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C O N T E N T S

<u>WITNESSES</u>	<u>DIRECT</u>	<u>CROSS</u>	<u>REDIRECT</u>	<u>RECROSS</u>
Paul R. Moul				
By Mr. Gadsden	11	--	--	--
By Mr. Gorka	--	15	--	--
By Ms. Kenney	--	29	--	--
By Mr. Kleppinger	--	49	--	--
By Mr. McCormick	--	70	--	--
By Mr. Epstein	--	71	--	--
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Donald S. Hoch				
By Mr. DeCusatis	107	--	--	--
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Douglas A. Krall				
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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 Exhibits</u>		
No. 1 (responses to the Commission's filing requirements, Volumes 1 through 4)	7	--
Historic 1 (Summary of Measures of Value and Rate of Return)	8	--
Future 1 (Summary of Measures of Value and Rate of Return)	8	--
No. PRM-1 (P.R. Moul)	10	15

FORM 2

E X H I B I T S (Continued)

<u>NUMBER</u>	<u>FOR IDENTIFICATION</u>	<u>IN EVIDENCE</u>
<u>Pennsylvania Power & Light Exhibits, (Cont'd.)</u>		
✓ No. CDB-1 (C.D. Beers)	76	80
✓ No. DSH-1 (D.S. Hoch)	106	153
✓ No. DSH-2 (D.S. Hoch)	106	153
✓ Nos. DAK-1 through DAK-4 (D.A. Krall)	155	157
<u>Pennsylvania Power & Light Statements</u>		
✓ No. 12 (P.R. Moul - Direct)	10	15
✓ No. 14 (C.D. Beers - Direct)	76	80
✓ No. 4 (D.S. Hoch - Direct)	106	153
✓ No. 5 (D.A. Krall - Direct)	155	157
<u>Office of Trial Staff Cross Examination Exhibits</u>		
✓ No. 1 (four OTS interrogatories with responses and attachments)	17	29
✓ No. 2 (Resource Planning Report and various Interrogatory Responses)	110	123
<u>Office of Consumer Advocate Cross Examination Exhibits</u>		
✓ No. 1 (OCA-V-20)	41	48
✓ No. 2 (OCA-IV-66 & 67)	87	101
✓ No. 3 (OCA-IV-105)	95	101
✓ No. 4 (OCA-III-8)	136	141
✓ No. 5 (OCA-III-10)	140	141

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NUMBER FOR IDENTIFICATION IN EVIDENCE

PPLICA Cross Examination Exhibits

4	No. 1 (OCA-IV-87)	145	151
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FORM 2

P R O C E E D I N G S

1
2 CHIEF ADMINISTRATIVE LAW JUDGE ALLISON K. TURNER: Now
3 is the time and place set for the beginning of evidentiary
4 hearings in the case of PA PUC vs. Pennsylvania Power &
5 Light, et al., at Docket No. R-00943271 and Complaints at
6 that same docket, C-001 through, I have here, C-0028. I
7 know there are more complaints than that. And we can
8 correct that later.

9 I'll read the first name of counsel associated with
10 an office. Johnnie E. Simms is here on behalf of the Office
11 of Trial Staff; David M. Kleppinger is here on behalf of
12 PPLICA, which is PP&L Industrial Customer Alliance;
13 David B. MacGregor is here on behalf of Pennsylvania Power &
14 Light Company; David McCormick is here on behalf the U.S.
15 Department of Defense and other affected federal executive
16 agencies; Karen Oill Moury will be representing the Office
17 of Small Business Advocate; Eric Epstein is here pro se;
18 Tanya J. McCloskey is here on behalf of the Office of
19 Consumer Advocate; and Paul R. Russell is here on behalf of
20 Pennsylvania Power & Light.

21 Before we begin, are there any matters that counsel
22 would like to bring up either on or off the record before we
23 call our first witness?

24 MR. GADSDEN: Thank you, Your Honor. Before we
25 proceed with our first witness, who will be Mr. Moul, it

1 might make sense to have marked for identification a number
2 of exhibits which will be sponsored during the course of
3 this proceeding by various PP&L witnesses.

4 JUDGE TURNER: Let me stop you a minute.

5 Are there any issues by any other party?

6 (No audible response.)

7 JUDGE TURNER: Okay.

8 Before you proceed with marking them -- and I agree
9 with that, I don't have any opposition to that -- I do have
10 something here I wanted to bring up. And that relates to
11 the public input hearing process.

12 The Consumer Advisory Council has made some recommen-
13 dations to the Commission which they have asked us to
14 implement regarding this process. And I would just read
15 them out. Some of them apply directly to us, some of them
16 to the parties.

17 First of all, at least three weeks notice from the
18 time OALJ issues the hearing notice to the actual hearing
19 date for all public input hearings. We may not have made
20 that in this case, but we came as close as we could. And
21 that would be to allow sufficient time to advertise in local
22 newspapers.

23 ALJs will routinely and consistently direct utilities
24 to publish display advertisements in newspapers of general
25 circulation, announcing the date, time and location of

1 public input hearings. The ads should be prepared using
2 plain language. They should provide a toll-free company
3 contact number to call to request a copy of the company's
4 statement of reasons.

5 All hearing notices and display ads should advise all
6 persons with disabilities to contact the PUC should they
7 need alternative arrangements.

8 Whenever possible, placards shall be used at public
9 input hearings advising the public of the major parties and
10 the presiding officer. We will make those up with the names
11 of leading counsel and the names of judges, and so on.

12 The Bureau of Public Liaison will prepare sign-up
13 lists which will permit participants to added to the mailing
14 list of Consumer Line, and indicate how they learned about
15 the hearing. And OALJ will be responsible for forwarding
16 sheets to Public Liaison.

17 The ALJs should direct the company to have a plain
18 language version of their statement of reasons available for
19 public input hearings.

20 Those are the direct requirements that our office is
21 to implement. And we are to have the public input hearings
22 as early in the process as possible.

23 Mr. Gadsden, that would have two requirements for the
24 company. One is the plain language statement, and the other
25 is the advertisements, if you weren't aware of this before

1 now.

2 MR. GADSDEN: Those were discussed in a meeting with
3 Commission staff several weeks ago. So I believe that's all
4 been taken care of.

5 JUDGE TURNER: Okay. And you know that if you
6 consult with the Bureau of Public Liaison about plain
7 language, Lorraine Nulton [phonetic] would be the person to
8 contact.

9 MR. GADSDEN: Yes, I think the company has been in
10 contact with her.

11 JUDGE TURNER: Okay.

12 Are there any questions about that from anyone?

13 (No audible response.)

14 JUDGE TURNER: In that case, Mr. Gadsden, please
15 proceed.

16 MR. GADSDEN: Thank you, Your Honor.

17 As I indicated previously, there are a number of
18 exhibits that will be referred to throughout the course of
19 the case which are being sponsored by multiple witnesses.
20 And it makes sense, I believe, at this point to have them
21 marked for identification before we call our first witness.

22 The first exhibit actually consists of four green-
23 bound volumes representing the company's responses to the
24 Commission's standard filing requirements.

25 As indicated in our prehearing memorandum, that group

1 of volumes should be marked for identification as PP&L
2 Exhibit No. 1.

3 JUDGE TURNER: All four volumes are going to be
4 PP&L 1?

5 MR. GADSDEN: Yes.

6 JUDGE TURNER: How are you going to distinguish
7 between them?

8 MR. GADSDEN: We can have Volumes 1 through 4.

9 JUDGE TURNER: Okay.

10 (Whereupon, the documents were marked as PP&L
11 Exhibit No. 1 for identification.)

12 MR. GADSDEN: The next two exhibits represent the
13 company's principal accounting exhibits. The first, which I
14 would ask be marked as PP&L Exhibit Historic 1 is styled
15 "Summary of Measures of Value and Rate of Return."

16 The second, I would ask to be marked as Exhibit
17 Future 1, similarly styled "Summary of Measures of Value and
18 Rate of Return." And obviously, the first of those two
19 presents historic test year date, the second, future test
20 year data.

21 JUDGE TURNER: Why aren't you marking that as Exhibit
22 2?

23 MR. GADSDEN: If that's easier for the parties, we
24 can mark --

25 JUDGE TURNER: Well, the four green-bound volumes are

1, I would expect those to be 2.

MR. GADSDEN: Well, the problem, I think, is that in the pre-filed testimony the witnesses refer to these exhibits as Exhibit Historic 1 or Exhibit Future 1.

JUDGE TURNER: Okay.

MR. GADSDEN: If it's easier for you, we can change that.

JUDGE TURNER: No, if the testimony's made up that way, that's okay.

MR. GADSDEN: Okay, thank you.

(Whereupon, the documents were marked as PP&L Exhibit Historic 1 and PP&L Exhibit Future 1 for identification.)

MR. GADSDEN: With that, unless there are any other preliminary matters, we would call as our first witness, Mr. Moul.

JUDGE TURNER: Mr. Moul, would you take the stand, please?

Whereupon,

PAUL R. MOUL

having been duly sworn, testified as follows:

JUDGE TURNER: Would you state your name, and spell it, for the record?

THE WITNESS: My name is Paul R. Moul; that's spelled M-O-U-L.

1 JUDGE TURNER: Thank you.

2 Please proceed.

3 MR. GADSDEN: Thank you, Your Honor.

4 At the prehearing conference, the company distributed
5 to the court reporter and all parties copies of two
6 documents which Mr. Moul is sponsoring. The first I would
7 ask be marked as PP&L Statement No. 12, captioned "Direct
8 Testimony of Paul R. Moul;" the second as Exhibit PRM-1,
9 schedules concerning fair rate of return. May they be so
10 marked?

11 JUDGE TURNER: Is the second document you're talking
12 about? It has on it Appendices A through E accompanying the
13 direct testimony of...?

14 MR. GADSDEN: No.

15 JUDGE TURNER: Okay.

16 MR. GADSDEN: Attached to Mr. Moul's Statement No. 12
17 are Appendices A through E. In addition to that, there is a
18 separate stand-alone document with a black cover, captioned,
19 "Schedules Concerning Fair Rate of Return," which has been
20 pre-marked as Exhibit PRM-1.

21 JUDGE TURNER: I don't seem to have a copy of that.

22 (Document handed to Judge Turner.)

23 JUDGE TURNER: So to be clear, you had marked pre-
24 viously PP&L Exhibits 1, Historic 1 and Future 1. And we
25 are now marking as PP&L 2?

1 MR. GADSDEN: PP&L Statement No. 12 is Mr. Moul's
2 testimony.

3 JUDGE TURNER: Statement No. 12.

4 MR. GADSDEN: And his exhibit is PRM-1.

5 JUDGE TURNER: And that is this black-covered
6 document?

7 MR. GADSDEN: That's correct.

8 JUDGE TURNER: And the appendices are not separate,
9 they're part of that document.

10 MR. GADSDEN: Part of Statement 12.

11 JUDGE TURNER: Okay. They may be so marked, subject
12 to any objections, and so on.

13 MR. GADSDEN: Thank you, Your Honor.

14 (Whereupon, the documents were marked as PP&L
15 Statement No. 12 and Exhibit No. PRM-1 for
16 identification.)

17 MR. GADSDEN: Your Honor, I have provided to you, and
18 am now providing to the court reporter, two copies of what
19 is captioned in the upper right-hand corner Schedule 7, page
20 3 of 3 (substitute).

21 In responding to OCA Interrogatory Set V, No. 21,
22 Mr. Moul determined that there was an error in his original
23 Schedule 7, page 3. And we distributed as part of our
24 answer to that interrogatory a substituted schedule.

25 I have extra copies in the hearing room if the

1 parties didn't bring that particular interrogatory response
2 with them. But I would ask that the substituted schedule be
3 inserted for the original.

4 JUDGE TURNER: Does any party have an objection to
5 that? Do all parties have a copy of the schedule?

6 (Documents handed to various parties.)

7 JUDGE TURNER: Do you need time to examine this
8 before we proceed with cross examination, Mr. Gorka?

9 MR. GORKA: Thank you, Your Honor.

10 JUDGE TURNER: Excuse me. My question is, do you
11 need time to evaluate this correction before we proceed with
12 cross examination?

13 MR. GORKA: No, we do not.

14 MS. KENNEY: Your Honor, could we just have an
15 explanation of the change that took place? Then I would be
16 able determine if I needed any additional time. I note that
17 there is a revision, and maybe if there was just a brief
18 explanation of their revision.

19 JUDGE TURNER: I'm sure that Mr. Gadsden contemplated
20 asking that question before I interrupted him.

21 So go ahead.

22 MR. GADSDEN: Thank you, Your Honor.

23 **DIRECT EXAMINATION**

24 BY MR. GADSDEN:

25 Q. Mr. Moul, by whom are you employed, and in what

1 capacity?

2 A. I am the managing consultant of P. Moul and
3 Associates, an independent public utility consulting firm.

4 Q. Do you have a copy of what has been marked as
5 Pennsylvania Power & Light Statement No. 12?

6 A. Yes, I do.

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

9 A. Yes, it was.

10 Q. Are there any corrections or revisions to
11 Statement No. 12 that you would like to bring to our
12 attention?

13 A. Yes. There's one correction on page 38 which is
14 attributed to the substitute schedule that was just handed
15 out.

16 On page 38 at line 17, about the center of the line
17 there there's a figure of 15.0 percent. The figure should
18 be 15.4 percent. And then that figure corresponds with the
19 substitute schedule.

20 Q. With that revision, if I were to ask you the
21 questions set forth in Statement No. 12 today, would your
22 answers be as contained therein?

23 A. Yes, they would.

24 Q. And would they be true and correct, to the best
25 of your knowledge?

1 A. Yes.

2 Q. Mr. Moul, turning now to Exhibit PRM-1, was that
3 series of schedules prepared by you or under your direction
4 and supervision?

5 A. Yes, it was.

6 Q. A few minutes ago we distributed a substituted
7 page 3 of Schedule 7. Could you briefly explain the nature
8 of that substitution?

9 A. Yes. The substitution was required because the
10 group of companies did not correspond with the companies
11 included on pages 1 and 2 of that same schedule. So we
12 needed to conform the third sheet of that Schedule 7 with
13 the first two so we have the same group of companies.

14 Q. It was just simply an error; is that correct?

15 A. Yes. It was a schedule lifted from another -- it
16 was prepared for another purpose.

17 Q. Does that change have any impact on your overall
18 rate of return recommendation in this case?

19 A. No.

20 Q. With that substitution, is the data set forth in
21 Exhibit PRM-1 true and correct, to the best of your
22 knowledge?

23 A. Yes.

24 MR. GADSDEN: Your Honor, at this time I would move
25 the admission of Statement 12 and Exhibit PRM-1, subject to

1 Mr. Moul's cross examination and any timely motions.

2 JUDGE TURNER: I just have one question for my own
3 information. That is; what was either added or deleted to
4 page 3 of 3, Mr. Moul?

5 THE WITNESS: Your Honor, I didn't actually make that
6 direct comparison. It was a separate set of companies that
7 was looked at for the purpose of another proceeding. And it
8 just got picked up by mistake.

9 There ought to be 23 companies in the substitute
10 schedule. In the original one there was a different number
11 of companies, some of which came out and some of which were
12 added.

13 JUDGE TURNER: So there are actually quite a few
14 changes?

15 THE WITNESS: Yes, there were quite a few changes,
16 Your Honor, that's quite correct.

17 (Pause.)

18 THE WITNESS: There were some overlapping companies,
19 but there were quite a number of changes.

20 JUDGE TURNER: Now, Mr. Gadsden has moved for admis-
21 sion of these statements, subject to any future motions to
22 strike or objections based on cross examination. Does any
23 party have an objection to that?

24 (No audible response.)

25 JUDGE TURNER: All right, they may be so admitted.

1 MR. GADSDEN: Thank you, Your Honor.

2 (Whereupon, the documents marked as PP&L
3 Statement No. 12 and PP&L Exhibit No. PRM-1 were
4 received in evidence.)

5 MR. GADSDEN: Mr. Moul, is available for cross
6 examination.

7 JUDGE TURNER: Mr. Gorka?

8 MR. GORKA: Thank you, Your Honor.

9 **CROSS EXAMINATION**

10 BY MR. GORKA:

11 Q. Good morning, Mr. Moul. I'm Stephen Gorka,
12 representing the Office of Trial Staff.

13 A. Good morning.

14 Q. Sir, referring you to page 26 of your direct
15 testimony.

16 A. Yes, I have that.

17 Q. You state that in your opinion, the investment
18 risk of PP&L is somewhat greater than that of the barometer
19 group; correct?

20 A. Yes.

21 Q. And you give PP&L's lower equity ratio as one
22 reason for this increased investment risk; correct?

23 A. Yes.

24 Q. Now, directing you to your Exhibit PRM-1,
25 Schedule 2, page 2...

1 (Pause.)

2 A. I'm sorry; which page was that again, please?

3 Q. Page 2.

4 A. Page 2, yes.

5 Q. You examined a Moody bond rating and the Standard
6 & Poors bond rating for both PP&L and your barometer group;
7 correct?

8 A. Yes.

9 Q. And isn't the Moody bond rating for both the
10 barometer group and PP&L A2?

11 A. Yes. Comparing the average of the barometer
12 group, correct.

13 Q. Okay, thank you. And the Standard & Poors bond
14 rating for the barometer group is A, while the rating for
15 PP&L is an A-; correct?

16 A. Yes, that's also correct.

17 Q. Okay. Now, looking at these figures, you came to
18 the conclusion that PP&L is a riskier investment. Would you
19 agree to that?

20 A. Yes.

21 Q. Could you agree that Standard & Poors gives an A-
22 stock rating for both the barometer group and PP&L?

23 A. That's correct.

24 Q. Doesn't this indicate similar risk?

25 A. The stock rankings are purely historical

1 measures. They look back over time and look at earnings
2 performance and dividend payments. It is not the type of
3 forward-looking analysis that perhaps the bond rating is
4 designed to capture.

5 MR. GORKA: Your Honor, may I request that you marked
6 for identification OTS Cross Examination Exhibit No. 1.
7 This exhibit consists of four OTS interrogatories which were
8 sent to Mr. Moul, as well as the responses and attachments
9 of Mr. Moul. And copies have been supplied to all parties
10 and to the court reporter and to Your Honor. May they be so
11 marked?

12 JUDGE TURNER: Does any party have an objection to
13 marking these?

14 (No audible response.)

15 JUDGE TURNER: And they are going to be Cross Exhibit
16 No. 1?

17 MR. GORKA: Yes.

18 JUDGE TURNER: It may be so marked.

19 MR. GORKA: Thank you.

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

22 BY MR. GORKA:

23 Q. Mr. Moul, directing your attention to Office of
24 Trial Staff Cross Examination Exhibit 1, page 1 -- do you
25 have a copy of this, sir?

1 A. Yes, I do.

2 Q. All right.

3 -- which is labeled OTS-RR-7. The Office of Trial
4 Staff requested your work papers for calculating the
5 averages for the alphabetical bond and stock ratings. You
6 responded with a value index of numerical values and
7 computed averages; correct?

8 A. Yes. These were the numerical values assigned to
9 each of the alphabetic rankings.

10 Q. Would you agree subject to check that if one uses
11 the provided value index to compute the numerical value of
12 your barometer group of Standard & Poors common stock, the
13 average value for the barometer group would be 3.375?

14 (Pause.)

15 A. I can accept that subject to check. This was for
16 the stock ranking or the bond rating?

17 Q. That would be the common stock.

18 A. Common stock ranking?

19 Q. Yes.

20 A. I can accept that subject to check.

21 JUDGE TURNER: Mr. Moul?

22 THE WITNESS: Yes, Your Honor?

23 JUDGE TURNER: For the rest of this proceeding I
24 would prefer if you can answer "yes," you answer "yes," and
25 if you can answer "no," you answer "no." Then we can go on

1 from there. Your answer to that is, "yes, subject to
2 check"?

3 THE WITNESS: Yes, Your Honor.

4 BY MR. GORKA:

5 Q. Again, sir, using the value index provided in
6 response to OTS-RR-7, would you agree that a 3.375 value
7 falls between the Standard & Poors stock ranking of A- and
8 B+?

9 A. Yes, that's correct.

10 Q. If PP&L's Standard & Poors stock ranking is A-
11 would you agree that PP&L has less risk than the barometer
12 group?

13 A. Can I have that question back again, please?

14 Q. If PP&L's Standard & Poors stock ranking is an
15 A-, would you agree that PP&L has less risk than the
16 barometer group?

17 A. I thought what we had established -- I don't mean
18 to quarrel with you, but the --

19 JUDGE TURNER: Excuse me. Can you answer that "yes"
20 or "no"?

21 (Pause.)

22 THE WITNESS: They would be the same.

23 BY MR. GORKA:

24 Q. Okay. Mr. Moul, would you agree that you
25 obtained an A- stock ranking for your barometer group by

1 rounding its value down to the 3.00?

2 A. Yes, I did.

3 Q. Now, sir, directing your attention to page 25 of
4 your direct testimony, and your discussion of IGFs.

5 (Pause.)

6 Q. Are you there, sir?

7 A. That was which page again, please?

8 Q. Page 25.

9 A. 25? Yes, I have that.

10 Q. Would you agree that a lower IGF percentage
11 signifies a higher risk?

12 A. As a generalization, correct.

13 Q. And also on that page, you expect the IGF for
14 PP&L to decline to 87 percent; correct?

15 A. Yes, that's correct.

16 Q. Do you expect the IGF for your barometer group to
17 behave similarly?

18 A. I have not looked at that. I can't respond to
19 that.

20 JUDGE TURNER: I can't hear you.

21 THE WITNESS: I did not look at that. I can't
22 respond to that.

23 JUDGE TURNER: Thank you.

24 BY MR. GORKA:

25 Q. Let's move back to page 23 and your discussion of

1 return on book equity. Just to clarify, sir, looking at
2 your coefficient of variation figures, are you stating that
3 PP&L has a lower indicated business risk than that of the
4 barometer group?

5 A. That's correct, based upon the historical
6 calculation.

7 Q. And moving forward to page 24, and your section
8 on operating ratios. Sir, would you agree that a lower
9 operating ratio indicates higher profitability?

10 A. Yes, that's one indication of it. There could be
11 other implications on that, but that is one.

12 Q. Thank you. And how does an operating ratio have
13 an impact on business risk?

14 A. Well, it has an impact in a number of ways. You
15 indicated one by your previous question as to profitability.
16 Operating ratios are also impacted by a tax situation of a
17 particular utilities. Utilities that operate in a high
18 income tax state, states with high corporate income taxes
19 typically have lower operating ratios.

20 The type of depreciation practices can also have an
21 impact on the operating ratio. There's a number of implica-
22 tions that can be, should be looked at when comparing
23 operating ratios.

24 Q. Okay, thank you. Now, moving to the coverage
25 section of your testimony, which is also on page 24, would

1 you agree that higher levels of coverage tend to indicate
2 lower business risk?

3 A. I don't think I can agree with that. They
4 certainly indicate lower --

5 JUDGE TURNER: Will you answer "yes" or "no"?

6 THE WITNESS: No, I don't agree with that.

7 BY MR. GORKA:

8 Q. And on your quality of earnings section, which is
9 also on page 24 and 25, you stated that PP&L expects an
10 increase in the AFUDC percentage in the future; correct?

11 A. Yes.

12 Q. Now, directing your attention to your exhibit,
13 Schedule 1, page 1.

14 A. Yes, I have that.

15 Q. Would you agree that your 1993 AFUDC figure for
16 PP&L is 5.0 percent?

17 A. Yes, that's correct.

18 Q. And on Schedule 2, page 1, the 1993 AFUDC figure
19 for the barometer group is 6.5 percent. Would you agree
20 with that?

21 A. Yes, that's also correct.

22 Q. Would this indicate a lower risk for PP&L at this
23 point in time?

24 A. Yes, at that particular point in time.

25 Q. Okay. Now, sir, on pages 25 and 26 of your

1 direct testimony, is it your opinion that comparison of
2 betas show PP&L's market risk to be higher than that of the
3 barometer group?

4 A. Yes.

5 Q. Would your answer be the same if you compared
6 PP&L's data as calculated by Value Line, as opposed to
7 Merryll Lynch, to that of the barometer group?

8 A. I made that comparison, yes, I did.

9 JUDGE TURNER: Would your answer be the same?

10 THE WITNESS: The Value Line betas are somewhat
11 lower, Your Honor, for PP&L.

12 BY MR. GORKA:

13 Q. Now, referring you, sir, to OTS Cross Examination
14 Exhibit 1, page 2, which is designated OTS-RR-13, would you
15 agree, sir, that you typically employ a twelve-month
16 dividend yield in your DCF computations when capital cost
17 rates are relatively stable?

18 A. Yes.

19 Q. If capital costs begin to decline again, would
20 you use a period of less than twelve months in your
21 comparison?

22 A. It would depend upon the factors that are contri-
23 buting to that.

24 JUDGE TURNER: Is your answer "yes" or "no"?

25 THE WITNESS: It would depend, Your Honor.

1 Typically, I would want to look at what the trend is.

2 JUDGE TURNER: Okay.

3 THE WITNESS: And using a twelve-month average, it
4 typically masks --

5 JUDGE TURNER: You can't answer it "yes" or "no," is
6 that correct?

7 THE WITNESS: Correct.

8 JUDGE TURNER: Okay.

9 Go ahead.

10 BY MR. GORKA:

11 Q. Moving on to page 3, which is designated
12 OTS-RR-14, the OTS requested academic evidence in support of
13 the ex-dividend adjustment to dividend yields; correct?

14 A. Yes.

15 Q. And in response you provided the Office of Trial
16 Staff with an attachment, which is on pages 4 and 5 of OTS
17 Cross Examination Exhibit 1, which was offered by
18 James C. Van Horne, and which you relied upon; is that
19 correct?

20 A. Yes, that was the attachment to the response.

21 Q. Okay. Would you agree that nowhere in this
22 article does Mr. Van Horne mention an ex-dividend adjustment
23 to dividend yield in the specific context of a DCF analysis?

24 A. Yes, that's correct.

25 Q. Also in OTS-RR-14, the Office of Trial Staff

1 requested any investor influencing financial publications
2 that provide this adjusted dividend yield to investors. Are
3 you aware of any, sir?

4 A. No.

5 Q. Now, directing you to OTS Cross Examination
6 Exhibit 1, page 6, which is designated OTS-RR-15, the Office
7 of Trial Staff requested dividend yield calculations without
8 the ex-dividend adjustment; correct?

9 A. That's correct, among other things.

10 Q. Thank you. Would you agree that no separate
11 calculations were performed prior to the ex-dividend
12 computed dividend yield?

13 A. I don't understand that question.

14 MR. GORKA: One moment, Your Honor?

15 JUDGE TURNER: Yes.

16 (Off-the-record pause.)

17 JUDGE TURNER: Do you want to rephrase the question,
18 Mr. Gorka?

19 MR. GORKA: Hopefully I will be able to come up with
20 another question.

21 JUDGE TURNER: Okay.

22 BY MR. GORKA:

23 Q. Sir, in your calculations, did you --

24 JUDGE TURNER: Refresh me; what exhibit are we
25 referring to? What page of your attachment?

1 MR. GORKA: Oh, that would be page 6, Your Honor.

2 JUDGE TURNER: Page 6. Which is --

3 MR. GORKA: OTS-RR-15.

4 JUDGE TURNER: All right.

5 MR. GORKA: Let me just move on.

6 JUDGE TURNER: Well, you didn't ask your question
7 yet; I'm sorry.

8 MR. GORKA: One moment, if I may, Your Honor.

9 JUDGE TURNER: Okay. If you want to withdraw the
10 question, you may.

11 (Off-the-record pause.)

12 BY MR. GORKA:

13 Q. Sir, would agree that you did not provide a
14 dividend yield that did not include the ex-dividend
15 adjustment?

16 (Pause.)

17 JUDGE TURNER: Are you saying prior to this answer to
18 this exhibit?

19 MR. GORKA: In performing these computations for this
20 exhibit.

21 JUDGE TURNER: Prior to this answer to OTS-RR-15, you
22 did not?

23 THE WITNESS: That is correct, Your Honor.

24 JUDGE TURNER: Okay.

25 MR. GORKA: As far as the response.

1 JUDGE TURNER: Or as a response, you're asking?

2 BY MR. GORKA:

3 Q. I'm asking you, sir.

4 JUDGE TURNER: Okay.

5 THE WITNESS: There is no specific calculation that
6 would give you that figure, although there's enough data to
7 make that calculation. I can do that, if you'd like.

8 MR. GORKA: That's not necessary, sir.

9 JUDGE TURNER: So the answer is, he did not provide
10 it either before or separately in this answer?

11 MR. GORKA: That's my understanding.

12 JUDGE TURNER: Okay.

13 BY MR. GORKA:

14 Q. Moving on to the growth rate section of your
15 testimony, which is on page 43.

16 A. Yes, I have that.

17 Q. Would you agree that you concluded that an
18 expected 3.5-percent growth rate is appropriate for both
19 PP&L and the barometer group?

20 A. In part, that's correct.

21 Q. And, sir, you added the .5 percent to this rate
22 to adjust for market-wide factors; correct?

23 A. Yes, that is correct.

24 Q. Now, looking at PP&L's growth rate, which I
25 believe is on page C-13 of your Appendix C.

1 JUDGE TURNER: So we're now referring to page C-9 of
2 Statement 12?

3 MR. GADSDEN: C-13, I thought it was.

4 MR. GORKA: C-13.

5 JUDGE TURNER: C-13.

6 BY MR. GORKA:

7 Q. Are you there, sir?

8 A. Yes, I am.

9 Q. Would you agree that you primarily used
10 historical growth data to derive your 3.5-percent figure?

11 (Pause.)

12 A. I would not agree with the characterization
13 "primarily." It was clearly something I looked at, sure.

14 Q. Now, for the barometer group's 3.5-percent growth
15 rate, would you agree that you substantially discounted the
16 historical growth rate?

17 A. Because of the negatives, as I indicated in my
18 testimony, that's correct. I think I had quite a lengthy
19 discussion in there about how the negatives influenced that
20 figure.

21 JUDGE TURNER: So your answer is "yes"?

22 THE WITNESS: Yes.

23 BY MR. GORKA:

24 Q. Finally, Mr. Moul, on page 43 of your direct
25 testimony, you state that monetary policy is one of the

1 factors leading to your .5-percent growth rate; correct?

2 A. That was one of a number of factors, correct.

3 Q. Okay. Would you agree that the influence of this
4 factor could be negative?

5 A. Oh, absolutely, sure.

6 MR. GORKA: Your Honor, I have no further questions
7 for Mr. Moul. But I would now like to move for the
8 admission of OTS Cross Examination Exhibit No. 1 into the
9 record.

10 JUDGE TURNER: Does the company have any objections?

11 MR. GADSDEN: No objections.

12 JUDGE TURNER: It shall be admitted.

13 MR. GORKA: Thank you, Your Honor.

14 (Whereupon, the document marked as OTS Cross
15 Examination Exhibit No. 1 was received in
16 evidence.)

17 JUDGE TURNER: OCA, do you have questions?

18 MS. KENNEY: Yes, Your Honor. Thank you.

19 **CROSS EXAMINATION**

20 BY MS. KENNEY:

21 Q. Good morning, Mr. Moul. My name is Mary Kenney,
22 and I'm with the Office of Consumer Advocate.

23 A. Good morning.

24 Q. I'd like to refer you to your testimony at page
25 40, line 19.

1 A. Yes, I have that.

2 Q. You discuss the problem of stale market data. In
3 light of this concern, did you plan to submit a cost of
4 capital update in this proceeding?

5 A. Yes.

6 Q. When do you plan to submit that update?

7 A. My intention at this point is to do that at the
8 time of the rebuttal.

9 Q. Will the update employ the same methods and
10 procedures employed in your direct testimony?

11 A. Yes, that's the procedure I typically follow in
12 my updates.

13 Q. With respect to dividend yields, what time period
14 do you intend to use in your update?

15 A. I would look at the twelve months, as I did in my
16 direct testimony. And I would also look at the, as I did in
17 the direct testimony, the six- and the three-month averages
18 as well, and then form a judgment as to what's
19 representative from those three sets of figures.

20 Q. Now, referring also to page 40, am I correct that
21 you indicate that your study changes your past practice of
22 using twelve-month averages for DCF purposes?

23 A. Yes, that's been an evolutionary type of
24 procedure I've been following.

25 Q. Is this the first time that you have not relied

1 on twelve-month averages for DCF purposes?

2 A. The first -- yes, that's the first time in this
3 jurisdiction. But in other jurisdictions I have followed
4 that practice.

5 Q. What time period are you using instead of the
6 twelve-month average?

7 A. In this case?

8 Q. Yes.

9 A. As I state in my testimony, I didn't link it to a
10 specific time frame. I looked at, as I indicated, the
11 twelve-, six- and three-month averages, and picked what I
12 believed to be a representative figure from those.

13 Q. What is the representative yield?

14 A. The one that I actually adopted?

15 Q. Yes.

16 A. It was 8.25 percent for PP&L and 7.75 percent for
17 the barometer group.

18 Q. Is that a twelve-month, a six-month or a three-
19 month?

20 A. None of the above. It's closer to the six months
21 than to either of the other ones you cited. So it's not
22 linked specifically to any one of those three, but it's
23 closer to the six.

24 Q. Mr. Moul, have you been in rate cases where the
25 trend in utility dividend yield was downward during the

1 twelve-month period of your DCF study?

2 A. Oh, yes.

3 Q. In those cases did you consider changing the
4 twelve-month average in favor of something more representa-
5 tive of the market trend?

6 A. I can't think of any instance where I did what
7 you suggested. But I'd have to go back and refresh my
8 memory on that.

9 Q. But you believe that the answer to that question
10 would be no, that you did not change from the twelve-month
11 average in favor of something more representative in the
12 market trend?

13 JUDGE TURNER: Can you say no, subject to check?

14 THE WITNESS: I guess I could respond that way, Your
15 Honor. The other thing that distinguishes some of those
16 cases you're talking about, I initially began by looking,
17 adopting a six-month average, and often expanded that to
18 twelve, Your Honor. So the procedure varies.

19 JUDGE TURNER: Okay. But the answer is no, subject
20 to check, and then you explained circumstances which made
21 you do that.

22 (Witness nodding head up and down.)

23 JUDGE TURNER: Okay.

24 BY MS. KENNEY:

25 Q. Mr. Moul, when did you prepare the studies you

1 relied on in your testimony?

2 A. I looked at market evidence through October. So
3 I would have been working on this testimony late November,
4 early December. Maybe mid-December.

5 Q. Would you agree that there has been a downward
6 trend in electric utilities' dividend yields since the time
7 you prepared this study?

8 A. As a generalization?

9 Q. Yes.

10 A. Yes, from the levels that were experienced in,
11 say, November of '94. That's just a generalization, though.

12 Q. Now, you had a little bit of discussion,
13 Mr. Moul, related to the growth rates. What DCF growth rate
14 did you select for both PP&L and the proxy group?

15 A. I used four percent in my DCF. But that was
16 comprised of two components.

17 Q. Am I correct that this four percent includes a
18 3.5 percent company-specific growth rate, plus 0.5 percent
19 for market-wide factors?

20 A. Yes, that's correct.

21 Q. What factors specifically rise to that 0.5-
22 percent increment for growth?

23 A. They were the ones I listed on page 43.

24 (Pause.)

25 A. Look at lines 25 through 28.

1 Q. So in reference to my question, are all of these
2 factors that you've referenced, you utilized all of these
3 factors to determine this 0.5-percent increment in growth;
4 is that correct?

5 A. Yes.

6 Q. Are these market-wide factors captured in
7 analysts' projections of dividends of earnings growth?

8 A. That question's difficult to respond to, because
9 each analyst views these in different ways. I'm not trying
10 to be difficult, but it's hard to give you a definitive
11 answer to that.

12 Q. I would like to refer you to page 43 of your
13 testimony, line 30.

14 A. Yes, I have that.

15 Q. You link the 0.5 percent to additional opportuni-
16 ties beyond the five-year projection horizon. What opportu-
17 nities are you referring to?

18 A. Well, I listed one of them in particular, which
19 is a changing characteristic of the electric utility
20 industry. I also talked on page C-14 about where the
21 company stood within its earning cycle. Those are two that
22 come to mind.

23 Q. Are you referring to non-utility business?

24 A. No, I was not. I'm aware that the company is
25 engaged in non-utility investments, or will be. But that

1 was not the primary driver to making that statement.

2 Q. Is it your position that such opportunity would
3 be more profitable than the current business of these
4 utilities?

5 A. It depends on how successful the company is in
6 those endeavors. Again, that's a tough one to respond to.

7 Q. I'd like to refer you to your Exhibit PRM-1. And
8 in particular, to Schedules 9 and 10.

9 A. Yes, I have that.

10 Q. Am I correct that the growth rate data that you
11 examined is shown on Schedules 9 and 10?

12 A. Yes.

13 Q. According to Schedule 9, page 2 of 3, historical
14 measures, isn't it true that the historical measures are all
15 below the 3.5-percent growth rate?

16 A. Yes, as an average. Those are averages on there
17 for the group; that's correct.

18 Q. Turning to Schedule 9, page 3, the historic
19 internal growth rates for the years 1989 to 1993. Isn't it
20 true that for the five-year average, excluding negatives,
21 the historical measures are all below your 3.5-percent
22 growth rate?

23 A. Yes, your statement's correct. But I did not
24 exclude the negatives on that sheet. Just to be clear. But
25 you're right, they are below that figure, correct.

1 Q. I would also like to refer you to page 2 of
2 Schedule 10.

3 A. I have that.

4 Q. Am I correct that only two of these measures are
5 above 3.5 percent and the rest are below?

6 A. Yes, as group averages, correct.

7 Q. Would you agree with me, Mr. Moul, that most of
8 the measures shown on pages 2 of Schedule 9 and 10 are well
9 below your 3.5-percent growth rate recommendation?

10 A. Yes, they are below. Except for the two that you
11 noted.

12 Q. I would like to refer you to your testimony at
13 page 48.

14 A. I have that.

15 Q. On page 48, in summarizing your risk premium
16 results, you use a bond return of nine percent and an equity
17 premium of 4.75 percent.

18 A. Yes.

19 Q. Is the equity premium based primarily on long-run
20 historic market returns?

21 A. Yes.

22 Q. What regulatory commissions have accepted the
23 historical returns method?

24 A. I haven't done a thorough research on that.

25 Q. Do you know of any?

1 (Pause.)

2 A. It's a difficult question to respond to. It's
3 difficult to know sometimes exactly what the commissions
4 weigh most heavily in coming up with their result. I'd have
5 to research that for you.

6 JUDGE TURNER: You say that your answer is no,
7 subject to check? You're not aware of any, but you might
8 want to examine it?

9 (Pause.)

10 THE WITNESS: No, unless I can -- that's correct,
11 Your Honor. No, unless I can find one for you.

12 JUDGE TURNER: Thank you.

13 BY MS. KENNEY:

14 Q. Mr. Moul, I'd like to refer you to page 46 of
15 your testimony, line 10.

16 A. Yes, I have that.

17 Q. When you stated that nine percent is a reasonable
18 estimate of a prospective long-term debt cost rate, do you
19 mean that investors expect to earn that nine percent on
20 utility bonds?

21 (Pause.)

22 A. Yes, the marginal investor, that's correct.

23 Q. Is that just in the very near term? Or is that a
24 long-term expectation?

25 A. Well, if you're looking -- it would be long-term

1 if you look at the marginal investor. If he buys the bond
2 and holds it, that's what he's going to get to maturity.

3 Q. Would you agree with me that investors are
4 expecting over the long term, say the next 10 to 20 years,
5 that bond returns will decline very sharply?

6 A. I can't respond to that.

7 Q. You can't agree with me or disagree with me?

8 A. Can I have the question back, please?

9 Q. Would you agree with me that investors are
10 expecting over the long term, say the next 10 to 20 years,
11 that bond returns will decline very sharply?

12 A. I can't respond to that. That would require
13 speculation. I can't respond to that.

14 Q. Now, referring again to your Exhibit Schedule
15 PRM-2, at Schedule 12, page 1.

16 A. Yes, I have that.

17 Q. On Schedule 12, page 1, is this data the basis of
18 your risk premium recommendation?

19 A. Yes.

20 Q. And does this data show historic returns on bonds
21 to be about five to six percent?

22 A. Yes. You're looking at the summary statistics at
23 the bottom?

24 Q. Yes.

25 A. Correct.

1 Q. If historic returns on bonds are about five to
2 six percent, why not use six percent as a prospective return
3 rather than nine percent?

4 A. The reason is, we would be looking at the average
5 cost of capital over the time period 1928 to 1993. What
6 we're trying to do here is come up with a prospective cost
7 of capital for the future.

8 Q. If history is a guide, should investors expect to
9 earn six percent, not nine percent, on utility and corporate
10 bonds?

11 A. No, I would disagree with that. Because what
12 we're looking at is what investors require today to take a
13 position on the bond.

14 Q. So investors expect to earn more than the
15 historic six percent?

16 A. Well, what they're expecting to ear is what bond
17 yields are today.

18 Q. I'd like to refer you to your testimony, Appendix
19 B, at page B-6.

20 A. Yes, I have that.

21 Q. At line 19 you cite an historical return on
22 equities from 1926 to 1993 of 12.3 percent. Given that
23 result, would it not be reasonable for investors to expect
24 to earn 12.3 percent on the overall stock market?

25 A. No, I think you're misinterpreting what I said on

1 that page. I used that figure to get the market premium,
2 not to project the return. I think you're misinterpreting
3 what I said there.

4 Q. So you used this data to calculate a premium over
5 government bonds of 6.9 percent; is that correct?

6 A. That's what I said there.

7 Q. Would you agree that the current long-term
8 Treasury bond rate is approximately 7.5 percent?

9 A. Today, yes.

10 Q. Am I correct that combining a 6.9 and 7.5 percent
11 results in a 14.4 return on stock market?

12 A. What was that figure again, 14.4?

13 Q. 14.4.

14 A. Yes, I agree with that.

15 Q. In your opinion, are investors in general expect-
16 ing a long-run average return on the stock market as high as
17 14.4 percent?

18 A. That or higher.

19 Q. I have a few questions regarding the term
20 "comparable earnings method."

21 MS. KENNEY: Your Honor, at this time I would like
22 to mark for identification as OCA Cross Examination Exhibit
23 No. 1 the company's response to OCA Interrogatory Set V,
24 No. 20.

25 (Copies of document distributed to all parties.)

1 JUDGE TURNER: Does the witness have a copy?

2 THE WITNESS: Yes, I do, Your Honor.

3 JUDGE TURNER: Mr. Gadsden, do you want some time to
4 look at this before she begins to ask question on it?

5 MR. GADSDEN: I'm happy to have my witness take a
6 minute to look it over, Your Honor.

7 JUDGE TURNER: We will mark this as OCA Cross
8 Examination Exhibit No. 1. And if you have no immediate
9 objections, Mr. Gadsden, go ahead and cross-examine on it.

10 MR. GADSDEN: That's fine, Your Honor.

11 JUDGE TURNER: Thank you.

12 (Whereupon, the document was marked as OCA Cross
13 Examination Exhibit No. 1 for identification.)

14 JUDGE TURNER: Ms. Kenney?

15 MS. KENNEY: Thank you, Your Honor.

16 BY MS. KENNEY:

17 Q. Mr. Moul, I would like to refer you to your
18 response to OCA Interrogatory Set V, No. 20, particularly
19 sub-part 20.a. What does the term, "market-determined cost
20 of common equity," mean?

21 A. That was a term used in the question. And I
22 interpreted that to mean a model of the cost of equity which
23 was based upon stock market prices, or something akin to
24 that.

25 Q. The interrogatory asks whether the comparable

1 earnings technique is designed to produce an estimate of
2 PP&L's market-determined cost of equity.

3 Is a proper interpretation of your answer to this
4 interrogatory response, no, it does not?

5 A. That's correct, not in the context of stock-
6 market-derived cost models.

7 Q. In your opinion, is a utility's market-determined
8 cost of equity a fair return on equity?

9 A. It can be. There are other factors that would
10 should be looked at in addition to that.

11 JUDGE TURNER: Can you give a "yes" or "no" answer to
12 that question?

13 THE WITNESS: I don't think I really can, Your Honor.
14 In certain circumstances it would, and I would answer "yes."
15 But I can think of other instances where I'd have to respond
16 "no."

17 JUDGE TURNER: Thank you.

18 BY MS. KENNEY:

19 Q. Mr. Moul, do you agree with this statement? A
20 utility's fair return on equity should not reflect monopoly
21 profits?

22 A. I don't understand that question.

23 Q. Do you believe that a utility's fair return on
24 equity should include monopoly profits, or reflect monopoly
25 profits?

1 A. I'm still having trouble dealing with the context
2 you're using "monopoly."

3 Q. Do you agree that regulation should prevent
4 utilities from exercising monopoly power, and thereby
5 extracting monopoly profits?

6 A. I would agree with that. Because my belief is
7 that regulation is a substitute for competitively determined
8 returns.

9 Q. Now, I'd like to refer you to your Exhibit PRM-1,
10 Schedule 7, page 1.

11 A. Yes, I have that.

12 Q. Am I correct that all of the pages of Schedule 7,
13 now, pages 1 through 3, all reflect the same group of
14 companies?

15 A. Yes.

16 Q. Are any of these companies monopolies?

17 A. No.

18 Q. Is it reasonable to suppose that market power and
19 monopoly power can translate into monopoly profits for
20 unregulated companies?

21 (Pause.)

22 A. A difficult question to answer. Initially it
23 could. But I would suspect that there would be intervening
24 factors that would preclude that from happening over the
25 long run.

1 Q. What studies or analyses have you done to ensure
2 that none of the earnings report on Schedule 7, for the
3 comparable risk companies, is derived from possession of
4 monopoly power?

5 A. What studies I've done?

6 Q. Yes. Or any investigation.

7 A. No specific studies, other than my general
8 knowledge of what these companies' business lines they're
9 engaged in.

10 Q. Staying with Exhibit PRM-1, please turn to
11 Schedule 14.

12 A. Yes, I have that.

13 Q. Am I correct that you calculate a proforma
14 coverage ratio of 4.03 times for PP&L?

15 A. Yes, that's my calculation. I don't know if I'd
16 call it proforma, but it is my calculation.

17 Q. Is it your position that no coverage value lower
18 than 4.03 is acceptable in setting PP&L's rate of return?

19 A. No, I can agree with that.

20 Q. What would be minimally acceptable?

21 A. I've made that calculation. I believe a 4.03 is
22 appropriate. But at the same time, your question was, is
23 there any coverage less than that that you might want to
24 consider. Sure, there are other coverages you'd want to
25 consider. But that would be my preferred level of coverage.

1 Q. What is the S&P benchmark for a pre-tax coverage
2 for a single A electric utility in the average business
3 position category?

4 A. I provided that on page 21.

5 JUDGE TURNER: Of your testimony?

6 THE WITNESS: Of the testimony, Your Honor, correct.

7 For the A, average would be 3.50.

8 BY MS. KENNEY:

9 Q. Is PP&L included in the S&P average business
10 position group?

11 A. At that moment they are, yes.

12 Q. Now, I would like to turn your attention to
13 Exhibit PRM-1, Schedule 1, page 1.

14 A. Yes, I have that.

15 Q. Now, this schedule shows PP&L's pre-tax coverage
16 for the period 1989 to 1993. Would you agree that the
17 coverage has ranged from 2.9 to 3.4 percent?

18 A. Yes.

19 Q. What was PP&L's S&P bone rating during the five-
20 year period 1989 to 1993?

21 A. I really don't recall specifically. I know it
22 had improved over, since the last rate case. Whether that
23 improvement from the triple B to the single A occurred
24 during this time frame, I'd have to go back and check for
25 you.

1 Q. Would you accept subject to check that it was
2 single A?

3 A. For most of the time period, correct. There had
4 been some improvement historically. Whether it was in this
5 time frame or not, I don't recall.

6 Q. Please turn to Schedule 2, page 1.

7 JUDGE TURNER: Excuse me. If your answer changes
8 after you check it, please be sure to let us know. Because
9 your answer here stands, having agreed to it.

10 THE WITNESS: Okay, sure.

11 BY MS. KENNEY:

12 Q. Schedule 2, page 1.

13 A. Yes, I have that.

14 Q. Am I correct that this schedule shows the
15 coverage ratios for your barometer group of eight electric
16 companies ranging from 2.6 to 3.1?

17 A. Yes.

18 Q. Are these companies largely rate single A?

19 A. Yes.

20 Q. Please refer to your testimony at page 15, at
21 line 3.

22 A. Yes, I have that.

23 Q. You discuss two customers lost to self-
24 generation. Am I correct that this loss occurred in the
25 1987-1988 time period?

1 A. If you give me a second, I think we responded to
2 an interrogatory on that.

3 Q. Yes, I have that interrogatory, if you would like
4 it for reference.

5 A. Is that what that says?

6 MS. KENNEY: May I?

7 JUDGE TURNER: Yes.

8 THE WITNESS: I mean, I agree with that --

9 (Document handed to witness.)

10 THE WITNESS: I agree with that. That's on the
11 response. '87-88, correct.

12 JUDGE TURNER: So your answer to her question is,
13 yes, you did?

14 THE WITNESS: Yes.

15 BY MS. KENNEY:

16 Q. Using that interrogatory as a reference, how much
17 non-fuel revenue did PP&L lose?

18 A. About \$202,000.

19 Q. To your knowledge, is this the only self-genera-
20 tion bypass on the PP&L system?

21 A. That's my understanding, correct, to date.

22 MS. KENNEY: Your Honor, that's all the cross that I
23 have for Mr. Moul. I would like to move OCA Cross
24 Examination Exhibit 1 into the record.

25 JUDGE TURNER: Was this last interrogatory a part of

1 OCA 1?

2 MS. KENNEY: No, it wasn't, Your Honor. I just gave
3 that to Mr. Moul to save time for him looking it up. But I
4 don't need to make that part of the record.

5 JUDGE TURNER: Mr. Gadsden, do you believe the record
6 is clear without that interrogatory being entered?

7 MR. GADSDEN: I believe it is.

8 JUDGE TURNER: Do you have any objection to OCA Cross
9 Examination Exhibit 1?

10 MR. GADSDEN: I do not.

11 JUDGE TURNER: It will be admitted then.

12 MS. KENNEY: Thank you, Your Honor.

13 **(Whereupon, the document marked as OCA Cross**
14 **Examination Exhibit No. 1 was received in**
15 **evidence.)**

16 JUDGE TURNER: Ms. Moury informed me that she had to
17 attend to other business for her office and would be out of
18 the hearing room, but had no questions at this point.

19 What other counsel or participant has questions at
20 this point?

21 MR. KLEPPINGER: I do, Your Honor.

22 JUDGE TURNER: Okay, Mr. Kleppinger.

23 MR. McCORMICK: Just one.

24 MR. EPSTEIN: Just a few brief questions.

25 JUDGE TURNER: Why don't we proceed with

1 Mr. Kleppinger, and then Mr. McCormick, and then
2 Mr. Epstein.

3 MR. KLEPPINGER: Thank you, Your Honor.

4 **CROSS EXAMINATION**

5 BY MR. KLEPPINGER:

6 Q. Good morning, Mr. Moul.

7 A. Good morning.

8 Q. With respect to the substitute page provided us
9 for PRM-1, Schedule 7, page 3 of 3, both the substitute page
10 and the original page are based on information extracted
11 from Value Line's Value Screen database dated October 1994;
12 correct?

13 A. Yes.

14 Q. And while there are some new companies listed and
15 some companies extracted in the substitute, some of the
16 companies have remained constant, have they not?

17 A. Yes.

18 Q. For a company like, let's take U.S. Trust, which
19 is on both the original Schedule 7 and substitute Schedule
20 7, I note that the DCF result differs for that company, and
21 increases by 2.5 percentage points on the old exhibit to the
22 substitute exhibit.

23 My question is why that would occur when apparently
24 it's the same Value Line Value Screen database in October of
25 '94 was used.

1 A. I don't have an answer for you with me on that
2 point. I'd have to look that up and get back to you.

3 MR. KLEPPINGER: Your Honor, I believe it would be
4 appropriate at this time to make an on-the-record data
5 request providing an explanation for any company that
6 appears on both the original Schedule 7 and on the sub-
7 stitute Schedule 7, page 3 of 3, where the DCF result has
8 changed.

9 MR. GADSDEN: That's fine.

10 JUDGE TURNER: All right. When will you provide that
11 answer?

12 MR. GADSDEN: I believe the rules say within ten
13 days. But we'll certainly get it in everybody's hands as
14 soon as we can.

15 JUDGE TURNER: All right.

16 Do you feel that you want to recall Mr. Moul to ask
17 questions on that?

18 MR. KLEPPINGER: That won't be necessary, Your Honor.

19 JUDGE TURNER: Okay. So within ten days you'll have
20 it in the hands of all participants?

21 MR. GADSDEN: We will, yes.

22 JUDGE TURNER: All right.

23 Anything further, Mr. Kleppinger?

24 MR. KLEPPINGER: Yes, Your Honor.

25

1 BY MR. KLEPPINGER:

2 Q. Mr. Moul, have you analyzed what each percentage
3 in the return on common equity in this case translates into
4 in terms of a revenue requirement impact?

5 A. No, I have not. But I've had some conversations
6 with company personnel that gave me an indication of that.

7 Q. And was that indication in the range of approxi-
8 mately \$42 million of revenue requirement for each one
9 percentage component in the return on common equity of that?

10 A. I heard a different figure. But perhaps you
11 ought to check with a company person on that.

12 Q. So as you sit here today, you don't know, for
13 example, if your recommendation of 13 percent on common
14 equity will reduce to 12 percent, what the revenue require-
15 ment impact would be?

16 A. I only know what I've been told by company
17 personnel.

18 Q. And what's the number you've been told?

19 A. I heard a figure, I think, of 60 --

20 Q. 60?

21 A. -- million.

22 JUDGE TURNER: 60 million?

23 THE WITNESS: Million.

24 JUDGE TURNER: That's solely based on conversations
25 with company employees?

1 THE WITNESS: Yes.

2 JUDGE TURNER: Not on your calculations?

3 THE WITNESS: You're right, Your Honor. I've done no
4 independent analysis.

5 BY MR. KLEPPINGER:

6 Q. So as you've prepared your recommendation in this
7 case, you didn't analyze that issue of what each percent on
8 common equity meant in terms of revenue requirement?

9 A. No, I did not.

10 Q. You are also recommending in this case, are you
11 not, the use of a future capital structure as opposed to the
12 historic capital structure?

13 A. Yes.

14 Q. And am I correct that the common equity ratio in
15 a capital structure is increasing from 44.96 percent in the
16 historic year to 45.88 percent, as you recommend?

17 A. I'm sorry; what were those figures again, please?

18 Q. The historic period was 44.96 percent, and your
19 recommended capital structure equity ratio was 45.88
20 percent?

21 A. Yes, those numbers are correct.

22 Q. And roughly, that translates to a one-percent
23 increase in the equity ratio? One-percent of 100 basis
24 points, roughly; 44.96 to 45.88.

25 A. .92 percent.

1 Q. .92 percent. Is the primary factor contributing
2 to that change in equity ratio the company's proposed
3 issuance of \$100 million in new equity in August of 1995?

4 A. Yes, that is a contributing factor.

5 Q. Is it one of the major factors, in your mind?

6 A. It is a major factor. The other would be the
7 retirement of the --

8 (Pause.)

9 A. The \$95 million -- or \$95.5 million of 9-1/4
10 percent series bonds. That would also contribute to that.

11 Q. Did you conduct any study, Mr. Moul, which would
12 evaluate whether the issuance of \$100 million in equity on
13 or about August of 1995 is a cost-beneficial financing tool
14 to employ?

15 A. I did not analyze it in the context of a
16 numerical type study. In your question you talk about cost
17 benefit. That has an implication to me that it would have
18 been a numerical type analysis. That I did not do. But I
19 did analyze it in the context of other factors affecting the
20 industry.

21 Q. I'm sorry, I didn't hear that.

22 A. Other factors affecting the industry generally,
23 and the company in particular.

24 JUDGE TURNER: Excuse me. I don't understand the
25 answer. You say you didn't conduct a numerical study?

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

2 JUDGE TURNER: So what did you do?

3 THE WITNESS: I looked at the equity issue in the
4 context of what's going on in the industry general, and the
5 company in particular.

6 JUDGE TURNER: So you looked at it generally?

7 THE WITNESS: Correct, in a general way, that's
8 correct.

9 JUDGE TURNER: Nothing specific?

10 THE WITNESS: No numerical study, Your Honor.

11 JUDGE TURNER: I'm sorry, Mr. Kleppinger, go ahead.

12 MR. KLEPPINGER: That's fine, Your Honor. I was
13 about to follow it the same way.

14 BY MR. KLEPPINGER:

15 Q. The review that you conducted, would you consider
16 it a full prudence review of whether it is prudent for this
17 company at this point in time to issue \$100 million in
18 equity in August of '95?

19 A. I think it's the correct thing for the company to
20 do.

21 Q. No, that wasn't the question. The question was
22 whether your review that you conducted was sufficient in
23 order for you to conclude that, in fact, it is prudent for
24 the company to make that stock issuance in August of '95.

25 JUDGE TURNER: And please answer that "yes" or "no."

1 THE WITNESS: Yes.

2 BY MR. KLEPPINGER:

3 Q. And that review was done without a numerical
4 study?

5 A. That is correct.

6 Q. Turning to your testimony on page 3, lines 3 and
7 4.

8 A. I have that.

9 Q. You use the term "additional competition." What
10 are the forms of additional competition that you had in mind
11 when you used that term in your testimony?

12 A. They are the factors that are contributing
13 towards, how do you say, an opening up of what formerly was
14 a more protected market. I cite there in particular the
15 Energy Policy Act of 1992 being a contributing factor.

16 Q. Was one of the forms of competition you had
17 envisioned there the use of on-site generation by PP&L's own
18 retail customers?

19 A. No, because that's been around a while. That's
20 nothing new.

21 Q. Was one of the forms of competition you
22 envisioned at that portion of your testimony other utilities
23 servicing PP&L's retail customers?

24 A. Yes.

25 Q. Is your understanding that under the Energy

1 Policy Act of 1992 that that can occur today? Namely, that
2 another utility could provide service to PP&L's retail
3 customers?

4 A. Not retail, wholesale.

5 Q. Was one of the forms of competition you
6 envisioned the advent of exempt wholesale generators through
7 generation marketplace?

8 A. Yes.

9 Q. Was one of the forms of competition that from a
10 qualified facility in the generation market?

11 A. No, because they've been around for a while.

12 Q. So in terms of the opening up, if you will, the
13 new competition, I guess, that you're referring to here, is
14 from exempt wholesale generators and other utilities, if I
15 understand your answers correctly. Are there others?

16 A. Well, yes. It's generally the trend towards
17 additional competition. As you correctly pointed out, the
18 Energy Policy Act precludes retail wheeling.

19 JUDGE TURNER: In order to have it clear, he kind of
20 asked you a two-part question. Your answer is, yes, you
21 considered the two that he specified; and then, yes, that
22 there are others?

23 THE WITNESS: There are other factors that contribute
24 to that, correct.
25

1 BY MR. KLEPPINGER:

2 Q. In making reference to a trend, what would these
3 other factors be other than the ones that we've already
4 discussed?

5 A. Oh, the factor would be retail wheeling as a next
6 step.

7 Q. But when we discussed the Energy Policy Act, I
8 think you referred to wholesale competition, or wholesale
9 wheeling; correct?

10 A. That's correct.

11 Q. And is it your understanding that that allows for
12 retail wheeling?

13 A. No, I responded to your question that that does
14 not allow retail wheeling.

15 Q. Does competition, in your mind, exist today for
16 the retention of PP&L's retail customers?

17 A. I don't understand the question.

18 Q. Is there competition in today's marketplace for
19 the retention of PP&L's retail customers?

20 A. I still don't understand that.

21 JUDGE TURNER: What is it you don't understand?

22 THE WITNESS: Well, he's speaking of retail
23 customers. Obviously, in the residential sector, not.

24 JUDGE TURNER: But there are customers other than --

25 THE WITNESS: Oh, sure.

1 JUDGE TURNER: -- retail customers?

2 THE WITNESS: Right.

3 JUDGE TURNER: So is there competition in today's
4 market for today's market for PP&L's retail customers?

5 THE WITNESS: Yes.

6 MR. KLEPPINGER: That was the question. Thank you,
7 Your Honor.

8 BY MR. KLEPPINGER:

9 Q. Do you believe that competition for PP&L's retail
10 customers is more intense in the large industrial and
11 commercial sector as compared to the commercial or residen-
12 tial sector?

13 A. Yes, at this point.

14 Q. Do you believe that that competition for PP&L's
15 retail customers will be more intense for customers who
16 require firm retail electric utility service, or from those
17 who are capable of taking interruptible retail electric
18 service?

19 A. I haven't made that study.

20 Q. Mr. Moul, you have testified in a large number of
21 proceedings over the last 15 years or so, some of which were
22 for natural gas local distribution utilities, have you not?

23 A. Yes.

24 Q. And I would take it then that you are generally
25 familiar with the advent of deregulation, if you will, or

1 unbundling of services in the natural gas local distribution
2 marketplace?

3 A. Yes.

4 JUDGE TURNER: I didn't hear your answer; I'm sorry.

5 THE WITNESS: Yes, yes.

6 BY MR. KLEPPINGER:

7 Q. From your recollection, Mr. Moul, if you know,
8 were customers capable of taking interruptible natural gas
9 service the first customers to pursue natural gas
10 transportation or natural gas bypass?

11 A. As a generalization, that's true.

12 Q. Do you have any reason to expect that in the
13 electric marketplace customers capable of taking interrup-
14 tible service would be able to pursue bypass, or unbundling,
15 if you will, at a more rapid pace than customers who require
16 firm service?

17 A. If the gas industry is a guide, sure.

18 Q. Turning to page 9 of your testimony, at line 25,
19 you make reference to the traditional responsibility of
20 supply and adequate capacity. With respect to interruptible
21 customers, does that traditional responsibility to supply
22 adequate capacity differ in comparison to the responsibility
23 for firm retail service customers?

24 A. That is my understanding. Perhaps a company
25 witness could elaborate on that.

1 JUDGE TURNER: What is your understanding based on?

2 THE WITNESS: Well, the obligation to service to your
3 firm customers first.

4 BY MR. KLEPPINGER:

5 Q. Now, your discussion of adequate capacity here,
6 your testimony on page 9, is in the context of electric
7 utility risk factors; correct?

8 A. Yes.

9 Q. If we assume for the moment that the level of
10 adequate capacity demanded by an interruptible customer is
11 lower than the adequate capacity demanded by a firm
12 customer, all other things being equal, is the electric
13 utility risk factor lower for an interruptible customer than
14 for a firm customer?

15 A. That depends.

16 Q. All other things being equal, and limiting
17 ourselves to the adequate capacity issue.

18 A. I can't respond to that. It depends on how costs
19 are allocated.

20 JUDGE TURNER: So your answer is, you can't give a
21 "yes" or "no" answer, and it depends on how costs are
22 allocated?

23 THE WITNESS: My answer is, I couldn't respond to his
24 question. He didn't give me enough information in the
25 question.

1 JUDGE TURNER: Okay.

2 BY MR. KLEPPINGER:

3 Q. What additional information would you like,
4 Mr. Moul? Maybe I can provide it.

5 A. It depends upon how fixed costs are allocated to
6 those two customer groups, the firm and interruptibles.

7 Q. Your testimony at page 9 is discussing adequate
8 capacity and not allocation factors. So I'm not clear as to
9 why the allocation issue would be a necessary factual
10 component to respond to my question, which is an all-other-
11 things-being-equal question, comparing adequate capacity
12 needs for firm customers versus interruptible customers, and
13 how that adequate capacity responsibility translates into an
14 electric utility risk factor. Can you explain why you need
15 the allocation component in order to answer that question?

16 A. Because the utility is required to recover all
17 its fixed costs. And depending upon how costs are
18 allocated, it depends upon whether the utility's being made
19 whole or not in serving those particular markets.

20 Q. Well, what is the consequence then if a utility
21 allocates more fixed costs to interruptible customers than
22 you would think they should allocate?

23 A. I'd have to look at the particulars. I don't
24 know.

25 Q. You identified two specific types of risk at line

1 32 on page 9, namely self-generation and risk of bypass;
2 correct?

3 A. Yes.

4 Q. Does the risk of losing a customer to self-
5 generation increase as a utility increases that customer's
6 rates?

7 (Pause.)

8 A. Could happen.

9 Q. Does the risk of losing a customer to bypass
10 increase with an increase in that customer's rates?

11 A. Again, that's another possibility.

12 Q. Would you agree with me that industrial customers
13 are more susceptible to pursuing self-generation than are
14 commercial or residential customers?

15 A. Yes, especially with regard to residential.
16 Commercial, I guess it depends.

17 Q. Would you agree with me that industrial customers
18 are more susceptible to bypass than are commercial or
19 residential customers?

20 A. Yes.

21 Q. If you know, are interruptible customers more
22 susceptible to self-generation than firm customers?

23 (Pause.)

24 A. I can't respond to that without some particulars.

25 Q. You just don't know?

1 (No audible response.)

2 Q. Would you know if interruptible --

3 JUDGE TURNER: Is your answer to that, no, you don't
4 know?

5 THE WITNESS: No, I don't know.

6 BY MR. KLEPPINGER:

7 Q. Would you know if interruptible customers are
8 more susceptible to bypass than are firm customer?

9 A. I think I responded to that already. I think I
10 said "yes" to that.

11 JUDGE TURNER: The witness states that he's answered
12 that question already, and said "yes."

13 MR. KLEPPINGER: In the context of the question on
14 competition, yes. Not specifically to bypass. But I think
15 it's been close to being answered. I'll hold his prior
16 answer, it was good enough.

17 JUDGE TURNER: All right.

18 BY MR. KLEPPINGER:

19 Q. Mr. Moul, does the competitive risk that a
20 company like PP&L is exposed to increase in general as its
21 overall rates increase?

22 A. I can't respond to that directly.

23 Q. If PP&L were proposing a two-percent system
24 average rate increase instead of an 11.7-percent system
25 average rate increase, do you think its competitive risk

1 exposure would be lower than it is?

2 (Pause.)

3 A. The reason I'm having difficulty responding to
4 that is, I presume that different customers are getting
5 different increases?

6 Q. Right now I'm just talking about a system
7 average.

8 A. Oh, system average. System average. What was
9 the question again, please?

10 Q. I believe it was: If we assume that PP&L was
11 proposing a two-percent increase in this case as opposed to
12 an 11.7-percent system average increase, would the company
13 be exposing itself to less competitive risks than it is with
14 a 11.7-percent increase?

15 JUDGE TURNER: Both increases being system averages?

16 MR. KLEPPINGER: Yes.

17 (Pause.)

18 THE WITNESS: Yes, holding all else equal, and
19 indicating that alternatives also aren't experiencing any
20 types of increases.

21 BY MR. KLEPPINGER:

22 Q. So then if PP&L were proposing system average
23 increases, let's say, of 20 percent, would your answer be
24 that that would be increasing PP&L's competitive risk again,
25 all other things being equal on the cost of alternatives not

1 increasing?

2 A. That would be true, again, all other things being
3 equal. And the fact that whatever's proposed needs to cover
4 costs.

5 Q. Well, let's assume for the moment that -- and
6 I'll incur the wrath of my compatriots here. But let's
7 assume for the moment that PP&L actually needs an 11.7-
8 percent system average rate increase.

9 JUDGE TURNER: Purely hypothetically.

10 MR. KLEPPINGER: Yes, Your Honor.

11 BY MR. KLEPPINGER:

12 Q. If, in fact, certain customer groups within
13 PP&L's system at that 11.7-percent system average increase
14 are receiving increases at 25 percent, would those customers
15 -- excuse me. Retract that. Would PP&L then have a higher
16 competitive risk with respect to those customers?

17 (Pause.)

18 A. Yes, in the context of the company's cost. Rates
19 have to cover the cost. I mean, there's more than just
20 competition to look at.

21 Q. Page 10 of your testimony, line 25, you make
22 reference to the economic vitality of a utility's service
23 territory.

24 Mr. Moul, have you conducted a study of the economic
25 vitality of PP&L's service territory?

1 A. Independent study, no. I'm quite aware of what
2 their service territory's like, from conversations with the
3 company personnel. But not an independent study.

4 Q. Did you conduct a study on whether or not the
5 economic vitality of PP&L's service territory is enhanced or
6 hampered by an 11.7-percent system average rate increase?

7 A. I have not studied that, no.

8 Q. Did you consult with PP&L regarding the competi-
9 tive risks that are addressed in your testimony at pages 9
10 through 10 before this increase was proposed?

11 A. Yes, I had discussions with company personnel in
12 that regard.

13 Q. And in the context of those discussions, did you
14 discuss with PP&L the manner in which PP&L would choose to
15 distribute this 11.7-percent system average increase among
16 customer classes?

17 A. No, that was not -- I had no input into that.

18 Q. So you would not be aware of what percentage
19 increases are proposed in this case for particular customer
20 groups or classes?

21 A. Oh, I'm aware of that. I know the increases vary
22 according to customer class. Oh, that I'm aware of. But I
23 had no input into how that came to be.

24 Q. Are you aware of the differences in the
25 percentage increases to PP&L's firm industrial customers

1 compared to its interruptible industrial customers?

2 JUDGE TURNER: Excuse me, Mr. Kleppinger. Could you
3 tell me why this relevant to this witness?

4 MR. KLEPPINGER: It's relevant, Your Honor, because
5 of the references made to customers exposed to self-
6 generation and risk of bypass as a contributing factor to
7 the level of business risk and competitive risk that feeds
8 into his recommendation on the return on common equity.

9 JUDGE TURNER: But he has at most had conversations
10 with PP&L about it, as I understand his testimony. Which
11 would not be admissible when he himself has not made
12 allocations.

13 MR. KLEPPINGER: I understand that, Your Honor. But
14 I have basically three questions that are left on this
15 subject, and it will complete my cross examination.

16 JUDGE TURNER: But I want it to be relevant to his
17 scope.

18 MR. KLEPPINGER: Yes. And it will wrap back in, the
19 final question, on how it is relevant.

20 JUDGE TURNER: Okay, proceed.

21 MR. KLEPPINGER: Thank you, Your Honor.

22 BY MR. KLEPPINGER:

23 Q. You indicated, Mr. Moul, that you were aware that
24 there are different increases proposed for different
25 customer classes.

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(No audible response.)

Q. I think the last question --

JUDGE TURNER: Your answer to that was "yes"?

THE WITNESS: Yes.

BY MR. KLEPPINGER:

Q. I think the last question that was not yet answered was whether or not you were aware of the difference in the percentage increases proposed for PP&L's firm industrial customers versus PP&L's interruptible industrial customers.

A. I'm not aware of that difference.

Q. You're not aware of that percentage, okay.

If you can assume with me for the moment, hypothetically, at least, that the interruptible industrial customers which I think we have agreed previously are the most susceptible to bypass -- correct?

A. Okay.

JUDGE TURNER: Is your answer "yes"?

THE WITNESS: Yes.

BY MR. KLEPPINGER:

Q. And if we assume that those customers are receiving increases in excess of the 11.7-percent system average increase, without quantifying that for the time being, hasn't PP&L, in fact, voluntarily increased its own competitive risk as you've defined it at page 9 of your

1 testimony?

2 A. That question would need to be responded to by
3 company personnel. I don't know the particulars surrounding
4 what you're suggesting.

5 Q. Well, let's --

6 A. I don't know who those customers are, I don't
7 know what their alternatives are, I don't know if they have
8 dual fuel capabilities. I just don't know.

9 Q. So even if the increase to interruptible indus-
10 trial customers in this case is two times the system
11 average, you, as a rate of return expert, cannot tell us
12 whether or not that type of an increase, given the market as
13 you have laid it out in your testimony, increases PP&L's
14 competitive risk?

15 A. Again, you'd have to ask company personnel about
16 that. It would depend upon the situation of individual
17 customers, what their alternatives are; a whole host of
18 factors.

19 Q. Thank you, Mr. Moul.

20 MR. KLEPPINGER: That's all I have, Your Honor.

21 JUDGE TURNER: Mr. McCormick, how many questions do
22 you have?

23 MR. McCORMICK: I'll make it real brief. Maybe two
24 or three.

25 JUDGE TURNER: And Mr. Epstein?

1 MR. EPSTEIN: The same; very brief.

2 JUDGE TURNER: Okay, let's proceed, and then we'll
3 take a break after that.

4 Mr. McCormick?

5 **CROSS EXAMINATION**

6 BY MR. McCORMICK:

7 Q. Mr. Moul, if you would turn to your Exhibit
8 PRM-1, Schedule 7. The substitute page, perhaps would be
9 the fastest. Schedule 7, page 3 of 3, the substitute page.
10 And focus on the second column there where you identify the
11 industries of the various comparable earnings through
12 companies.

13 Am I correct that seven out of the 23 companies are
14 integrated petroleum companies?

15 (Pause.)

16 A. Yes.

17 Q. Now, Mr. Moul, would you agree that most of these
18 integrated petroleum companies are large type international,
19 what we might call international oil companies?

20 A. Some of them have international operations,
21 surely.

22 MR. McCORMICK: That's all I have.

23 JUDGE TURNER: Mr. Epstein?
24
25

CROSS EXAMINATION

1
2 BY MR. EPSTEIN:

3 Q. Mr. Moul, I'm Eric Epstein, representing
4 Eric Epstein. How are you doing?

5 A. Good morning.

6 Q. I just wanted to clarify a few things. PP&L's
7 bond rating, for the purpose of your study, was an A-; is
8 that correct?

9 A. Yes, by S&P.

10 Q. Do you know how that would compare to other
11 eastern electric utilities such as Philadelphia Electric or
12 GPU?

13 A. Philadelphia Electric bond rating, I believe, is
14 weaker. I think it's a triple B+ today. The GPU companies
15 have different bond ratings according to their subs. I
16 haven't looked at them recently.

17 Q. Would it be reasonable to conclude that at least
18 compared to Philadelphia Electric, PP&L's bond rating is
19 superior?

20 A. It's one notch higher.

21 Q. Okay. And just one other brief line of
22 questioning. Are you aware of PP&L's \$50-million investment
23 in Pacific Rim through Power Markets Development?

24 A. I'm sorry, I didn't hear that question.

25 Q. Are you aware of PP&L's \$50-million investment in

1 the Pacific Rim, Indonesia, China and what not, through
2 Power Markets Development?

3 A. I don't know the particulars of that. I know of
4 the existence of the company you're talking about. But I
5 don't know the character of their investments.

6 Q. So you have no way to know if that investment
7 will be prudent or whether or not it would adversely impact
8 the bond rating?

9 A. I have not looked at that, no.

10 JUDGE TURNER: Excuse me. Is your testimony both
11 that you know of the company, and you know that PP&L has
12 invested in it?

13 THE WITNESS: Yes, Your Honor, I'm aware that there
14 is a subsidiary that they have an investment in. But the
15 type of investments that he sub is engaged in, I'm not
16 familiar with.

17 JUDGE TURNER: But you don't know the amount of
18 PP&L's investment? I'm just trying to clarify your answer.
19 I'm not trying to pin you down. You don't know the amount?

20 THE WITNESS: I think I've looked at that, but I
21 don't remember.

22 JUDGE TURNER: All right.

23 MR. EPSTEIN: I'll would just follow that.

24 BY MR. EPSTEIN:

25 Q. My concern was that I believe this is a

1 non-regulated business. And I was trying to determine
2 whether or not if this company had financed a regulated
3 corporate activity.

4 Perhaps you might not be the right person to ask this
5 question or direct the question to. Thanks.

6 JUDGE TURNER: Can you answer that?

7 THE WITNESS: No, I can't.

8 MR. EPSTEIN: Nothing else.

9 JUDGE TURNER: Mr. Gadsden, do you have redirect?

10 MR. GADSDEN: If we could take a five-minute break,
11 we can find out whether we do or not.

12 JUDGE TURNER: You can't decide now?

13 MR. GADSDEN: I'd like to consult with my witness.

14 JUDGE TURNER: All right, you can take a five-minute
15 break.

16 (Recess.)

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

18 Do you have any redirect, Mr. Gadsden?

19 MR. GADSDEN: We have no redirect.

20 JUDGE TURNER: Then that concludes the direct and
21 cross examination of this witness, and he may be excused.

22 THE WITNESS: Thank you, Your Honor.

23 MR. GADSDEN: Thank you.

24 (Witness excused.)

25 JUDGE TURNER: Before we go on further, perhaps we

1 should discuss the witnesses for the rest of the day and the
2 rest of the week.

3 Judge Christianson gave me a listing based on
4 information, I believe, from Mr. Russell and Mr. Gadsden.
5 The witnesses that we're going to do today are Mr. Moul,
6 Mr. Beers and Mr. Hoch.

7 And of course, we're not in hearing tomorrow. But on
8 the 23rd we'll do Mr. Krall, Mr. Slivka, Mr. Kleha, and
9 perhaps Mr. Sipics.

10 MR. GADSDEN: That's correct.

11 JUDGE TURNER: And then on Friday it will be
12 Mr. Hill, and if necessary, Mr. Sipics?

13 MR. GADSDEN: That's correct.

14 JUDGE TURNER: Okay. In what order do you intend to
15 call the rest of your witnesses for today?

16 MR. GADSDEN: Mr. Beers, and then Mr. Hoch.

17 JUDGE TURNER: Okay. It now being 20 minutes to
18 12:00, we could finish Mr. Beers by, say, 1:00. It would
19 make sense to start him now. If not, I think we might take
20 a lunch break now.

21 MR. GADSDEN: Perhaps we can either go off the
22 record, or take an informal poll from the opposing parties.

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

24 (Discussion off the record.)

25 JUDGE TURNER: Back on the record.

1 I would like to summarize the off-the-record
2 conversation. We discussed scheduling of witnesses for
3 today and for this week. And at this point the company's
4 going to call Mr. Beers and then Mr. Hoch. We will take a
5 lunch break. But if possible, this afternoon I would like
6 to take either Mr. Krall or Mr. Kleha, and the parties will
7 tell me after the lunch break whether we can be ready for
8 either of those witnesses. They are in the hearing room
9 today.

10 With that summary, unless anybody disagrees with it,
11 I will turn to Mr. Gadsden and ask him to call Mr. Beers.

12 MR. GADSDEN: Thank you, Your Honor. The company
13 calls as its next witness, Mr. Beers.

14 **Whereupon,**

15 **CLYDE D. BEERS**

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

17 JUDGE TURNER: Would you spell your name for the
18 record?

19 THE WITNESS: Clyde, C-L-Y-D-E, D. Beers, B-E-E-R-S.

20 JUDGE TURNER: Thank you.

21 Please proceed, Mr. Gadsden.

22 MR. GADSDEN: Your Honor, Mr. Beers will be
23 sponsoring direct testimony and a separate stand-alone
24 exhibit which I would like to have marked for identification
25 at this time.

1 Mr. Beers' statement I would ask be marked as PP&L
2 Statement No. 14; Mr. Beers' exhibit as Exhibit CDB-1.

3 JUDGE TURNER: Once again, Mr. Gadsden, unfortunately
4 I don't have the stand-alone exhibit. I apologize.

5 (Document handed to Judge Turner.)

6 JUDGE TURNER: The statement shall be marked as PP&L
7 Statement 14, and the exhibit shall be marked as PP&L
8 Exhibit CDB-1.

9 (Whereupon, the documents were marked as PP&L
10 Statement No. 14 and PP&L Exhibit No. CDB-1 for
11 identification.)

12 **DIRECT EXAMINATION**

13 BY MR. GADSDEN:

14 Q. Mr. Beers, by whom are you employed, and in what
15 capacity?

16 A. I'm employed by Towers Perrin, a management
17 consulting firm. I'm the head of the Philadelphia office of
18 Towers Perrin's consulting practice.

19 Q. Mr. Beers, do you have a copy of a document which
20 has been marked as PP&L Statement No. 14, styled Direct
21 Testimony of Clyde D. Beers?

22 A. I do.

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

25 A. Yes.

1 Q. If I were to ask you the questions set forth in
2 Statement 14 today, would your answers be as contained
3 therein?

4 A. Yes.

5 Q. And would they be true and correct, to the best
6 of your knowledge?

7 A. Yes.

8 Q. Mr. Beers, do you also have a copy of what has
9 been marked as Exhibit CDB-1, which is styled Pennsylvania
10 Power & Light Company Postretirement Welfare Plans,
11 Preliminary Actuarial Report for Fiscal Year Ending
12 December 31, 1995, and Plan Year Beginning January 1, 1995?

13 A. I do.

14 Q. Is the information set forth in Exhibit CDB-1
15 true and correct, to the best of your knowledge?

16 A. Yes.

17 Q. Mr. Beers, in your testimony and supporting
18 exhibit you discuss the company's claim for other post-
19 retirement benefit costs accrued pursuant to Statement of
20 Financial Accounting Standards No. 106; is that correct?

21 A. Yes.

22 Q. And am I correct that you have also sponsored, or
23 cosponsored, various responses to interrogatories dealing
24 with the company's claim for pension expense?

25 A. Yes.

1 Q. And am I correct that -- well, let me go at it
2 this way. In response to Interrogatory OCA Set IV, No. 101,
3 you were asked to provide a copy of the company's most
4 recent pension actuarial report. Do you recall that
5 question?

6 A. Yes.

7 Q. Am I correct that when the response was filed,
8 the most recent actuarial report at that time was a report
9 dated February 1994, and indeed, that it was that report
10 that was attached to the response?

11 A. Yes.

12 Q. Has Towers Perrin, subsequent to the filing of
13 this interrogatory answer, completed an updated pension
14 study for Pennsylvania Power & Light Company?

15 A. Yes.

16 Q. And based on the results of that study, is it
17 anticipated that the company's pension claim will go up or
18 go down?

19 A. The pension expense for the retirement plan,
20 based on the new study, indicates that the expense is less
21 than what the prior report showed. So I assume that the
22 claim will go down.

23 MR. GADSDEN: Your Honor, that report was finalized
24 only very recently. We will endeavor to get copies of it
25 into the parties' hands this afternoon.

1 The witness who will be taking that report and
2 recasting the company's claim for ratemaking purposes is
3 Mr. Berish. And he is scheduled to be cross-examined on
4 Thursday.

5 JUDGE TURNER: Will you have that exhibit available
6 for the parties before Thursday?

7 MR. GADSDEN: Yes.

8 I'm so, it's next Monday. So there is more than
9 ample time. I misspoke, he's not scheduled for Thursday,
10 but next Monday. And we will have the 1995 pension report
11 copied this afternoon and distributed to the parties.

12 JUDGE TURNER: Is that acceptable to the parties in
13 terms of cross examination, this coming Monday?

14 MS. KENNEY: Yes, Your Honor. We would request the
15 company send a copy directly to our experts. We've been
16 operating under certain discovery provisions.

17 MR. GADSDEN: Certainly.

18 JUDGE TURNER: I'm assuming that you all can work
19 that out. And the fact is you're going to get copies in
20 sufficient time to cross-examine the appropriate witness.
21 And you don't need to cross-examine this witness on that
22 report today?

23 MS. KENNEY: Not today, Your Honor. But we would if
24 there were questions that arise as a result of the revisions
25 to the report. We would like to have the ability to, either

1 through formal discovery or the right at the rebuttal phase,
2 or cross-examining rebuttal testimony, to ask Mr. Beers
3 about that report at that time.

4 JUDGE TURNER: Do you have any objection to that,
5 Mr. Gadsden?

6 MR. GADSDEN: No, none whatsoever.

7 JUDGE TURNER: Okay. Then with that, can you
8 proceed?

9 MR. GADSDEN: Your Honor, we may. I would move the
10 admission of Mr. Beers' Statement 14 and Exhibit CDB-1,
11 subject to the same qualifications previously agreed to with
12 respect to all witnesses.

13 JUDGE TURNER: Does any party have any objection to
14 that?

15 MS. KENNEY: No, Your Honor.

16 JUDGE TURNER: In that case, please proceed. Is the
17 witness available for cross examination?

18 MR. GADSDEN: He is.

19 (Whereupon, the documents marked as PP&L
20 Statement No. 14 and PP&L Exhibit No. CDB-1 were
21 received in evidence.)

22 JUDGE TURNER: Mr. Gorka?

23 MR. GORKA: Office of Trial Staff has no cross
24 examination for this witness, Your Honor.

25 JUDGE TURNER: Ms. Kenney?

1 MS. KENNEY: Thank you, Your Honor.

2 CROSS EXAMINATION

3 BY MS. KENNEY:

4 Q. Good morning, Mr. Beers. My name is Mary Kenney,
5 I represent the Office of Consumer Advocate. And in my
6 cross examination I'll be referring to your testimony and to
7 your Exhibit CDB-1.

8 In developing your estimate of other post-employment
9 benefits, or OPEBs, expenses, pursuant to the Statement of
10 Financial Accounting, which we also call FAS 106, you
11 utilize an assumed salary increase rate of 5.7 percent; is
12 that correct?

13 A. Yes. But that actually is a scale that averages
14 5.7 over a career. It's a scale that's graded by age.

15 Q. Am I correct that that 5.7 percent rate is based
16 on a long-term historical average?

17 A. Yes.

18 Q. Over what period was the long-term historical
19 average rate growth in wages calculated?

20 A. We look at economics over a wide range of long-
21 term periods, so there's no specific time period that I
22 would point to for the determination of that assumption.
23 But rather a series of long-term rates that would be
24 anywhere from 10 to 30 years in length.

25 Q. Did it include the 1970s and 1980s?

1 A. Yes.

2 Q. Would have gone back even before that?

3 A. Yes.

4 Q. You mentioned that approximately 30 years. Would
5 that mean that it would go back to 1965?

6 A. Sure.

7 Q. Would it have gone even further back than that?

8 A. In our thinking of how we set long-term assump-
9 tions, we look at economic factors usually from the twenties
10 through the current period. And we look at different time
11 periods that have different economic effects and try to
12 balance the effect of different economic scenarios. Because
13 each of those have different implications for the future.

14 What we're ultimately trying to do is not look back
15 at the past, but to predict what we expect for the future.

16 Q. Now, referring to the period of time that you
17 utilized, do you know what the overall rate of inflation,
18 based, for example, on the consumer price index, was during
19 that time period?

20 A. The rate of inflation has varied during the --
21 well, from roughly the mid-eighties to current, the rate of
22 inflation has averaged roughly in the three to four percent
23 range.

24 Prior to that it was running much higher, in the five
25 to six percent range. And then if you go back into the

1 fifties and sixties, it was at much lower rates.

2 Q. Do you know what the corresponding projection for
3 the long-term future rate of inflation is?

4 A. We're assuming a 4-1/2 percent rate of inflation
5 for the future.

6 Q. Would you accept subject to check that in recent
7 years the average wage rate increases which PP&L has given
8 have been below, well below 5.7 percent?

9 A. No.

10 Q. Would you accept that they've been below 5.7
11 percent?

12 A. No.

13 MS. KENNEY: I'd like to refer the witness to an
14 interrogatory response. It was not answered by Mr. Beers,
15 but was answered by Mr. Berish. I have a copy if you don't
16 have it available. It's response to OCA Set IV, No. 66.
17 I'll show it to Mr. Gadsden, and then to the witness.

18 JUDGE TURNER: Are you going to mark this as an
19 exhibit?

20 MS. KENNEY: I can certainly do that, Your Honor. I
21 do not have copies available for all of the parties. But I
22 can.

23 JUDGE TURNER: If you don't want to, that's fine.

24 MS. KENNEY: Let me see how this cross examination
25 goes.

1 JUDGE TURNER: Okay.

2 (Document handed to witness.)

3 BY MS. KENNEY:

4 Q. Mr. Beers, have you had an opportunity to review
5 the company's response to OCA Set IV, No. 66?

6 A. Yes.

7 Q. Would you accept after reviewing that that the
8 average wage rate increases that PP&L has given have been
9 below 5.7 percent for the period 1990 to 1994?

10 A. I don't know how these figures were calculated,
11 so I'm not sure exactly what type of an average this is.
12 But I can see that these numbers are all less than 5.7.

13 Q. We are discussing average annual salary
14 increases. Are there different methods of calculating them?

15 A. Yes.

16 Q. And what type of calculation did you rely upon in
17 your study?

18 A. We collect data for individual employees each
19 year for actuarial purposes for both FAS 106 and pension
20 calculations. And we make calculations of the average
21 increase of the people who are employed both at the
22 beginning of the year and end of the year. So we exclude in
23 that the effect of movement in employee groups as people
24 retire or terminate and are replaced by other new entrants.

25 Sometimes averages are calculated looking at the

1 whole population, including the ins and outs. And in our
2 calculation we're looking at just those people who are
3 employed both at the beginning and the end of the year,
4 because that's the basis on which ultimately benefits are
5 going to be paid either through the post-retirement welfare
6 plan or through the pension program.

7 So for our particular purposes, we need to look at
8 all of the effects of salary increase, including promotional
9 increases that occur which may not increase the average
10 salaries of all of the employees of the population, but do
11 affect the individual salaries of those who are approaching
12 retirement.

13 Q. Am I correct though that your study is only of
14 PP&L employees; is that correct? I mean, you're only
15 looking at the salaries of PP&L employees?

16 A. That is correct. We look at the salaries of all
17 of our clients. But with respect to my comments, I'm
18 specifically referring to salaries of PP&L employees.

19 Q. Would you accept subject to check that the
20 projected wage rate increases for 1995 and 1996 for PP&L
21 employees are only three percent?

22 A. I have not -- I do not know what the projected
23 increases specifically for PP&L employees are. We are --

24 JUDGE TURNER: In that case, you can't accept the
25 answer subject to check?

1 THE WITNESS: Yes, I just don't have information. I
2 assume by that you mean, do I have information from the
3 company.

4 BY MS. KENNEY:

5 Q. Yes.

6 A. I do not.

7 MS. KENNEY: Your Honor, may I approach the witness?
8 I have information related to future wage increases in
9 response to OCA Set IV, No. 67.

10 BY MS. KENNEY:

11 Q. Do you have a copy of that, Mr. Beers?

12 A. I'm sorry?

13 Q. Do you have a copy of the response to OCA Set IV,
14 No. 67?

15 A. I have no idea.

16 MR. GADSDEN: Not if he's not the respondent.

17 JUDGE TURNER: At this point, Ms. Kenney, I think I
18 want to ask you to mark these. I don't think this cross
19 examination is going to clear without them, given the
20 answers of the witness. So I would request that you mark
21 them and provide us with copies later.

22 MS. KENNEY: If I may, I'd like to mark as OCA Cross
23 Examination Exhibit No. 2 the responses to OCA Set IV, No.
24 66 and OCA Set IV, No. 67. And I will have copies available
25 this afternoon for all the parties and for the court

1 reporter.

2 JUDGE TURNER: They may be so marked.

3 JUDGE TURNER: They're marked together as 2, is that
4 right?

5 MS. KENNEY: Yes.

6 (Whereupon, the documents were marked as OCA
7 Cross Examination Exhibit No. 2 for
8 identification.)

9 BY MS. KENNEY:

10 Q. Mr. Beers, you've been handed what is now being
11 identified as OCA Cross Examination Exhibit No. 2, the
12 second page of which is the response to OCA Set IV, No. 67.
13 I realize you're not the responding witness to this
14 interrogatory. Have you had an opportunity to look over the
15 data on that response?

16 A. Yes.

17 Q. Would you accept subject to check that the
18 projected wage rate increases for 1995 and 1996 are three
19 percent?

20 A. Yes.

21 Q. For purposes of your actuarial estimate --

22 A. Those would not be the rates I would use for
23 purposes of projecting future pay increases. But I do agree
24 with that data.

25 Q. For purposes of your actuarial estimate of

1 FAS 106 costs, what discount rate did you utilize?

2 A. 7-1/2 percent.

3 Q. Am I correct that the discount rate is intended
4 to reflect the time value of money?

5 A. Yes.

6 Q. Am I also correct that the discount rate is
7 normally based on the yield on investment-grade bonds?

8 A. Yes.

9 Q. Is it correct that if the discount rate is based
10 on the yield on investment-grade bonds, the rate should be
11 fairly consistent from one company to another?

12 A. There's a range of what I would call accepted
13 practice that we see among not only our clients, but among a
14 general industry. And so there is what I would call out of
15 bounds on both the high and the low side. But within that
16 range, different companies look to different levels of bonds
17 which have different yields.

18 JUDGE TURNER: Is the answer to her question "yes"?

19 THE WITNESS: I'm sorry, I'd have to --

20 BY MS. KENNEY:

21 Q. May I repeat the question?

22 A. Yes, if you could repeat the question.

23 Q. Am I correct that if the discount rate is based
24 on the yield on investment-grade bonds, the rate should be
25 fairly consistent from one company to another?

1 A. I don't know what fairly consistent means.

2 JUDGE TURNER: So you can't answer the question?

3 THE WITNESS: No.

4 BY MS. KENNEY:

5 Q. Is there a generic measurement, or is it a
6 company-specific measurement of a discount rate?

7 A. There are factors that go into selection of the
8 discount rate that are generic, and there are also factors
9 that are company- and plan-specific.

10 Q. I'd like to refer you to Exhibit CDB-1, page
11 MS-2.

12 A. Yes.

13 Q. Would you agree that this indicates that as of
14 October 31, 1994, yields on investment-grade bonds had
15 increased by approximately 1-1/2 to 2 percent compared to
16 yields as of December 31, 1993?

17 (Pause.)

18 A. I haven't subtracted each of these. But they
19 look like they're all in the range of 125 basis points, up
20 to 100 -- I'm not sure which is the lower -- yes, up to 200
21 basis points.

22 JUDGE TURNER: Would you say yes, subject to check?

23 THE WITNESS: Yes.

24 BY MS. KENNEY:

25 Q. Going to the calculations on the lower half of

1 that page, would you also agree that you only increase the
2 discount rate for the period January 1, 1994, from 7 percent
3 to 7.5 percent for the period ending -- for the period
4 January 1, 1995, or by one half of one percent?

5 A. Yes.

6 Q. Mr. Beers, the actuarial report submitted as
7 Exhibit CDB-1 is identified as a preliminary actuarial
8 report for the plan year beginning February 1, 1995. Has
9 Towers Perrin prepared a final actuarial report for the
10 year?

11 A. This is the final report.

12 Q. This is the final report?

13 A. Yes. We labeled it preliminary because it was
14 prepared prior to the close of the year. And we were not
15 sure whether or not we would continue to retain a 7-1/2
16 percent discount rate for purposes of 1995 expense.

17 Now, the company has decided to use a 7-1/2 percent
18 discount rate for 1995. And therefore the figures that are
19 in this report are, in fact, set for 1995.

20 JUDGE TURNER: And can I ask the status of the report
21 that's to be submitted?

22 THE WITNESS: That's a report with respect to the
23 pension obligations of PP&L, not with respect to the FAS 106
24 obligations.

25 JUDGE TURNER: Okay. Thank you.

1 THE WITNESS: That was sent to the company on
2 March 16th of this year.

3 BY MS. KENNEY:

4 Q. The report that was sent on March 16th --

5 A. Is a pension report.

6 Q. Thank you.

7 Mr. Beers, would agree or accept subject to check
8 that Towers Perrin also prepared the FAS 106 actuarial
9 report for Pennsylvania American Water Company, which was
10 presented as an exhibit in their current rate proceeding at
11 Docket No. R-943231?

12 A. I assume that's correct.

13 Q. Would you also agree, or accept subject to check
14 -- and I have copies of the report here -- that Towers
15 Perrin recently completed its actuarial report for the plan
16 year beginning January 1, 1995, for Pennsylvania American,
17 in February of this year?

18 A. Yes.

19 MS. KENNEY: Your Honor, if I may, I have copy of the
20 report for Mr. Beers.

21 JUDGE TURNER: Fine.

22 (Document handed to Atty. Gadsden.)

23 MR. GADSDEN: Just so the record is clear, this is a
24 report that's prepared for the American Water Works system
25 as a whole, of which Pennsylvania American Water Company is

1 a part. But we will stipulate that this is a document that
2 was submitted in the Pennsylvania American rate case.

3 JUDGE TURNER: Is that acceptable?

4 MS. KENNEY: That's acceptable, yes.

5 JUDGE TURNER: All right.

6 (Document handed to witness.)

7 BY MS. KENNEY:

8 Q. I'd like to refer you to page SI-16 of that
9 report. Do you have that available to you, Mr. Beers?

10 A. I'm looking at it.

11 Q. Would you agree or accept subject to check that,
12 as shown on page SI-16, Towers Perrin adopted a discount
13 rate of 8.75 percent in that report, compared to 7.25
14 percent for the prior year?

15 A. I see the 8.75 noted on SI-16. I do not see
16 reference to the 7.25 percent that you refer to. Let me see
17 if I can find reference to that.

18 (Pause.)

19 A. On SI-20, it indicates that the discount rate for
20 1994 was 7.25.

21 Q. So will you accept that for from 1994 to 1995 the
22 discount rate was increased by 150 basis points, or 1.5
23 percent?

24 A. That was the discount rate selected by the
25 American Water Works Company.

1 Q. Do you know what the effect would be on PP&L's
2 FAS 106 costs of increasing the discount rate by 1.5
3 percent?

4 A. I can estimate it, but I don't know it exactly.

5 MS. KENNEY: I'd like to make an on-the-record data
6 request for the effect of increasing PP&L's discount rate by
7 1.5 percent from 7 percent to 8.5 percent.

8 MR. GADSDEN: I'm sorry; 8.5 or 8.75?

9 MS. KENNEY: 8.75.

10 BY MS. KENNEY:

11 Q. PP&L uses 7.25; is that correct?

12 A. 7.5.

13 Q. 7.5?

14 A. Yes.

15 Q. So by increasing it by 1.5 percent would be to 9
16 percent; is that correct?

17 A. Yes.

18 Q. That's what we were asking for.

19 A. 9 percent would be -- I referred to earlier an
20 out-of-bounds area. 9 percent, in my opinion, would be out
21 of bounds.

22 Q. Would 8.75 percent be out of bounds?

23 A. Right at the edge.

24 Q. Okay.

25 MS. KENNEY: I would like to make an on-the-record

1 data request for the effect of increasing the discount rate
2 by either 8.5 percent, and also a calculation for 8.75
3 percent.

4 JUDGE TURNER: Not increasing it by 8.5, increasing
5 it to.

6 MS. KENNEY: Oh, no, I'm sorry. Increasing it to. I
7 apologize. Increasing it to 8.5 percent, or to 8.75
8 percent.

9 JUDGE TURNER: Does that eliminate your prior
10 question?

11 MS. KENNEY: Yes, it does, Your Honor.

12 JUDGE TURNER: All right, let's make it clear what
13 the request is, then see if Mr. Gadsden has any objection.
14 You're asking this witness to make a calculation that shows
15 the result of increasing the discount rate from 7.5 to, in
16 the first instance 8.5, and in the second instance 8.75?

17 MS. KENNEY: Yes, Your Honor. Two separate
18 calculations. Yes, Your Honor.

19 MR. GADSDEN: We understand the request and accept it
20 as a data request.

21 JUDGE TURNER: Okay. And you'll provide it within
22 ten days?

23 MR. GADSDEN: Yes.

24 JUDGE TURNER: Ms. Kenney?

25 MS. KENNEY: Your Honor, at this time I would like to

1 have marked for --

2 THE WITNESS: If I could, when is ten days up?

3 JUDGE TURNER: Ten days from today.

4 MS. KENNEY: March 31st.

5 THE WITNESS: Could I have it the first week of
6 April?

7 MS. KENNEY: The only problem would be that we're
8 preparing testimony during that time.

9 JUDGE TURNER: Let's have this discussion off the
10 record.

11 (Discussion off the record.)

12 JUDGE TURNER: Back on the record.

13 MS. KENNEY: Your Honor, I would like to have marked
14 for identification as OCA Cross Examination Exhibit No. 3
15 the company's response to OCA Set IV, No. 105.

16 JUDGE TURNER: Do Mr. Gadsden and the witness have a
17 copy?

18 (Documents handed to Atty. Gadsden and the witness.)

19 JUDGE TURNER: And this answer Mr. Beers did prepare;
20 is that correct? So this is marked OCA Cross Examination
21 Exhibit No. 3.

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

24 JUDGE TURNER: Go ahead.

25

1 BY MS. KENNEY:

2 Q. Am I correct that this response indicates that
3 PP&L does not expect to have to make cash contributions to
4 fund its pension plan until at least the plan year beginning
5 July 1, 1996?

6 A. That's correct.

7 Q. Am I also correct in understanding --

8 A. Well, when you use the word "at least," depending
9 on investment experience, it's possible that contributions
10 would be required for the plan year beginning July 1, 1995.

11 Q. But am I correct that currently, the projection
12 of pension contributions for July 1, 1995, is zero?

13 A. Yes.

14 Q. Do I also correctly understand the response to
15 indicate that the voluntary early retirement program --
16 which I guess is referred to as VERP?

17 A. VERP.

18 Q. -- has caused the time at which contributions
19 will be required to be accelerated from the 1998 plan year
20 to the 1996 plan year?

21 A. That is correct.

22 Q. Is this because of the pension supplement which
23 was offered as a part of the VERP?

24 A. There were three elements of VERP, two of which
25 are obligations of the pension fund. And the two

1 obligations of the pension fund are what caused the
2 acceleration of projected contributions.

3 Q. Will the VERP also increase the pension expense
4 under FAS No. 87?

5 A. Yes.

6 Q. Has that been reflected in the FAS 87 cost
7 estimate in this case?

8 A. Which cost estimate?

9 Q. I believe it was the pension. The FAS 87
10 estimate was pension expense.

11 A. The only reason I ask is that the FAS 87 pension
12 expense is specifically the subject of the report that I
13 sent to PP&L on March 16th, which has not been introduced at
14 this point in time. So you have not seen the 1995 pension
15 expense as set forth in our most recent report. What you've
16 seen is the pension expense from the February of 1994
17 report, which documented pension expense for 1994.

18 JUDGE TURNER: Yes, but her question is, is the
19 current claim going to be affected; if I understand.

20 Is that your question?

21 MS. KENNEY: Yes, Your Honor.

22 BY MS. KENNEY:

23 Q. If I may, I'd like to refer your attention to
24 your response to OCA Set IV, No. 102. I believe Mr. Beers
25 and Mr. Berish responded to that interrogatory. And that's

1 the basis for my questions.

2 A. Okay.

3 Q. So what I'm saying; has that been reflected in
4 the FAS No. 87 cost in that case?

5 A. I have --

6 JUDGE TURNER: Excuse me. If I could cut through
7 this; Mr. Gadsden stated that Mr. Berish will, in his
8 testimony, incorporate the changes caused by the most recent
9 pension report.

10 MR. GADSDEN: As I understand the question, it's
11 whether implementation of the VERP will have an impact on
12 the company's pension expense claim, and/or to what extent
13 it may have been reflected in the claim as initially
14 presented in response to question 102 and the report which
15 Mr. Beers is going to submit. And I think the answer is
16 that it may not have been --

17 JUDGE TURNER: Well, before you answer --

18 Is that the question?

19 MS. KENNEY: That is correct, yes. Thank you.

20 JUDGE TURNER: Okay.

21 And your answer is?

22 THE WITNESS: I have all kinds of questions in front
23 of me, including 101 and 103. I do not have 102.

24 (Document handed to witness.)

25 JUDGE TURNER: Do you understand the question you're

1 being asked?

2 THE WITNESS: Yes. And the answer is, the cost of
3 the voluntary early retirement program will be reflected in
4 the company's 1995 expense, which is documented in the
5 report dated February of 1995, which you have not seen yet.

6 BY MS. KENNEY:

7 Q. Thank you. So that the response to Set IV, No.
8 102 will need to be revised as a result of this report that
9 we're speaking of?

10 A. That is correct. The question 102 -- and that's
11 why I was hesitating here. Question 102 does not yet have
12 the VERP costs reflected in this response. Because at that
13 time, this was responding to the costs before the
14 publication of our new report.

15 JUDGE TURNER: Well, I think we're spending a little
16 bit too much time on the details. But the fact is, it's
17 going to change, and they will give you a revised update of
18 that.

19 MS. KENNEY: That is fine. Thank you.

20 BY MS. KENNEY:

21 Q. Mr. Beers, are you aware, or would you accept
22 subject to check, that PP&L has requested separate recogni-
23 tion of the cost of the pension supplement in conjunction
24 with the voluntary early retirement program in this case?

25 A. I'm not sure exactly what you're asking.

1 Q. I'm asking whether if you are aware that PP&L has
2 requested separate recognition of the cost of the pension
3 supplement that is connected --

4 A. Oh, okay.

5 Q. -- as part of --

6 A. I didn't understand the question before. I am
7 aware of that.

8 Q. Would you agree that to the extent that the costs
9 for the pension supplement are separately recognized as part
10 of the voluntary early retirement program costs, they should
11 not also be included for ratemaking as pension costs under
12 either the FAS No. 87 accruals or pension plan
13 contributions?

14 A. Well, they're certainly part of FAS 87 expense.

15 Q. If they are separately recognized as part of the
16 voluntary early retirement program, should they also be
17 included as part of the FAS 87 accruals?

18 (Pause.)

19 A. I'm not aware of how the interplay between the
20 pension expense request and the VERP expense is being
21 handled.

22 Q. Would that be Mr. Berish who would have that
23 information?

24 A. Yes, I assume so.

25 MR. GADSDEN: Yes.

1 MS. KENNEY: Thank you, Mr. Beers, I appreciate your
2 patience.

3 Your Honor, that's all the cross I have for
4 Mr. Beers. I would like at this time to move OCA Cross
5 Examination Exhibits 2 and 3 into the record. I will
6 provide copies of Exhibit 2 to the court reporter and to all
7 parties this afternoon.

8 JUDGE TURNER: Mr. Gadsden?

9 MR. GADSDEN: No objection.

10 JUDGE TURNER: They are admitted.

11 (Whereupon, the documents marked as OCA Cross
12 Examination Exhibit Nos. 2 and 3 were received in
13 evidence.)

14 JUDGE TURNER: I have one question as a result of
15 Ms. Kenney's last question and your answer, Mr. Beers.

16 Is there a possibility that these expenses have been
17 included twice in the filing, both in the separate VERP
18 claim and in the FAS 87?

19 THE WITNESS: I have an idea.

20 JUDGE TURNER: All right. Thank you, Mr. Beers.

21 Other cross examination?

22 (No audible response.)

23 JUDGE TURNER: All counsel have indicated that there
24 is no further examination of Mr. Beers.

25 MR. GADSDEN: We have no redirect for Mr. Beers.

1 JUDGE TURNER: And there being no redirect for
2 Mr. Beers, this witness may be excused.

3 (Witness excused.)

4 JUDGE TURNER: As I understand it, there is limited
5 cross examination for Mr. Hoch. I think we should be
6 prepared to do at least one more witness today. And I would
7 prefer to do two. That would be both Mr. Kleha and
8 Mr. Krall. And we could take a lunch break from now until
9 1:30. Unless the parties want to request a longer lunch
10 break.

11 Let's go off the record.

12 (Discussion off the record.)

13 JUDGE TURNER: Back on the record.

14 We will take a lunch break until 2:00.

15 (Whereupon, at 12:25 p.m., the hearing was adjourned,
16 to reconvene at 2:00 p.m. this same day.)

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AFTERNOON SESSION

(1:56 p.m.)

1 JUDGE TURNER: Let's go on the record, then.

2 This is the continuation of this morning's hearing in
3 the PP&L rate case. I would notice that for this afternoon,
4 rather than Mr. Gorka, Mr. Mickens will be representing
5 Office of Trial Staff; is that correct?
6

7 MR. MICKENS: Yes, Your Honor.

8 JUDGE TURNER: And that Ms. McCloskey will be
9 representing --
10

11 MS. McCLOSKEY: Ms. Brignola will be conducting the
12 cross-examination this afternoon.

13 JUDGE TURNER: Would you be kind enough to spell your
14 name for the court reporter?

15 MS. BRIGNOLA: My first and last name?

16 JUDGE TURNER: Yes.

17 MS. BRIGNOLA: My first name is Gicine, G-I-C-I-N-E.
18 My last name is Brignola, B-R-I-G-N-O-L-A.

19 JUDGE TURNER: And you are an Assistant Consumer
20 Advocate?

21 MS. BRIGNOLA: Yes.

22 JUDGE TURNER: And Mr. Kleppinger and Mr. McCormick
23 are representing the same parties, and Mr. Russell and Mr.
24 Gadsden and Mr. DeCusatis will be representing the company.

25 MR. DeCUSATIS: Yes, Your Honor. I'll be presenting

1 Mr. Hoch.

2 JUDGE TURNER: Is there anyone else who should be
3 recognized at this point?

4 (No response.)

5 JUDGE TURNER: I don't know whether Ms. Moury intends
6 to be here or Mr. Epstein. I assume they do.

7 Before we continue with the witnesses, I think that
8 it might be helpful to those who are not as knowledgeable as
9 those in the room if we gave a definition of FAS and SFAS,
10 and the general subject of each one of those that we're
11 referring to.

12 We referred to 87 and 106, and I believe 91 is coming
13 up. Perhaps Mr. Gadsden could give us a statement of
14 counsel about those. I don't think we need testimony on it.

15 MR. GADSDEN: You can cut me off whenever you want.

16 SFAS stands for "Statement of Financial Accounting
17 Standards." These are standards that are promulgated by the
18 Financial Accounting Standards Board, FASB, to guide
19 accounting for financial reporting purposes.

20 SFAS No. 87 addresses the issue of accounting for
21 pension expense. SFAS No. 106 addresses the issue of the
22 appropriate accounting for other post-retirement benefits,
23 benefits other than pension expense, which typically fall
24 under the category of medical benefits and life insurance
25 benefits.

1 JUDGE TURNER: SFAS and FAS and FASB are used
2 interchangeably?

3 MR. GADSDEN: FASB is the body, the Financial
4 Accounting Standards Board is the body which promulgates the
5 standards. SFAS and FAS are used interchangeably, FAS just
6 simply being a shorthand for SFAS.

7 JUDGE TURNER: In that case, Mr. Gadsden, do you want
8 to call your next witness?

9 MR. GADSDEN: The company calls as its next witness
10 Mr. Hoch, who will be presented by Mr. DeCusatis.
11 Whereupon,

12 DONALD S. HOCH

13 having been duly sworn, testified as follows:

14 JUDGE TURNER: Will you spell your name for the
15 record?

16 THE WITNESS: Donald, D-O-N-A-L-D; S., middle
17 initial; Hoch, H-O-C-H.

18 JUDGE TURNER: Please be seated.

19 MR. DeCUSATIS: Your Honor, there has previously been
20 provided to the reporter as well as to counsel for parties
21 in this case copies of three documents that are being
22 sponsored by Mr. Hoch.

23 These consist of PP&L Statement No. 4, which is the
24 direct testimony of Mr. Hoch and consists of some 16
25 typewritten pages in question-and-answer form, as well as

1 two accompanying exhibits which have been preliminarily
2 marked as PP&L Exhibits DSH-1, which bears the title,
3 "Service Life Study," and DSH-2, dealing with future plant
4 estimation process.

5 And just for the benefit of the parties'
6 understanding, these documents have been provided as a
7 single bound document in a black-covered jacket, but is
8 marked on the front, Exhibit DSH-1 and 2.

9 (Documents handed to Judge Turner.)

10 JUDGE TURNER: Thank you, Mr. Gadsden.

11 I have the testimony but not the exhibits, and I
12 appreciate your providing them to me. I'm sure that we have
13 this. Do you need me to return this to you, or is this an
14 extra copy?

15 MR. DeCUSATIS: I have a copy.

16 MR. GADSDEN: Perhaps at the end of the hearing.

17 MR. DeCUSATIS: Your Honor, initially, we would ask
18 that those three documents be identified for the record as
19 marked.

20 JUDGE TURNER: They may be so marked, unless there's
21 an objection from the parties.

22 (Whereupon, the documents were marked as PP&L
23 Statement No. 4 and PP&L Exhibits Nos. DSH-1
24 and DSH-2 for identification.)
25

DIRECT EXAMINATION

1
2 BY MR. DeCUSATIS:

3 Q. Mr. Hoch, initially, would you tell us by whom
4 you are employed and in what capacity?

5 A. I am employed by Pennsylvania Power & Light
6 Company as supervisor, plant accounting.

7 Q. Mr. Hoch, initially, do you have before you a
8 copy of the document which has been marked as Statement No.
9 4 and consists of your direct testimony?

10 A. Yes, I do.

11 Q. With regard to the statement marked as Statement
12 No. 4, if I were to ask you today the questions that are
13 contained in that document, would your answers be the same
14 as are set forth therein?

15 A. Yes, they would.

16 Q. Mr. Hoch, turning to the two exhibits which have
17 been marked DSH-1 and DSH-2, you similarly have copies of
18 those documents before you?

19 A. Yes, I do.

20 Q. Were those documents prepared by you or under
21 your direction and supervision?

22 A. Yes, they were.

23 Q. Mr. Hoch, with regard to the information
24 contained in those three documents, Statement 4 and Exhibits
25 DSH-1 and 2, is the information contained therein true and

1 correct to the best of your knowledge, information and
2 belief?

3 A. Yes, it is.

4 MR. DeCUSATIS: Your Honor, Mr. Hoch is available for
5 cross-examination.

6 JUDGE TURNER: Mr. Mickens?

7 MR. MICKENS: Thank you, Your Honor.

8 CROSS-EXAMINATION

9 BY MR. MICKENS:

10 Q. Good afternoon, Mr. Hoch.

11 A. Good afternoon.

12 Q. My name is Ken Mickens. I represent the Office
13 of Trial Staff.

14 Could you refer to your Statement No. 4, page 6?

15 A. I have it.

16 Q. Now, here you testify that PP&L has proposed to
17 reduce life spans for the Martins Creek Units 1 and 2,
18 Holtwood and Sunbury steam electric stations; is that
19 correct?

20 A. Yes, it's true.

21 Q. Would you agree that longer life spans were used
22 in PP&L's 1988 depreciation study?

23 A. Yes, that is true.

24 Q. Why has PP&L proposed to reduce the life spans
25 for these stations in this proceeding?

1 A. I believe that question could more appropriately
2 be addressed to Mr. Krall. He's a member of our planning
3 department, and they are the ones that are responsible for
4 setting those life spans.

5 Q. What is your responsibility with regard to the
6 life spans?

7 A. I implement the life spans in calculating
8 depreciation expense.

9 Q. I missed the first part.

10 A. I implement them. I do the calculation of
11 depreciation expense using those life spans as given to me
12 by Mr. Krall.

13 Q. Are you at all familiar with PP&L's resource
14 planning report for May of 1994?

15 A. No, I am not.

16 Q. You are not familiar with that at all?

17 A. No.

18 MR. MICKENS: Your Honor, I would like identified as
19 OTS Cross-Examination Exhibit No. 2 a document which
20 includes several interrogatory responses to OTS
21 interrogatories and also includes a portion of the
22 Pennsylvania Power & Light Company's resource planning
23 report dated May, 1994.

24 JUDGE TURNER: Do Mr. DeCusatis and the witness have
25 copies?

1 MR. MICKENS: I'm going to pass that out to them now,
2 Your Honor, as well as everyone else.

3 JUDGE TURNER: It will be so marked, unless there are
4 objections from someone.

5 MR. MICKENS: Thank you.

6 (Whereupon, the document was marked as OTS
7 Cross-Examination Exhibit No. 2 for
8 identification.)

9 BY MR. MICKENS:

10 Q. Mr. Hoch, looking at the first document in OTS
11 Cross-Examination Exhibit No. 2, would you agree that this
12 is the cover sheet from the Pennsylvania Power & Light
13 Company resource planning report dated May, 1994 and page
14 4-7 from that report?

15 A. That's what it appears to be.

16 Q. Would you also agree that it indicates, in the
17 second paragraph on page 4-7, it indicates that PP&L has no
18 plans to retire any steam electric stations during the next
19 20 years?

20 A. That's what it says.

21 Q. Now, would you agree that under this scenario,
22 PP&L would not retire a steam electric station before the
23 year 2014?

24 A. Based on that, yes.

25 Q. Based on the statement that's indicated?

1 A. Yes.

2 Q. To your knowledge, has PP&L made any changes to
3 its operating and/or maintenance schedules of these steam
4 electric stations which would demonstrate that these units
5 were going to be retired at an earlier date?

6 A. I have no knowledge of that.

7 Q. Do you know whether there are any current plans
8 to retire these units?

9 A. I would have no knowledge of that.

10 Q. Would you agree that reducing the life spans of
11 these stations would result in a higher revenue requirement
12 for PP&L than if the original life spans were continued?

13 A. Yes, that is true.

14 Q. Now, Mr. Hoch, if you would flip over to the
15 next response, which is the response to OTS-RB-43, and what
16 I would like to do is go through a fairly simple calculation
17 with you, if we could.

18 And I need you to refer to this response, OTS-RB-43
19 and Attachment 1 which is attached to it, and from the
20 filing, V-D-1.

21 MR. MICKENS: I'm sorry, Your Honor, I don't have a
22 copy of that for you.

23 JUDGE TURNER: That's not part of the cross-
24 examination exhibit?

25 MR. MICKENS: No, it isn't. That's from the

1 filing. That's part of the company's filing, and I did not
2 reproduce it in OTS Cross-Examination Exhibit No. 2.

3 JUDGE TURNER: However, it is in the record?

4 MR. MICKENS: Yes, it is.

5 MR. GADSDEN: I'm sorry, the reference again was?

6 MR. MICKENS: V-D-1.

7 JUDGE TURNER: That's in PP&L Exhibit I, Volume --

8 MR. GADSDEN: Volume 4.

9 (Document handed to Judge Turner.)

10 JUDGE TURNER: Thank you very much.

11 Now, does the witness have one, the most important
12 person?

13 THE WITNESS: Yes, I do.

14 JUDGE TURNER: Okay, thank you.

15 BY MR. MICKENS:

16 Q. Looking at both of those documents, Mr. Hoch,
17 Attachment 1, page 43 of the response to OTS-RB-43, would
18 you agree that the annual depreciation expense for the
19 Sunbury, Martins Creek Units 1 and 2 and for Holtwood
20 generating units is approximately \$18,067,157?

21 And the way you would get that is by adding up the
22 annual depreciation expense amounts indicated on Attachment
23 1 for Sunbury, Martins Creek 1 and 2 and Holtwood, that
24 first column.

25 A. Subject to check, that sounds correct.

1 Q. Okay. Now, would you agree that the annual
2 depreciation claimed in Attachment V-D-1 is \$36,708,868 for
3 these same units?

4 And that is to say that the totals which are found on
5 page 1 of 14 of V-D-1A subtotal, for Sunbury SES,
6 \$18,737,180; the subtotal for Martins Creek Nos. 1 and 2,
7 \$15,045,747; and page 3 of 14, the subtotal for Holtwood,
8 which is \$2,925,941.

9 A. I believe that sounds correct, subject to check.

10 Q. And would you also agree that the increase in
11 claimed depreciation expense due to these shortened life
12 spans, based upon that information, is approximately
13 \$18,641,711?

14 A. That sounds about correct.

15 Q. Thank you. Mr. Hoch, would you agree that there
16 are several alternatives to retiring the stations that we've
17 been talking about earlier than predicted in the company's
18 1988 depreciation study or the May, 1994 resource planning
19 report?

20 A. I believe that's outside my area of
21 responsibility.

22 JUDGE TURNER: I didn't hear your answer.

23 THE WITNESS: I believe that is outside my area of
24 responsibility in this case.
25

1 BY MR. MICKENS:

2 Q. Whose area of responsibility is that?

3 A. I believe Mr. Krall, who will be following me on
4 the stand.

5 Q. Now, Mr. Hoch, you have also provided some
6 testimony concerning the sinking fund depreciation for the
7 Susquehanna Units 1 and 2?

8 A. Yes, I have.

9 Q. Would you refer to page 7 of your testimony?

10 A. I have it.

11 Q. Roughly lines 12 through 19, here you state that
12 the Commission has previously approved modified sinking fund
13 depreciation for Susquehanna for property installed prior to
14 January 1, 1989; is that correct?

15 A. Yes, it is.

16 Q. And would you agree that PP&L in this filing has
17 proposed to change from modified sinking fund depreciation
18 to straight line depreciation for the applicable assets?

19 A. We proposed to modify it and essentially
20 amortize over a three-year period the remaining modified
21 sinking fund depreciation.

22 JUDGE TURNER: Excuse me. Was your answer to his
23 question yes?

24 THE WITNESS: Not exactly.

25 JUDGE TURNER: I would appreciate it if you could

1 give a yes or no answer when you can, and then give an
2 explanation.

3 Are you satisfied with the answer, Mr. Mickens?

4 MR. MICKENS: I'll follow up, Your Honor, just to
5 make sure that is clear on the record.

6 BY MR. MICKENS:

7 Q. Mr. Hoch, are you referring to the fact that the
8 company has proposed to modify or make changes to the
9 modified sinking fund depreciation for the years '96, '97
10 and '98?

11 A. Yes, that's true, as well as for the last three
12 months in 1995.

13 Q. And for those periods, the company is now
14 proposing to change from modified sinking fund depreciation
15 to straight line?

16 A. Yes, that is true.

17 Q. Now, would you look at the company's response to
18 OTS-RB-48, which is in the OTS Cross-Examination Exhibit
19 No. 2? Do you have that?

20 A. Yes, I do.

21 Q. That requests documentation of the effect on
22 this base rate case if the levelized depreciation expense of
23 the sinking fund is denied, correct?

24 A. Yes, that's true.

25 Q. And the response points us to responses provided

1 earlier to questions proposed by the Office of Consumer
2 Advocate; is that correct?

3 A. Yes, it is.

4 Q. Now, the questions that are identified there,
5 the responses that are identified there to the Office of
6 Consumer Advocate interrogatories, they indicate that they
7 are Questions 5, 6 and 7.

8 However, the Office of Trial Staff has performed a
9 preliminary examination of that and determined that actually
10 that is an error, and that the numbers that are referred to
11 are actually Questions 4, 5 and 6.

12 And at least 4 and 5 are attached behind these.
13 Would you agree with that?

14 A. Yes, they are.

15 JUDGE TURNER: Are you agreeing that they are
16 attached, or are you they agreeing that they are the correct
17 answers?

18 THE WITNESS: I am agreeing that they are attached.
19 I have not been able to verify that they are the correct
20 answers.

21 BY MR. MICKENS:

22 Q. Why don't you just look at them real quickly,
23 then, to determine whether they are in fact responses to the
24 question asked by OTS in OTS-RB-48?

25 (Witness perusing document.)

1 A. Yes, they are.

2 Q. Now, looking at Question No. 4 in response to
3 the Office of Consumer Advocate interrogatory, would you
4 agree that the company's proposal would increase the revenue
5 requirement by approximately \$30,388,074 over the amount of
6 depreciation expense arrived at by continuing the modified
7 sinking fund treatment?

8 A. Yes, it would. For this case, it would increase
9 the depreciation expense by that \$30 million amount.

10 Q. Mr. Hoch, were you with PP&L in 1984?

11 A. Yes, I was.

12 Q. Can you tell me at this time why the modified
13 sinking fund treatment was originally utilized?

14 A. In 1984 as well as in 1982, it was an attempt to
15 maintain some degree of rate stability and not increase
16 rates beyond what might be expected to be a fairly
17 reasonable level.

18 Q. Okay. So it was an attempt to respond to rate
19 shock?

20 A. That would be one way of putting it, yes, it
21 would.

22 Q. The reason being that the modified sinking fund
23 treatment tends to spread out the revenue requirement over a
24 longer period than the straight line treatment would have
25 under the circumstances in the 1984 case; is that correct?

1 A. No, I wouldn't characterize it that way. I
2 would characterize it as more of a phase-in plan. It tends
3 to defer some of the collection of depreciation expense for
4 future years.

5 Q. Okay. And this deferral in fact reduces the
6 revenue requirement for the ratepayers?

7 A. Yes, it does.

8 Q. However, in this proceeding, PP&L is proposing
9 to end the modified sinking fund treatment at least three
10 years early; is that correct?

11 A. Yes, it is.

12 Q. Now, would you refer to --

13 JUDGE TURNER: Excuse me, Mr. Mickens. For my
14 education, three years early as compared to what?

15 MR. MICKENS: Your Honor, that refers to the three-
16 year period that was identified earlier by Mr. Hoch as the
17 period that the company is proposing to make changes to the
18 modified sinking fund treatment.

19 JUDGE TURNER: So the modified sinking fund treatment
20 under the '84 rate case was to extend until 1998?

21 MR. MICKENS: Until the end of '98, as far as I'm
22 aware.

23 THE WITNESS: Under the 1984 treatment, it was to
24 extend to the year 2000. In 1988, it was again modified and
25 brought to the year 1998 at that point in time.

1 JUDGE TURNER: And now you're bringing it to 1995?

2 THE WITNESS: We're attempting to modify it one more
3 time.

4 MR. MICKENS: That's correct, Your Honor. The
5 original docket was R-842651, and the modification that Mr.
6 Hoch just referred to was at a P-docket, P-880332.

7 JUDGE TURNER: Thank you, Mr. Mickens.

8 BY MR. MICKENS:

9 Q. Mr. Hoch, if you would refer to the company's
10 response to OTS-RB-22D that's in your packet?

11 A. I have it.

12 Q. Now, this request solicits a detailed schedule
13 depicting the calculations of the \$172,729,583 of levelized
14 annual depreciation; does it not?

15 A. Yes, it does.

16 Q. And the response indicates that Attachment 1
17 provides the amount of the current sinking fund depreciation
18 remaining for the period 1995 through '92, and Attachment 2
19 provides the annual depreciation expense under the current
20 sinking fund, the proposed annual levelized amount and the
21 difference between the amounts; is that correct?

22 A. Yes, it is.

23 Q. And so what we can determine from this
24 information is the amounts that would result if the modified
25 sinking fund were continued as opposed to what the amounts

FORM 2

1 would be under straight line for the period of three years
2 and three months that's in question?

3 A. That is true.

4 Q. Just a few questions, Mr. Hoch, with regard to
5 net salvage. Now, if you look at the company's response to
6 OTS-RB-19D which is included in the packet of OTS Cross-
7 Examination Exhibit No. 2, would you agree that this
8 interrogatory requests the company to supply the net salvage
9 estimate for the historic and for the future test years?

10 A. Yes, it does.

11 Q. Now, looking at the response, Attachment 1, this
12 information is not broken down into categories; is that
13 correct?

14 A. I'm not sure what you mean by "categories."

15 Q. Okay, let me ask you this. Would you agree that
16 there are substantial amounts of cost of removal for power
17 plants that are included in the numbers here that aren't
18 specifically identified, broken out separately in this
19 document?

20 JUDGE TURNER: Excuse me, Mr. Mickens. Would you
21 help me? Are you referring to this page (indicating)?

22 MR. MICKENS: Yes, I am, Your Honor, Attachment 1,
23 pages 1 and 2, the last two documents in the exhibit.

24 JUDGE TURNER: Thank you.

25 THE WITNESS: I have no way of attributing certain

1 amounts to power plants versus non-power plants by looking
2 at this document.

3 BY MR. MICKENS:

4 Q. Can you, as a data request, quantify by year how
5 much of the cost of removal and salvage is attributable to
6 steam production plant, nuclear production plant,
7 distribution plant, transmission plant and general plant?

8 JUDGE TURNER: Can we go off the record for a minute,
9 please?

10 MR. MICKENS: Yes.

11 (Discussion off the record.)

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

13 Mr. Hoch has stated that he is not sure the
14 information that Mr. Mickens specified on the record is
15 available in the detail that he requested it.

16 He will have to go back and check the records, and
17 the company will provide the answer to Mr. Mickens on
18 Thursday as to what detail is available.

19 The company will agree to provide an answer to the
20 interrogatory in the detail that is available ten days from
21 Thursday.

22 Is that a correct statement of the off-the-record
23 discussion?

24 MR. MICKENS: I believe it is, Your Honor.

25 JUDGE TURNER: Mr. Hoch?

1 THE WITNESS: Yes, it is.

2 JUDGE TURNER: Go ahead, Mr. Mickens.

3 MR. MICKENS: Thank you.

4 BY MR. MICKENS:

5 Q. Mr. Hoch, with regard to the fossil fuel plants
6 that we were talking about earlier, can you identify any
7 unusual safety concerns with regard to these plants that
8 will require the setting aside of an annuity with regard to
9 them?

10 A. I'm not sure what you're referring to, but
11 again, I believe that's outside my area of responsibility in
12 this case. My area of responsibility solely relates to
13 calculation of the depreciation expense and not any
14 definition of any retirement dates.

15 JUDGE TURNER: Are we referring to the plants you
16 identified earlier, Mr. Mickens: Holtwood, Martins Creek --

17 MR. MICKENS: Yes, all of the fossil fuel plants that
18 the company has requested decommissioning annuity for in
19 this proceeding, are what I was referring to.

20 JUDGE TURNER: Okay. They include Martins Creek and
21 Holtwood?

22 MR. MICKENS: That is correct.

23 JUDGE TURNER: And maybe some others that I can't
24 recall right now?

25 MR. MICKENS: That's right, all of those units that

1 we previously identified.

2 BY MR. MICKENS:

3 Q. Mr. Hoch, with that elucidation, does that
4 change your response any?

5 A. No. I understand now the question, but again,
6 it's not my area of responsibility. I believe that would be
7 Mr. LaGuardia or Mr. Bernini.

8 JUDGE TURNER: Mr. Bernini is scheduled for the 24th,
9 is that correct, or for later than the 24th?

10 MR. GADSDEN: I believe Mr. Bernini is scheduled for
11 the 27th.

12 JUDGE TURNER: And Mr. LaGuardia is --

13 MR. GADSDEN: Scheduled for the 28th.

14 JUDGE TURNER: Sorry for the interruptions.

15 MR. MICKENS: No problem, Your Honor.

16 With that, that's all that I have for this witness,
17 Your Honor, and I would ask that OTS Cross-Examination
18 Exhibit No. 2 be moved into evidence at this time.

19 JUDGE TURNER: Does the company have any objection?

20 MR. DeCUSATIS: No objections, Your Honor.

21 JUDGE TURNER: It is admitted.

22 (Whereupon, the document marked as OTS
23 Cross-Examination Exhibit No. 2 was
24 received in evidence.)

25 JUDGE TURNER: Ms. McCloskey?

1 MS. McCLOSKEY: Ms. Brignola will be conducting the
2 cross-examination of Mr. Hoch.

3 JUDGE TURNER: I apologize. You have told me that
4 twice, now.

5 MS. BRIGNOLA: Thank you, Your Honor.

6 CROSS-EXAMINATION

7 BY MS. BRIGNOLA:

8 Q. I'd like to follow up on some of the questions
9 that OTS has started asking you about, if you could go back
10 to their exhibit, OCA Set III, Question 4 question and
11 response.

12 JUDGE TURNER: You're referring to OTS Cross Exhibit
13 No. 2?

14 MS. BRIGNOLA: No. 2, yes.

15 BY MS. BRIGNOLA:

16 Q. And in addition to that, I'll be referring to an
17 interrogatory response that OTS did not provide in their
18 exhibit, but I think you should have. It was sponsored by
19 you. And that is OCA Set III, Question 6.

20 JUDGE TURNER: Are you going to mark that as a cross-
21 examination exhibit?

22 MS. BRIGNOLA: I don't think so, Your Honor. I think
23 we can clear this up with one question.

24 MR. KLEPPINGER: Your Honor?

25 JUDGE TURNER: Yes?

1 MR. KLEPPINGER: If I might interrupt, I was going to
2 be introducing that later, and if it's easier for the
3 parties now to distribute that, I can do it.

4 JUDGE TURNER: Why don't you do that.

5 MR. KLEPPINGER: I thought maybe that would
6 facilitate it.

7 (Documents distributed by Mr. Kleppinger.)

8 BY MS. BRIGNOLA:

9 Q. While he is passing that out, the question that
10 I would like to ask you is, looking at these two questions
11 and these two responses, one question asks how much would
12 the test year revenue requirement change, and the other asks
13 the difference in the test year depreciation expense,
14 comparing the modified sinking fund versus the levelized
15 approach.

16 Could you account for the difference between the two
17 answers that we have?

18 JUDGE TURNER: Wait a minute. The first answer is
19 the answer to Question 4, Set III, and the second is the
20 answer to Question 6, Set III?

21 MS. BRIGNOLA: Thank you.

22 JUDGE TURNER: You're asking him to compare those two
23 answers.

24 THE WITNESS: My responsibility was, for Question 4,
25 to supply the depreciation expense, and on Question 6, I

1 supplied the depreciation expense. Mr. Kleha worked up the
2 revenue requirement from depreciation expense that I
3 supplied him.

4 BY MS. BRIGNOLA:

5 Q. Then we won't be able to clear up the two
6 differences until --

7 A. Until Mr. Kleha is on.

8 Q. -- perhaps Mr. Kleha comes on the stand. Okay,
9 we will reserve that question, then.

10 JUDGE TURNER: Is that it?

11 MS. BRIGNOLA: No. I have more questions.

12 BY MS. BRIGNOLA:

13 Q. In your testimony, on page 13, you discuss that
14 if the company's proposal is adopted, the company would
15 adjust its retail rates to reflect straight line
16 depreciation and determination of the approved amortization.

17 Could you describe how the company plans to adjust
18 its rates in 1999?

19 A. At this point, we haven't formalized any
20 definite plans. We potentially could adjust base rates. We
21 could run them through some type of special clause, but we
22 have not made any determination at this point in time.

23 Q. For the next couple of questions, I will be
24 referring to what I think has been marked as the company's
25 Exhibit I, Volume 4, and specifically Part V, Attachment

1 V-B-1 of that; and also Exhibit DSH-1, Section 5.

2 A. Could you repeat that, please?

3 Q. Basically, these two volumes, which is the
4 company's Exhibit I, Volume 4, Part V, and Exhibit DSH-1,
5 Section 5.

6 JUDGE TURNER: Could you help me to find out where
7 Part V begins in Volume 4 of PP&L-I?

8 MS. BRIGNOLA: It's V-B-1, pages 3 and 11.

9 JUDGE TURNER: Pages --

10 MS. BRIGNOLA: Pages 3 and 11.

11 JUDGE TURNER: Page 3 of 11 and page 11 of 11; is
12 that correct?

13 MS. BRIGNOLA: Yes.

14 JUDGE TURNER: All right. And then you're using
15 DSH-1 and 2?

16 MS. BRIGNOLA: Section 5 of 1.

17 JUDGE TURNER: Section 5 of DSH-1?

18 MS. BRIGNOLA: Yes.

19 BY MS. BRIGNOLA:

20 Q. Turning now to page 3 of the company's Exhibit
21 I, which is Attachment V-B-1 --

22 A. I have it.

23 Q. You're with me, okay.

24 JUDGE TURNER: And just for the record, it's Volume
25 4.

1 MS. BRIGNOLA: I'm sorry.

2 BY MS. BRIGNOLA:

3 Q. Down at the bottom on page 3, it shows that the
4 amount of depreciation projected to be booked here is
5 \$146,648,575; is that correct?

6 A. Yes, it is.

7 Q. Why is that greater than the amount in Exhibit
8 DSH-1, Section 5, that is associated with the existing
9 depreciation schedule under the modified sinking fund? That
10 number is \$141,316,228.

11 A. I believe there are several reasons. The
12 numbers on page 3 of V-B-1 include property installed after
13 -- well, from January 1, 1989 onward as well.

14 And as well, they run through September 30, 1995,
15 whereas on Section 5, that's a calendar year 1995 number.

16 JUDGE TURNER: Section 5 of your Exhibit 1?

17 THE WITNESS: Yes.

18 JUDGE TURNER: Your DSH-1.

19 BY MS. BRIGNOLA:

20 Q. And in Exhibit DSH-1, Section 5, the company
21 claims that the levelized Susquehanna accrual is
22 \$172,729,583. Could you tell me the relationship between
23 that value and the \$181,920,000 on the Volume 4 of the
24 company's Exhibit I, V-B-1?

25 A. Again, the \$181 million includes depreciation of

1 property installed from January 1, 1989 onward as well as
2 the levelization.

3 Q. Now, if that's the case, then why are the
4 differences between the booked amount, \$146 million, versus
5 the modified sinking amount of \$141 million, and the
6 levelized amount, \$172 million, versus the calculated
7 amount, the \$181 million, why are those two differences not
8 equal?

9 JUDGE TURNER: Is your question, why is there a
10 difference, or why isn't the amount between each one --

11 MS. BRIGNOLA: Yes.

12 THE WITNESS: I'm a little confused, without
13 calculating --

14 BY MS. BRIGNOLA:

15 Q. Of the two sets of numbers that we compared, one
16 is a \$5 million difference and the other is greater than
17 \$5 million. Why are they not equal?

18 JUDGE TURNER: Do you understand the question?

19 THE WITNESS: I understand the question. I can't
20 make a good determination without sitting down and
21 calculating.

22 I believe -- and this may not be the case -- but I
23 believe it's because we're dealing in different time frames
24 here, I believe since one is a calendar year and I believe
25 since one is a year ended 9/30/95.

1 JUDGE TURNER: I would like to ask, for my own
2 clarification, which is based on the calendar year?

3 THE WITNESS: The Exhibit DSH-1 is calendar year.

4 JUDGE TURNER: And you're talking about Section 5?

5 THE WITNESS: Section 5.

6 JUDGE TURNER: Which is a section with two pages?

7 THE WITNESS: Yes.

8 JUDGE TURNER: The first page is text which includes
9 in the last sentence the number \$172,729,583?

10 THE WITNESS: Yes.

11 JUDGE TURNER: And the second is two charts, showing
12 the modified sinking fund and I believe the straight line?

13 THE WITNESS: Modified sinking fund in two different
14 property accounts.

15 JUDGE TURNER: Okay. Excuse me.

16 And would you expect the values to be the same,
17 comparing those numbers?

18 THE WITNESS: I believe, if we're looking at two
19 different time frames, I believe the numbers would not be
20 the same.

21 JUDGE TURNER: If you were looking at the same time
22 frame, would the numbers be the same?

23 THE WITNESS: I believe they would.

24 MS. BRIGNOLA: Your Honor, we would like to make an
25 on-the-record data request for a written explanation of why

1 these numbers, the differences between the two sets of
2 numbers are not equal.

3 BY MS. BRIGNOLA:

4 Q. If you could provide us a written explanation of
5 that?

6 A. Yes, we can.

7 Q. Thank you.

8 JUDGE TURNER: Just one further question. Your
9 Exhibit DSH-1, Part 5 is based on what time period?

10 THE WITNESS: Those are calendar years, 1995 through
11 1998.

12 JUDGE TURNER: And those are all projected figures?

13 THE WITNESS: On modified sinking fund depreciation,
14 the figures have been essentially calculated back in 1984.

15 JUDGE TURNER: All right, they were calculated in
16 1984 for those years?

17 THE WITNESS: Yes.

18 JUDGE TURNER: And what is the basis of PP&L-I,
19 Volume 4, Part V, Attachment V-B-1?

20 THE WITNESS: The calculated column represents the
21 \$172 million that we're proposing to levelize as well as
22 depreciation on property from January 1, 1989 onward.

23 The modified sinking fund depreciation only is
24 applicable to property installed prior to 1989, and so the
25 \$181 million is really depreciation on two pieces of

1 property.

2 JUDGE TURNER: Is that true throughout the exhibit,
3 all the pages --

4 THE WITNESS: Yes.

5 JUDGE TURNER: -- page 1 through 11?

6 THE WITNESS: Yes, for all property related to
7 Susquehanna Unit 1.

8 JUDGE TURNER: Can you provide a written explanation
9 to OCA within ten days from today?

10 THE WITNESS: Yes, we can.

11 JUDGE TURNER: Thank you for waiting through my
12 interruptions. Would you proceed?

13 MS. BRIGNOLA: Thank you, Your Honor.

14 BY MS. BRIGNOLA:

15 Q. Now, if you will please refer to Exhibit Future
16 1, Schedule D-17?

17 A. I don't have a copy.

18 JUDGE TURNER: Where is that?

19 MS. BRIGNOLA: It's in a blue cover.

20 THE WITNESS: I have it.

21 BY MS. BRIGNOLA:

22 Q. On line 5, you list an amortization for net
23 negative salvage of \$20,169,000?

24 A. Yes, I do.

25 Q. With a footnote that this is based on a

1 five-year average of negative net salvage as prescribed by
2 the Pennsylvania PUC?

3 A. Yes.

4 Q. Has this value been calculated on the basis of
5 five years of historical data?

6 A. Yes, it -- well, no, I'm sorry, it was four
7 years of historical data and one year of projected data.

8 JUDGE TURNER: Excuse me, we're looking at D-17?

9 THE WITNESS: Yes.

10 JUDGE TURNER: Go ahead.

11 BY MS. BRIGNOLA:

12 Q. The projected data is the 1995 cost of removal
13 and salvage?

14 A. It's the cost of removal from October 1, 1994
15 through September 30, 1995 on a projected basis.

16 Q. And is it your understanding that the
17 Pennsylvania PUC prescribes the use of a five-year
18 historical value for this purpose?

19 A. I am not sure of that.

20 Q. Am I correct that when PP&L's existing rates
21 were set, one of the expense items reflected was
22 depreciation expense?

23 A. Yes.

24 Q. And would you agree or accept subject to check
25 that the depreciation expense included an allowance for the

1 amortization of historical net salvage?

2 A. I know it included an amortization of salvage.
3 I don't know if it was historical or not.

4 Q. Am I also correct that in this case, your
5 depreciation expense claim includes an allowance for
6 historical net negative salvage?

7 A. I'm not sure --

8 JUDGE TURNER: Excuse me, he didn't agree you were
9 correct in the first one.

10 Would you agree subject to check that --

11 THE WITNESS: I'm not sure what her question was.

12 JUDGE TURNER: The previous question was, would you
13 agree subject to check that it includes a historical
14 allowance?

15 MS. BRIGNOLA: For the amortization of net salvage,
16 and he wasn't sure whether it was net or not.

17 THE WITNESS: In the prior case or in this case?

18 JUDGE TURNER: In the prior case.

19 BY MS. BRIGNOLA:

20 Q. In the prior case.

21 A. In the prior case, there is an amortization of
22 negative net salvage, but I do not know if it was historical
23 or not.

24 JUDGE TURNER: So you can agree subject to check that
25 it was?

1 THE WITNESS: Subject to check, I can agree.

2 JUDGE TURNER: All right, now.

3 MS. BRIGNOLA: Thank you, Your Honor.

4 BY MS. BRIGNOLA:

5 Q. Am I correct that the net negative salvage
6 allowance is associated with assets which are or will be, by
7 the end of the test year, retired?

8 A. Yes.

9 Q. Am I also correct that the claimed allowance in
10 this case included over \$12 million for net negative salvage
11 associated with production plant?

12 A. I do not know.

13 Q. On page 15 of your direct testimony, you discuss
14 the company's proposal to amortize certain general plant
15 accounts. I'd like to ask you a little bit about that
16 proposal.

17 If you'll refer to the company's Exhibit I, Volume 4,
18 Part V-B-2, page 10?

19 A. Okay.

20 Q. There it shows that for Account 391.2 or the
21 account for furniture, that PP&L is proposing an
22 amortization period of 20 years, correct?

23 A. Yes, it is.

24 Q. And the result of such an amortization period is
25 a depreciation rate of 5 percent, correct?

1 A. An amortization rate of 5 percent.

2 MS. BRIGNOLA: Your Honor, at this time, I would like
3 to have marked for identification OCA Cross-Examination
4 Exhibit No. 4, which is the response to OCA Interrogatory
5 Set III, Question 8.

6 JUDGE TURNER: It may be so marked.

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

10 BY MS. BRIGNOLA:

11 Q. Mr. Hoch, this table represents 20 years of
12 experience data, correct?

13 A. Are you referring to your Cross-Examination --

14 Q. Yes, I am. Your response is the Observed Life
15 Table No. 4.

16 A. Yes, it is.

17 Q. And that represents an amortization period of 20
18 years -- I'm sorry, I misread my question -- that represents
19 20 years of experienced data, correct?

20 A. Yes, it does.

21 Q. So if we wanted to analyze how much of the
22 furniture that was installed ten years ago was still in
23 service today, we could use this table by going down Column
24 1 to the interval of 9.5 years and going across to the last
25 column, and the percentage of furniture surviving or still

1 in service that was installed ten years go is 78.18 percent,
2 correct?

3 A. No, it's not.

4 Q. Ninety-eight? Yes, 98.18 percent, sorry. Is
5 that correct?

6 A. That 98.18 percent applies not only to the
7 property installed ten years ago, but also to other property
8 that was existing, exposed to retirement at age ten.

9 The property could have been installed in 1975, for
10 instance. In 1985, it would have been ten years old. It
11 applies to a number of years worth of data in this study,
12 not just that single group of property installed ten years
13 ago.

14 JUDGE TURNER: In any event, the 98 percent is
15 correct; it's a question of what's included in the property?

16 THE WITNESS: The 98 percent includes the one year
17 that she was referring to, but it's not limited to that one
18 year.

19 JUDGE TURNER: All right.

20 (Pause.)

21 JUDGE TURNER: Excuse me, can we proceed?

22 MS. McCLOSKEY: Oh, I'm sorry, Your Honor. Can we
23 have just a moment?

24 JUDGE TURNER: All right. Let's go off the record
25 for a moment.

1 (Discussion off the record.)

2 JUDGE TURNER: Back on the record.

3 BY MS. BRIGNOLA:

4 Q. Turning to the third page of this exhibit, could
5 you then explain, using the table, explain to us, looking at
6 the interval of 43.5, what can we say about the
7 corresponding number in the fourth column of 50.79? What
8 does that 50.79 represent?

9 A. That means, for all property that reached age
10 43.5, 50.79 percent is still surviving.

11 Q. Turning to the fourth page of the exhibit which
12 discusses survivor curve indications, am I correct that a
13 smaller residual measure shows a curve that fits your data
14 better?

15 A. Yes, that is true.

16 Q. And am I also correct that the numbers under the
17 heading, "Curve Indication," refer to average service lives
18 of the plant being fitted by the curve?

19 A. They are the retirement dispersions as well as
20 the average service lives.

21 Q. I didn't hear the beginning.

22 A. They are the retirement dispersions as well as
23 the average service lives.

24 Q. And what do you mean by "retirement
25 dispersions"?

1 A. There is a family of curves known as Iowa
2 curves. Within each certain, specific type of curve, they
3 have what are known as left modal, right modal and symmetric
4 curves.

5 Within each of those three families, there are
6 various degrees of -- the modality of the curve varies for
7 each of those curves. Those are known as dispersions.

8 For the S-curves, you have six or seven different
9 dispersions with varying degrees of modality.

10 Q. Okay, I understand. Thank you.

11 JUDGE TURNER: Excuse me. Can we go off the record
12 here?

13 (Discussion off the record.)

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

15 BY MS. BRIGNOLA:

16 Q. In reviewing the numbers on the top half of this
17 page, page 4 of the exhibit where it indicates that all
18 significant data was used, would I be correct that this
19 table reflects, of all the survivor curves tested for this
20 full set of data, the best fit was with a 38.7 year average
21 service life?

22 A. Yes, it is.

23 Q. And would you also agree that all of the curves
24 listed on this page suggest an average service life of about
25 40 years?

1 A. Something under 40, closer to 38 or 39.

2 Q. And turning back again to page 1 of this
3 exhibit, it states that the average age of retirement for
4 furniture in Account 391.2 is 30 years, doesn't it?

5 A. Yes, it is.

6 MS. BRIGNOLA: Your Honor, may I please have marked
7 for identification OCA Cross-Examination Exhibit No. 5,
8 which is the response to OCA Interrogatory Set III, Question
9 10?

10 JUDGE TURNER: Yes, you may have it marked.

11 (Whereupon, the document was marked as OCA
12 Cross-Examination Exhibit No. 5 for
13 identification.)

14 BY MS. BRIGNOLA:

15 Q. Am I correct that this response was to show the
16 dollar weighting of equipment lives in Account 391.2?

17 A. Yes, it is.

18 Q. And is it true that Subaccount 8581-2 is listed
19 at a life of 15 to 20 years?

20 A. Yes, it is.

21 Q. And that the lives of the other subaccounts are
22 listed as 20 years?

23 A. Yes, they are.

24 Q. How were these numbers derived?

25 A. Through discussion with individuals in our

1 facilities department. They gave us their best knowledge of
2 how long furniture should last. They gave us their best
3 knowledge of what equipment manufacturers and furniture
4 manufacturers tell them how long equipment should last, and
5 we incorporated that.

6 Q. So then, you did not make those determinations?

7 A. No, we did not.

8 Q. And did those individuals that you referred to,
9 did they work with the dispersion data to arrive -- that you
10 mentioned and we discussed that were already in the exhibit?

11 A. No, they did not.

12 MS. BRIGNOLA: Your Honor, that concludes the
13 questions from the OCA. We would like to move Cross-
14 Examination Exhibits Nos. 4 and 5 into evidence.

15 JUDGE TURNER: Any objection?

16 MR. DeCUSATIS: No objection.

17 JUDGE TURNER: They may be so moved.

18 (Whereupon, the documents marked as OCA
19 Cross-Examination Exhibits Nos. 4 and 5
20 were received in evidence.)

21 JUDGE TURNER: Before we proceed, I would like to ask
22 some questions.

23 First of all, Ms. Brignola, you implied that the PUC
24 has prescribed a five-year period for depreciation recovery;
25 is that correct?

1 (No response.)

2 JUDGE TURNER: If that is so, I would like you to
3 provide the source of that.

4 MS. BRIGNOLA: I'm sorry, maybe I didn't hear the
5 beginning of your sentence correctly.

6 JUDGE TURNER: You asked him a question, whether in
7 fact the PUC had prescribed a certain amount of time, a five
8 year time period.

9 MS. BRIGNOLA: It was for salvage, historical data,
10 five years of historical data.

11 JUDGE TURNER: All I'm saying is, I'd like you to
12 provide that reference. If it's in an order or it's in a
13 policy statement, I think we should have that.

14 And secondly, I would like either the witness or
15 counsel to state what is SFAS 91, I believe it is -- 92.
16 Counsel already stated what "SFAS" means, but what is the 92
17 standard?

18 MR. DeCUSATIS: Your Honor, SFAS 92 was a statement
19 of financial accounting standards that dealt with the
20 accounting for phase-in plans, and specifically prescribed
21 certain limitations on phase-in plans such as their length
22 of recovery periods, issues such as so-called back end
23 loading with greater amounts of the cost of a new plant
24 entering service being recovered at later points in time,
25 and set certain parameters which said that if you did not

1 follow the prescribed criteria of SFAS 92, then in essence
2 you would not be permitted to treat the deferral of certain
3 revenues as a so-called regulatory asset or, more
4 particularly, the deferral of expenses as regulatory asset.

5 And as a consequence, a utility would have been
6 required to take immediate write-offs of the revenues that
7 were being deferred under the phase-in plan.

8 And after it was being implemented, it contained
9 certain transition rules that said, if you had an existing
10 phase-in plan and you wanted to avoid the kinds of write-
11 offs that would otherwise be prescribed, you were given
12 certain time periods to come within the terms of the rule
13 92.

14 JUDGE TURNER: But it doesn't apply to specific
15 accounts, it applies to the handling of revenue from --

16 MR. DeCUSATIS: A phase-in plan, and they define
17 phase-in plans in various ways and different devices which,
18 whether they are called a phase-in plan at the time they are
19 adopted by a Commission, are treated as such for purposes of
20 92.

21 JUDGE TURNER: That's very thorough, Mr. DeCusatis.
22 I think that's all that we need at this point.

23 Mr. Epstein, do you have any questions of this
24 witness?

25 MR. EPSTEIN: No, Your Honor.

1 JUDGE TURNER: Mr. Kleppinger, you indicated before
2 that you did?

3 MR. KLEPPINGER: Yes, Your Honor.

4 CROSS-EXAMINATION

5 BY MR. KLEPPINGER:

6 Q. Good afternoon, Mr. Hoch.

7 A. Good afternoon.

8 Q. Am I correct, based on responses I believe to
9 Mr. Mickens, that your role in this case is calculating
10 depreciation numbers, but that you would not have had a role
11 in performing any cost benefit or economic studies regarding
12 the decision to advance the deactivation dates of Sunbury,
13 Martins Creek and Holtwood?

14 A. That is true.

15 Q. In your Exhibit DSH-1, you list the advance
16 deactivation dates, and I just want to make sure the record
17 is clear that on Sunbury, the proposed date is advanced by a
18 seven-year period?

19 A. Yes, it is.

20 Q. And Martins Creek is being advanced by 12 years?

21 A. Yes, it is.

22 Q. And Holtwood by six years?

23 A. That's true.

24 Q. Are you familiar with the capacity size of these
25 three stations?

1 A. Very roughly.

2 Q. Would you accept, subject to check -- and this
3 is based on an interrogatory from Mr. Krall -- that there
4 are about 762 megawatts of capacity associated with these
5 three stations?

6 A. That sounds approximately right.

7 MR. KLEPPINGER: Your Honor, I'd like to distribute
8 at this time the company's response to OCA Interrogatory Set
9 IV, No. 87, and have that marked as PPLICA Cross-Examination
10 Exhibit No. 1.

11 JUDGE TURNER: It may be so marked.

12 (Whereupon, the document was marked as PPLICA
13 Cross-Examination Exhibit No. 1 for
14 identification.)

15 BY MR. KLEPPINGER:

16 Q. Mr. Hoch, this interrogatory lists the
17 retirement dates and decommissioning costs for PP&L retired
18 facilities, correct?

19 A. That is true.

20 Q. And if you turn to the Attachment 1, would you
21 agree with me then in the retirements of fossil fuel
22 stations since 1951 to 1988, that the total decommissioning
23 amount, if we were to summarize the column labeled "amount,"
24 would be approximately \$953,200, subject to check, of
25 course?

1 A. Subject to check, of course.

2 Q. And if we would attempt to total the "salvage"
3 column, the total would be in excess of \$1 million dollars,
4 subject to check?

5 A. Subject to check, I'll agree with that.

6 Q. So you would agree with me, subject to check
7 also, that if we total the "capacity" column, the total
8 amount of capacity for these stations would be approximately
9 518 megawatts?

10 A. Subject to check.

11 Q. Now, by way of comparison, are you familiar with
12 what the claim in this case is for decommissioning of fossil
13 fuel stations?

14 A. No, I am not.

15 Q. So you're not aware of what the ratemaking claim
16 is in this case for decommissioning expense on fossil fuel
17 plants?

18 A. Only in very rough terms.

19 Q. So, while you provide the historic
20 decommissioning amounts in this exhibit, you are not
21 familiar with the current plan in detail?

22 A. The historic amounts were provided from property
23 records. The future amounts is a ratemaking claim which is
24 not part of my responsibility.

25 JUDGE TURNER: Would that be Mr. Krall also?

1 THE WITNESS: I believe that would be Mr. Bernini.

2 BY MR. KLEPPINGER:

3 Q. Next, Mr. Hoch, I previously distributed the
4 company's response to OCA Set III, No.6

5 MR. KLEPPINGER: Your Honor, I'd like to have that
6 marked for identification at this time as PPLIC Cross-
7 Examination Exhibit No. 2.

8 JUDGE TURNER: It may be so marked.

9 (Whereupon, the document was marked as PPLIC
10 Cross-Examination Exhibit No. 2 for
11 identification.)

12 BY MR. KLEPPINGER:

13 Q. And this moves into the area of modified sinking
14 fund depreciation conversion, and I'm not sure if it had
15 come out in the record previously, but this interrogatory
16 response does confirm, does it not, that the jurisdictional
17 revenue requirement effect of that depreciation change is
18 \$30,626,810?

19 A. Yes, it does.

20 Q. Next, Mr. Hoch, in the way of follow-up
21 primarily, I'd like to distribute to you your interrogatory
22 response to OCA Set III, Question No. 7.

23 MR. KLEPPINGER: Your Honor, if I could have that
24 marked as PPLIC Cross-Examination Exhibit No. 3.

25 JUDGE TURNER: It may be so marked.

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

4 BY MR. KLEPPINGER:

5 Q. Now, Mr. Hoch, I would like to refer you to
6 Attachment 1 of what's been marked as PPLIC Cross-
7 Examination Exhibit No. 3, and then refer you back to OTS
8 Cross-Examination Exhibit No. 2. Have you located that?

9 A. I've found it.

10 Q. Paging back through that to the Interrogatory
11 OTS-RB-22D, Attachment 2.

12 A. Where might I find that?

13 Q. It's in the packet, OTS Cross-Examination
14 Exhibit No. 2.

15 A. Okay.

16 JUDGE TURNER: OTS-RD-42?

17 MR. KLEPPINGER: 22D.

18 JUDGE TURNER: This does raise something I would like
19 to request, that if people could paginate their cross-
20 examination exhibits, it would help us.

21 I know this isn't your exhibit, but as a rule, none
22 of the cross-examination exhibits have page numbers on them,
23 and it would probably help. Anyway, let's go ahead.

24
25

1 BY MR. KLEPPINGER:

2 Q. Have you located that, Mr. Hoch?

3 A. Yes, I have.

4 Q. In comparing the OTS interrogatory answer to the
5 OCA Interrogatory answer, there's one column essentially
6 that's been added as incremental revenue; do you see that?

7 A. Yes, I do.

8 Q. And in essence, does that tell us what the
9 incremental revenue effect is in 1995 of this depreciation
10 change?

11 A. I don't mean to be difficult again, but I
12 believe that would be responded to by Mr. Kleha.

13 Q. Okay, that's fine. I will address that to Mr.
14 Kleha tomorrow also, unless it's taken before it gets to my
15 turn.

16 JUDGE TURNER: Before you move on, are you inferring,
17 Mr. Kleppinger, that the other three columns on Attachment 1
18 in your cross-examination exhibit are comparable to the
19 first three columns in OTS Cross-Examination Exhibit No. 2?

20 MR. KLEPPINGER: I believe they are identical, Your
21 Honor, yes.

22 JUDGE TURNER: So "SFA-92" is the same thing as
23 "Levelized", and "Total Depreciation Expense" is the same as
24 "Expense Difference"?

25 MR. KLEPPINGER: We may be on two different exhibits,

1 Your Honor. We're on Attachment 2 to the OTS.

2 JUDGE TURNER: You're looking at the OTS Cross-
3 Examination No. 2?

4 MR. KLEPPINGER: Right. I think we need to go to
5 Attachment 2 to that interrogatory, Your Honor. You're on
6 Attachment 1.

7 JUDGE TURNER: I was. Thank you.

8 MR. KLEPPINGER: Now I think the first three columns
9 are identical and then the fourth column is added.

10 JUDGE TURNER: Thank you.

11 MR. KLEPPINGER: We will clear that up with Mr.
12 Kleha.

13 BY MR. KLEPPINGER:

14 Q. Mr. Hoch, when you calculated the levelized
15 depreciation number at the \$172 million that's been
16 discussed today, did you include any carrying charge or
17 interest rate which would reflect the accelerated recovery
18 of depreciation between 1995 and 1998?

19 A. I do not believe so, no.

20 Q. And would I be correct that under the
21 levelization proposal, PP&L is collecting more dollars
22 earlier from customers than if it had maintained the
23 modified sinking fund approach to depreciation through 1998?

24 A. That is true.

25 MR. KLEPPINGER: Thank you, Mr. Hoch. That's all I

1 have.

2 JUDGE TURNER: Do you want to move for admission of
3 your exhibits?

4 MR. KLEPPINGER: Yes, I do, Your Honor. I'll move
5 the admission of PPLICA Cross-Examination Exhibits Nos. 1, 2
6 and 3.

7 JUDGE TURNER: Any objection?

8 MR. DeCUSATIS: No objection, Your Honor.

9 JUDGE TURNER: They are admitted.

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

13 JUDGE TURNER: Mr. McCormick?

14 MR. McCORMICK: No questions, Your Honor.

15 JUDGE TURNER: Ms. Moury?

16 MS. MOURY: Yes, I have a couple of questions, Your
17 Honor.

18 CROSS-EXAMINATION

19 BY MS. MOURY:

20 Q. Good afternoon, Mr. Hoch.

21 A. Good afternoon.

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

24 Directing your attention, Mr. Hoch, to page 15 of
25 your testimony, starting with about line 7, you are

1 discussing there the proposed change in the depreciation
2 method for Susquehanna, and you indicate that that change
3 should enable the company to minimize future base rate
4 increase requests. Do you recall that?

5 A. Yes, I do.

6 Q. Now, do you mean by that that the company would
7 be able to file fewer requests, or do you mean that the
8 company might be able to file requests of lower amounts?

9 A. I believe this increases the probability that
10 the company may not have to come in for additional
11 increases, and if it does, certainly the increases would be
12 of lesser nature.

13 Q. All right. So is it fair to say that at least
14 in part, the company wants to change the depreciation method
15 for Susquehanna so as to enable it to delay future rate
16 increase requests?

17 A. I believe in part that is true.

18 Q. Now, did you participate in the decision-making
19 process that resulted in this proposed change, or did you
20 simply perform the calculations to implement the change?

21 A. I was asked to implement it.

22 MS. MOURY: That's all the questions I have. Thank
23 you, Your Honor.

24 JUDGE TURNER: Mr. DeCusatis, do you have any
25 redirect?

1 MR. DeCUSATIS: Your Honor, if I may have just a few
2 moments with the witness, I would appreciate it.

3 JUDGE TURNER: Let's go off the record for a brief
4 time.

5 (Discussion off the record.)

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

7 MR. DeCUSATIS: Your Honor, we have no redirect for
8 Mr. Hoch. I would like to move the admission of PP&L
9 Statement No. 4 and Exhibits DSH-1 and 2, all of which were
10 sponsored by Mr. Hoch.

11 JUDGE TURNER: Does any party have any objection?

12 (No response.)

13 JUDGE TURNER: No parties having any objection, they
14 are admitted.

15 (Whereupon, the documents marked as PP&L
16 Statement No. 4 and PP&L Exhibits Nos. DSH-1
17 and DSH-2 were received in evidence.)

18 JUDGE TURNER: We will take a 15-minute break at this
19 point, and then we will begin with Mr. Krall.

20 (Recess.)

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

22 Mr. DeCusatis?

23 MR. GADSDEN: Your Honor, the company calls as its
24 next witness Mr. Krall.

25 Whereupon,

1 DOUGLAS A. KRALL

2 having been duly sworn, testified as follows:

3 JUDGE TURNER: Would you spell your name for the
4 record?

5 THE WITNESS: My name is Douglas, D-O-U-G-L-A-S,
6 middle initial A., Krall, K-R-A-L-L.

7 JUDGE TURNER: Thank you. Please be seated.

8 MR. GADSDEN: Your Honor, Mr. Krall will be
9 sponsoring a statement of direct testimony as well as
10 various exhibits which need to be marked for identification
11 at this time: First, as PP&L Statement No. 5, the direct
12 testimony of Douglas A. Krall.

13 And then we have three separately bound volumes in
14 black covers: First, Exhibit DAK-1, captioned, "1994-95
15 Construction Budget"; secondly, Exhibit DAK-2, captioned,
16 "1995-96 Construction Budget"; and then the third document
17 actually contains two separate exhibits, DAK-3 and 4, the
18 first, adjustments to 1994-95 capital construction budget
19 and '95-'96 construction budget, that would be DAK-3; and
20 then as DAK-4, proposed deactivation dates for fossil and
21 hydro generating plants.

22 May they be marked as so indicated?

23 JUDGE TURNER: Do all parties have copies of those?

24 (No response.)

25 JUDGE TURNER: Fine, they may be so marked.

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

4 DIRECT EXAMINATION

5 BY MR. GADSDEN:

6 Q. Mr. Krall, would you indicate by whom you are
7 employed and in what capacity?

8 A. I'm employed by Pennsylvania Power & Light
9 Company. My title is Manager, Integrated Resource Planning.

10 Q. And Mr. Krall, do you have a copy of what has
11 been marked as PP&L Statement No. 5?

12 A. Yes, I do.

13 Q. And was that statement of direct testimony
14 prepared by you or under your supervision?

15 A. Yes, it was.

16 Q. Are there any corrections to the testimony that
17 you wish to make at this time?

18 A. No, there aren't.

19 Q. If I were to ask you the questions set forth in
20 Statement No. 5 today, would your answers be as contained
21 therein?

22 A. Yes, they would.

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

25 A. Yes, they would.

1 Q. Do you also have before you copies of what have
2 been marked as Exhibits DAK-1, 2, 3 and 4?

3 A. Yes, I do.

4 Q. Were those exhibits prepared by you or under
5 your supervision?

6 A. Yes, they were.

7 Q. Are there any revisions to any of the four
8 exhibits that need to be brought to our attention?

9 A. Yes. I'd like to make one change on Exhibit 3,
10 on page 5. The page is titled, "Pennsylvania Power & Light
11 Company Adjustments to 1994-1995 Construction Budget
12 Estimates to Derive Future Test Year Electric Plant
13 Additions."

14 Looking down that page at the Reference 1 under the
15 column, "Page Number", Budget Item No. 344, 1994-95 budget
16 estimate 4245, the next number should be changed under the
17 heading "Future Test Year Estimate" to 2,178.

18 Under the column "Adjustment," the number should be
19 changed to 2,067, and an "x" should be included under the
20 column titled, "Part of Budget Item in Service".

21 Q. Mr. Krall, could you just briefly explain the
22 nature and need for that revision?

23 A. Yes. It came to our attention, since the time
24 this exhibit was prepared, that a portion of this project
25 actually was placed in service.

1 Q. During the historic test year?

2 A. During the historic test year, yes.

3 Q. With that revision, is the data set forth in
4 Exhibits DAK-1 through DAK-4 true and correct to the best of
5 your knowledge?

6 A. Yes, it is.

7 MR. GADSDEN: Your Honor, at this time, I would move
8 the admission of Statement 5 and Exhibits DAK-1 through
9 DAK-4, and offer Mr. Krall as available for cross-
10 examination.

11 JUDGE TURNER: They may be admitted, subject to
12 cross-examination, objections, motions to strike and so on.

13 (Whereupon, the documents marked as PP&L
14 Statement No. 5 and PP&L Exhibits Nos. DAK-1
15 through DAK-4 were received in evidence.)

16 MR. GADSDEN: Thank you, Your Honor.

17 JUDGE TURNER: Before we proceed, do we have a set of
18 those exhibits I can use in the hearing room?

19 MR. GADSDEN: We do.

20 JUDGE TURNER: And I think I should return the
21 exhibits you had given me earlier, which I did not mark.

22 (Pause.)

23 JUDGE TURNER: Mr. Mickens?

24 MR. MICKENS: Thank you, Your Honor.

25

CROSS-EXAMINATION

1
2 BY MR. MICKENS:

3 Q. Good afternoon, Mr. Krall.

4 A. Good afternoon.

5 Q. My name is Ken Mickens and I represent the
6 Office of Trial Staff. I just have a couple of questions
7 that were referred to you by your colleague, Mr. Hoch.

8 A. That will be fine.

9 Q. And they refer to PP&L's proposal to reduce life
10 spans for the Martins Creek Units 1 and 2, Holtwood and
11 Sunbury steam electric stations.

12 First, would you direct your attention to your
13 Statement No. 5, page 9?

14 A. I have that.

15 Q. Here you're talking about the selection of
16 deactivation dates for the plants in question; is that
17 correct?

18 A. Could I have a line reference, please?

19 Q. Beginning at line 17.

20 A. That's correct.

21 Q. Now, you indicate in that paragraph there,
22 beginning at line 18, you talk about the factors that PP&L
23 used in determining that the life spans for these units that
24 I identified should be reduced; is that correct?

25 A. Yes. These are the factors that apply to all of

1 our power plants, in fact, in determining deactivation dates
2 for depreciation purposes.

3 Q. And at line 24 through 26, you indicate the
4 general factors are, one, finite lives of equipment; current
5 age and service history of equipment; and increasingly
6 strict environmental regulation; is that correct?

7 A. That's correct.

8 Q. Now, of course, finite lives of equipment, that
9 would apply to any property; is that correct?

10 A. That says that equipment will tend to wear out
11 for one reason or another, yes.

12 Q. And of course, the current age and service
13 history of the equipment is also something that any public
14 utility would have to consider at various times during the
15 life of the property or plant; is that correct?

16 A. Yes, that's correct.

17 Q. Now, the third factor, the increasingly strict
18 environmental regulation, are you referring primarily to the
19 Clean Air Act?

20 A. In response to interrogatories, yes, I
21 specifically cite Title III and Title I of the Clean Air Act
22 amendments, although there are a host of environmental
23 regulations affecting waste and water as well that would
24 affect the lives of power plants.

25 Q. Okay. So was the reasoning of the company that

1 they looked at these plants and determined that it might be
2 appropriate to reduce the life spans, that that was an
3 option rather than attempting to comply with these
4 environmental regulations at the appropriate times? Is that
5 correct?

6 A. To some extent, that's correct. The issue
7 specifically with regard to Title I and Title III is one of
8 uncertainty.

9 At this point in time, we really can't say what our
10 option is as far as compliance, because we don't really have
11 regulations to comply with.

12 JUDGE TURNER: Excuse me, Mr. Krall. I've cautioned
13 all witnesses on this today. To the extent that you can,
14 please answer yes or no.

15 THE WITNESS: I understand.

16 JUDGE TURNER: And your answer there was yes, as I
17 understand it.

18 THE WITNESS: Yes, with a qualification, yes.

19 JUDGE TURNER: Yes, you are choosing retirement
20 rather than compliance?

21 THE WITNESS: Yes.

22 JUDGE TURNER: Okay, thank you.

23 BY MR. MICKENS:

24 Q. Now, with regard to complying with these
25 environmental regulations, Mr. Krall, would you agree with

1 me that the company has other options available to it to
2 respond to this concern in addition to reducing the lives of
3 the units, the steam electric units that I have referred to
4 earlier?

5 A. Yes, there would be other options available.

6 Q. And would you agree that one of those options
7 might be the transfer of pollution credits from another unit
8 to cover any deficiencies that may be found in the units
9 that I've identified earlier: Holtwood, Sunbury and Martins
10 Creek units?

11 A. No. Our current understanding of Title I and
12 Title III and their likely evolution is that there will not
13 be a system of readily transferable allowance credits as
14 there is with, say, Title IV's SO₂ provisions.

15 Q. And what is your current understanding based
16 upon, sir?

17 A. Our current understanding is based primarily on
18 industry press, as EPA is pretty tight about the results of
19 the studies that are currently underway regarding Title III.

20 Q. Okay, so your current determination is not based
21 upon any regulations that have been promulgated by the
22 appropriate federal agencies or by any statements or orders
23 by the FERC?

24 A. That's correct. Our judgments are based on our
25 expectation of the outcome of the regulatory process,

1 preceded by a scientific process.

2 Q. Now, is PP&L currently pursuing or considering
3 any of the alternatives that it does deem appropriate or
4 possible options?

5 A. I think we're aware of the alternatives that are
6 available to us, and we examine them to the extent that it's
7 appropriate at this time.

8 Q. And would you identify or summarize those
9 alternatives that you do feel are available to the company?

10 A. Well, alternatives like re-powering any of those
11 generating stations, or other of our generating stations, or
12 technical options for replacing that capacity.

13 Q. And how far along is the company in analyzing
14 those alternatives?

15 A. I think we have an awareness of what the
16 alternatives are, and we have an understanding that some of
17 those are not yet commercially available. Those that might
18 be commercially available don't appear to be economically
19 attractive at this point.

20 Q. But your consideration is ongoing at this time?

21 A. Yes, it is.

22 MR. MICKENS: That's all I have for this witness,
23 Your Honor.

24 JUDGE TURNER: Will it be Ms. Brignola?

25 MS. BRIGNOLA: Yes, Your Honor.

CROSS-EXAMINATION

1
2 BY MS. BRIGNOLA:

3 Q. Mr. Krall, referring you to your testimony at
4 page 9, there you discuss the deactivation dates for
5 Holtwood 17, Martins Creek 1 and 2 and Sunbury, and how
6 these deactivation dates would be moving up.

7 And in response to an OCA Interrogatory asking for
8 any studies performed in conjunction with that decision, you
9 stated that the starting point for your analysis was the
10 five-year upgrade plan for coal fired generation.

11 Now, that document, the five-year upgrade plan, is
12 dated May 2, 1994, correct?

13 A. Correct.

14 Q. Were there any other documents between that date
15 and the time the rate case was filed that addressed the
16 basis for the change in the retirement dates?

17 A. No.

18 Q. And turning your attention to your response to
19 OCA Interrogatory Set IV, No. 85, which is the five-year
20 upgrade plan, in Section 5.2 of that plan, doesn't the last
21 paragraph of Section 5.2 state that based on the analysis in
22 the plan, it would be prudent to make the investments
23 necessary to continue the operation of Sunbury through at
24 least 2013, and it would also be prudent to pursue
25 improvements which recover their cost by 2013?

1 A. Could I have that reference again, Section 5 --

2 Q. Sure, Section 5.2, the last paragraph.

3 (Witness perusing document.)

4 A. That's what it says, yes.

5 Q. And it contains an identical statement about
6 Martins Creek 1 and 2 in Section 6.2, and the same statement
7 about Holtwood 17 in Section 7.2, doesn't it?

8 A. Yes, it does.

9 Q. Looking now at Exhibit DAK-2, Chapter 3, Section
10 F, doesn't it show that in October of 1994 --

11 MR. GADSDEN: Maybe we could go a little slower, so
12 the witness can find his place?

13 MS. BRIGNOLA: Sure.

14 THE WITNESS: Okay, DAK-2.

15 BY MS. BRIGNOLA:

16 Q. Chapter 3.

17 A. Okay.

18 Q. Section F.

19 A. Do you have a page number for that?

20 Q. 3-7.

21 A. 3-7, okay.

22 Q. Okay. Doesn't it show that in October of 1994,
23 PP&L had no plan to retire any of its existing generating
24 units for the period 1994 to 2013?

25 A. Yes, it does. However, this document at the

1 back also discusses Title I and Title III of the Clean Air
2 Act amendments as potential capital exposures for PP&L's
3 generating plants.

4 Q. And when did you prepare your testimony for this
5 filing?

6 A. At about the same time as this was being
7 approved, October-November.

8 Q. And when did you make a decision to advance the
9 deactivation dates for those generating facilities?

10 A. At that time.

11 Q. Did you memorialize that decision in any
12 memorandum or other document?

13 A. My testimony.

14 Q. Has the decision to advance the deactivation
15 dates affected any company plans or actions?

16 A. Could I have the question again, please?

17 Q. Sure. This decision to advance the deactivation
18 dates, has it affected any company plans or actions?

19 A. Yes, it has.

20 Q. Could you describe those?

21 A. We've undertaken efforts to re-look at the
22 operation of those plants, to look whether we could enhance
23 their economic operation.

24 We've looked to re-scope capital additions that were
25 planned, to see whether they could be scoped in any other

1 way. And the reason for doing that was because we now look
2 at an exposure to an earlier retirement than we might have
3 previously considered.

4 Q. In your direct testimony at the bottom of
5 page 9, you begin your discussion of the decision to advance
6 the deactivation dates and provide four reasons for that.

7 The first --

8 A. Could you give me a moment to catch up?

9 Q. Sure.

10 (Pause.)

11 A. Okay.

12 Q. The first reason was generally that these plants
13 are between 40 and 45 years old.

14 A. Correct.

15 Q. Was the company aware of this reason in May when
16 the five-year coal upgrade plan was prepared?

17 A. Yes.

18 Q. And how about the second reason in your
19 testimony, that these plants were relatively less efficient,
20 was that known in May with the five-year coal upgrade plan
21 was prepared?

22 A. Yes.

23 Q. And the fourth reason, was that --

24 A. I'm sorry, we skipped to the fourth reason?

25 Q. Yes. The fourth reason, that there are

1 relatively few economies of scale?

2 A. Yes.

3 Q. Was that known in May?

4 A. Yes.

5 Q. The Phase II SO₂ requirements you mention in
6 your third reason, are they new?

7 A. No.

8 Q. So the company was aware of them in May as well?

9 A. Yes.

10 Q. And you state that additional requirements are
11 expected to be imposed to meet the NOx limits. Why are
12 these expected? What's your basis for that?

13 A. Under Title I of the 1990 Clean Air Act
14 amendments, Pennsylvania is part of the ozone transport
15 region, which must take a coordinated Northeast Corridor
16 approach to ozone non-attainment in the urban corridor along
17 I-95, Amtrak.

18 Q. Well, when did the company develop its
19 expectation regarding these additional requirements?

20 A. A significant event was the September 27th
21 memorandum of understanding signed by the member states of
22 the ozone transport region, which established an agreement
23 to pursue regulations along certain specific lines with
24 regard to reductions and timetables for those reductions.

25 JUDGE TURNER: September 27th of what year, sir?

1 THE WITNESS: Of 1994.

2 MS. McCLOSKEY: Could we have just a minute, Your
3 Honor?

4 JUDGE TURNER: Yes.

5 (Pause.)

6 MS. McCLOSKEY: Thank you, Your Honor.

7 JUDGE TURNER: Just for the record, Ms. Brignola, can
8 you say what "NOx" is?

9 MS. BRIGNOLA: Nitrous oxide.

10 JUDGE TURNER: And it's an additional requirement of
11 the Clean Air Act?

12 MS. BRIGNOLA: Yes.

13 JUDGE TURNER: It's an element that has to be
14 removed?

15 MS. BRIGNOLA: Yes.

16 JUDGE TURNER: Thank you.

17 Mr. Epstein?

18 MR. EPSTEIN: Yes.

19 JUDGE TURNER: Do you have cross-examination?

20 MR. EPSTEIN: Yes.

21 MS. BRIGNOLA: I'm sorry, Your Honor --

22 JUDGE TURNER: I thought you said you were finished.

23 MS. BRIGNOLA: Oh, no.

24 JUDGE TURNER: I'm sorry. I apologize.

25 MS. BRIGNOLA: Nitrogen oxide, to correct the record.

1 JUDGE TURNER: I would have asked that at the end of
2 your cross-examination. I'm very sorry, I misunderstood.

3 BY MS. BRIGNOLA:

4 Q. You state that PP&L may be required to reduce
5 emissions of air toxics.

6 A. That's right.

7 Q. When did the company become aware that it should
8 anticipate such a requirement?

9 A. Title III was in the 1990 Clean Air Act
10 amendments. Title III laid out a timetable for performing
11 scientific studies, and I think there were three of them,
12 although some of them have been combined over time.

13 And they address hazardous emissions from fossil fuel
14 power plants. The study results have been evolving, so we
15 have been aware since that time, or the passage of the Act,
16 November 15, 1990, that there was an exposure.

17 We have learned a little bit more about that exposure
18 as time has gone on.

19 Q. But are there any specific requirements at this
20 time?

21 A. No, there aren't.

22 Q. And what is the basis for your cost estimate
23 related to this?

24 A. For air toxics?

25 Q. Yes.

1 A. We're guessing that we might have to install
2 some sort of ultra-high efficiency particulate collection or
3 possibly specialized flue gas scrubbing to go after some
4 specific toxin that might be identified.

5 Q. On page 5-4 of Exhibit DAK-2, it states that
6 \$45 million is budgeted for the conversion to dry ash
7 handling at Brunner Island, Sunbury and Holtwood.

8 Was this expenditure premised on a 2010 retirement
9 for Sunbury and a 2009 retirement for Holtwood?

10 A. I'm sorry, could you give me the page reference
11 again?

12 Q. Sure, page 5-4, Exhibit DAK-2.

13 A. Yes.

14 Q. \$45 million is budgeted for conversion to dry
15 ash handling at Brunner Island, Sunbury and Holtwood.

16 A. Okay.

17 Q. Now, was this expenditure premised on a 2010
18 retirement for Sunbury and a 2009 retirement for Holtwood?

19 A. It was predicated on continued long-term
20 operation of those plants, not necessarily retirement on
21 those depreciation dates.

22 Q. Was this expenditure reassessed after the change
23 in retirement dates?

24 A. It has been and is being reassessed, yes,
25 specifically as it relates to Sunbury and Holtwood.

1 MS. BRIGNOLA: Your Honor, may we have one moment?

2 JUDGE TURNER: Yes. We can go off the record for a
3 moment.

4 (Discussion off the record.)

5 JUDGE TURNER: Back on the record. Please proceed.

6 BY MS. BRIGNOLA:

7 Q. Am I correct that the compliance with Phase 2 of
8 Title IV of the 1990 Clean Air Act was incorporated in the
9 1995-96 budget?

10 A. In this document, yes. There aren't very many
11 expenditures in 1995 or 1996 related to the Clean Air Act,
12 Phase 2.

13 Q. In the construction budget, it mentions that the
14 Clean Air Act requires that the EPA conduct a study of
15 hazardous air emissions and that the EPA is also studying
16 the health effects of fine particulates.

17 Have those studies been completed?

18 A. No. Those are the studies I referred to earlier
19 that create the exposure under Title III.

20 Q. So at this time, you're still uncertain as to
21 whether or not these mandates will be required?

22 A. That's correct.

23 Q. If you will turn to Appendix A of DAK-2, which
24 is the 1995 list of capital construction projects?

25 A. Okay.

1 Q. On page 7, Sunbury Unit 1, turbine
2 rehabilitation is shown, costing \$12,425,000.

3 A. That's correct.

4 Q. Was this expenditure incurred assuming the
5 station would be retired in 2003?

6 A. No.

7 Q. What was the year that you were expecting --

8 A. It was presumed it would operate for a 20-year
9 period.

10 Q. Ending?

11 A. Well, the decision, the commitment was made
12 probably in the late 1980's. It takes a while to buy and
13 build a turbine.

14 Q. Would you accept subject to check that over
15 \$72 million of the projects are listed for Sunbury on this
16 document?

17 A. \$72 million in total, or annual?

18 Q. Total, in Appendix A.

19 A. In project totals?

20 Q. Yes.

21 A. Not 1995 expenditures. Yes, I would accept,
22 subject to check, that could be the amount.

23 Q. And were all of these expenditures premised on a
24 retirement date of 2010?

25 A. No. They were premised on 20 years of

1 operation.

2 JUDGE TURNER: Excuse me. That's the second time
3 you've said that. What is 20 years of operation? It's not
4 2003. It's not 2010. What is it?

5 THE WITNESS: 2013, from our five-year upgrade plan.

6 JUDGE TURNER: Thank you.

7 BY MS. BRIGNOLA:

8 Q. Is it possible that some of those expenditures
9 might not have been included in the budget if a retirement
10 date of 2003 had been used?

11 A. Yes. And those have been excluded from this
12 claim.

13 MS. BRIGNOLA: One moment, please.

14 (Pause.)

15 MS. BRIGNOLA: We're ready to go on the record.

16 JUDGE TURNER: All right, please proceed.

17 BY MS. BRIGNOLA:

18 Q. Could you tell us, from Appendix A, which ones
19 were excluded on this basis? In your last answer, you said
20 that some of those expenditures might not have been included
21 in the budget if the retirement date was 2003. Could you
22 identify which ones were excluded?

23 A. Yes. You mentioned earlier, in a reference to
24 page 5-4, the ash projects. We're in the process of
25 re-scoping the ash projects.

1 If you'll look at page 9 of Appendix A, you'll find
2 listed under Budget Item No. 2174 a project titled, "Sunbury
3 SES, Add Dry Fly Ash Handling", and a total project cost
4 under that column of \$18 million.

5 That project is being significantly re-scoped and
6 reduced in price. The system that will be installed will be
7 capable of taking the units beyond 2003 in the event that
8 Title I and Title III are kind to us.

9 But it is a much more modest system, one that doesn't
10 include as much redundancy and one that is more manpower
11 intensive. Similarly --

12 JUDGE TURNER: That \$18 million was excluded from the
13 amount she's asking you about?

14 THE WITNESS: We could have included in our pollution
15 control claim for construction work in progress, according
16 to this budget, it looks like about \$2 million, I think,
17 once we adjusted it.

18 There might have been less money spent, about \$1
19 million to \$2 million which we excluded because we don't
20 think that that's necessarily going to be the project we end
21 up with.

22 Further down that page is a bottom ash handling
23 system, a waste water treatment system, and both of those
24 are being re-scoped for the same reasons.

25 JUDGE TURNER: What was the amount excluded?

1 THE WITNESS: For those projects?

2 JUDGE TURNER: Yes.

3 THE WITNESS: It looks to be about a million, a
4 little over a million dollars.

5 BY MS. BRIGNOLA:

6 Q. If your proposal to revise the deactivation
7 dates is accepted, am I correct that the company would be
8 deactivating a total of seven generating units at three
9 separate generating facilities in the same year?

10 A. No. We're requesting approval to depreciate the
11 balance of those plants over that time period. If in fact
12 Title I and Title III indicate that the plants are no longer
13 economic or cannot technically comply, then yes, the number
14 was 760-some megawatts, you mentioned.

15 JUDGE TURNER: No, she said seven different units
16 at --

17 THE WITNESS: Oh, I'm sorry, yes.

18 JUDGE TURNER: Maybe you should repeat the question
19 at this point.

20 BY MS. BRIGNOLA:

21 Q. If your proposal to revise the deactivation
22 dates is accepted, am I correct that the company would be
23 deactivating a total of seven generating units at three
24 separate facilities in the same year?

25 A. My answer is no. At this point, we don't have a

1 plan to retire seven generating units all on that date.

2 MS. BRIGNOLA: Your Honor, we conclude our
3 questioning.

4 JUDGE TURNER: You have no further questions of this
5 witness?

6 MS. BRIGNOLA: Yes.

7 JUDGE TURNER: Mr. Epstein?

8 MR. EPSTEIN: I have just a few brief questions.

9 CROSS-EXAMINATION

10 BY MR. EPSTEIN:

11 Q. Mr. Krall, how are you doing?

12 A. Okay.

13 Q. I'm Eric Epstein. I'm representing myself.

14 What is the life expectancy of a fossil station?

15 A. When they're designed, they generally have 30 to
16 35 years of design life in them. The engineers who design
17 them anticipate stresses, temperature fluctuations over that
18 time frame.

19 Q. Would the operating history of your fossil
20 stations be consistent with that life expectancy?

21 A. Well, we've achieved longer lives with in
22 particular the stations we're talking about here, but that's
23 through renewing the plant equipment.

24 Q. Would you consider the Susquehanna steam
25 generating station a fossil station?

1 A. No.

2 Q. Why?

3 A. It doesn't burn a fossil fuel.

4 Q. Uranium dioxide is not considered a fossil fuel,
5 even though it's mined like coal?

6 A. It doesn't come from dead dinosaurs and plants.

7 Q. So that's what our definition of fossil fuel is
8 going to be?

9 A. That's right.

10 Q. Okay, I'm glad you cleared that up.

11 What's the life expectancy of the Susquehanna nuclear
12 power plant?

13 A. The deactivation date is listed in the filing.
14 It is the end of the license date. I'm not an expert on
15 what factors affect extending the license, to the extent
16 that that's been done or any of those other issues.

17 Q. Could you quantify that in years, 10, 20, 30, 40
18 years, how long you anticipate that plant to operate,
19 everything being --

20 A. I'd have to reference one of Mr. Hoch's
21 exhibits. I'm sure that the deactivation date is there, and
22 I believe that's also the same date as the license expires,
23 so PP&L would have to take some action to extend the
24 license.

25 Q. What I'm wondering is, the life expectancy for a

1 fossil station as you defined it and a nuclear station, are
2 you aware that there's a difference? For instance, is a
3 nuclear power plant expected to operate a longer period of
4 time?

5 A. There are different factors that affect the two.

6 Q. So you wouldn't be able to answer that yes or
7 no?

8 A. No.

9 Q. Do you know of any nuclear power plants that
10 have operated longer than a fossil station, 30 to 35 years?

11 A. I'm not aware of the lives of any nuclear power
12 plants.

13 Q. So you're not aware --

14 A. I'm not knowledgeable on that subject.

15 Q. Okay, thank you.

16 I just want to pursue one other line of questioning,
17 if I could. Are you familiar with Brunner Island?

18 A. Yes.

19 Q. I'm a shareholder, and judging from the annual
20 reports, I've noted the cost for remediating Brunner Island
21 has fluctuated substantially over the years.

22 What's the current cost to remediate the ash piles at
23 that plant?

24 A. I don't know off the top of my head.

25 Q. No way to estimate it?

1 A. No.

2 JUDGE TURNER: Is there another witness in this
3 proceeding who can answer that question?

4 THE WITNESS: No. I think I'm your man.

5 JUDGE TURNER: Do you want to make an on-the-record
6 data request in that case, Mr. Epstein?

7 MR. EPSTEIN: Your Honor, I'm sorry?

8 JUDGE TURNER: Would you like to make an on-the-
9 record data request?

10 MR. EPSTEIN: Yes, please. I'm not sure how you
11 formally do that in this proceeding. I would love to have
12 the data provided. You'd be in my will if you could do
13 that.

14 JUDGE TURNER: Can you provide that data within ten
15 days?

16 THE WITNESS: Yes, I can.

17 MR. EPSTEIN: Okay, thank you.

18 BY MR. EPSTEIN:

19 Q. What I was wondering also is, the utility has
20 talked about different methods for remediating Brunner
21 Island. Do you know what method you're leaning to or
22 approaching at this particular point in time?

23 A. No, I don't.

24 Q. Could you provide that also?

25 A. Yes.

1 Q. Thank you.

2 And the final question would be the philosophy of the
3 utility to have the ratepayer pick up the tab for
4 remediating Brunner Island, irregardless of what method is
5 used to remediate.

6 A. And your question is?

7 Q. Is it the belief, do you believe, does the
8 company believe it's their position that the ratepayer
9 should pay the cost for remediating the ash pile
10 environmental problem at Brunner Island?

11 A. Yes, I do.

12 Q. One hundred percent?

13 A. Yes, I do.

14 MR. EPSTEIN: Thank you.

15 JUDGE TURNER: Excuse me. Mr. Hoch is still in the
16 room, I believe, and Mr. Krall said that Mr. Hoch could
17 answer one of Mr. Epstein's questions.

18 MR. GADSDEN: If the question relates to the
19 deactivation or the license expiration dates of the
20 Susquehanna units, I'm sure that we can provide that.

21 JUDGE TURNER: Is that in your testimony?

22 MR. HOCH: Yes, it is.

23 JUDGE TURNER: Could you, still being under oath,
24 provide that for Mr. Epstein or point out where he could
25 find that?

1 MR. HOCH: Unit 1 is, I don't know the exact month,
2 but it's the year 2022. Unit 2 and common property is the
3 year 2024. Unit 1 was installed 1983; Unit 2, 1985.

4 MR. EPSTEIN: That would be the point at which the
5 plant would no longer operate, which would be a different
6 point at which you run out of space to store spent fuel.

7 MR. HOCH: No. Those are the dates that the license
8 expires, after which we would have to get a license
9 extension date to continue to run the plant.

10 MR. EPSTEIN: Currently, though, you would not be
11 able to meet that requirement because you don't have space
12 on the site to store spent fuel; would that be correct?

13 MR. HOCH: I don't have any knowledge of that.

14 MR. EPSTEIN: Would there be another witness I could
15 direct that question to?

16 JUDGE TURNER: Okay, Mr. Hoch isn't the witness. Is
17 there another witness that he can ask that of, Mr. Gadsden?

18 MR. GADSDEN: We can certainly get that information.
19 I'm hard-pressed to think of a witness in our current lineup
20 who would be a logical candidate, but --

21 JUDGE TURNER: I beg your pardon? I couldn't hear
22 all of that. There's not a logical witness, but you can
23 provide the information?

24 MR. GADSDEN: We certainly, as an on-the-record data
25 request -- if the question is, what the current date we

1 estimate we will run out of storage capacity for spent fuel
2 at Susquehanna is, we can take a crack at that question.

3 MR. EPSTEIN: Yes, if you could provide that.

4 JUDGE TURNER: Is that what you --

5 MR. EPSTEIN: Sure.

6 JUDGE TURNER: Okay, then that's Epstein on-the-
7 record data request number two.

8 MR. GADSDEN: That's fine.

9 MR. EPSTEIN: What I was simply driving at, if
10 there's no room to store spent fuel, you can't generate the
11 plant to the end of its extended lifetime, so if I could get
12 that date, perhaps I would be able to define that.

13 JUDGE TURNER: But you understand, that question,
14 you'll have to ask to someone else, whether they can or not.

15 MR. EPSTEIN: Yes, I will ask that. No further
16 questions.

17 JUDGE TURNER: Once again, those can be provided
18 within ten days?

19 MR. GADSDEN: Yes.

20 MR. EPSTEIN: Everybody's in my will.

21 (Laughter.)

22 JUDGE TURNER: Any more questions, Mr. Epstein?

23 MR. EPSTEIN: No, thank you.

24 JUDGE TURNER: Mr. Kleppinger?

25 MR. KLEPPINGER: Thank you, Your Honor.

CROSS-EXAMINATION

1
2 BY MR. KLEPPINGER:

3 Q. Good afternoon, Mr. Krall.

4 A. Good afternoon.

5 Q. I'd like to follow up on one of the responses
6 provided to the Consumer Advocate with respect to a
7 memorandum of understanding reached among the states in the
8 Ozone Transport Commission.

9 A. Yes.

10 Q. I believe you provided that in response to OTS
11 Interrogatory RB-23D.

12 A. Yes, that's correct.

13 Q. Now, the document that you provided was labeled
14 a graph, and contained a date of September 27, 1994,
15 correct?

16 A. Yes.

17 Q. To your knowledge, has this memorandum of
18 understanding been finalized since September 27, 1994?

19 A. Yes, it was, either on that date or very shortly
20 thereafter.

21 Q. Contained in the document is an agreement by the
22 states to propose regulations or legislation to control NOx
23 emissions.

24 To your knowledge, has Pennsylvania pursued the
25 promulgation of regulations or legislation to that effect?

1 A. I don't believe Pennsylvania has initiated that
2 process.

3 Q. The document also refers to a state agreement to
4 develop region-wide trading mechanisms in consultation with
5 EPA. To your knowledge, has that region-wide trading
6 mechanism been created?

7 A. Work has been done on that.

8 Q. Has it been created?

9 A. No.

10 Q. Now, since the draft MOU was created, there has
11 been an intervening gubernatorial election in Pennsylvania;
12 has there not?

13 A. Yes.

14 Q. And do you have any understanding of what the
15 current administration opinion is with respect to this
16 memorandum of understanding and its content on
17 implementation compared to the prior administration, if you
18 know?

19 A. No. I wouldn't speak for the Governor.

20 Q. Do you recall part of the gubernatorial campaign
21 addressing a restructuring of the Department of
22 Environmental Resources at least?

23 A. Yes. I also know the Clean Air Act includes
24 sanctions that include withholding all federal highway
25 funds, which most governors find somewhat fearful.

1 Q. We have already missed some of those deadlines,
2 have we not?

3 A. Yes, we have.

4 Q. And have our funds been withheld to date?

5 A. No, they haven't.

6 Q. I believe the OCA addressed the questions I had
7 with respect to the upgrade study. Your testimony, however,
8 refers to the deactivation date movement as I believe
9 engineering judgments, is that correct, at page 9, line 22?
10 You use the term "engineering judgments" with respect to
11 those deactivation dates; do you not?

12 A. Yes.

13 Q. Now, since the development of the five-year
14 upgrade plan for coal-fired generation that's been
15 referenced earlier, has PP&L done any optimization study for
16 what be the optimal time for the deactivation of the three
17 generating units in question here: Martins Creek, Holtwood
18 and Sunbury?

19 A. We've initiated some studies that look
20 probabilistically at the group of uncertainties that are
21 faced.

22 Q. Those studies are not contained in the record of
23 this proceeding, are they?

24 A. No, they are not.

25 Q. And earlier, I had asked Mr. Hoch to accept

1 subject to check the rated capacity of the units, and I
2 believe he agreed it was 762 megawatts. Do you have any
3 reason to disagree with that?

4 A. No, it's about that number.

5 Q. My guess is that you're not the witness for this
6 question related to the plant held for future use, AFUDC
7 accrual. Would that be a Mr. Kleha question?

8 A. Mr. Kleha and I share responsibility for that
9 question.

10 Q. Do you know what amount of plant held for future
11 use the company is seeking to include an AFUDC rate on in
12 dollars?

13 A. We have responded to an interrogatory that lists
14 the plant. I'm not sure it has the total on it.

15 Q. Well, that's my question.

16 JUDGE TURNER: Do you know the total?

17 THE WITNESS: I do not know the total as I sit here,
18 no.

19 BY MR. KLEPPINGER:

20 Q. Could you refer then to OCA Set IV, Question No.
21 12?

22 A. Okay.

23 Q. Now, this provides the historic test year plant
24 held for future use, and contains a total I believe on the
25 last page of \$31,089,679.

1 A. And three cents, correct.

2 Q. And three cents. Is that the plant held for
3 future use claim in this case on which the company is
4 seeking an AFUDC rate?

5 A. Yes. We are not requesting this amount be
6 included and claimed. We're just requesting an accounting
7 provision be made.

8 Q. And the accounting provision will be on that
9 \$31 million?

10 A. Yes.

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

13 MR. McCORMICK: I have no questions for this witness.

14 JUDGE TURNER: Ms. Moury?

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

16 JUDGE TURNER: I have one general question, Mr.
17 Krall, and that is, do I understand correctly that DAK-2 was
18 prepared in May of 1994?

19 THE WITNESS: No. DAK-2 was prepared in August and
20 September and is dated, on the second page in, October,
21 1994.

22 JUDGE TURNER: And were any of these exhibits
23 prepared in May of 1994?

24 THE WITNESS: Yes. There was a reference to the
25 five-year upgrade plan for coal-fired generation, which is

1 filed annually with the Commission.

2 JUDGE TURNER: And which is attached to an OCA
3 exhibit?

4 THE WITNESS: Yes. That was prepared and filed May,
5 1994.

6 JUDGE TURNER: And in that plan, which is attached to
7 an OCA interrogatory answer, you made certain or the company
8 made certain representations or judgments about retiring
9 plants and then, between the preparation of that plan and
10 your testimony, a decision was made to retire those plants
11 earlier?

12 THE WITNESS: No. A decision was made to reflect the
13 possibility that they would be retired earlier in the
14 depreciation schedule.

15 JUDGE TURNER: And the only place that that's set
16 forth is in your testimony?

17 THE WITNESS: Yes, it is.

18 JUDGE TURNER: And you are saying that they are going
19 to consider it, but is the claim now based on earlier
20 retirement dates?

21 THE WITNESS: Again, we're using the term "retirement
22 date," and I don't want to leave the impression that we have
23 a current plan to retire those plants on 2003.

24 JUDGE TURNER: I'm not trying to get you to say that.
25 I'm asking what the claim is based on.

1 THE WITNESS: Yes, the depreciation schedule is based
2 on a 2003 deactivation date, that's correct.

3 JUDGE TURNER: Earlier retirement dates?

4 THE WITNESS: Yes.

5 JUDGE TURNER: Whether you plan to retire them or
6 not, that's what you're asking for in rates?

7 THE WITNESS: Yes.

8 JUDGE TURNER: Do you have any redirect?

9 MR. GADSDEN: I don't think so.

10 (Pause.)

11 MR. GADSDEN: We have no redirect, Your Honor.

12 JUDGE TURNER: All right, then I believe can excuse
13 this witness. Thank you.

14 (Witness excused.)

15 JUDGE TURNER: Before we adjourn for today, I'd like
16 to talk about the schedule for Thursday. Since we did
17 Mr. Krall today, I would like to be prepared to do all the
18 remaining witnesses on the 23rd.

19 We've got listed now Mr. Slivka, Mr. Kleha, Mr.
20 Sipics who might go to the 24th, and Mr. Hill, and I would
21 like to be prepared to do Mr. Hill as well.

22 I would like to use the hearing time that we have as
23 efficiently as possible, so I would just like counsel and
24 the company to be prepared to do that. If we don't need the
25 24th, we can have a free day to work on the case in other

1 ways.

2 Is there any objection to that?

3 MR. GADSDEN: Your Honor, the only problem we have is
4 with Mr. Hill. I understand it would be very difficult to
5 make him available on Thursday. He is booked pretty solid.

6 There is a possibility, which we can try to chase
7 down following today's hearing, that he could be made
8 available on Monday, in which case we could cancel Friday
9 and just pick up with him on Monday, so that we don't have
10 one hearing day set aside for one witness.

11 JUDGE TURNER: And your Monday schedule is Mr. Berish
12 and Mr. Bernini?

13 MR. GADSDEN: That's correct.

14 JUDGE TURNER: And would you normally expect them to
15 take all day?

16 MR. GADSDEN: I have no way of knowing that. I
17 expect substantial cross-examination for them, but sitting
18 here, I don't know how much cross the parties have, for
19 example, for Mr. Hill or for Mr. Berish or for Mr. Bernini.

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

22 JUDGE TURNER: Back on the record.

23 We have had a discussion of scheduling of witnesses,
24 and possibly freeing up a day as a result.

25 Mr. Slivka's testimony will come in under affidavit,

1 with general stipulations about no need for cross-
2 examination, except that OTS and the company will be working
3 on a stipulation for an interrogatory answer to be admitted.

4 MR. SIMMS: That's correct.

5 JUDGE TURNER: And Ms. Moury will be working with the
6 company on either follow-up discovery or a stipulation that
7 both she and the company can agree on.

8 We will begin with Mr. Sipics, and then we will take
9 Mr. Kleha. We will not use Friday, but Mr. Hill, Mr. Berish
10 and Mr. Bernini will be scheduled for March 27th.

11 I think we can talk about further scheduling for that
12 week on Monday, but on the whole, I'd like to, as I said,
13 use all the time available in a hearing day once we've
14 started. I'd like to be able to go with as many witnesses
15 as possible.

16 Are there any other matters counsel would like to
17 bring up before we adjourn for the day?

18 MR. GADSDEN: We have none.

19 MS. BRIGNOLA: Nothing, Your Honor.

20 JUDGE TURNER: In that case, we are adjourned. Thank
21 you very much.

22 (Whereupon, at 4:25 p.m., the hearing was adjourned,
23 to be reconvened at 10:00 a.m., Thursday, March 23, 1995, in
24 Harrisburg, Pennsylvania.)

25

C E R T I F I C A T E

1 We hereby certify, as the stenographic reporters,
2 that the foregoing proceedings were taken stenographically
3 by us and thereafter reduced to typewriting by us or under
4 our direction, and that this transcript is a true and
5 accurate record to the best of our ability.

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