
11 be for 1995?

12 A. I have not calculated that interest rate, but I
13 believe in a response to another interrogatory -- and if
14 you'll bear with me, I might be able to --

15 (Pause.)

16 A. I believe that was provided in a response to
17 another interrogatory that was sponsored by Mr. Ollie
18 Kasper. I don't have that available at the moment.

19 Q. Let me ask you this question here. Would you
20 accept subject to check that when you average the average
21 one-year Treasury bill rate for September, October and
22 November, you get a rate of 5.77 percent?

23 A. Subject to check, that I believe is correct.

24 Q. Now, we referenced that with Company Exhibit
25 Future Test Year 1, Schedule D-9. If you substitute -- do

1 you have that before you?

2 A. Yes.

3 Q. If we substitute the 5.77 percent in this
4 schedule, the expense would be approximately \$64,000,
5 correct?

6 A. Subject to check, I'll accept that.

7 Q. Let me now refer you to your response to
8 OTS-RE-7D, which relates to rate case expense.

9 I assume that you intend to update this information
10 or this interrogatory response in the rebuttal phase of the
11 case; is that correct?

12 A. Yes, that's correct.

13 Incidentally, I did find that interrogatory I was
14 referring to. It's OCA Set IX, Question No. 20, I believe
15 it is. I think that sets forth the percent.

16 Q. OCA Set --

17 A. OCA Set IX, Question 20, I believe, sets forth
18 the interest rate that was calculated by Mr. Kasper.

19 Q. Let me now refer you to the company response to
20 OTS-RE-13D, and I'll also have you reference the company's
21 Exhibit Future Test Year 1, Schedule D-16.

22 A. Yes.

23 Q. Now, here the company has claimed \$5.4 million
24 for the environmental remediation program which is intended
25 to proactively reduce the environmental liabilities that

1 resulted from standard past practices at operating
2 facilities; is that correct?

3 A. That's correct.

4 Q. Would I be correct that the \$5.4 million claim
5 is based on estimates of potential future costs?

6 A. That is correct. And by "future costs," I think
7 these are expenditures that the company will actually make
8 when the consent decree with the Department of Environmental
9 Resources is finalized.

10 Q. Do you know when that will be finalized?

11 A. I think before these proceedings are over, I
12 think it would be safe to say, probably in April.

13 Q. Let me now refer you to the company response to
14 OCA Set IV, Question 99. Do you have that before you?

15 A. Yes, I do.

16 Q. Now, this response provides a breakdown of the
17 actual environmental remediation expenditures in each month
18 of the historic and future test year through December, 1994;
19 does it not?

20 A. It does.

21 Q. Now, the Attachment 1 to this response indicates
22 that the actual expenditures for the historic test year were
23 \$1,451,000, correct?

24 A. That is correct.

25 Q. And that the largest expenditure for the 12

1 months was in September, 1994, which totaled \$225,651,
2 correct?

3 A. That is correct.

4 Q. Now, as a part of your update in the rebuttal
5 phase of the case, will you provide us an update of the
6 actual expenditures for January and February of 1995?

7 A. We can provide that.

8 MR. SIMMS: I'd like to make that an on-the-record
9 data request.

10 JUDGE CHRISTIANSON: Do you want it ahead of time, or
11 do you want to wait?

12 MR. SIMMS: No, I'd like it ahead of time.

13 JUDGE CHRISTIANSON: Ahead of time, within ten days?

14 MR. SIMMS: That's correct.

15 MR. GADSDEN: I think we've already accepted that as
16 an on-the-record data request from the OCA during their
17 cross of Mr. Berish, but we will make sure all parties get
18 the response.

19 JUDGE CHRISTIANSON: I guess generally, on data
20 requests, try to copy all those present when the request was
21 made, more or less.

22 MR. GADSDEN: Okay.

23 MR. SIMMS: Your Honor, at this time, I would like to
24 have the company's response to OTS-RE-19D, OTS-RE-20D,
25 OTS-RE-21, OTS-RE-28, OTS-RE-32, OTS-RE-29 and OTS-RE-97 be

1 marked for identification as OTS Cross-Examination Exhibit
2 No. 12. May it be so identified?

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

4 (Whereupon, the document was marked as OTS
5 Cross-Examination Exhibit No. 12 for
6 identification.)

7 BY MR. SIMMS:

8 Q. Do you have that before you, sir?

9 A. I do.

10 Q. I believe in your direct examination, you
11 already indicated and made the necessary corrections
12 pursuant to your response to OTS-RE-19D, correct?

13 A. That's correct.

14 Q. Let me refer you now to OTS-RE-20D.

15 MR. SIMMS: May I have a brief moment, Your Honor?

16 JUDGE CHRISTIANSON: Yes, we can pause.

17 (Pause.)

18 MR. SIMMS: I'm ready, Your Honor.

19 JUDGE CHRISTIANSON: Go ahead.

20 BY MR. SIMMS:

21 Q. Let me also refer you to Schedule C-4, historic
22 test year, page 2, lines 9 and 10.

23 A. Yes.

24 Q. Am I correct that the payroll expense amounts
25 shown on Exhibit Historic 1, Schedule C-4, page 2, lines 9

1 and 10 represent gross payroll?

2 A. That is correct.

3 Q. Now, it is my understanding from your response
4 to our interrogatory that the company does not have a system
5 which tracks wages charged to expense based on payroll net
6 of withholding; is that correct?

7 A. That is correct.

8 Q. Now, as I understand it, the way the payroll and
9 withholding operates, a typical company employee on payday
10 receives his or her net pay, correct?

11 A. That is correct.

12 Q. Now, this same employee's FICA withholdings and
13 federal withholding taxes are deposited one to three days
14 after that payday, correct?

15 A. It's usually the next day.

16 Q. So wouldn't there be a greater lag for FICA
17 withholding and federal withholding taxes?

18 A. That is correct. It would be a smaller
19 percentage or a small percentage of that amount, and at most
20 would add a day to the lag.

21 Q. Now, if I could refer you to your response to
22 OTS-RE-21D?

23 A. Yes.

24 Q. And also to C-4, page 4, historic test year, do
25 you have that -- I'm sorry, page 3.

1 A. Yes.

2 Q. Now, reviewing the page 3, I notice there is a
3 large increase in the monthly balances for "Other" in March.
4 Do you see that?

5 A. I do.

6 Q. In fact, in comparison to the other months,
7 March has an unusually large balance, correct?

8 A. It does.

9 Q. Am I not correct that a large percentage of the
10 March figure is related to interest and dividends?

11 A. That is correct.

12 Q. And interest and dividends are below-the-line
13 expenses, correct?

14 A. That is correct.

15 Q. Is there any other reason which would justify
16 this large increase for the month of March that you know
17 about?

18 A. Excuse me, by "below-the-line expenses," you
19 mean before deductions for interest and dividends?

20 Q. That's correct.

21 A. Okay.

22 Q. Is there any other reason to support this large
23 figure for the month of March, to the best of your
24 knowledge, any other factors?

25 A. No. I think you've isolated two of the main

1 factors.

2 Q. Now, I believe, if you look at the company
3 response to RE-28D, you have addressed that in your direct
4 testimony, have you not, and made that necessary correction?

5 A. That is correct.

6 Q. Let me now refer you to the company response to
7 RE-32D. Do you have that before you?

8 A. I do.

9 Q. If you look at Paragraph B of your response, you
10 make a statement in the next to last sentence, "minimum
11 required supply." Do you see that?

12 A. I do.

13 Q. Is this amount determined by the company or by
14 the Postal Service?

15 A. I don't know.

16 MR. SIMMS: I'd like to make an on-the-record data
17 request for that information.

18 JUDGE CHRISTIANSON: As to who sets the minimum?

19 MR. SIMMS: Yes, that's correct.

20 JUDGE CHRISTIANSON: Maybe it's a mechanical thing,
21 who knows.

22 THE WITNESS: I would assume, subject to check -- and
23 if it is correct, we would not have to provide that data
24 request -- that this is probably at the company's option as
25 to when they want to --

1 JUDGE CHRISTIANSON: They decide how low you go, and
2 what your lowest --

3 THE WITNESS: Yes. And if that's correct, we won't
4 provide the data request, Your Honor.

5 JUDGE CHRISTIANSON: Okay, fine.

6 MR. SIMMS: Well, just by a letter indicating to me
7 whether or not it's correct or not.

8 THE WITNESS: Okay.

9 MR. SIMMS: I suppose we could find out about it in
10 the brief.

11 JUDGE CHRISTIANSON: Yes, you want to make sure, I
12 guess, positive control.

13 MR. GADSDEN: We'll just treat it as a data request.

14 JUDGE CHRISTIANSON: Okay, a data request.

15 THE WITNESS: I yield to counsel.

16 JUDGE CHRISTIANSON: Yes, they've got a system going.
17 They don't want to spoil it.

18 MR. SIMMS: Could I have a brief moment, Your Honor?

19 JUDGE CHRISTIANSON: Yes, we can pause.

20 (Pause.)

21 JUDGE CHRISTIANSON: Show us off the record for a
22 minute.

23 (Discussion off the record.)

24 JUDGE CHRISTIANSON: We can be back on.

25 MR. SIMMS: I'm ready, Your Honor.

1 BY MR. SIMMS:

2 Q. Let me refer you now to C-4, page 3.

3 A. Yes.

4 Q. The balance reflected on this page, does it
5 reflect the minimum balance? I'm looking at the postage.
6 The figure does not necessarily reflect this minimum
7 balance, does it?

8 A. The minimum balance you're referring to --

9 Q. Is what you have stated --

10 A. -- the footnote -- okay, no, it does not.

11 Q. Now, what does it reflect?

12 A. It reflects the amount of the prepayment for
13 postage. It's the unamortized balance of prepayment
14 associated with postage.

15 Q. So the accounts on C-4 are the month-end
16 balances of the prepaid accounts?

17 A. That is correct.

18 Q. Now, in responding to OTS-RE-29D and RE-97, you
19 refer to the Firth solids pump system, correct?

20 A. Yes.

21 Q. Were these pumps capitalized?

22 A. They were.

23 Q. So return on this investment has been claimed as
24 a component of rate base and an allowance for depreciation,
25 correct?

1 A. That would be correct.

2 Q. Is it not correct that the company is claiming a
3 return through cash working capital for this item, that it
4 is a capital expense item?

5 A. No, that's not correct.

6 Q. So you are not --

7 A. Let me --

8 Q. Go ahead.

9 A. Okay, let me clarify that. This item was used
10 in development of the lead/lag study associated with
11 materials and supplies.

12 It originally was charged to an expense account, and
13 a month later corrected and transferred or charged to a
14 capital account.

15 So it did end up in the development of the lead/lag
16 associated with materials and supplies, and in all
17 probability should not have.

18 The lag associated with this, as I recall, was
19 substantially less than the overall lag for materials and
20 supplies or the "Other," the "Other" category that we've
21 utilized in the lead/lag study.

22 So by deleting this from that computation, I think it
23 would -- correction, I think it was longer than the average
24 lag, so that by deleting this it probably will -- correction
25 again, it was shorter than the lead/lag average, and thus by

1 deleting this from that computation, it would effectively
2 extend the lag of expenses.

3 Q. But it is there?

4 A. Yes.

5 Q. Is that correct? I mean, this item is in the
6 lead/lag study, correct?

7 A. I am pretty sure it was in the lead/lag study.
8 And if I could take a minute, I could --

9 Q. I know it's there. I mean, I just want to make
10 sure that -- your statement is that it's there, but it has
11 not been taken out?

12 A. That's correct. Subject to check, it is there
13 and was not removed.

14 (Pause.)

15 A. That is correct.

16 Q. And it has not been removed for the reasons you
17 stated earlier?

18 A. That is correct.

19 MR. SIMMS: Could I have a brief moment, Your Honor?

20 JUDGE CHRISTIANSON: Yes, we can pause.

21 (Pause.)

22 MR. SIMMS: That concludes my cross-examination, Your
23 Honor. I ask that OTS Cross-Examination Exhibit No. 11 and
24 No. 12 be admitted into evidence.

25 MR. GADSDEN: No objection.

1 JUDGE CHRISTIANSON: Fine, those two exhibits,
2 Cross-Examination 11 and 12 and now accepted.

3 (Whereupon, the documents marked as OTS
4 Cross-Examination Exhibits Nos. 11 and 12
5 were received in evidence.)

6 JUDGE CHRISTIANSON: Then we can proceed with
7 Consumer Advocate.

8 MS. BRIGNOLA: I didn't hear --

9 JUDGE CHRISTIANSON: Proceed, go ahead.

10 MS. BRIGNOLA: Thank you, Your Honor.

11 CROSS-EXAMINATION

12 BY MS. BRIGNOLA:

13 Q. Good afternoon. My name is Gicine Brignola, and
14 I am with the Consumer Advocate.

15 I would like to ask some questions regarding your
16 lead/lag working capital study. If you'll turn to Historic
17 1, C-4, page 2?

18 A. Yes.

19 Q. Am I correct that you have included Clean Air
20 Act amendment permit fees in the category, "Other O&M
21 Expense"?

22 A. That is correct.

23 Q. As a result, is it correct that these fees have
24 been assigned a payment lag of 32 days?

25 A. That is correct.

1 Q. Would you agree that the Clean Air Act amendment
2 permit fees are paid to Pennsylvania in August of each year?

3 A. Subject to check, I would agree with that.

4 Q. And would you also agree that the payment in
5 August is for the fees for the prior year?

6 A. Subject to check, I'll agree to that.

7 Q. Would you agree that this represents an average
8 payment lag of more than one year?

9 A. If the assumptions you have stated were correct,
10 I would agree with that.

11 Q. Am I correct that you calculated the expense lag
12 for the category, "Other O&M Expense" based on a sample of
13 invoices paid in the three months ended July 31, 1994?

14 A. That is correct.

15 Q. Therefore, am I correct that the calculation of
16 a lag for this category labeled, "Other O&M" did not
17 consider the lag in payment of Clean Air Act amendment
18 permit fees, since they were not paid until August of 1994?

19 A. That is correct.

20 Q. Would you also agree that a payment lag of this
21 length for an expense the size of Clean Air Act amendment
22 permit fees is not common?

23 A. Would you repeat the question?

24 Q. Would you agree this length, over one year, for
25 an expense the size of the Clean Air Act amendment permit

1 fees is not common?

2 A. I would agree that that is not common. I think
3 what we have here is a situation where we've attempted in
4 this lead/lag study to break down expenses between there
5 major components.

6 The two largest components of expenses for a utility
7 obviously are fuels and wages, the two main ones, and then
8 we lumped everything else into "Other".

9 We tested a sample, as you suggested earlier, to
10 develop this lag for other expenses. The expense itself is
11 based on a pro forma or adjusted expense level. I believe
12 that was, if not required, suggested by the Commission in
13 prior rate proceedings.

14 They wanted the lead/lag developed utilizing the pro
15 forma expense. One of the items in this pro forma expense
16 is the decommissioning costs of our fossil units.

17 We would probably -- we would make payment into that
18 decommissioning fund for those units, assuming we are given
19 that in this case, in the same manner we do so for the
20 nuclear units.

21 That lag is approximately 16 days. For purposes of
22 this lead/lag study, we also threw that into the "Other"
23 classification.

24 Had we applied to that individual item the lead/lag
25 that we have for our decommissioning of our nuclear units,

1 it would have taken an item in the magnitude of the Clean
2 Air Act amendment dollars, approximately 450 day lag, to
3 offset that shorter lag for the decommissioning costs
4 associated with our fossil units.

5 So yes, it is abnormally long for an item in the
6 lead/lag expense study. The dollars, although large, are
7 nowhere near the dollars associated with our decommissioning
8 costs of our fossil units.

9 So what I'm saying, if we reflect the one, in all
10 probability we should reflect the other, and that would
11 also, in order to neutralize the shorter lag on the
12 decommissioning costs for fossil units, would require a lag
13 in excess of 400 days, as I had calculated it, subject to
14 check, for the amount for the Clean Air Act amendment, in
15 order not to change the 32-day lag for the other.

16 So again, it's used as a proxy. It's not an exact
17 figure. And what we're attempting to do here is, after
18 determining the lag for our fuel, for our wages, to
19 determine a lag for the "Other" which approximates and is
20 representative of everything that we might put in there.

21 And I agree, there are some things that might be
22 shorter, some things that might be longer. But I think it's
23 representative of what we experience for the "Other"
24 classification.

25 Q. If you would now refer to page 30 of Attachment

1 II-B-4, which is part of the company's Exhibit 1?

2 MR. GADSDEN: I'm sorry, page 30?

3 MS. BRIGNOLA: Yes, II-B-4.

4 THE WITNESS: Yes.

5 BY MS. BRIGNOLA:

6 Q. Am I correct that this page summarizes the
7 calculation of the 32-day lag?

8 A. It does.

9 Q. And one of the items included is insurance, with
10 a negative payment lag of 133.92 days?

11 A. That is correct.

12 Q. Am I correct that the negative lag means that
13 the insurance is prepaid?

14 A. That's correct.

15 Q. And if we turn to pages 38 through 40 of the
16 same document, would you agree that this shows the
17 calculation of the negative 133.92 day lag, according to the
18 specific insurance policies involved?

19 A. That is correct.

20 Q. Am I correct that PP&L has also included
21 prepayments as part of its working capital claim in addition
22 to the cash working capital requirement?

23 A. That is correct.

24 Q. And am I also correct that the balance of
25 prepayments includes prepaid insurance?

1 A. That is correct.

2 MS. BRIGNOLA: Your Honor, I would like to have
3 marked for identification OCA Exhibit No. 12, which is the
4 response to OCA Interrogatory Set IV, Question 11.

5 JUDGE CHRISTIANSON: So identified, your Cross No.
6 12.

7 (Whereupon, the document was marked as OCA
8 Cross-Examination Exhibit No. 12 for
9 identification.)

10 BY MS. BRIGNOLA:

11 Q. Do you have the exhibit before you, Mr. Bernini?

12 A. I do.

13 Q. Would you agree that this exhibit shows a
14 breakdown of prepaid insurance as of September 30, 1994 by
15 type of insurance policy?

16 A. That is correct.

17 Q. And would you agree that the types of insurance
18 included in prepayments are the same types of insurance for
19 which the prepayment has been calculated and included as
20 part of the "Other O&M" lag?

21 A. Would you repeat the question?

22 Q. Sure. Would you agree that the types of
23 insurance included in prepayments are the same types of
24 insurance for which the prepayment has been calculated and
25 included as part of the "Other O&M" lag, the category

1 labeled, "Other O&M"?

2 A. If your question is, are the items shown in this
3 attachment, the prepayments shown in this attachment,
4 ultimately expensed to the "Other" classification in the
5 Schedule C-4, page 2, is that your question?

6 Q. Okay, let me rephrase the question.

7 In the exhibit that I had given to you, Exhibit No.
8 12, are the insurance policies included there the exact same
9 ones as those included in the "Other O&M" lag?

10 A. Yes. As the prepayments are used, if you will,
11 they are charged to expense, okay, and that expense would be
12 treated in the "Other" classification of the lead/lag study.

13 They are not the same. One is a balance sheet
14 account. One is an expense account. What you see in
15 C-4, page 3, in the prepayment, is the unamortized balance
16 of the prepayment.

17 And an easy way to look at this is to envision a coal
18 pile. You have coal on a pile. You still have fuel in the
19 lead/lag study. Prepayments, if you envision that as the
20 coal pile, obviously we still have expenses in the lead/lag
21 study.

22 Q. Okay, thank you.

23 Next, I'd like to turn to coal and fuel inventory
24 balances. I would like to ask you a few questions regarding
25 coal stock and oil stock which you have included as part of

1 your rate base claim for inventories in Schedule C-5 of
2 Exhibit Future 1.

3 A. Future 1.

4 Q. Before we get into that, can you first explain
5 what the Lady Jane off-site coal inventory represents?

6 A. Can you refer me to a schedule where that
7 appears?

8 Q. The Lady Jane off-site coal inventory is
9 represented on an interrogatory to the OCA, I believe -- let
10 me check -- which is Set IV, No. 16, which I think I have a
11 couple extra copies of.

12 JUDGE CHRISTIANSON: Let's be shown as off the record
13 briefly.

14 (Discussion off the record.)

15 JUDGE CHRISTIANSON: Back on the record.

16 THE WITNESS: Now, may I have your question?

17 BY MS. BRIGNOLA:

18 Q. Sure. Can you just tell me, in the last column
19 of this interrogatory response where it refers to the Lady
20 Jane off-site, could you just tell us what that represents?

21 A. That represents bituminous coal at the Lady Jane
22 facility which I believe is utilized at the Sunbury station.

23 Q. Okay, thank you.

24 Now, keeping that as a reference in front of you and
25 also comparing it with Schedule II, in the filing

1 requirements, II-B-3, would you agree, first of all, that
2 under the anthracite coal column at Sunbury and Holtwood and
3 the bituminous coal at the Lady Jane off-site which you have
4 reflected in the future test year inventories, that these
5 are equal to the tons of coal at each site as of the end of
6 the historic test year?

7 A. Would you repeat the question? I had difficulty
8 following it.

9 Q. Sure. We'd like to compare the two documents.

10 A. Yes.

11 Q. And would you agree that the anthracite coal at
12 Sunbury and Holtwood and bituminous coal at the Lady Jane
13 off-site, which are both reflected in the future test year
14 inventories, that these are equal to the tons of coal at
15 each site as of the end of the historic test year?

16 A. Subject to check, I would agree. I'm not sure,
17 but I don't quite understand the question. You're saying
18 that the --

19 (Pause.)

20 A. You referred to II-B-3.

21 Q. Pardon?

22 A. You referred to II-B-3.

23 Q. Right. If you compare the last column, the last
24 number --

25 A. Yes.

1 Q. -- for example in Sunbury, Sunbury anthracite
2 coal at September, 1994, it's 558,960 --

3 A. Five sixty two.

4 Q. Okay, I have nine sixty, under II-B-3, page 1 of
5 10 --

6 A. Oh, 1 of 10 --

7 Q. -- September, 1994.

8 A. Okay.

9 Q. Under Sunbury anthracite coal?

10 A. Yes.

11 Q. You have 558,960.

12 A. Correct.

13 Q. Now, do you see in the response to the OCA
14 interrogatory --

15 A. I agree, correct.

16 Q. Okay. And it's also the same for Holtwood, and
17 the bituminous coal at Lady Jane?

18 A. That is correct.

19 Q. Now, would you also agree that in the future
20 test year volumes of oil stock at all the company's
21 generating stations, other than the residual oil at Martins
22 Creek 3 and 4, that these have all been set equal to the end
23 of the historic test year balances?

24 A. Subject to check, I agree.

25 Q. Now, can you explain why the balance of these

1 items for the months of the future test year were set equal
2 to the balance at the end of the historic test year?

3 A. The beginning balance of the future test year is
4 the same as the ending balance of the historic test year.

5 Q. Could you explain that further? It's carried
6 out for every single month in the future test year. I want
7 to know why the balance of the items for the months, all the
8 months of the future test year, all of those months were set
9 equal to the balance at the end of the historic test year.

10 A. Okay. The reason they were set equal to the end
11 of the historic test year was that the receipts were equal
12 to the burned for that unit, for that type of coal.

13 So what was taken in was burned, if you will, and
14 therefore the balance stayed level. If we started with 100
15 tons of X, we received ten tons of X and we burned ten tons
16 of X, the ending balance would be still 100 tons of X.

17 So the reason was that the determination for that
18 plant, for that type of coal assumed that the burned would
19 equal receipts.

20 Q. For the whole year, every month?

21 A. Each month of the year.

22 Q. Okay. One of the items shown on page 2 of
23 Schedule C-5 in Exhibit Future 1 is system reserve coal.

24 A. Yes.

25 Q. And it's in the amount of \$22.003 million.

1 A. Correct.

2 Q. Would you agree that this represents over
3 one-quarter of the total claimed value of coal inventory?

4 A. Subject to check, I would.

5 Q. And can you explain what this item represents?

6 A. Yes. System reserve is anthracite silt. It was
7 what was left over in early anthracite mining. It was
8 accumulated in banks of this type of silt.

9 The company utilizes this at both its Sunbury and
10 Holtwood stations. The availability of this coal is
11 obviously subject to what is left over from this anthracite
12 mining, and therefore the company found it prudent to set up
13 these system reserves.

14 There was an interrogatory that we responded to that
15 indicated where they are located. Buck Run is one of the
16 areas where it's located.

17 Their name represents a town I believe to which they
18 are in close proximity, and therefore it represents that
19 type of fuel which will be needed at the both Sunbury and
20 Holtwood plants.

21 Q. And you expect all of it to be burned during the
22 future test year?

23 A. No. That's there to be burned over the life of
24 both the Holtwood and Sunbury units.

25 Q. Thank you. Moving now to rate case expense,

1 we're going to use OTS Cross-Examination Exhibit No. 11, and
2 just one response, which is OTS-RE-7D of that cross-
3 examination exhibit. Do you have OTS --

4 A. OTS, what's the number again?

5 Q. Eleven.

6 A. Eleven.

7 Q. And then in that, RE-7D.

8 A. OTS-RE-7D, I have, and the schedule is Schedule
9 11?

10 Q. I'm sorry, there's no schedules. This is just a
11 cross-examination exhibit.

12 On the attachment, one element of the estimated rate
13 case expense listed is \$250,000 for TLG Services. Does that
14 include the cost of preparing the two decommissioning
15 studies which Mr. LaGuardia has submitted as exhibits in
16 this case?

17 A. I believe it represents the cost of the
18 decommissioning study applicable to our fossil units, as
19 well as his time for testifying with regard to both the
20 fossil and nuclear units.

21 Q. And has TLG previously prepared decommissioning
22 studies for Susquehanna?

23 A. They did.

24 Q. And when were those prepared?

25 A. I think it was completed -- it was in '93

1 dollars, so it must have been completed in early '94.

2 Q. Once again, referring to Attachment 1 of
3 OTS-RE-7D, another element identified is \$200,000 for
4 Putnam, Hayes and Bartlett.

5 A. Yes.

6 Q. What is their role in the case?

7 A. I think they were our outside specialists on
8 rate structure.

9 Q. Have they prepared any studies or other
10 documents?

11 A. I don't know the answer to that question.

12 MS. BRIGNOLA: Is there another witness that I could
13 refer that question to?

14 MR. GADSDEN: Mr. Kasper can discuss that.

15 JUDGE CHRISTIANSON: All right, fine.

16 BY MS. BRIGNOLA:

17 Q. And there is also on this exhibit \$100,000 for
18 Coopers and Lybrand?

19 A. Yes.

20 Q. Can you tell us their role in the case, if you
21 know?

22 A. I think they were consultants in determining the
23 strategy for the case.

24 Q. You have proposed to normalize rate case expense
25 over two years, correct?

1 A. Yes.

2 Q. Does PP&L plan to file another rate case in 1996
3 or early 1997?

4 A. I do not know.

5 Q. Is there another witness that would know?

6 A. I don't believe, just speaking personally, I
7 don't think that can be determined by anyone at this stage.
8 We haven't been through this case, so we don't know what the
9 results will be, number one.

10 Number two, things are changing in the industry, as
11 you know. Competition is creeping in. So again, that's
12 another unknown.

13 So at this point, I think it would be difficult to
14 state when the company would be filing another rate case.
15 The reason I used two years is, to be perfectly honest with
16 you, I had no better choice.

17 I know that in the last case, we used two years, so I
18 decided to use two years in this case.

19 Q. So you used it because you used it before?

20 A. That's correct.

21 Q. I'm going to ask you some questions regarding
22 adjustments to taxable income reflected on Schedule D-19 of
23 Exhibit Future 1.

24 A. Yes.

25 MS. BRIGNOLA: In conjunction with these questions, I

1 would like to have marked for identification OCA
2 Interrogatory OCA Set IV, Question 118 as Cross-Examination
3 Exhibit No. 13.

4 JUDGE CHRISTIANSON: Yes, identified as your No. 13.

5 (Whereupon, the document was marked as OCA
6 Cross-Examination Exhibit No. 13 for
7 identification.)

8 BY MS. BRIGNOLA:

9 Q. On Schedule D-19, one of the items you included
10 as an addition to taxable income is identified as health
11 care cost PMC amortization; do you see that?

12 A. On D-19?

13 Q. Exactly.

14 A. And can you give me a line number, please?

15 Q. Certainly. It's line 19.

16 A. Nineteen. Yes.

17 Q. Am I correct that, based on the response to OCA
18 Set IV, Question 118, that this represents the amortization
19 of additional health care costs for miners who worked for
20 Pennsylvania Mines Corporation?

21 A. That is correct.

22 Q. Am I correct that the adjustment to taxable
23 income arises because these expenses are not tax deductible
24 until they are paid?

25 A. That is correct.

1 Q. When does the company expect to actually pay
2 these expenses?

3 A. I can't answer that question. I don't know.

4 MS. BRIGNOLA: Could I make an on-the-record data
5 request for that information?

6 MR. GADSDEN: You certainly can.

7 BY MS. BRIGNOLA:

8 Q. The second adjustment to taxable income about
9 which I'd like to ask is the item shown as ECR/FAC
10 underrecovery, which is line 30.

11 A. Yes.

12 Q. Am I correct that this represents the difference
13 between fuel revenues and actual expenditures for fuel?

14 A. This -- would you repeat your question?

15 Q. Am I correct that this represents the difference
16 between fuel revenues and actual expenses for fuel? In
17 other words, this item represents the amount of fuel over-
18 or underrecoveries?

19 A. The relates to the unbilled revenue associated
20 with the over- or underrecovery of fuel, that is correct.
21 It's not tax deductible until we actually receive the
22 revenue -- or it's not taxable until we actually receive the
23 revenue, or -- let me put it this way: It will not be
24 reflected in the tax computation until the revenue is
25 actually received or given back to the customer.

1 Q. Okay. If there's an overrecovery in one year,
2 am I correct that the practice is to flow the overrecovery
3 back in the following year?

4 A. That is correct, through the E-factor of the
5 clause.

6 Q. Therefore, am I correct that if revenues exceed
7 actual fuel expenditures in one year, revenues will, all
8 else being equal, be less than fuel revenues in the
9 following year?

10 A. Say that again?

11 Q. Am I correct that if revenues exceed actual fuel
12 expenditures in one year, revenues will, all else being
13 equal, be less than fuel revenues in the following year?

14 A. The overcollection in Year 1 would be flowed
15 back in Year 2; is that what you're saying?

16 (No response.)

17 Q. The item entitled, "refueling costs," which is
18 line 35 --

19 A. Yes.

20 Q. -- am I correct that this item results from the
21 fact that refueling outage costs at Susquehanna are deferred
22 and amortized over approximately 18 months for book
23 purposes?

24 A. That is correct, and taken as a tax deduction in
25 the year incurred.

1 Q. Am I also correct that over the 18-month
2 amortization period, the amortization expense per books will
3 equal the actual expenditures?

4 A. It will equal the amount that had been deferred.

5 Q. Am I correct that the difference between the
6 book and the tax expense for refueling outage costs is a
7 short-term, temporary difference?

8 A. That is correct.

9 Q. Finally, I would like to ask about the
10 adjustment for postretirement/employment benefits, which is
11 line 37.

12 A. Yes.

13 Q. Is it correct that this represents the costs
14 under Financial Accounting Standard No. 106 and 112 which
15 are not allowed as tax deductions until the payment is made?

16 A. That is correct.

17 Q. How is the non-tax deductible component of the
18 expense determined?

19 A. The actual expenditures for this item are known,
20 and therefore are a tax deduction. The difference between
21 the actual expenditures under 106 and 112, when deducted
22 from the total amount expensed for these items, FAS-106 and
23 FAS-112, based on actuarial study, would be the portion
24 which would not be deductible for tax purposes.

25 Q. Does the company contribute the FAS-106 and -112

1 amounts to a voluntary employee benefit association, trust,
2 or other tax deferred funding mechanism?

3 A. Currently?

4 Q. Yes.

5 A. They do not.

6 Q. Why not?

7 A. The reason is that when we were allowed to defer
8 the costs associated with the FAS-106, I think one of the
9 requirements at that point in time was to set up such a
10 fund, or to fund it.

11 When the Commonwealth Court ruled against the
12 Commission's order, I think it was at that time that we
13 ceased funding these FAS-106.

14 Q. Does the company have any plans to establish
15 such a trust or other type of --

16 A. If --

17 Q. -- deferred mechanism?

18 A. Yes, if the company is allowed the --

19 (Pause.)

20 A. If the company is allowed this expense, I think
21 we will, we will establish a trust fund.

22 MS. BRIGNOLA: Your Honor, I'd like to defer some
23 more questions to my counterpart, Mary Kenney.

24 MS. KENNEY: Your Honor, earlier in the day, Mr.
25 Berish deferred certain questions to Mr. Bernini, and if I

1 may be just allowed to follow up with those questions, it
2 will take about five minutes.

3 JUDGE CHRISTIANSON: Okay, go ahead with that.

4 CROSS-EXAMINATION

5 BY MS. KENNEY:

6 Q. Earlier in the day, Mr. Bernini, Mr. Berish
7 deferred some questions relating to nuclear O&M to you. Am
8 I correct that you are the appropriate witness for those
9 questions?

10 A. I guess I am.

11 Q. What level of funding is PP&L currently
12 collecting for decommissioning?

13 A. I refer you to Schedule D-11. Line 16 shows the
14 amount we're expensing per books for the historic test year.
15 The Exhibit Historic 1, Schedule D-11, line 16 --

16 Q. Okay, Historic 1?

17 A. Yes, Exhibit Historic 1, Schedule D-11, line 16.
18 That is the amount that we are currently, or that we
19 expensed per books during the historic test year.

20 Q. So that was approximately \$7,094,000?

21 A. That is correct.

22 Q. Am I correct that the basis for that level of
23 funding was a Pacific Northwest Laboratory, PNL study?

24 A. That is correct. It was a study performed by
25 S. M. Stoller. The witness in the Unit 1 and Unit 2 case

1 was an Albert Weinstein.

2 That study has been utilized to determine the cost of
3 decommissioning not only for the PUC jurisdictional purposes
4 but also for the FERC jurisdictional customers, with the
5 exception of our wholesale customers.

6 I think in the last rate case, with our FERC
7 wholesale customers, we utilized the current TLG study.

8 Q. Did the PNL study also serve as the basis for
9 the NRC regulations?

10 A. I really don't know.

11 Q. Am I correct that the PNL study did not include
12 non-radiological decommissioning costs?

13 A. The study performed by S. M. Stoller for the
14 Unit 1 and Unit 2 case did not include non-radiological
15 costs, that is correct.

16 Q. Would you agree that in this proceeding, the
17 company is seeking \$30 million in an annual annuity to fund
18 decommissioning?

19 A. That is correct. That is total company.

20 Q. Am I correct that the basis for that level of
21 funding is a study performed by TLG in this proceeding?

22 A. That is correct.

23 Q. Is that \$30 million in 1995 dollars?

24 A. The \$30 million you're referring to started with
25 the TLG study, which was in 1993 dollars, and it was

1 projected out to the year of retirement for the unit,
2 assuming an inflation rate of 4 percent.

3 Offset against that was the value of the trust as it
4 existed at the end of the test year, September 30, 1995, and
5 that was projected out to the year of retirement for each of
6 the units with an assumed earnings rate of 5.5 percent.

7 And then an annuity was determined, levelized if you
8 will annuity, levelized cost, each year which would provide
9 the necessary funding to meet the net cost of
10 decommissioning in the year of retirement.

11 Q. So the \$30 million claim in this proceeding or
12 \$30 million level of funding -- I guess my question was, is
13 that based on 1995 dollars, and is your answer --

14 A. It is not.

15 Q. It is not. And it is based on a number of
16 things; is that correct?

17 A. It is, that is correct. It is based on an
18 estimate of future dollars offset by what we currently have
19 in the fund, projected out to that same point in time.

20 MS. BRIGNOLA: No further questions, Your Honor.

21 MS. KENNEY: We have no further questions.

22 JUDGE CHRISTIANSON: Then we can check, anything from
23 Small Business?

24 MS. MOURY: I have nothing, Your Honor.

25 JUDGE CHRISTIANSON: Mr. Kleppinger?

1 MR. KLEPPINGER: No questions, Your Honor.

2 JUDGE CHRISTIANSON: Let's be off the record briefly.

3 MS. BRIGNOLA: We do need to move in our Exhibits 12
4 and 13.

5 JUDGE CHRISTIANSON: Oh, yes. Hold us on just a
6 minute.

7 Any objection to 12 and 13?

8 MR. GADSDEN: No objection.

9 JUDGE CHRISTIANSON: Then those two exhibits are
10 accepted into the record.

11 (Whereupon, the documents marked as OCA
12 Cross-Examination Exhibits Nos. 12 and 13
13 were received in evidence.)

14 JUDGE CHRISTIANSON: Let's be off at least for a few
15 minutes.

16 (Discussion off the record.)

17 JUDGE CHRISTIANSON: Let's be on the record.

18 We'll be on the record again I guess fairly briefly.
19 I understand there is no redirect for the witness, and the
20 witness is excused.

21 (Witness excused.)

22 JUDGE CHRISTIANSON: I'll just announce one other
23 thing I have. The Chief just handed me, just as we started
24 the break -- and you'll all be getting notice in due course,
25 I assume, and we'll worry about it as we go along just how

1 we might tell the people to not go to the old site -- but
2 the notice coming out this afternoon is that the
3 Williamsport public input hearing is not at the Lycoming
4 Township Fire Company, which I believe is north of town, the
5 old Lycoming Township Fire Company.

6 It's now at the First Ward Fire Company, South
7 Williamsport, which to me means south of the river there,
8 across the river from Williamsport, as a smaller town.

9 I think I had a PP&L consumer case there not too long
10 ago. We did it by telephone. But in any case, we're now at
11 the First Ward Fire Company for the Monday night public
12 input hearing, and I suppose it will stay that way.

13 We'll worry about that as we go along. I've made
14 some copies available, but I think you'll be getting the
15 copies in the normal course.

16 Then I assume there's not too much left to do for
17 today, because we have rate design coming tomorrow. I'll
18 check sometime later today about Thursday, but it's fairly
19 clear we'll be together Thursday morning.

20 Exactly where might have been determined by now, but
21 I haven't found out about it yet. So with that, I think we
22 can be done. We're done early today, which is perhaps is
23 fortunate. We might run late tomorrow and the next day, but
24 the way things are structured, that's the best way to do it,
25 I think. So we're off the record for today's hearing.

1 (Whereupon, at 3:28 p.m., the hearing was adjourned,
2 to be reconvened at 10:00 a.m., Tuesday, March 28, 1995, in
3 Harrisburg, Pennsylvania.)

4 C E R T I F I C A T E

5 I hereby certify, as the stenographic reporter, that
6 the foregoing proceedings were taken stenographically by me
7 and thereafter reduced to typewriting by me or under my
8 direction, and that this transcript is a true and accurate
9 record to the best of my ability.

10
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12 By: _____

John A. Kelly
13 John A. Kelly,
14 Certified Verbatim Reporter

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