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COMMONWEALTH OF PENNSYLVANIA

PUBLIC UTILITY COMMISSION

Pennsylvania Public Utility Commission versus Pennsylvania Power & Light Company Investigation into a proposed $261,000,000 annual rate increase. Further Hearing.	:	Docket Nos. R-943271 R-943271C0001 through R-943271C00138

Pages 1779 through 1947

Hearing Room No. 3
North Office Building
Harrisburg, Pennsylvania

Tuesday, May 23, 1995

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

BEFORE:

ROBERT A. CHRISTIANSON, Administrative Law Judge

APPEARANCES:

JOHNNIE E. SIMMS, Esquire
KENNETH L. MICKENS, Esquire
P. O. Box 3265
Harrisburg, Pennsylvania 17105-3265
(For Office of Trial Staff)

THOMAS P. GADSDEN, Esquire
ANTHONY C. DeCUSATIS, Esquire
Morgan, Lewis & Bockius
2000 One Logan Square
Philadelphia, Pennsylvania 19103
(For Pennsylvania Power & Light Company)

PAUL E. RUSSELL, Esquire
Two North Ninth Street
Allentown, Pennsylvania 18101
(For Pennsylvania Power & Light Company)

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APPEARANCES (Continued):

MARY C. KENNEY, Esquire
TANYA J. McCLOSKEY, Esquire
GICINE P. BRIGNOLA, Esquire
1425 Strawberry Square
Harrisburg, Pennsylvania 17102
(For Office of Consumer Advocate)

DAVID M. KLEPPINGER, Esquire
DERRICK P. WILLIAMSON, Esquire
McNees, Wallace & Nurick
P.O. Box 1166
100 North Pine Street
Harrisburg, Pennsylvania 17108
(For PP&L Industrial Customer Alliance)

DAVID A. McCORMICK, Esquire
U.S. Department of the Army
DAJA-RL 3848
Room 713
901 North Stuart Street
Arlington, Virginia 22203-1837
(For Department of Defense and Federal Executive Agencies)

JAMES P. MELIA, Esquire
Kirkpatrick & Lockhart
240 North Third Street
Harrisburg, Pennsylvania 17101-1507
(For University/College Coalition)

ERIC EPSTEIN
2308 Brandywine Drive
Harrisburg, Pennsylvania 17110
(Pro Se)

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C O N T E N T S

E X H I B I T S

NUMBER	FOR IDENTIFICATION	IN EVIDENCE
UCC		
Statement 2 (Eisdorfer-Surrebuttal)	1783	1783
PP&L		
Statement 12-R (Moul-Rebuttal)	1786	1787
Statement 12-R1 (Moul-Surrebuttal)	1786	1787
Exhibits PRM-2, 3 and 4	1786	1787
Statement 4-R (Hoch-Rebuttal)	1843	1874
Exhibit DSH-3 and 4	1843	1874
Statement 5-R (Krall-Rebuttal)	1872	1874
Exhibits DAK-5 and 6	1872	1874
Statement 14-R (Beers-Rebuttal)	1945	1945
Statement 17-R (Chappelear-Rebuttal)	1946	1946
OTS		
Statement SR-1 (Deardorff-Surrebuttal)	1809	1813
Exhibit SR-1	1810	1813
OCA		
Statement 1A (Kahal-Surrebuttal)	1820	1822
Statement 1B (Kahal-Supplemental Surrebuttal)	1820	1822
Cross-Examination Exhibit 19 (Summary of Screening Results from 1995 ARPR)	1913	----

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P R O C E E D I N G S

ADMINISTRATIVE LAW JUDGE ROBERT A. CHRISTIANSON: Let's be on the record.

I am Administrative Law Judge Robert Christianson. We are here for the last series of hearings concerning this PP&L rate filing. We canceled yesterday at the request of various counsel because counsel felt we didn't really need yesterday and they had other things to do, like read testimony, which I did as well. We have a lot of people, I haven't counted the total, but I guess there's about four dozen to fit into four days. Several of them are being stipulated; several of them will not have much cross, as I understand, so we'll just work through the four days as has been set up by Mr. Gadsden's memo, I guess it was, or letter; I can't remember. But we have one preliminary. Maybe we'll hear from Mr. Melia at this point.

MR. MELIA: Thank you, Your Honor. As I indicated, Mr. Eisdorfer is here today to testify. However, in discussions with various counsel it is my understanding there is no cross for Mr. Eisdorfer. What I would propose to do, if there is no objection, is simply stipulate into the record the surrebuttal testimony and associated exhibit of Mr. Eisdorfer, which is captioned UCC Statement No. 2. There are two very minor corrections in the testimony, which once again, if there is no objection, I would just propose

to make directly onto the record.

JUDGE CHRISTIANSON: That's fine. Go ahead if you want to do it right now.

MR. MELIA: That would be fine.

The first correction is at page 8 of UCC Statement No. 2. On line 24 the word "September" should be stricken and the conjunction "and" following the word "September" should be stricken, and at the end of that sentence the words "and November" should be inserted, so that the sentence would then read, "...March, April, May, October and November."

JUDGE CHRISTIANSON: You're leaving out September.

MR. MELIA: Correct.

The second change is at page 9, line 24. The month of February should be deleted and the month of April added.

JUDGE CHRISTIANSON: On line 24, that's 1994?

MR. MELIA: Correct. Under the heading "Schedule 2" which appears on line 20.

JUDGE CHRISTIANSON: Say what you want to change again.

MR. MELIA: The month of February is to be deleted and the month of April is to be added.

JUDGE CHRISTIANSON: So it's January, March and April.

MR. MELIA: Correct.

JUDGE CHRISTIANSON: I guess back on page 8 you think September is not a quiescent month? We won't worry about that.

MR. MELIA: Apparently the witness believes that to be the case.

JUDGE CHRISTIANSON: There were some storms in September. Anyway, we'll change those two lines 24 on page 8 and page 9. And with that I hear no objection to accepting Statement 2 into the record, and it is now accepted. So the witness, instead of testifying at the end of the day today, will go home soon, probably, or back to his office, wherever he wants to go.

(Whereupon, the document was marked as UCC Statement No. 2 for identification, and was received in evidence.)

JUDGE CHRISTIANSON: Well, then we've done that bit of business, and I've got an extra copy here. I'll keep it unless you want it.

MR. MELIA: With the corrections made.

JUDGE CHRISTIANSON: All right. Thank you. Then that one witness is done with fairly quickly. If we could keep up that tempo, we're going to do fine.

One thing I didn't mention after we came on the record, we talked about it off the record, at this point I'm

changing the reply brief date from June 26 to June 27. I think that's a Monday to a Tuesday. We can talk about that later. Maybe one of you will remember to bring it up later when there's more lawyers here so everybody knows about it. I have the Schnierle prehearing orders. The second prehearing order has the dates. So we're changing the reply brief due date from the 26th to the 27th. I don't know if that's an in-hand date. I suspect not, really.

MS. KENNEY: It should be just a filing date.

JUDGE CHRISTIANSON: Say again?

MS. KENNEY: It should just be a filing date on the reply brief.

JUDGE CHRISTIANSON: I think so, because except for me it doesn't matter how quickly you get it there exactly, unless people want to strike portions of your brief.

The order says the due dates for the filing of testimony and briefs are in-hand dates, but for that reply brief we can make that a filing date, or a mailbox date for the other parties.

Well, then that's enough on the reply briefs. We've got a patient witness here on the stand. I guess we're going by the Gadsden memo.

Any changes in the order you have immediately of the witnesses?

MR. GADSDEN: No.

JUDGE CHRISTIANSON: Well, then having canceled yesterday, we'll take care of that administratively. Go ahead. We'll just start up with the first witness.

MR. GADSDEN: The company calls as its first witness Mr. Moul, who, as you will recall, previously testified and has been sworn.

JUDGE CHRISTIANSON: Yes. I remind the witness that he continues to be under oath, and counsel may proceed.

MR. GADSDEN: Thank you, Your Honor.

Mr. Moul will be sponsoring two statements of rebuttal testimony this morning as well as three exhibits, all of which need to be marked for identification. I will go through them sequentially.

First I would ask to have marked as Statement 12-R a multi-page document consisting of 26 pages of questions and answers styled "Rebuttal Testimony of Paul R. Moul Concerning Fair Rate of Return." Accompanying Statement 12-R we have Exhibits PRM-2, which consists of six schedules, and PRM-3, which consists of two schedules.

In addition, I would ask to have marked as Statement 12-R1 a document consisting of four pages of questions and answers and styled "Supplemental Rebuttal Testimony of Paul R. Moul," and attached to that statement of supplemental rebuttal testimony is an exhibit which should be marked as PRM-4, consisting of two schedules.

JUDGE CHRISTIANSON: So identified, the two documents with the associated exhibits as you indicated.

(Whereupon, the documents were marked as PP&L Statements Nos. 12-R and 12-R1 and PP&L Exhibits Nos. PRM-2, 3 and 4 for identification.)

Whereupon,

PAUL R. MOUL

having previously been duly sworn, testified further as follows:

DIRECT EXAMINATION

BY MR. GADSDEN:

Q. Mr. Moul, do you have the statements which have been marked as 12-R and 12-R1?

A. Yes, I do.

Q. Were those statements of rebuttal and supplemental rebuttal testimony prepared by you or under your direct supervision?

A. Yes.

Q. Are there any corrections or revisions to either of those statements which need to be made at this time?

A. There are none that I'm aware of at this time.

Q. If I were to ask you the questions set forth in those statements today, would your answers be as contained therein?

A. Yes.

Q. Would they be true and correct to the best of your knowledge?

A. Yes.

Q. Do you also have before you copies of what have been marked as Exhibit PRM-2, 3 and 4?

A. Yes, I do.

Q. Was the data set forth in those exhibits compiled by you or under your direction and supervision?

A. They were.

Q. Is that information true and correct to the best of your knowledge?

A. Yes.

MR. GADSDEN: Your Honor, at this time I would ask that Statements 12-R and 12-R1 as well as Exhibits PRM-2, 3 and 4 be admitted to the record subject to the standard conditions.

JUDGE CHRISTIANSON: Yes, under the standard conditions the two statements and the accompanying exhibits are now accepted into the record.

(Whereupon, the documents marked as PP&L Statements Nos. 12-R and 12-R1 and PP&L Exhibits Nos. PRM-2, 3 and 4 were received in evidence.)

MR. GADSDEN: Thank you, Your Honor. Mr. Moul is

available for cross-examination.

JUDGE CHRISTIANSON: We might as well start, unless there's some preference otherwise, with Trial Staff.

MR. SIMMS: Thank you, Your Honor.

CROSS-EXAMINATION

BY MR. SIMMS:

Q. Good morning, Mr. Moul.

A. Good morning.

Q. Please refer to page 20, lines 7 through 9, of your rebuttal testimony.

A. Yes, I have that.

Q. Now, you testified, referring to Mr. Deardorff, that "some of his Barometer Group companies had DCF calculations as low as 8.2 percent to 8.5 percent"; correct?

A. Yes; that's correct.

Q. Is it your understanding that Mr. Deardorff made DCF calculations reflecting 8.2 percent to 8.5 percent for his barometer group companies?

A. Yes. That's my understanding from his work papers that supported some of the other figures in his exhibits.

Q. So it is your testimony that Mr. Deardorff himself made those calculations?

A. Yes. My understanding was that he combined the Value Line yields and growth to come up with those figures.

Q. And that's reflected in his direct testimony and exhibits?

A. I believe they came from work papers, and those figures were specifically referenced during his cross-examination is my recollection.

Q. Let me now refer you to page 18 of your rebuttal testimony.

A. Yes, I have that.

Q. And I'm specifically looking at lines 27 through 29. Do you have that?

A. Yes.

Q. Now, by your testimony on those particular lines are you suggesting that a relatively small number of analysts follow the utilities in your barometer group?

A. For some of the companies, that's correct. The statement is made insofar as utilities generally that receive less coverage than, say, perhaps non-regulated industrial companies that have wider coverage by analysts. It's more or less a blanket statement covering all types of utilities.

Q. It's a blanket statement?

A. Yes.

Q. Are you suggesting that a small number of analysts follow PP&L?

A. I think PP&L -- I probably had that statistic in

my original direct. No, I don't show that. There are a fair number of analysts that follow PP&L. I can certainly provide that to you from the I/B/E/S source.

Q. Now, when you refer to smaller number, what particular number or range of numbers are you referring to?

A. Well, for utilities generally we may have analyst coverage as few as one that might cover a utility, up to maybe a dozen, and I think that probably PP&L is probably in the eight to ten range. Whereas for industrial companies you typically find that for many of the large industrial companies you might have as many as two dozen analysts following a stock.

Q. So if I understand your testimony, for some of the companies in your barometer group you could have as low as one to a high of a dozen following a particular company in that barometer group?

A. Well, I can't react right off the top of my head insofar as the barometer group goes. When I suggested as few as one analyst might follow a utility stock, that was a blanket statement for utilities in general. My barometer group is relatively substantial size electrics and as a generalization there's more than one analyst who follow these large electrics. Again, I could provide that to you if you like.

Q. Let me now refer you to page 4 of your

testimony, if I may.

A. Yes, I have that.

Q. Now, at line 23 you testify about the different capital cost rates since the West Penn Power case; is that correct?

A. Yes.

Q. And at lines 30 through 31 you make a reference to the interest rates at the time of the West Penn testimony; is that correct?

A. Yes. That was at the time that the -- I believe it was the direct testimony filed in the West Penn case; correct.

Q. Do you know when the close of the record occurred in the West Penn case?

A. I think I looked at that but I can't really recall.

Q. Does August 26, 1994 sound familiar to you?

A. That's about right, because the Commission order came out I think in December, was it, around Christmastime, maybe a little before. That sounds about right.

Q. Now, you didn't participate in that case as a witness, did you?

A. No.

Q. Do you know whether West Penn Power Witness Avera provided updates as to the yield on A utility bonds at

the close of the record?

A. I don't recall that, no. As I said, I was not a participant in the case and I don't know what transpired at the hearing.

Q. Do you know what the yield on A utility bonds are today, most recent?

A. Let's see, I have a figure here as of May 5. Will that suffice?

Q. Yes.

A. Of 8.08 percent.

Q. Eight point?

A. Oh-eight percent.

JUDGE CHRISTIANSON: That was A, single A?

MR. SIMMS: I'm sorry?

JUDGE CHRISTIANSON: Did you ask, was that A or AA?

MR. SIMMS: No. The yield on A, single A.

JUDGE CHRISTIANSON: Okay.

BY MR. SIMMS:

Q. Do you know what the yield on A utility bond rates were on August 26, 1994?

A. I would have to look that up for you. I don't recall that right off the top of my head.

Q. Would 8.36 percent sound familiar to you?

A. I'd have to check it.

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

JUDGE CHRISTIANSON: Yes. He almost accepted it subject to check.

MR. SIMMS: I have a document here that he can review and just check for the record.

(Documents distributed by Mr. Simms.)

BY MR. SIMMS:

Q. Do you have that before you?

A. Yes. You gave me a copy of the Federal Reserve Statistical Release for August 29, 1994.

Q. That's correct. And if you look at the week ending August 26 and you look at the column "A Utility" under Corporate Bonds, what is that figure, sir?

A. 6.36 percent.

Q. No. I'm looking at --

A. I'm sorry. I'm sorry. I'm in the wrong column. May I have the question back again, please?

Q. If you look at the week ending August 26, 1994, and you look at "A Utility" under Corporate Bonds, is not that figure 8.36 percent?

A. Yes; you're correct.

MR. SIMMS: Your Honor, that concludes my cross-examination of the witness.

JUDGE CHRISTIANSON: Fine. Then perhaps Consumer Advocate.

MS. KENNEY: Thank you, Your Honor.

CROSS-EXAMINATION

BY MS. KENNEY:

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

A. Good morning.

Q. I would like to refer you first to your supplemental rebuttal testimony, Statement 12-R1.

A. Yes, I have that.

Q. In particular page 4 and your Exhibit PRM-4.

A. I have that.

Q. In your supplemental rebuttal testimony you discuss the issue of call premium cost recovery and deferred taxes, and in your testimony you demonstrate how deferred taxes can be factored into rate of return rather than rate base. Is the revised rate of return presented in your supplemental rebuttal testimony at page 4 your present recommendation in this proceeding?

A. No.

Q. Do you believe that the Commission should recognize deferred taxes in rate of return rather than rate base?

A. I do not believe it should be recognized in rate of return or rate base.

Q. Is it your position then that the deferred taxes associated with call premiums then should be completely

disregarded?

A. Yes.

Q. Referring you back to your rebuttal testimony, Statement 12-R, page 9.

A. I have that.

Q. There you discuss a National Fuel Gas Distribution Commission decision. In that case did the Commission exclude deferred taxes related to call premiums from rate base as a rate base offset?

A. I don't know.

Q. Do you know whether they included the deferred taxes in calculating the rate of return along the lines of the method that you presented in your supplemental rebuttal testimony?

A. I am not clear on that, exactly how they handled that.

Q. Are you aware of previous Commission decisions which have excluded deferred taxes related to call premiums from rate base?

A. Yes.

Q. Would you please identify those decisions?

A. Philadelphia Electric Company.

Q. What year?

A. I'd have to get back to you on that one.

Q. Would you be able to provide a citation to the

order that you're referring to?

A. I believe I can do that, sure.

MS. KENNEY: I would like to make that an on-the-record data request.

BY MS. KENNEY:

Q. I'd like to refer you to Exhibit PRM-3, Schedule 1.

A. I'm sorry; what was that reference again, please?

Q. Your rebuttal testimony, Exhibit PRM-3, Schedule 1, which is a PP&L Resources Board Resolution concerning a common stock issuance.

A. Yes, I have that.

Q. Would you agree with me that this resolution authorizes but does not commit management to a stock issuance?

A. Generally, yes.

Q. Nor does this resolution specify when the stock sale will occur, or the amount of the stock sale; is that correct?

A. That's correct. It depends upon market conditions for the company's stock.

Q. It also does not specify the amount of the capital contributions from Resources to PP&L; is that correct?

A. Not in this resolution, but the use of proceeds in the Registration Statement makes that commitment.

Q. As a rate of return analyst --

(Pause.)

Q. Following up on your last statement, does the Registration Statement identify the amount of dollars that will be infused from Resources to PP&L?

A. My recollection of the printer's proof of the Registration Statement I looked at indicated that all the proceeds, you know, net of the cost of the sale, commissions and whatever, were going to the electric company.

Q. But am I correct that the Registration Statement did not identify a specific dollar amount?

A. No. Because that would depend upon how much they get for the stock. In other words, the proposal is to issue I think it's 5 million shares plus the over-subscription allotment of 750,000 shares, so if they issued the whole 5,750,000 shares, it would depend on the price that they were able to realize for it.

Q. As a rate of return analyst would you agree that this Commission should not include the assumed $100 million in capital structure if the issuance and equity infusion do not actually occur?

A. I would agree to that to the extent that the transaction does not occur during the rate effective period.

In other words, what we're really looking for is capital structure ratios that are reflective of the company's mix of capital used to finance the rate base during the rate effective period. Now, of course, ideally we'd like to have that all concluded by the time of the Commission date, but on a philosophical basis I could foresee circumstances, and I don't necessarily see them developing here, that we might want to look at capital structure ratios, say, further than the end of the future test year. But that's not my intent here.

Q. In light of the uncertainty, would you agree that it would be reasonable in this case for PP&L to notify the Commission and the parties in this case of the status of the issuance and the equity infusion prior to the entry of the Commission's final order?

A. I believe that is the company's intention at the present, sure.

Q. Since the $100 million is just an estimate, would it also be reasonable for the Commission to use the actual amount of the equity issuance if it differs from the estimate?

A. I suppose that they could make that adjustment. I mean the size of the company's capital structure is already so large -- the company's capitalization is $6 billion -- that a couple hundred thousand, maybe even a

million dollars either way probably won't have much impact on the ratio. But, sure, that's a reasonable presumption.

Q. I would like to refer your attention now to your cost of equity update presented in your Exhibit PRM-2, Schedule 1, page 1.

A. Yes, I have that.

Q. With respect to your dividend yields, are these averages over a period of months?

A. I'm sorry; I didn't hear the question. A period of?

Q. The dividend yields presented in that schedule, are they averaged over a period of months?

A. Yes.

Q. How many months?

A. Twelve.

Q. Twelve months.

Now, in this update you -- when did you prepare your original cost of equity analysis in this proceeding?

A. I don't really recall when the testimony was finalized, but the market evidence I looked at was through October 1994.

Q. Would you agree with me that since October 1994 yields on long-term bonds have declined by almost a full percentage point?

A. Yes. That depends upon what point you look at

insofar as measuring the change. Now, through March of '95, which is the date at which I did the update, the decline was less than that; as a matter of fact, about half of that amount. The other half of the decline has occurred subsequent to the update that I undertook, which is reflected in PRM-2, Schedule 1, page 1 of 2, which was as of March.

Q. But would you agree with me that as of today, that since October of 1994, the yields on long-term bonds have declined by a full percentage point?

A. Yes. If you look at the yield today, I agree with that.

Q. How do you explain that decline?

A. Well, some of it was expected. Interest rates reached a peak in November of 1994 and there was some expectation, at least through March, of a decline in interest rates due to expected slowing in the economy. However, there was a precipitous decline in early May of 1995 which was unexpected, and that -- at least some analysts attribute that to two factors. One was short covering by bond traders in short positions that they had taken in Treasury obligations. Another factor that some analysts believe contributed to this unexpected abrupt decline in interest rates in early May was the purchase of Treasury securities by foreign banks that had bought dollars

in an effort to support the U.S. dollar on the foreign exchange market.

The U.S. dollar had been under and continues to be under significant pressure vis-a-vis foreign currencies. There's been several attempts over the past couple of months by the foreign banks to purchase dollars to support its value versus other currencies, and the banks have taken the dollars that they purchased, went out and bought Treasuries, which increased prices and forced yields down. And this was unexpected.

Q. Your schedule shows A bond rates in your risk premium and Treasury bond rates in your traditional CAPM as being 8.5 percent and 7.5 percent, respectively. And I'm still referring to your Schedule 1.

A. Yes. That was as of the March update; correct.

Q. Would you agree that Treasury bond and A utility bond rates at present are lower than the figures on your schedule?

A. Yes. And for reasons I just explained, this all occurred after March; correct.

Q. Would you agree that long-term Treasury bonds are now yielding about 7 percent?

A. I think I agreed to that previously; yes.

Q. Also on Schedule 1, page 1, your update of your DCF method shows a 4 percent growth rate. Is that the same

growth rate you used in your original testimony prepared last October or November?

A. Yes.

Q. In your rebuttal have you undertaken any update of that growth rate?

A. Not directly. I've looked at the various source documents I've used or that I used in my original direct testimony, and there was not a significant variation between the later documents and the earlier documents that would cause me to change that growth rate.

Q. Am I correct then that you are assuming no change in investor growth expectations compared to your conclusions in late 1994?

A. Yes.

Q. I would like to refer you to the NARUC survey that you've attached as Schedule 3, page 3, of your testimony.

A. I have that.

Q. Am I correct that this study identifies the DCF method as the most widely used method among regulatory commissions?

A. Well, it's the method that gets the most check marks; right.

Q. So am I correct then that it is the most widely used method?

A. Sure.

Q. Is that consistent with your own experience as a witness in electric proceedings before commissions?

A. Yes. I can't think of a rate case I've been in that DCF has not been discussed.

Q. According to this table, what is the next most frequently mentioned method?

A. Well, I really didn't count up the check marks, but just by eyeballing it, probably the column with the next most amount of check marks is the indication from the commissions that no one method is considered -- "no one method used; all are considered" got the next most check marks, followed by it looks to me like comparable earnings.

Q. Based on your experience, do you recall any electric utility cases in the last five years where a state commission has relied upon the comparable earnings method for establishing return on equity?

A. I can't name any for you, no.

Q. I would like to turn your attention now to Exhibit PRM-2, Schedule 4.

A. I have that.

Q. How did you derive the 11.53 and 11.98 percent figures shown at the bottom of that schedule?

A. Yes. It's the internal rate of return using, as the initial cash flow, $20.00, relative to the future cash

flows in the first instance, beginning in 1995, with $1.20, growing to $20.853 in 2044. It's the discount rate that equates net present value of those cash flows back to $20.00.

Then in the second instance it was the same $20.00, but the cash flows were taken out twice as long. It's the same calculation.

Q. Is the calculation shown in that schedule?

A. Is the calculation shown in -- no. The calculation is done by iteration, by computer.

Q. A computer program?

A. Yes.

Q. Would you agree that your cash flow stream omits the sale of the shares of stock which occurs in the final year of the analysis?

A. Yes, and I did that on purpose because the demonstration of the schedule was to show that without considering the sale price of the stock and just the receipt of the dividend payments -- which is a commonly referred to Gordon form or the simplified DCF model, which is an infinite receipt of dividends; in other words, it doesn't presume any sale price, it's just a growing stream of dividends discounted back to the present price -- that it takes far many more years into the future to have the internal rate of return equal the simplified result of the

Gordon formula model than many may think.

Q. If you had included the cash proceeds from the stock sale, would the results have been different?

A. Sure, but you would also need to make a projection of what the sale price would be. In other words, I didn't try to project sale prices. I guess maybe that's what I'm not communicating well with regard to this schedule. I'm not trying to forecast sale prices. What I'm trying to do is show the number of years you have to reach into the future relative to a growing stream of just dividend payments -- you know, set aside the sale price -- to get a result that's close to the simplified Gordon form of the DCF.

MS. KENNEY: Thank you very much, Mr. Moul.

Your Honor, I have no further questions.

JUDGE CHRISTIANSON: Thank you. Then let's check, maybe Mr. Williamson has something.

MR. WILLIAMSON: I just have a couple questions, Your Honor.

JUDGE CHRISTIANSON: Go ahead.

MR. WILLIAMSON: Thank you, Your Honor.

CROSS-EXAMINATION

BY MR. WILLIAMSON:

Q. Mr. Moul, I'm Derrick Williamson representing the Industrial Customer Alliance this morning. How are you

doing?

A. Good morning.

Q. Thanks to the OCA, I only have one question, maybe two.

Would you reference page 7, lines 1 through 3, of your rebuttal testimony, the comments about an earnings cushion?

A. Yes, I see that.

Q. Is it your view that the rate of return should always be set so that there is a sufficient earnings cushion over the company's dividend?

A. Yes, and maybe just to elaborate on that.

Q. Go ahead.

A. What I'm trying to communicate there is that in order for the company to be able to actually provide the type of growth that all the witnesses in the case have determined to be a reasonable investor expectation of the future, you need to have an adequate level of earnings above the dividend in order to realize that growth and to fulfill investor expectations.

Q. So, in other words, you're not willing to adhere to strict market analysis of investor return requirements?

A. No, I'm not trying to say that at all. What I'm saying is that we need to be aware that in order for the rate of return to provide a reasonable opportunity to

generate earnings of the company, there needs to be enough to actually satisfy what investors expect from the company. Otherwise, the stock price is going to change and all these DCF analyses all the witnesses have produced in the case become meaningless because the price is then subject to disequilibrium and DCF just has no meaning.

Q. So in determining an appropriate earnings cushion, as you've stated it, do you then add to strict market analysis of investor return requirements?

A. No, I don't add to. What I do is I use a variety of methods. What I'm saying is the DCF as it's supplied in this case generally doesn't produce an earnings rate adequate to fulfill those expectations. That's why I used a variety of methods.

MR. WILLIAMSON: No more questions, Your Honor.

JUDGE CHRISTIANSON: Thank you. Then perhaps we can check with Mr. McCormick. Anything from the Federal Agencies?

MR. McCORMICK: Your Honor, I believe Mr. Simms covered the stuff on page 4 that I might have questions on, so I will have no cross.

JUDGE CHRISTIANSON: Nothing in addition to what's been asked.

Mr. Melia?

MR. MELIA: No questions.

JUDGE CHRISTIANSON: I thought not. Then we seem to be done with cross-examination, and I imagine you want just a moment or two with the witness.

Let's be off the record.

(Discussion off the record.)

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

I understand there is no redirect for the witness, and the witness is excused.

(Witness excused.)

JUDGE CHRISTIANSON: I guess the next witness is Deardorff.

I'll mention while we're changing witnesses, Joan Brandeis called me this morning and asked permission to stay down in Philadelphia tomorrow. We're calling her witness on the telephone anyway. We'll call her as well.

Let's be off the record.

(Discussion off the record.)

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

We are back on the record. We have changed the witness. I'll just mention for the record that we will be going telephonic for the one witness tomorrow, and I guess one witness the next day. But maybe Mr. Brubaker will not be needed. We'll just decide that later today or tomorrow and somebody can call Brandeis and Brubaker and call them

off if it's appropriate.

Then we have the Staff witness, Mr. Deardorff. He has been sworn, as I recall, or as I've been told. I seem to recall I didn't do rate of return. I'm not sure if I did or not. Turner did a couple of hearing dates.

MR. SIMMS: I think Judge Turner did rate of return.

JUDGE CHRISTIANSON: Yes, I think she did. I sort of remember it particularly. But in any case, I trust people and I trust that the witness has been sworn. I remind the witness that he continues to be under oath, and go ahead.

MR. SIMMS: Thank you, Your Honor. Your Honor, at this time I ask that the four pages of the surrebuttal testimony of Kevan L. Deardorff be marked as OTS Statement No. SR-1. May it be so identified?

JUDGE CHRISTIANSON: So identified.

(Whereupon, the document was marked as OTS Statement No. SR-1 for identification.)

MR. SIMMS: I ask that the one page exhibit be marked for identification as OTS Exhibit No. SR-1. May it be so identified?

JUDGE CHRISTIANSON: So identified.

(Whereupon, the document was marked as OTS Exhibit No. SR-1 for identification.)

Whereupon,

KEVAN L. DEARDORFF

having previously been duly sworn, testified further as follows:

DIRECT EXAMINATION

BY MR. SIMMS:

Q. Mr. Deardorff, do you have any corrections to make to OTS Statement SR-1?

A. No, I do not.

Q. Do you have any corrections to make to OTS Exhibit SR-1?

A. No.

Q. If I were to ask you the questions set forth in OTS Statement No. SR-1, would your answers be the same as contained therein?

A. Yes, they would.

Q. Are your answers true and correct to the best of your knowledge, information and belief?

A. Yes, they are.

Q. Mr. Deardorff, I have a few questions for you here. Am I correct that you and Mr. Moul use the same barometer group in your analysis?

A. Yes, we do.

Q. Using the S&P, what is the number of analysts following the companies in your barometer group?

A. Well, unlike the numbers that Mr. Moul was conveying earlier, I found that the number of analysts that followed the companies in the barometer group ranged from 16 to 26. Most of them are in excess of 20 analysts. I find this to be representative of also other industrial companies. For example, I looked up IBM, and 25 analysts report earnings forecasts for that company. And for GM, 24 analysts report forecasts. So I do not find the number of analysts that follow these particular utility companies to be small.

Q. Now, you're looking at Standard & Poor's; is that correct?

A. Yes, I am. The May issue of earnings forecasts.

JUDGE CHRISTIANSON: Let me check very briefly for my own curiosity. One of those guys would do more than one company. An analyst doesn't just squat on one company, or does he?

THE WITNESS: They tend to --

JUDGE CHRISTIANSON: Just specialize in that company?

THE WITNESS: -- do a whole industry, to specialize.

JUDGE CHRISTIANSON: So there's two dozen people worrying about PP&L. They say we're top heavy around here.

But there's a lot of money involved in these transactions. I realize that. I'm just surprised it's such a large number.

Go ahead, counsel. Sorry to interrupt.

MR. SIMMS: No problem.

BY MR. SIMMS:

Q. Using the Federal Reserve Statistical Release, as of May 5, 1995, what is the yield on A utility bonds?

A. According to the Federal Reserve Statistical Release dated May 8, the yield for A utility bonds for the week ending May 5 was 7.97. Now, in comparison to the number that was quoted earlier for the close of record for the West Penn case of 8.36, that indicates that the capital cost rates in comparison to this case did not go up but they actually went down by 40 basis points.

Q. Mr. Deardorff, did you make DCF calculations of 8.2 percent to 8.5 percent for some of your barometer group companies?

A. No, I did not.

Q. Did you provide the company with work papers with DCF calculations of 8.2 percent to 8.5 percent for some of your barometer group companies?

A. No, I did not.

MR. SIMMS: Your Honor, at this time I ask that OTS Statement No. SR-1 and OTS Exhibit SR-1 be admitted into the

record subject to any motions or cross-examination made by the other parties within a reasonable period of time.

JUDGE CHRISTIANSON: Yes. Under the standard conditions, the surrebuttal testimony is accepted. It's all stapled together as one document, the statement and the exhibit.

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

JUDGE CHRISTIANSON: So it's all in the record at this point.

(Whereupon, the documents marked as OTS Statement No. SR-1 and OTS Exhibit No. SR-1 were received in evidence.)

MR. SIMMS: Mr. Deardorff is available for cross-examination.

JUDGE CHRISTIANSON: We might as well start with the company.

MR. GADSDEN: Thank you, Your Honor. I have no problem with Mr. Deardorff's surrebuttal testimony. I think it would be appropriate, with respect to his surrebuttal exhibit, if Trial Staff would also attach what is referred to at the bottom of Schedule No. 1 as an "overleaf," which presumably provides an explanation of the various footnotes indicated on that schedule.

JUDGE CHRISTIANSON: Do you have that with you in the

hearing room?

MR. SIMMS: No, we don't have that in the hearing room now, but we can, before the week is out, make copies and attach that as an exhibit.

JUDGE CHRISTIANSON: Okay. If that's the easiest way, we can do that. Again, it lets in the whole document, basically, which is the normal rule, upon request, and we'll just worry about the mechanics of it as we go along.

(Pause.)

JUDGE CHRISTIANSON: Do you have cross?

MR. GADSDEN: Yes, I do.

CROSS-EXAMINATION

BY MR. GADSDEN:

Q. Mr. Deardorff, when you were presented you supplemented your surrebuttal testimony with some discussion of the number of analysts which follow members of your barometer group companies and indicated that based on your research, that figure ranged from 16 to 26, and in most instances exceeded 20; is that correct?

A. That is correct.

Q. Of those analysts, how many publish long-term forecasts as opposed to short-term forecasts?

A. Those were the long-term forecasts. They were five-year forecasts.

Q. These were all five-year forecasts?

A. Yes.

Q. What again was the publication from which you derived this information?

A. The Standard & Poor's Earnings -- just wait a second. I'll make sure I get the correct name.

JUDGE CHRISTIANSON: While you're checking that, does it give names or just numbers?

THE WITNESS: Just numbers.

JUDGE CHRISTIANSON: Okay.

THE WITNESS: The Standard & Poor's Earnings Guide dated May 1995.

BY MR. GADSDEN:

Q. Mr. Deardorff, in your surrebuttal testimony you refer to a significant decline in 30-year Treasury bond yields and you offered some additional testimony on that earlier today with respect to the fall in corporate bond yields since the record was closed in the West Penn Power case. In light of those declining yields, did you, in preparing your surrebuttal testimony, update your DCF analyses to reflect more current dividend yield data?

A. Yes. I checked my DCF analysis using more recent data dated May 1, using the Value Screen Data Base, and I found that there was not a significant change. For example, the DCF return for the barometer group using spot price was 10.43, and the DCF return for the barometer group

using a 52-week average was 10.56.

Q. So while other capital cost indicators have come down, that has not been true at least with respect to your DCF analysis of the barometer group?

A. That is correct.

Q. Now, let's focus on PP&L. Did you also update your DCF analysis of PP&L?

A. Yes, I did. For PP&L, using May data from the Value Screen, using the spot price and the new expected dividend of 1.40, the spot price yielded a DCF return of 10.27. Using the 52-week average the DCF return was 9.24.

Q. Did you update your analysis based on the actual current dividend as opposed to a projection of the dividend cut which is yet to take place?

A. No, I did not.

Q. Would you accept subject to check that PP&L Resources closed yesterday at $18 and an eighth?

A. I'll accept that subject to check.

Q. Would you accept subject to check that if we plug that number into your DCF analysis of PP&L and use the current dividend of $1.67, that we would come up with a figure of 12.08 percent?

A. I'll accept that a calculation of that sort would yield that number.

Q. Would you also accept subject to check that as

of close of business yesterday, the annual highs and lows for PP&L Resources were 17-7/8ths and 22-7/8ths?

A. I'll accept that subject to check.

Q. Would you accept subject to check that if we recalculated your DCF analysis of PP&L based on 52-week data, that we would come up with a figure of 11.06 percent?

A. I'll accept that subject to check.

Q. Mr. Deardorff, if I could direct your attention to page 2 of your surrebuttal testimony, and more specifically, the question and answer which begin on line 14 and run over to the top of page 3. As I understand your testimony at this point, it is your view that the advantage of the DCF method is that it is expectational in nature while the other three methods considered by Mr. Moul are, to use your phrase, based on historic relationships?

A. That is correct.

Q. Am I correct that in your DCF analysis in this case you gave equal weight to historic dividend data and forecasted earnings data?

A. No -- well, for one group I did, and the other group I didn't, for the reasons specified in my testimony.

Q. Is it not true that Mr. Moul in his application of the CAPM and comparable earnings method also considered both historic and projected or forecast data?

A. With respect to the beta, it is calculated using

historic relationships. That was my point.

Q. Who is Mr. William Gray?

A. The author of the publication I presented.

Q. Yes, I understand. What does he do?

A. I'm not sure if they give a biography. If you'll wait a second.

(Witness perusing document.)

A. Mr. Gray is a consultant to Harris Trust & Savings Bank, Chicago, Illinois.

Q. Do you know whether Mr. Gray offers testimony in utility rate proceedings?

A. No, I do not.

Q. Do you interpret -- I don't know whether this is a quote from Mr. Gray's article or a paraphrase, but in any event, items 1 and 2 at the bottom of page 3 and the top of page 4, did you interpret this language to state a position by Mr. Gray that he does not believe investors should rely on the risk premium method in calculating expected return?

A. I believe that the information that Mr. Gray was trying to convey to investors is to use them with relative caution, and that when these types of situations arise, use more caution.

Q. But you are not retreating from the position you took in your direct testimony that the risk premium method was used by investors and was a relevant consideration to

them, are you?

A. No. I believe they do use them for investment decision-making purposes.

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

JUDGE CHRISTIANSON: Fine. Then maybe we can check. Anything from Consumer Advocate?

MS. KENNEY: No, Your Honor.

JUDGE CHRISTIANSON: Anybody else have any cross?

(No response.)

JUDGE CHRISTIANSON: I see no volunteers. Then let's be off the record briefly.

(Discussion off the record.)

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

I understand there is no redirect for the witness, and the witness is excused.

(Witness excused.)

JUDGE CHRISTIANSON: We might as well go ahead with Mr. Kahal for rate of return.

You may be double registered. You'll be here Friday.

MS. KENNEY: His first appearance.

(Pause.)

JUDGE CHRISTIANSON: Let's be off the record.

(Discussion off the record.)

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

We can go ahead then. This witness, as I recall, has been previously sworn, so let's go ahead with the witness. He has been previously sworn. I remind him he continues to be under oath, and you may proceed.

Whereupon,

MATTHEW I. KAHAL

having previously been duly sworn, testified further as follows:

MS. KENNEY: Thank you, Your Honor. Your Honor, I'd like to have marked for identification as OCA Statement 1A the surrebuttal testimony of Matthew I. Kahal and as Statement 1B the supplemental surrebuttal testimony of Matthew I. Kahal. Statement 1A deals with the issue of fair rate of return. Statement 1B concerns other financial issues.

(Whereupon, the documents were marked as OCA Statement Nos. 1A and 1B for identification.)

DIRECT EXAMINATION

BY MS. KENNEY:

Q. Mr. Kahal, you have previously been sworn. Do you have before you copies of your prepared, prefiled

surrebuttal testimony identified as Statements 1A and 1B in this case?

A. Yes, I do.

Q. Statement 1A consists of 16 pages of questions and answers and Schedules MIK-1 through MIK-7, and Statement 1B consists of 11 pages of questions and answers?

A. That's correct.

Q. Was this testimony and were these schedules prepared by you or under your direct supervision?

A. Yes, they were.

Q. Do you have any additions, corrections or modifications to make to your testimony or schedules at this time?

A. I do not have any.

Q. Are the testimony and schedules true and correct to the best of your knowledge, information and belief?

A. Yes.

Q. Mr. Kahal, if I were to ask you these same questions today under oath, would your answers be the same?

A. They would.

MS. KENNEY: Your Honor, we'd ask that Mr. Kahal's surrebuttal testimony marked for identification as OCA Statements 1A and 1B be admitted into evidence subject to any cross-examination and timely motions by opposing counsel.

JUDGE CHRISTIANSON: Yes, subject to the standard conditions, 1A and 1B are accepted.

(Whereupon, the documents marked as OCA Statements Nos. 1A and 1B were received in evidence.)

JUDGE CHRISTIANSON: I'll mention what I mentioned to counsel. I called Consumer Advocate counsel about the reply brief. Instead, Kahal has the capacity issues, proprietary and non-proprietary. Somehow I got them out of sequence. I read one and then I read the other several hours later, and I was wondering why I was reading the same language over again. I thought you had two witnesses on the same subject, but you have the red version and the grey version. It donned on me pretty quickly that I was reading the same thing again, but we'll get to that later in the week.

MS. KENNEY: That will be Friday.

JUDGE CHRISTIANSON: But then again, we have 1A and 1B now part of the record and we can proceed presumably starting with the company.

MR. GADSDEN: Yes, Your Honor, just a point of clarification. We do not intend to cross Mr. Kahal on 1B today. That was received last Friday. We will cross him on his rate of return testimony today.

JUDGE CHRISTIANSON: Okay. Is that acceptable?

MS. KENNEY: Well, Your Honor, the 11 pages of

Statement 1B were also Mr. Kahal's, so he will be available to stand cross on them on Friday, if necessary.

JUDGE CHRISTIANSON: As long as he is here anyway, we don't have to worry about it.

MS. KENNEY: He will be here on Friday.

JUDGE CHRISTIANSON: I realize the company had a little bit of catching up to do on the stuff. I got it Friday afternoon, by the way. I think I talked to you or Paul Russell, and you warned me it was coming.

MR. GADSDEN: We received all testimony on a timely basis.

JUDGE CHRISTIANSON: I got it just about at the end of the day, but it is better than I have gotten in some other cases. I've waited three or four days for reply briefs in some other cases, but we have the material here. Then we're just doing 1A at this point, and we might as well make that a general thing. We're not doing 1B on cross no matter who has questions.

MS. KENNEY: I would still ask that it be marked for identification.

JUDGE CHRISTIANSON: Yes. It is accepted into the record at this point, but we'll defer cross on 1B until later in the week.

MS. KENNEY: Your Honor, Mr. Kahal is available for cross-examination on OCA Statement No. 1A.

JUDGE CHRISTIANSON: Fine. Then we'll proceed with the company.

MR. GADSDEN: Thank you, Your Honor.

CROSS-EXAMINATION

BY MR. GADSDEN:

Q. Mr. Kahal, just as a preliminary matter, with respect to your schedules, I understand those to have been updated in a temporal sense, but is the only other change to those schedules the exclusion of two companies, namely Southern Company and Union Electric, which were inadvertently included in your original analysis?

A. Yes, that's correct. Since in this update I felt it appropriate to exclude those companies, I felt it would be convenient for the record to simply reproduce the original schedules without the effect of those two companies.

Q. You have provided us an updated Schedule MIK-1, page 1. Are there any changes reflected on that particular schedule or is that just a reaffirmation of your initial position?

A. Actually, Mr. Gadsden, there is one very, very minor change. Do you happen to have the original Schedule MIK-1? If you have it available, it might help. If not, I could show you a copy of mine.

There was a very, very minor typo on the original

schedule that I didn't catch previously but I caught with the update. It doesn't change anything.

Q. Would you like to describe that?

A. Sure. Do you see the bottom where the total capitalization is listed as $6,041,487,000?

Q. Yes.

A. That should be and if you look at the update, it is $6,041,478,000. In other words, the last two digits, the "7" and the "8" were transposed, and that is corrected in this update. It has no effect on anything.

Q. Now, in your update, you continue to list as source material Value Line sheets dating back to December 16th, '94 and January 13th, '95.

A. Yes.

Q. To the best of your knowledge, have any subsequent Value Line reports been issued for the companies, as to which you indicate the last report was in December or January?

A. Yes, I'm sure some have. I couldn't cite you the exact dates sitting here, but the Value Line reports are updated about once every three months.

Q. But the data that you show on your schedule are still from the older Value Line sheets from December and January; is that correct?

A. Yes. As I indicated, the only reason that

they're shown at all is simply to show what would happen to the original data if those two companies were removed. That's the only purpose of even showing it there. That's the reason that the schedules are not shown for the other proxy group, because there is no change to the composition of that group.

Q. Mr. Kahal, is there a relationship between the cost of capital and the rate of inflation anticipated by investors?

A. Yes.

Q. What is that relationship just in general terms?

A. In general terms, the higher the rate of expected inflation, the higher would be the cost of capital.

Q. Mr. Kahal, if I could direct you to page 7 of your testimony, specifically the answer which begins on line 5, where you discuss the company's reacquisition of higher cost debt.

A. Yes.

Q. There you indicate that debt reacquisition costs were financed with whatever mix of capital the company chose to use.

A. Yes.

Q. Do you happen to know what that mix of capital was?

A. No; and I'm not sure there is any way that one

could know that simply because after a specific action takes place to refinance debt, the company can then take offsetting actions let's say over the next year or the next two years. So it is impossible to say exactly how any specific asset, including a regulatory asset, is actually being financed.

Q. Do you know when the company began to amortize these costs?

A. When the amortization began?

Q. Yes.

A. Do you mean on its books?

Q. Yes.

A. No, I don't know precisely. My assumption would be that the company began to amortize these costs on its books at the time or shortly after the costs were incurred. That would be the normal accounting practice.

Q. If I could direct you to page 11 of your testimony and the answer which begins on line 3 where you respond to arguments presented by Mr. Moul in his rebuttal testimony regarding the implicit growth rate in your analysis.

You list three factors why you disagree with Mr. Moul's analysis. The first is that he assumes that total company PP&L and Pennsylvania jurisdiction are the same. Do you see that?

A. Yes.

Q. Have you made any distinction between the two in developing your recommendation in this case?

A. In terms of developing my cost of equity estimate?

Q. Yes.

A. Well, no, because I relied primarily on proxy group companies. To me the PP&L stand-alone analysis should not even receive very much weight, in my opinion. This statement, of course, referred to Mr. Moul's statement regarding the specific impact of my recommended 11.1 percent return on equity, not how it was developed.

Q. Does the Value Line data that you reviewed break out separate return expectations for PP&L as a whole and for PP&L on a jurisdictional basis?

A. Not in terms of quantitative data. I believe that Value Line from time to time does discuss concerns or problems in various jurisdictions in which a utility operates, and in the case of PP&L, its concerns would be with the earnings in the FERC jurisdiction, but I don't think that it has separately quantified that.

Q. Have you reviewed the company's cost of service allocation to see what return rate is implicit in it as to non-jurisdictional operations as opposed to jurisdictional operations?

A. No, I did not -- well, let me put it this way. I reviewed the company's jurisdictional cost of service study only in order to see how the company was allocating the Susquehanna nuclear generating station. Beyond that, I didn't look at it at the specific rates of return. Those rates of return are obviously dependent upon what kind of cost allocation methodology one uses. Those rates of return can be very sensitive to that.

Q. The second reason you give on page 11 for disagree with Mr. Moul is that he employed a 1994 book value figure.

What book value figure do you believe he should have utilized in this analysis?

A. He should have utilized -- what would have been a more -- well, let me back up. I don't find the analysis at all meaningful, so I'm not proposing that this type of analysis even be done. However, with respect to this narrow point as to which book value figure should have been used, it would have been more meaningful I think to use an estimate of the 1995 book value rather than the 1994, because it is my understanding that rate base in this case extends through at least September of 1995. I don't know if there are adjustments beyond September to rate base.

Q. Do you have an estimate of PP&L's book value at the end of 1995?

A. Value Line has produced such an estimate. I don't have any estimate independent of what Value Line has produced.

Q. Finally, on page 11, you observe at lines 14 and 15 that there is a difference between investors' expected market return and return on book value. Do you see that?

A. Yes.

Q. Are investors more concerned with a return that they receive on book value or on the return they receive on their actual investment, which would be measured by market value at the time of purchase?

A. Neither. I believe that investors are primarily concerned with the prospective market return, not the rate of return on the stock at the time that they purchased it, which may have been many years ago.

For example, let's suppose an investor had purchased the stock ten years ago at a price of $10 a share. The investor's concern today would not be what rate of return is he going to earn in the future on that original $10 investment. His concern is what rate of return can he expect to earn on the current market price, because that investor always has the option of holding that share and retaining it, selling it today or buying more shares. So in other words, the investor's concern is with market return on a prospective basis, not on the basis of some historic stock

price that he may have paid.

Q. Well, on a prospective basis, if I was considering or if any investor were considering the purchase of PP&L's stock or a utility's stock and let's say the book value was $10 a share and the current market value was $20 a share and the expected return was $1 per share --

A. The expected what?

Q. Return would be $1 per share. Do I buy the stock because I expect an overall return of 10 percent on book value or do I decline to buy it because the return on $20 would be only 5 percent?

A. The investor would make his decision based upon the comparison of his required return versus expected market return. It may be that the return on book may somehow factor into the calculations that that investor makes in determining what the future expected market return is, but the bottom line, if we may use that term, is the expected market return, and return on book equity at best would only be an intermediate consideration.

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

JUDGE CHRISTIANSON: Then I'll presume --

MR. GADSDEN: No; I'm sorry, Your Honor. I forgot to turn the page.

BY MR. GADSDEN:

Q. Just one last question, Mr. Kahal, with respect

to MIK-6, page 4. Do you have that?

A. I do.

Q. In the far right-hand column you list future ROEs.

A. Yes.

Q. Were those numbers extracted from Value Line or were they recalculated by you as you discuss at the bottom of page 13 of your testimony?

A. The discussion at the bottom of page 13 first begins with a description of the historical Value Line ROEs. The historical Value Line ROEs were my own calculations. The projected Value Line ROEs are the actual published figures by Value Line and not my calculation, and they represent the projected return on book equity averaged over a three-year period.

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

JUDGE CHRISTIANSON: Then I can go into my line. I presume there is no other cross for the witness. Speak up now or forever hold your peace.

(No response.)

JUDGE CHRISTIANSON: Then we can be off the record briefly.

(Recess.)

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

We checked off the record, and there is no redirect

for the witness.

(Witness excused.)

JUDGE CHRISTIANSON: I understand the company has some rejoinder or whatever you want to call it, and let's go ahead with it.

MR. GADSDEN: Thank you, Your Honor.

Whereupon,

PAUL R. MOUL

having previously been duly sworn, testified further as follows:

DIRECT EXAMINATION

BY MR. GADSDEN:

Q. Mr. Moul, have you had an opportunity to review the surrebuttal testimony that was submitted by Office of Trial Staff Witness Deardorff and Office of Consumer Advocate Witness Kahal?

A. Yes.

Q. And you were present, were you not, in the hearing room earlier today when those witnesses were presented and cross-examined?

A. Yes.

Q. In his testimony, Mr. Deardorff offers the view that the DCF method provides superior results because it is expectational in nature unlike certain other methods, including the CAPM and comparable earnings. Do you agree?

A. My disagreement with Mr. Deardorff relates to the fact that in both the application of comparable earnings and the capital assets pricing model I have likewise used expectational forecast data much the same as it was used in developing the growth component for the DCF model.

Here I have reference to the comparable earnings approach, which I looked at both forecast returns for my non-regulated firms as well as historical returns, and in the capital asset pricing model, the market premium I utilized was based upon both historical results and forecast results by Value Line, which is a procedure not unlike what all the witnesses, including myself, have used in analyzing growth in the DCF context.

Q. Mr. Moul, in his testimony at page 7, Mr. Kahal discusses the reacquisition of previously issued high cost debt. Are you familiar with that testimony?

A. Yes.

Q. What is your understanding of how that high cost debt was refinanced?

A. With the exception of the current debt that has been reacquired, my understanding is that the company has refinanced high cost debt with the issuance of new low cost debt in order to repay the principal amount of the high cost debt as well as to cover the transaction cost.

The only exception to that that I am aware of relates

to the current situation where there are two issues of high cost debt being repurchased and the proceeds are expected to come from the issuance of common stock, which I described in my rebuttal statement.

Q. Turning now to page 11 of Mr. Kahal's surrebuttal testimony, Statement 1A, in an answer which begins on line 3, he takes issue with an analysis which you presented in your rebuttal testimony regarding the dividend growth that would be available if Mr. Kahal's recommended equity return were adopted. Are you familiar with that testimony?

A. Yes, I am.

Q. It specifically identifies three areas of concern. Could you address each of those, please, very briefly?

A. Yes. I do not believe these are valid criticisms of the analysis I undertook insofar as analyzing the impact that the proposed rates of return would have on the company that are coming from the witnesses from Trial Staff and OCA.

In Mr. Kahal's three items there on page 11 -- and I can respond to each -- the first one deals with Pennsylvania jurisdictional versus total company returns. All the witnesses in this case have come up with a total company cost of equity. It is true that in this particular rate

case, that total company cost of equity is applicable to the Pennsylvania jurisdictional rate base, but there is no witness in this case that I am aware of that has attempted to differentiate the company's total return and that which is applicable to the Pennsylvania jurisdictional rate base.

We need to keep in mind, of course, that the Pennsylvania jurisdictional rate base dominates the company's operations, and in fact, that is the principal focus of the analysts that follow PP&L's stock.

The second point Mr. Kahal raises is the issue of whether my analysis should have focused upon 1994 book value, which it did, or some future book value; and I can respond to that in several ways.

First of all, the future test year in this case ends September 30, 1995, so for that reason we wouldn't want to undertake an analysis which reached beyond September 30, 1995 insofar as looking at the value of the book value, which is analogous to the company's rate base determination date.

Secondly, I have no reason to believe that by September 30, 1995 the company's book value would be materially different than the actual book value at year end 1994; and I say that because the company's earnings release that came out on April 26, 1995 indicated that their reported earnings for the 12 months ended March was $1.37,

which was less than the dividend which the company paid during that 12-month period. So by September 30, 1995, it is unlikely there would be much build-up in retained earnings due to amounts earned in excess of dividend.

Of course, we have to keep in mind that PP&L's earnings are significantly influenced by sales that occurred during the winter when much of the company's earnings were generated through the period ended in March.

The third issue Mr. Kahal raises has to do with my calculations that looked at rates of return, and he left some impression that additional growth could occur due to stock issuances, and that is true. But what I should indicate is that in my analysis that I presented on page 6 of my rebuttal Statement 12-R, the recommended ROE of 11.1 percent Mr. Kahal testified to already included the impact of sales of stock that would generate additional growth. That was the beginning point of my analysis. And in the last column shown on page 6, his recommended growth rate similarly reflected the impact of growth attributed to sales of stock above book.

So there really is no issue insofar as his third point, because all the calculations and the comparisons are conducted on a uniform basis.

Q. Finally, Mr. Moul, when he was presented earlier today, Mr. Deardorff offered some testimony regarding a

number of analysts which follow PP&L and other members of your barometer group and on cross-examination indicated that all of those analysts, to the best of his knowledge, issued long-term forecasts.

Do you have any response to that portion of Mr. Deardorff's testimony?

A. Yes. I can respond to that on several levels. First of all, the publication Mr. Deardorff was referencing, the "S&P Earnings Guide," was not the one I had in mind when I gave my responses earlier this morning to the cross-examination on my rebuttal. I was referring to the I/B/E/S forecast; and I'll return to that issue in just a moment.

I'm looking at, however, the "S&P Earnings Guide" for May, 1995 for PP&L Resources, and it does show that the number of analysts making forecasts for PP&L for 1995 earnings are 22 in number.

When we look to 1996, the number of analysts following PP&L drops significantly. In fact, it drops down to 11; and the publication really doesn't show how many analysts are making the five-year projection. It's just unknown. And I think what you can surmise from these comparisons are, as the forecasts are lengthened into the future, the number of analysts actually making forecasts for PP&L diminishes.

Now, returning to the I/B/E/S source, which was the

one I was relying on when I gave my response earlier this morning, Mr. Kahal was kind enough to provide us with the number of analysts that actually follow these various electric companies we're looking at in this proceeding.

If you look at his Schedule MIK-6, page 5 of 6, for his primary proxy group, you can see that the number of analysts providing long-term estimates, which would be five-year estimates, range from 3 in number for Midwest Resources to a top of 13 in number for Carolina Power & Light; and for that particular group, the average number of analysts is 8.4.

Then if we look at Mr. Kahal's Schedule MIK-5, page 5 of 6, we can see that for the barometer groups all the witnesses looked at, we can see that the range of the number of estimates, the five-year long-term estimates, range from a low of 5 for Atlantic Energy up to 11 following ABS, BG&E and Public Service, with an average of 9.4 for that particular group; and Mr. Kahal's schedule also shows that for PP&L, there are seven analysts making long-term forecasts for the company.

So we can see that as the horizon is extended out into the future, the number of analysts actually making forecasts diminishes quite significantly.

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

JUDGE CHRISTIANSON: Then we can pause a little bit

and check if there is cross on this final submittal you might call it.

Let's be off the record briefly.

(Discussion off the record.)

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

I understand Trial Staff does not have cross at this point, but Consumer Advocate does, and we'll go ahead with cross.

MS. KENNEY: Thank you.

CROSS-EXAMINATION

BY MS. KENNEY:

Q. Mr. Moul, am I correct that the dividend growth rate is under the control of PP&L's management?

A. Not totally, no.

JUDGE CHRISTIANSON: Within constraints. If they don't have any money, they can't pay it out.

BY MS. KENNEY:

Q. Is that correct, Mr. Moul?

A. Oh, obviously, management has an influence on it, a strong influence on it, but I mean there are other factors that contribute to growth.

Q. In your projected capital structure which you have presented in this proceeding, am I correct that you have included a projection of an increase in retained

earnings?

A. Yes.

MS. KENNEY: Thank you. I have no further questions.

JUDGE CHRISTIANSON: Then we can pause in case there is some need for follow-up. I guess this is the end of cross.

Anything more from the company?

MR. GADSDEN: No.

JUDGE CHRISTIANSON: Then the witness is again excused, I guess for the final time in this case.

THE WITNESS: Thank you, Your Honor.

JUDGE CHRISTIANSON: Don't hold me to that.

(Witness excused.)

JUDGE CHRISTIANSON: Then let's be off briefly.

(Discussion off the record.)

JUDGE CHRISTIANSON: Let's just be on the record then.

We have Mr. Hoch on the stand. I think he has been sworn in the case, and I remind the witness he continues to be under oath.

Whereupon,

DONALD S. HOCH

having previously been duly sworn, testified further as follows:

JUDGE CHRISTIANSON: We're going to do some direct

examination for him and then hold off the cross and do it altogether. I guess you want to go ahead and introduce your statement.

Proceed as you see fit, counsel.

MR. DeCUSATIS: I do, Your Honor, and one other matter. In the course of the preparation for today's hearing, an arithmetic error was uncovered in one of the schedules in which the calculation was made of the company's claim for the amortization of general property accounts.

We would like to distribute an exhibit today which would provide the recalculation of that amount correcting that error. It results in a decrease in the company's claim by some $540,000. We'd like to get that correction on the record and have Mr. Hoch present it at this time, if we may.

JUDGE CHRISTIANSON: Okay, fine. I just looked over my notes. It was negative net salvage that I was preoccupied with. Go ahead.

MR. DeCUSATIS: Your Honor, we have previously distributed to the parties in this case and are providing today to the court reporter two copies of a document which is styled, "Rebuttal Testimony of Donald S. Hoch." It has been preliminarily marked as Statement 4-R, as well as an accompanying rebuttal exhibit, which has been marked preliminarily as Exhibit DSH-3. We have provided in the hearing room today to parties and counsel present a document

marked as DSH-4, which refers to the correction of the company's amortization claim for general property accounts. And we would request at this time that each of these documents be identified for the record as marked.

JUDGE CHRISTIANSON: Yes. They are identified. The Statement 4-R is stapled together with the Exhibit 3, and Exhibit 4 is separate, as you've indicated. So the two documents are identified as such with the two tied together by staple.

MR. DeCUSATIS: Thank you, Your Honor.

(Whereupon, the documents were marked as PP&L Statement No. 4-R and PP&L Exhibits Nos. DSH-3 and DSH-4 for identification.)

DIRECT EXAMINATION

BY MR. DeCUSATIS:

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

A. My name is Donald S. Hoch, H-o-c-h.

Q. Mr. Hoch, if you would just confirm, as I believe we have noted earlier, that you have appeared previously in this proceeding and were previously cross-examined.

A. Yes, I was.

Q. Mr. Hoch, do you have before you a copy of the

three documents which have been identified for the record as Statement 4-R and Exhibits DSH-3 and 4?

A. Yes, I do.

Q. With regard to Statement 4-R, Mr. Hoch, if I were to ask you the questions that are contained in that statement, would your answers be the same as are set forth therein?

A. Yes, they would.

Q. And regarding Exhibits DSH-3 and 4, were those two documents prepared by you or under your direction and supervision?

A. Yes, they were.

Q. Is the information contained in these three documents true and correct to the best of your knowledge, information and belief?

A. Yes, it is.

Q. Initially, Mr. Hoch, I'd like to direct your attention to Exhibit DSH-4 and ask if you could briefly explain for us the nature of the correction that was necessary to the company's claim for amortization of general property accounts and explain the effect on the company's claim through the corrections that are set forth.

A. The calculation in Exhibit DSH-4 is done on a vintage basis for each account. Inadvertently, for the first vintage for each account, the inappropriate amount was

allocated for the amortization. That amount was corrected effectively by having the amount for that first vintage.

The total correction for the accounts that would be charged to amortization or depreciation expense is approximately a $540,000 reduction.

Q. And just for benefit of the record, could you provide the amount of the company's claim as it pertains to the amortization of these general property accounts for which amortization is being proposed?

A. The revised amount, the corrected amount would be $3,845,200.

Q. With respect to Exhibit DSH-4, could you briefly explain -- let me initially ask: am I correct that this is a summary tabulation of the data for the calculation of the company's amortization claim?

A. Yes, it is.

Q. Could you just take a moment and very briefly explain how that calculation was done?

A. I think there are several important points we can look at. If you look at the first page titled, "Account 391.2," the calculation is done on a vintage basis. One of the assumptions is that for all vintages older than the proposed amortization period, that these vintages are fully depreciated and therefore are retired.

The calculation is done on a basis which is composed

of original cost less accumulated depreciation, and the recovery period is the amortization period less the attained age.

Q. Thank you. Now, Mr. Hoch, turning to the surrebuttal testimony that was offered by OCA Witness Johnson with regard to the amortization of general property accounts, have you reviewed that testimony?

A. Yes, I have.

Q. Can you briefly identify the aspects of the proposed amortization claim with which Dr. Johnson disagrees?

A. It is my understanding from reviewing his direct testimony that Dr. Johnson took issue only with the amortization periods which the company selected. In further review of his surrebuttal testimony, I believe that Dr. Johnson has now taken issue as well with the fact that the company has proposed a remaining life method of amortization versus a whole life method, which he advocates.

Q. Could you please expand on what you mean by a proposed whole life approach as you understand Dr. Johnson's surrebuttal testimony?

A. As I read his testimony, it appears that his proposal is to take the original cost of plant divided by the proposed amortization period and come up with an amortization amount, and that would be done on a

going-forward basis. That is for only the new vintages of property, not for the existing vintages of property. The existing vintages of property I believe he insists would continue to be depreciated.

Q. With respect to the approach that has been set forth in Dr. Johnson's surrebuttal, if that approach were adopted, do you know how long would the company have to maintain necessary records and recordkeeping for continuing the depreciation of prior vintages of general property?

A. It would depend on an account-by-account basis, but for each account, it would be the amortization period which would be accepted by this Commission. I believe that would be inconsistent with the purpose and the intent of proposing amortization of these general property accounts, which would be, obviously, to lessen the paperwork and recordkeeping requirements of the company.

Q. And are there other reasons why the approach that has been proposed by Dr. Johnson may not be appropriate in your opinion?

A. I believe that it doesn't give you proper recovery over the appropriate time frame. I believe that remaining life is the proper approach, and that would be the approach which we currently use for all other classes of property for depreciation purposes. We no longer use whole life depreciation.

Q. To your knowledge, is this the first time that the approach for amortization of general property accounts for ratemaking purposes has been proposed in the manner you have proposed it in this case, Mr. Hoch?

A. I know of at least two other instances where the Commission has approved amortization accounting identical to what we have proposed in this case. If I may refer to a West Penn Power Company case at Docket No. R-942986, they have employed an identical procedure as to what we have employed and it was accepted by the Commission, as well as UGI Utilities, Incorporated, Electric Division, at Docket No. R-932862. As well, they have done identical to what we have proposed and it has been accepted by the Commission.

Q. And just for purposes of clarification, when you referred to identical procedure, are you referring to the application of the amortization on what you have referred to as a remaining life basis?

A. Yes, I am.

Q. Finally, Mr. Hoch, there is a final question with regard to general property accounts. There is a reference in Dr. Johnson's testimony at page 7 to a service life study provided in response to an interrogatory by the Office of Consumer Advocate.

Could you simply identify for us the service life study to which that reference is made?

A. Dr. Johnson in his Exhibit CEJ-5, Schedule 2 refers to a 1988 life study for his comparative answers.

Q. And that is a different study from either the previous case life study or the actuarial analysis that was discussed in Dr. Johnson's direct testimony?

A. Yes, it is.

Q. Mr. Hoch, turning to the topic of the life spans for the older coal units, I'd ask you if you've had an opportunity to review the testimony of Trial Staff Witness Joseph Sivulich on that topic?

A. Yes, I have.

Q. Referring your attention to page 10 of Mr. Sivulich's surrebuttal statement, which I believe has preliminarily been marked as Statement SR-2, at page 10, line 19 through page 11, line 1, Mr. Sivulich indicates that the proposed deactivation date of 2003 which the company has used for depreciation purposes in setting forth its claim in this case is at odds with the company's, to use his term, management plan to run its generating plants for as long as it is economically viable.

With respect to that statement and acknowledging that Mr. Krall in his testimony has explained the company's position regarding the uncertainty as to economic viability with regard to various investments necessary to continue to operate the older coal plants beyond 2003, even assuming

that such investments were to be made in order to extend the life of those older coal units, would it be appropriate nonetheless to use a life span beyond 2003 for depreciation purposes in this case?

A. No, I believe it would not. I believe for depreciation purposes the appropriate life span that one should use would be the life span which reflects the property that is currently installed. To use prospective future additions of property to determine a life span at this point in time would not be appropriate.

Q. And when, if at all, would it be appropriate to reflect for ratemaking depreciation purposes the effect of life extension on depreciable life span of such property?

A. I believe there should be a link between the expenditure of the funds to extend the life spans, and at that point in time when those funds are expended and that equipment is in service, the life span should be appropriately extended.

MR. DeCUSATIS: That's all we have, Your Honor. With those preliminaries and that rejoinder, Mr. Hoch is available for cross-examination on the totality of his testimony.

JUDGE CHRISTIANSON: On the whole package.

Maybe we can pause for just a moment to give counsel a chance to let that sink in, and we can probably start with

Trial Staff.

MR. MICKENS: Thank you, Your Honor.

JUDGE CHRISTIANSON: Are you ready to go?

MR. MICKENS: Yes, I am. Thank you, Your Honor.

CROSS-EXAMINATION

BY MR. MICKENS:

Q. Good afternoon, Mr. Hoch.

A. Good afternoon.

Q. I have a couple of questions for you. First of all on your rejoinder testimony, if I understood you correctly with regard to life extension, what you have stated is that you think it is appropriate to allow for the extension after funds have been expended on the property; is that correct?

A. Yes.

Q. So that in the future, to the extent that PP&L does expend funds to extend the lives of the existing fossil fuel plants, then you think it is appropriate to -- at that point, you think it is appropriate to make an assessment with regard to the length of the period that the plant or plants should be extended?

A. At that point in time I would believe it would be appropriate.

Q. And also to the extent that the company has done that heretofore, I take it your testimony states that it is

appropriate to look at those expenditures and make a determination with regard to whether or not a life extension is appropriate?

A. Any expenditures that have been made in the past were made given a certain set of conditions, and if those conditions continue to be reflected in the future, the life span determinations that were made in the past would be appropriate. If those conditions change, then new life span determinations would have to be made.

Q. Right. But your testimony is not any different -- the analysis that you are proposing today for the future you're willing to live by with regard to what has occurred in the past; is that correct?

A. I'm suggesting that --

Q. If you could please just answer yes or no and then explain your answer, I'd appreciate it.

A. No. I am suggesting that if conditions change based on conditions that were used to determine life spans in the past, new life spans may be appropriate at this point in time.

Q. So the standard by which you believe PP&L should be held in the future is different from the standard to which they should have been held to in the past; is that what you're stating, basically?

A. No. I'm not saying the standard is different.

I'm saying that the life spans are different.

Q. To the extent that the circumstances are the same as they were, say, ten years ago or the period from ten years ago to today, then you would think that the approach that you have indicated for the future should be the same?

A. Yes, I would agree with that.

Q. Thank you. Would you look at page 2 of your rebuttal testimony, please? Do you have that?

A. Yes, I do.

Q. At the bottom of the page beginning at line 19, here you indicate that if OTS Witness Mr. Sivulich's contentions were accepted at face value, then basically, the modified sinking fund method should be used for all utility property. Is that basically what you're saying?

A. Yes.

Q. Now, Mr. Hoch, were you with the company in 1984?

A. Yes, I was.

Q. Did you participate in the decision of the company to propose modified sinking fund depreciation?

A. I wouldn't say that I participated in the decision-making. I participated in the calculations involved.

Q. So your role was that you provided input to those individuals who actually made the determination as to

whether or not PP&L would propose modified sinking fund depreciation; is that your testimony?

A. Yes.

Q. Now, even though you were not involved in the decision-making, apparently, were you aware of the reason why PP&L decided that it would propose modified sinking fund depreciation?

A. Yes, I was.

Q. And what was that reason?

A. At that point in time, the company was attempting to keep the level of the rate increase as low as possible, and this was one way of accomplishing that.

Q. And at that time, did the company believe that this was an appropriate, fair, reasonable method to employ?

A. At that point in time, given all the considerations, the company believed that this was the best way of depreciating Susquehanna. I believe given no constraints, it would have preferred to have gone with a straight line approach.

JUDGE CHRISTIANSON: I guess implicit in that question is "fair and reasonable."

MR. MICKENS: That's correct, Your Honor.

BY MR. MICKENS:

Q. So you felt it was fair and reasonable under the circumstances?

A. Yes.

Q. And an element that was involved in the company's reasoning was the potential for rate shock?

A. Yes.

Q. Do you think that potential is less now than it was then?

A. Yes, I do.

Q. And is that based upon the fact that a nuclear plant is not coming on line or the fact of the dollar amount of the request?

A. I think primarily based on the dollar amount of the request, possibly as well based on the economic conditions of the times.

Q. The economic condition of the times?

A. I believe that the economic conditions in 1995 are not what they were maybe back in the early '80s.

Q. Do you think that ratepayers are at this time more amenable to an increase by PP&L than they were in 1984?

MR. DeCUSATIS: I object, Your Honor. I don't think he was presented and I think that area of cross is well beyond the scope of his rebuttal testimony.

MR. MICKENS: Your Honor, the witness raised this issue in his response to my question.

JUDGE CHRISTIANSON: Well, I'll allow it. We're talking about economic conditions, and counsel is asking

more about acceptability of the increase or whatever, but go ahead.

MR. MICKENS: I'll try to make a better nexus to that, Your Honor.

JUDGE CHRISTIANSON: I understand where you're going. I'll allow it.

BY MR. MICKENS:

Q. You would agree with me that the economic circumstances in '84 -- first of all, we talked about the factor of rate shock. That means the impact of the increase on the ratepayers, their ability to pay that increase. So that's what I'm asking you about, the ability to pay that increase in 1984 as opposed to the ability to pay that increase in 1995.

Have you done an assessment of the current ratepayers to determine that they have an economic ability to pay an increase in 1995 that perhaps they did not have in 1984?

A. No, I have not.

Q. Thank you. Now, on page 3 of your testimony near the bottom beginning at line 18, here you indicate that the rejection of the proposal to levelize modified sinking fund depreciation could result in an additional factor driving the need for a rate filing by PP&L during the period between now and 1998; is that correct?

A. Yes, I have.

Q. Now, you would agree with me that a determination with regard to a modified sinking fund in and of itself would not lead the company to file for a rate increase during that period; is that correct?

A. I cannot make that determination for the company.

Q. Is it your testimony at this time that there is a possibility that this issue alone could drive the company to file a rate increase between now and 1998?

A. I believe there is that possibility, yes.

Q. Are you aware of the company ever in the past filing a rate increase based solely upon its depreciation rates?

A. Not that I am aware of.

JUDGE CHRISTIANSON: Let me clarify just to check. When the witness is responding, is he thinking in terms of this issue might tip the balance or this issue might be the dominant reason for a rate increase?

MR. MICKENS: My question was whether it would be the sole reason.

JUDGE CHRISTIANSON: "Sole," okay. Go ahead.

MR. MICKENS: That was my question.

JUDGE CHRISTIANSON: Yes. I missed part of it.

BY MR. MICKENS:

Q. Looking at page 15 of your testimony near the

bottom beginning at line 17, you talk about the asbestos element involved with the fossil fuel plants; is that correct?

A. Yes.

Q. My question is simple. With regard to the fossil fuel plants at issue here and the existence of asbestos within those plants, with regard to their age, vintage and type, is there a difference between the asbestos problem here at PP&L's plants and any other plants for another electric company in Pennsylvania of the same type and vintage?

A. I would have no information about that.

Q. But you have no reason to assume that there is a greater problem with asbestos with PP&L's fossil fuel plants than with a similarly situated electric company in Pennsylvania that has the same type plants, age and type?

A. I would have no reason to assume any other reason.

MR. MICKENS: Thank you. That's all I have for this witness.

JUDGE CHRISTIANSON: Then fine. Consumer Advocate?

MS. BRIGNOLA: Thank you, Your Honor.

CROSS-EXAMINATION

BY MS. BRIGNOLA:

Q. Good afternoon.

A. Good afternoon.

Q. If you could turn your attention to your Exhibit DSH-3 in the back of your testimony, am I correct that both of these tables are done on a calendar year basis?

A. Yes, they are.

Q. So would I be correct you're assuming that the test year net plant would be higher than either of the figures in both of these tables under net plant?

A. Yes, they would.

Q. And the test year return would be somewhat higher than the figures on either of these tables; correct?

A. Yes, it would.

Q. And the total capital recovery for the test year would then be higher than what is shown in both of these tables?

A. Yes.

Q. And isn't it also true that the test year level of capital recovery exceeds the values in each of the years under total recovery on these tables?

A. That would have to be the case.

Q. Now, if you will turn to PP&L's Exhibit V-B-2, page 10. Are you with me?

JUDGE CHRISTIANSON: You may have to give him a moment.

MR. DeCUSATIS: Could we just have a moment?

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

(Discussion off the record.)

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

Counsel has it. I'm not sure the witness does, but counsel can provide it.

I guess now we're back in the original filing?

MS. BRIGNOLA: Yes.

BY MS. BRIGNOLA:

Q. Looking at that page, isn't it true that the letter "G" in the very last column indicates the accounts that the company proposes to amortize?

A. Yes, it does.

Q. And there are ten such accounts; correct?

A. I haven't counted them, but that sounds about right.

Q. Now, at page 12, lines 4 through 7 of your testimony, you assert that Dr. Johnson has for the most part adopted amortization periods for these accounts that are longer than their life indicates in the 1988 service life study.

A. Could you give me that reference again?

Q. Sure; page 12, lines 4 through 7.

A. And would you repeat your question?

Q. Do you assert that Dr. Johnson has for the most

part adopted amortization period for these accounts that are longer than the life indications?

A. Yes.

Q. Would you agree that four of Dr. Johnson's proposed amortization periods as he has revised them are shorter than the life indications in the 1988 life study?

MR. DeCUSATIS: Excuse me. Just a point of clarification. I believe Mr. Hoch's testimony at page 12 referred to the '84 and '94 service life studies. The '88 service life study was not introduced until Dr. Johnson's surrebuttal testimony.

BY MS. BRIGNOLA:

Q. Going off of what counsel has just stated, my question would be: is there a 1994 service life study?

A. Yes. One has been submitted in this case.

Q. A full service life study, not an actuarial study?

A. For these accounts? Is that what you're specifically referring to?

Q. Yes.

A. For these accounts, all we've done is done some retirement rate analysis.

Q. I didn't hear you. I'm sorry.

A. For these accounts, all that we have done is some retirement rate analysis. We have not done what might

be normally considered as a full service life study for depreciation purposes.

Q. So for the ten accounts that we discussed the company proposing an amortization period, for those accounts, the last full service life study was the 1988 study; correct?

A. Yes.

Q. So back to my question. Would you agree that four of Dr. Johnson's proposed amortization periods as he has revised them are shorter than the life indications in the 1988 life study?

A. No. By my count, I only see two lives that are shorter.

Q. Are you using the revised numbers? Dr. Johnson revised one on the stand and he revised one in his surrebuttal. Have you included those when comparing his? For the Account No. 394.8, garage equipment, Dr. Johnson revised his number from 35 to 25 on the stand when he was cross-examined.

A. Okay.

Q. And for the Account No. 395.0, laboratory equipment, he revised that from 40 to 20.

A. That would make up the other two.

Q. Okay. So you would now agree that four of them are shorter?

A. Yes.

Q. And is it true that a comparison of your proposed amortization periods for these accounts with the last life study, the 1988 study, shows that for only one account, Account No. 391.6, your proposed amortization period is greater than the service life study?

A. That is true.

Q. So for the remaining nine accounts proposed to be amortized, your proposed amortization periods are shorter than the service life study shows?

A. Yes.

Q. At page 12, lines 12 through 14 of your testimony, you state that a service life study over five years old is typically outdated.

Has the company performed a life study any more recent than that?

A. For these accounts?

Q. Yes.

A. No.

Q. At page 13, lines 19 and 20 of your rebuttal, you refer to the average attained age of the company's unrecovered investment.

Was this value obtained in a life study?

A. No. I believe this value was obtained by the schedule that was distributed on DSH-4 today.

MS. BRIGNOLA: That concludes all my questions, Your Honor.

JUDGE CHRISTIANSON: Fine. Then we can check. Anybody else have cross for the witness?

MR. WILLIAMSON: I just have two questions, Your Honor.

JUDGE CHRISTIANSON: Go ahead.

CROSS-EXAMINATION

BY MR. WILLIAMSON:

Q. Good afternoon, Mr. Hoch. I am Derrick Williamson representing the Industrial Customer Alliance. How are you doing?

A. Good afternoon.

Q. Would you please reference page 16, lines 7 through 17 of your rebuttal testimony? You assert that the company's proposed treatment of dismantling costs is superior to the PUC's traditional, after-the-fact amortization of net salvage; is that correct?

A. Yes.

Q. Are you aware of any instance where the PUC has disallowed dismantling costs under the after-the-fact amortization of net salvage method?

A. Where they have disallowed it?

Q. Where they've disallowed the recovery of costs for dismantling under that method.

A. Yes, I am.

Q. Could you provide a citation to that?

A. I believe it would be in the West Penn Power case that I referenced earlier, Docket R-942986.

Q. Are you aware of any case where the PUC has allowed the recovery of dismantling costs on a prospective basis?

A. For a fossil plant?

Q. Yes.

A. No.

Q. So you are not stating that the inability to recover costs under the traditional method is a basis for its inferiority as compared to the company's proposed method of recovery?

A. I'm stating that it is inferior because it is inappropriate in which customers that would be charged for the costs.

Q. But it's not inferior on the basis of whether or not costs are ultimately recovered?

A. I am not stating that.

MR. WILLIAMSON: No more questions, Your Honor.

JUDGE CHRISTIANSON: I guess there is always the certain lingering fear that it won't work out.

Any further cross of the witness?

MR. McCORMICK: Nothing.

JUDGE CHRISTIANSON: Then we seem to be done with cross for the witness, and let's be off the record briefly.

(Discussion off the record.)

JUDGE CHRISTIANSON: Let's go back on the record briefly.

I understand there is no redirect for the witness, and the witness is then excused.

(Witness excused.)

JUDGE CHRISTIANSON: We might as well at this point take a lunch break for probably something over an hour. So let's be off the record.

(Whereupon, at 12:43 p.m., the hearing was adjourned, to be reconvened at 2:00 p.m., this same day.)

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AFTERNOON SESSION

(2:05 p.m.)

JUDGE CHRISTIANSON: Let's then be back on the record. We are back on the record after the lunch break. During lunch, Mr. Epstein saw me and apologized for having other duties, but he missed the end of the Hoch cross-examination and he had a couple of questions which he outlined briefly to me.

And I think the company has consented to call the witness back for brief cross-examination and proceed.

Whereupon,

DONALD S. HOCH

having previously been duly sworn, testified further as follows:

MR. EPSTEIN: I'd like to thank the company for giving me the opportunity. I apologize for being away from my duties here.

I also wanted to point out for the record that I'm not the person who's been destroying the formica top here, and hopefully I won't get a bill.

JUDGE CHRISTIANSON: We discussed that.

MR. EPSTEIN: Yes. I taped it together, and I work at a union wage, so we can just call it even.

CROSS-EXAMINATION

BY MR. EPSTEIN:

Q. Mr. Hoch, how are you doing?

A. Very well.

Q. I'm Eric Epstein, representing Eric Epstein. I'm not Sybil.

Two brief questions: On your rebuttal testimony -- I don't know if you have a copy of it -- on page 17, I just needed to clarify something with you, and this should take a moment.

If you look from lines 12 through 16 where you discuss, "However, as I've discussed, such comparisons are meaningless," are you familiar with that portion of your testimony?

A. Yes.

Q. Just to be accurate and make sure that I understand what you're saying, the reason why those comparisons are meaningless is because of the size of the plant that needed to be decommissioned, the fossil fuel plant; would that be correct?

A. That's one of the reasons why.

Q. Okay. All right, I just wanted to make sure I understood you correctly on that.

I was wondering if you are aware -- and I know this is not your specialty -- but that the decommissioning costs

of the Susquehanna nuclear power plant are based on data provided by TLG.

A. Yes, I'm aware of that.

Q. Okay. Are you aware that the largest plant that they've participated in actually decommissioning was 72 megawatts?

A. No, I'm not aware of that.

Q. Okay. What I'm wondering is, wouldn't their statistics also be meaningless since they're pledging their estimates based on nuclear power plants that are really of an analogous size?

The ones that you've had experience decommissioning before are 50 megawatt; the one that TLG has had experience, the biggest one is 72 megawatts.

MR. DeCUSATIS: Your Honor, I would interpose an objection, simply because Mr. Hoch has not been offered on the subject of nuclear decommissioning.

I think there are --

JUDGE CHRISTIANSON: Better witnesses?

MR. DeCUSATIS: -- any number of nuances to the kinds of comparisons and the manner in which they were being made. And I think in particular what Mr. Hoch was addressing here was simply comparing the gross numbers in the sense that you can't compare simply the total cost to decommissioning a very small unit and compare it to the total cost to

decommission a very large unit, as opposed to extrapolating the cost of decommissioning a smaller unit and making appropriate adjustments for such an extrapolation.

JUDGE CHRISTIANSON: Let me check with the witness.

Is that basically your view of your role in the matter?

THE WITNESS: Yes, it is.

JUDGE CHRISTIANSON: Go ahead. Ask your question again if you want to.

MR. EPSTEIN: Well, no. I think I understand counsel's objection and I'll refrain from following up. I was just simply trying to picture in my mind the line of reasoning for decommissioning projections on a fossil fuel plant contrasted to a nuclear power plant.

And it appears to me there may be different lines of reasoning in projecting those costs.

BY MR. EPSTEIN:

Q. And I accept the fact, Mr. Hoch, I think your expertise is on fossil plants and not nuclear; I believe that's correct.

A. My expertise is not on decommissioning at all.

Q. Okay. Not on decommissioning any plants, fossil fuel or nuclear?

A. No. The costs that I portrayed in my exhibit or in my response to the interrogatory were only historical

costs pulled out of our accounting records.

MR. EPSTEIN: I would presume -- that ends my line of questioning -- that this will be the last time you're here, and I do appreciate your coming back up.

JUDGE CHRISTIANSON: Thank you. Any follow-up? We can pause for a moment.

MR. DeCUSATIS: We don't have any redirect.

JUDGE CHRISTIANSON: Then the witness is again excused.

(Witness excused.)

JUDGE CHRISTIANSON: Now we have the major witness for the afternoon. The witness continues to be under oath in the case.

Whereupon,

DOUGLAS A. KRALL

having previously been duly sworn, testified further as follows:

MR. DeCUSATIS: Your Honor, the next witness this afternoon is Douglas Krall. We have previously provided to the parties in this case and to the court reporter today documents which have been marked for identification as Statement 5-R and accompanying exhibits which have been marked as DAK-5 and DAK-6, which we would ask be identified for the record as marked.

JUDGE CHRISTIANSON: So identified, all stapled

together as one document.

(Whereupon, the documents were marked as PP&L Statement No. 5-R and PP&L Exhibits Nos. DAK-5 and DAK-6 for identification.)

MR. DeCUSATIS: And Your Honor, we also have some very brief rejoinder examination for Mr. Krall which we would like to do at this point, simply to expedite matters rather than having him recalled at a later point.

JUDGE CHRISTIANSON: For the same reasons as this morning.

MR. DeCUSATIS: For the same reasons we gave for Mr. Hoch.

DIRECT EXAMINATION

BY MR. DeCUSATIS:

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

A. My name is Douglas A. Krall, K-R-A-L-L.

Q. Mr. Krall, am I correct you have previously testified in this proceeding and have previously been cross-examined?

A. Yes, I have.

Q. Do you have before you a copy of a document which we have just identified for the record as Statement 5-R?

A. Yes, I do.

Q. And with regard to that statement, do you initially have any corrections that you need to make for the record?

A. No, I don't.

Q. Do you also have before you copies of the two exhibits which have been marked as DAK-5 and 6?

A. Yes, I do.

Q. Concerning Statement 5-R, if I were to ask you the questions that are contained in that document, would your answers today be the same as are set forth therein?

A. Yes, they would.

Q. And were the Exhibits DAK-5 and DAK-6 prepared by you or under your direction and supervision?

A. Yes, they were.

Q. Is the information contained in Statement 5-R and Exhibits DAK-5 and DAK-6 true and correct to the best of your knowledge, information and belief?

A. Yes, it is.

MR. DeCUSATIS: Your Honor, at this point, by way of an administrative detail, there are really two motions I'd like to make, and I realize one of them is out of order.

The first is to move the admission, subject to the usual conditions and qualifications, of Mr. Krall's statement and accompanying exhibits.

And I also can either make the motion now or later

that I should do the same with respect to the testimony and exhibits of Mr. Hoch.

JUDGE CHRISTIANSON: Well, 5-R and the two associated exhibits are now accepted into the record subject to the standard conditions.

(Whereupon, the documents marked as PP&L Statement No. 5-R and PP&L Exhibits Nos. DAK-5 and DAK-6 were received in evidence.)

JUDGE CHRISTIANSON: And you don't have Hoch in?

MR. DeCUSATIS: I don't believe that I made such a motion earlier.

JUDGE CHRISTIANSON: If we didn't, he's now in.

MR. DeCUSATIS: Thank you. Let the record so reflect.

JUDGE CHRISTIANSON: Along with his other, DSH-4, that's also in.

(Whereupon, the documents marked as PP&L Statement No. 4-R and PP&L Exhibits Nos. DSH-3 and DSH-4 were received in evidence.)

JUDGE CHRISTIANSON: Cross is done with now, so it's absolute.

BY MR. DeCUSATIS:

Q. Mr. Krall, have you had an opportunity to review the surrebuttal testimony that was submitted in this proceeding on the subject of the life spans for the older

coal plants, and in particular the surrebuttal testimony of Mr. Sivulich?

A. Yes, I have.

Q. Directing your attention to page 9, lines 8 to 10 of Mr. Sivulich's testimony -- excuse me; yes, that's correct, page 9 at lines 8 to 10 -- Mr. Sivulich indicates that PP&L is maintaining its generating units in a manner that would allow them to operate well past the proposed shortened retirement date of 2003. Do you see that statement?

A. Yes.

Q. Can you tell us whether the kinds of investments that are necessary to comply with the Clean Air Act by 2003 are in the nature of ordinary maintenance?

A. No, they are not.

Q. Could you give us some indication of the magnitude of the investments that would be required for Clean Air Act compliance?

A. Yes, I can. We've included such estimates in our 1995 Annual Resource Plan which was issued on May 1 of this year.

The Sunbury plant, we would anticipate about $98.5 million worth of capital additions to comply with Title III and Title I of the Clean Air Act amendments.

To put that number in some perspective, the ARPR

looks over a 20 year horizon, and if we look at the depreciated plant balance over that 20 year horizon at 2003, we would be adding $98.5 million to a plant whose remaining undepreciated value is only $125.6 million. So it certainly is a sizable investment.

If we look at Martins Creek, similar analysis, there the capital addition would be estimated to be about $94 million, and again for comparison purposes, on a 20 year basis, the depreciated plant at that point, at the point that addition would be made, would be only $92.2 million, actually less than the amount of the addition.

Finally, for Holtwood, again, same type of analysis. We would estimate the compliance costs at Holtwood, a smaller, single unit, to be $12.5 million, but again, on a 20 year depreciation schedule, the plant balance at that point in time would be only about $19.4 million. So again, we're looking at a sizable addition to the plant that might be existing at that time.

Q. Simply by way of clarification, you have referred to I believe a 20 year depreciation schedule.

A. That's right.

Q. Could you explain what, for purposes of your study, was used as the time horizon to which that 20 year depreciation referred?

A. Because the Annual Resource Planning Report is

done on a 20 year horizon, we don't use for our analysis of existing plants currently filed deactivation dates. We use the 20 year horizon for all plants, whether the filed deactivation date is shorter or longer. It's a 20 year horizon, and it begins from January 1 of 1995.

MR. DeCUSATIS: Thank you.

That is all we have by way of additional questions for Mr. Krall, and he is available for cross-examination, Your Honor.

JUDGE CHRISTIANSON: Fine. Again, we can start with Trial Staff.

MR. MICKENS: Thank you, Your Honor.

CROSS-EXAMINATION

BY MR. MICKENS:

Q. Good afternoon, Mr. Krall.

A. Good afternoon, Mr. Mickens.

Q. First of all, with regard to your rejoinder testimony, now, let me make sure I have the figures straight that you gave.

Apparently, you performed a study to determine the compliance costs for the Clean Air Act on the coal fired plants in question; is that correct?

A. Yes. We have been doing ongoing studies.

Q. And for the Sunbury plant, the amount that you arrived at was $98.5 million?

A. Yes.

Q. And for the Martins Creek plant, the amount that you arrived at was $94 million?

A. Yes.

Q. And for Holtwood, the amount was $20.5 million?

A. 12.5.

Q. 12.5. Now, with regard to this study or studies, when were they performed? Where are they? What's the story?

A. Well, the studies that I have just referred to and read the numbers from are the Annual Resource Plan filing that the company does May 1 of each year in response to Commission regulations.

The detailed analysis of the cost to continue to operate power plants in terms of O&M costs or capital additions is something that's ongoing in the company.

Q. So, you would be referring to the information provided in the Annual Resource Planning Report?

A. Yes.

Q. For example, filed in 1994 and 1995?

A. The numbers that I recited are specifically from the 1995 report.

Q. Okay.

JUDGE CHRISTIANSON: The one that just came out?

THE WITNESS: Yes.

BY MR. MICKENS:

Q. Now, Mr. Krall, if you would refer to page 4 of your rebuttal testimony, please?

A. Yes, sir.

Q. Roughly lines 14 through 18 on that page, here you discuss the company's proposal to shorten the depreciation lives of Holtwood 17, Martins Creek 1 and 2, and Sunbury 1 through 4; is that correct?

A. Yes.

Q. And you put forth the proposition here that current customers should bear prudent costs incurred on their behalf; is that correct?

A. Yes.

Q. So in effect, you are making an argument that current customers would be subsidizing future customers under the scenario being supported by the OTS witness Mr. Sivulich; is that correct?

A. No, I don't believe there's any subsidy. I believe that current customers would be paying for the plant that is in service providing them useful service.

Q. What I'm saying is, current customers as opposed to future customers; would you agree that what you're saying is that if current customers do not pay in accordance with your statement here, that they would in fact be providing some type of subsidy to future customers because they would

not be paying for plant which was serving them?

A. No. I don't see the subsidy. My concern is that today's customers should be bearing a higher proportion of the costs, recognizing the risk.

Q. You're making an inter-generational argument; are you not?

A. Excuse me?

JUDGE CHRISTIANSON: He may not realize it, but I can see where you're going. I agree with you, counsel, that he really is.

BY MR. MICKENS:

Q. You're making an inter-generational argument. You're saying that the current generation should pay for service that it receives from a plant that's operating now.

A. Current generation --

Q. Of people, customers.

A. Of the population?

JUDGE CHRISTIANSON: It's not quite a generation. We're talking maybe ten years.

MR. MICKENS: Yes, but you can refer to it as a generation or current customers, a group which are current customers.

THE WITNESS: Right.

BY MR. MICKENS:

Q. What you appear to be arguing is that these current customers should pay for plant that is serving them currently?

A. Yes.

Q. Okay, as opposed to future customers, which apparently you are arguing, would pay for it under circumstances that OTS Witness Sivulich is advocating.

JUDGE CHRISTIANSON: Or that PP&L might eat some of that cost. Maybe that's what you're worrying about, too.

THE WITNESS: Well, certainly that's a concern that we discussed before with Mr. Hoch's testimony whether decommissioning costs are appropriate at the time and whether they're loaded on future customers as well.

MR. MICKENS: Right.

THE WITNESS: Those are the same types of arguments.

BY MR. MICKENS:

Q. So obviously, if you're saying that current customers would not be paying for it or paying their fair share, then you must be saying that some future customers would be paying, that certain future customers would be paying less than what they should normally be paying.

A. I believe what I said here is to ignore these issues at this time would put future customers unnecessarily at risk of having to bear costs for investments which may

not provide them service.

Q. And how would they be unnecessarily at risk?

A. At the point when we recognize -- if the threats come to bear that we've identified in 2003, then the depreciation schedule would be compressed at that point, and those customers would be unfairly disadvantaged.

Q. And the threats you were referring to are Clean Air Act requirements, the cost of compliance?

A. The costs associated with complying with Title I and Title III of the Clean Air Act amendments.

Q. Okay. Then I guess what I'm asking is, is there any difference between requirements that the company currently has to comply with, let's say in this current time frame, 1995, that the company did not have to comply with in 1985?

There were customers in 1985 that did not have to pay for certain requirements that are existing today; isn't that correct?

A. That's true.

Q. So there is no difference there in that regard; is that correct?

A. The difference has to do with recognition of a change of conditions.

JUDGE CHRISTIANSON: You're saying, in '85, you didn't know about the Clean Air Act stuff?

THE WITNESS: In 1985, we anticipated that there would be acid rain requirements, but we did not anticipate Title I ozone non-attainment requirements or Title III air toxics requirements.

BY MR. MICKENS:

Q. Right. I guess all I'm asking is, as we sit here in 1995, there could be other things that are on the horizon that we don't know about that would increase or could potentially increase compliance costs for PP&L; is that correct?

A. Certainly.

Q. Okay. And we cannot, as we sit here, identify all of those possibilities; is that correct?

A. Certainly.

Q. Mr. Krall, would you agree with me that in certain respects, current PP&L customers will in fact be future PP&L customers?

A. I'm sure we could do a demographic study and indicate that, yes, some of them would still be around.

Q. Well, there are some customers that are on the system now that will be on the system in 20 years, for example?

A. True.

Q. And there are certain customers that are on the system now that were on the system 20 or 30 or 40 years ago?

A. True.

Q. Or even 60 years ago?

A. Okay.

Q. Would you agree with that?

A. Sixty years ago?

Q. Yes.

A. Sure.

Q. And you would agree that customers on PP&L's system leave PP&L's system at all points during the life cycle of the existing power plants, meaning leave and come on to PP&L's system --

A. Sure.

Q. -- during all points during the current life cycle of currently operating power plants?

A. Yes.

Q. Mr. Krall, would you agree with me that currently the cost of retirement of all non-nuclear property -- and this is a simplification because it certainly applies to some nuclear property as well, but for now, just all non-nuclear property -- is recovered through the five-year average of negative salvage?

A. That is my understanding.

Q. And would you agree that as a result of this, current customers are paying for the retirement costs of PP&L utility property that actually served previous

generations of customers?

A. Yes, that's true. Of course, that's an issue we've raised in this proceeding.

Q. Okay. Mr. Krall, you were promoted to the position of manager, integrated resource planning in 1984; is that correct?

A. No.

Q. Well, I understand there's a difference. Apparently, your title was changed at some point.

A. No, I was appointed to manager of generation development planning in 1984. My current title is manager of integrated resource planning. That change occurred in December of last year.

Q. All right. Are your duties significantly different than they were under your previous title?

A. Yes, they are.

Q. Okay. What is the difference in those duties as manager of integrated resource planning?

A. My prior duties focused on existing generating plants, capital budgeting for existing generating plants, plans for the continued operation of existing generating plants and their upgrading, and also the capital budgeting function for the company reported to me under that position.

As manager of integrated resource planning, I've taken those functions as well as the resource planning

function.

Q. So the scope of your responsibility has in fact broadened --

A. Yes.

Q. -- under your current title?

A. Yes.

Q. Okay. And so, at minimum, you are responsible for analyzing capital investment needs at PP&L's existing fossil fuel units and assessing the value of those units within an integrated resource plan; is that accurate?

A. That is correct.

Q. And you are also responsible for the company's construction budget?

A. Yes.

Q. Now, were you involved in the company's decision to increase the service lives of fossil fuel plants in 1988?

A. Yes, I was.

Q. Why did you not suggest shortening the service lives of the plants at that time?

A. Well, the issue wasn't really one of shortening. As I look at the tabulation I provided on page 4, we had some pretty short lives to begin with.

The issue was one of lengthening lives at that point, to capture the view and the understanding of future events, that we would continue to upgrade and continue to replace

components at existing power plants.

Q. I understand that you proposed to lengthen them at that time. What I'm asking you is, why did you not propose to shorten them? What was the reason why that you proposed to lengthen them in 1988?

A. Because the economic analysis of the time indicated that extending their lives was the economically desirable thing to do, and in order to be consistent with that investment plan, lengthening the lives seemed to be the appropriate thing to do.

Q. Mr. Krall, would you refer to page 7 of your testimony? Do you have that?

A. Yes, I do.

Q. Lines 17 through 18. Would you agree with me that there have been no recent changes in Title I and Title III of the Clean Air Act requirements?

A. How do you define "recent"?

Q. The last one, two years.

A. No. There have been significant changes with regard to the implementation of Title I. There have been no federal statutes to revise Title I.

Q. You said there are no federal statutes revising it. Have there been any regulations implemented concerning how the requirements will work?

A. Yes, there have been, for Title I.

Q. For Title I, and those were concerning what units?

A. Well, the regulations enacted by individual states regarding reasonably available control technology.

Q. Okay. And how did that impact on PP&L specifically?

A. We were obligated to install reasonably available control technology on all fossil fuel power plants.

Q. Have you done that?

A. Yes, we have.

Q. Now, you have previously testified that you do not expect revised Clean Air Act standards until the year 1999; is that correct?

A. No, I don't believe I said that there would be revised standards.

Q. What was your testimony, to the best of your recollection?

A. To the best of my recollection, I pointed to 1999 as an important date, that the NOx debate in the northeast ozone transport region will evolve to some measure of conclusion, and that the science leading up to the development of any regulations that may be required for air toxics might be well along by 1999.

So in sum, we view 1999 as perhaps a critical

decision point as to future investment in plants.

Q. Let me ask you this: Do you expect revised Clean Air Act standards prior to 999?

A. When you say "revised Clean Air Act standards," I'm not sure specifically what we're talking about.

Q. Revision to the current requirements.

A. There is some discussion of a tighter ambient SO_2 standard, I'm aware of. I don't know of the timetable for that.

Q. Have you seen any regulations in that regard or any notices of rulemakings concerning that?

A. I don't believe so.

Q. Would you refer to page 9 of your testimony? Here you are discussing PP&L's proposal to shorten the depreciation lives of the previously identified fossil fuel plants; is that correct?

A. Yes.

Q. And you state that PP&L must keep open the possibility of early retirement of these units because it may be economically more prudent to do so, right?

A. You're at lines 7 through 10?

Q. That's correct.

A. Yes, that's correct.

Q. Would you agree with me that this is only one of the factors that PP&L should consider for the period 2003

and beyond?

A. That the possibility of earlier retirement of these plants is one of a number of factors, yes, I would agree with that.

Q. And would you agree with me that one of these factors for consideration would be the reliability of service?

A. Yes.

Q. Are you aware of the Commission's concern that no generation equipment be retired until the company demonstrates that it will continue to have sufficient generation to supply customer needs?

A. Yes, I am.

Q. And would you agree that this reflects the Commission's concern for reliability?

A. I presume reliability is an element of their concern, but I wouldn't speak to the totality of their concerns.

Q. Okay. But you're sure that that's one of the reasons for it?

A. I believe that that would likely be one of the reasons.

Q. Okay. Would you refer to your DAK-5, page 4, please? Do you have that?

A. That's a graph marked Exhibit 6-5?

Q. That's correct.

A. Yes.

Q. Would you agree that this schedule is premised on the retirement of Martins Creek in 1997?

A. Yes, it is.

Q. Has PP&L proposed to retire Martins Creek in 1997?

A. No, it hasn't.

Q. Would you refer to DAK-6, please? That's Exhibit 4-8.

A. Yes.

Q. Would you agree that this exhibit is premised on the retirement of Martins Creek in 1998?

A. Yes, it is.

Q. Has PP&L proposed to the Commission to retire Martins Creek in 1998?

A. No, it has not.

Q. Mr. Krall, referring back to page 9 of your testimony, line 15?

A. Yes.

Q. Here you refer to PP&L's Annual Resource Planning Report, filed May 1, 1995; is that correct?

A. Yes.

Q. Now, this report is different from the May 2nd report that you referred to at page 5 of your testimony; is

it not?

A. I believe that was -- you said page 5?

Q. Yes. Page 5 of your testimony at line 29, you refer to PP&L's five year upgrade plan for coal-fired generation dated May 2, 1994.

What I want to ask you is, that's different from the Annual Resource Planning Report filed May, 1994; is that correct?

A. The five year upgrade plan is different than the resource plan filed in 1994?

Q. Yes.

A. Arguably, no, because the Commission promulgated rules that required that the reports be filed together, and you could call them all the ARPR.

This year was the first year following new rules, and the five year upgrade plan we felt was responsive to the new rules and remains intact in our May, 1995 filing.

Q. With regard to the May, 1994 Annual Resource Planning Report, when you filed that, when PP&L filed that document, did it include the May 2nd five year upgrade report with it, contained within it?

A. Yes.

Q. Physically?

A. Physically, I think there was a large rubber band on it. I think there was one transmittal letter

covering several documents, included the avoided cost filing, the DSM filing, the conservation report and --

JUDGE CHRISTIANSON: If I can try to follow up, was the ARPR filed on the 2nd last year, do you know?

THE WITNESS: I think the 1st may have been a Sunday last year.

JUDGE CHRISTIANSON: I don't that for sure.

MR. MICKENS: There are two years, Your Honor. There's the '94 report and the '95.

JUDGE CHRISTIANSON: I just wondered, was the ARPR on the 1st or on the 2nd. He says May 2nd, along with this report, because I couldn't envision the two being rubber banded together on two different days.

MR. MICKENS: Right.

BY MR. MICKENS:

Q. You physically filed that yourself? Were you the person at PP&L that was responsible for putting those reports together --

A. No, I was not.

Q. -- and filing them on the Commission?

A. No, I was not.

Q. So you are not personally aware that in fact they were filed together?

A. I probably have a copy of the cover letter that confirms to me that they were filed together.

Q. Now, are you the author of the Annual Resource Planning Report for 1995?

A. My name is on the front of it as one of the contacts, yes. There are numerous authors within the company.

Q. Okay. Was it under your, were you supervising the development of the information that's contained within the report?

A. Certainly the information was under my direct control. Certain of my duties were more towards assuring the compilation of information developed elsewhere.

JUDGE CHRISTIANSON: You were the coordinator on it, more or less?

THE WITNESS: Yes.

BY MR. MICKENS:

Q. Do you happen to have a copy of the Annual Resource Planning Report for May, 1995?

A. The summary? Yes.

Q. Yes, that's what it is.

MR. MICKENS: Your Honor, I have one extra copy, if you'd like to follow along. I didn't choose to make this an exhibit. I just have a few questions from it.

JUDGE CHRISTIANSON: Maybe pass it up for a moment.

(Document handed to Judge Christianson.)

JUDGE CHRISTIANSON: Thank you. I'll give it back.

BY MR. MICKENS:

Q. Mr. Krall, would you agree that one key finding of the 1995 Annual Resource Planning Report preferred plan is to continue the operation of existing operating units? That's found on page 34 of the document, roughly lines 3 to 5?

A. Page 34?

Q. Page 34.

A. The summary report I have is only 14 pages.

JUDGE CHRISTIANSON: Maybe I'll hand to the witness what you handed to me.

BY MR. MICKENS:

Q. I'm talking about the full report.

A. Okay. I saw the size of your document and I thought you were talking about the summary.

Q. Yes, I just have excerpts.

A. No, I have the full report as well.

JUDGE CHRISTIANSON: Go ahead to page 34. That's the second sheet in what he handed me, so it was easy for me to get there.

BY MR. MICKENS:

Q. This is the document I'm talking about.

A. Okay.

JUDGE CHRISTIANSON: I had a case two years ago with GPU about this whole plan, a NUG case, and I got very

familiar with it, more than I wanted to get familiar with it.

BY MR. MICKENS:

Q. All right, Mr. Krall. Do you have that?

A. I have page 34. Where was our specific reference?

Q. Let me repeat the question. Would you agree that one key finding of the 1995 Annual Resource Planning Report's preferred plan is to continue the operation of existing operating units? That's at lines 3 through 5 on page 34.

A. Yes.

Q. Okay. Since the filing of the 1994 Annual Resource Planning Report, has PP&L decided to retire any unit in the year 2003?

A. No. We recognize as exposure to events that could cause us to choose to do that, but no, we have not committed to retiring any power plant in 2003.

Q. How would the change in depreciation that you're proposing in this proceeding affect your economic analysis which is found in the report?

For example, if you accelerate the depreciation and collect more dollars earlier, how would this affect the economic analysis of the plants in question?

A. There would be offsetting effects. We would

accelerate the depreciation of the -- are you saying an actual plan to retire at 2003, or just changing the depreciation schedule?

Q. Yes. What is the impact of changing the depreciation schedules as proposed in this proceeding on the analysis that you have provided?

A. It would advance, it would increase the revenue requirements in the short term.

Q. Okay. And what impact did that have on your analysis?

A. We haven't done that analysis in the ARPR.

JUDGE CHRISTIANSON: Let me, if I could, try a question on that. We're talking about retirement. Do you do that sort of incremental analysis when you get in very close to it? How do you decide to finally pull the plug and retire the plant?

THE WITNESS: That would be the way we'd see it happening here. I referred earlier to the year 1999. We believe that that will be sort of a watershed year in terms of our understanding of Clean Air Act exposures, in particular for these power plants.

JUDGE CHRISTIANSON: Say you depreciate it down and you have a plant still working. Would you make a new analysis when you stop it from producing power?

THE WITNESS: I think, yes, we would redo the

analysis in 1999 using then-current information, and if the indication was that, no, there weren't the kind of concerns that we had and indeed we should operate longer, then we would suggest a different schedule for depreciation.

JUDGE CHRISTIANSON: My question was, when you make the decision, do you think about depreciation or do you do sort of an incremental analysis: regardless of what the books are accounting for, will it produce useful power next year compared to another plant?

THE WITNESS: Yes, that's -- well, not necessarily next year, but at the horizon we're looking at, yes.

JUDGE CHRISTIANSON: Go ahead. I just wanted to get some thinking on it.

BY MR. MICKENS:

Q. Mr. Krall, would you agree that there is nothing in the 1995 Annual Resource Planning Report that changes the 1994 Annual Resource Planning Report forecasts that there will be no retirements of major generating units in the next 20 years?

A. No. I believe there's significant discussion in there of the very exposures that we're talking about.

Q. And you're talking about comments in the 1995 Annual Resource Planning Report?

A. Yes.

Q. And when was that document filed with the

Commission?

A. May 1 of this year.

Q. And when was it prepared, roughly?

A. Well, the preparation is stretched over a number of months. It begins in say the end of January, although forecasts that go into it are made in the prior year.

So if you wanted the absolute beginning for forecasts, it actually goes back to 1994.

Q. Okay, so forecasts were made in 1994 --

A. Analysis is done following in '95.

Q. Okay, so the analysis was done in January, 1995?

A. Yes.

Q. And the company filed this case on what date?

A. December 30 or 31 of 1994.

Q. Would you refer to page 19 of Appendix A to the 1995 Annual Resource Planning Report?

A. Okay.

Q. Would you agree that the second full paragraph, the first three lines basically indicates that it appears to be prudent to pursue those investments which are necessary to continue the operation of Sunbury through at least 2014?

A. Yes, that's what it says. And the next sentence goes on, "However, the analyses reflect only a single set of assumptions." It goes on to discuss the uncertainties.

Q. Right. Those were some of the things that you

referred to previously --

A. Right.

Q. -- about statements made in this report.

Would you agree, just looking quickly at pages 31 and 43, that similar statements are made with regard to Martins Creek 1 and 2 and Holtwood plants?

A. 31 and 43?

Q. Yes.

JUDGE CHRISTIANSON: He's given me the excerpts, and I'll confirm that. They're practically identical, if not identical.

THE WITNESS: Yes. In each case, the "however" is there, and the continuing discussion.

BY MR. MICKENS:

Q. Okay, thank you.

Would you refer to page 13 of your rebuttal testimony, Mr. Krall?

JUDGE CHRISTIANSON: Just as a thought for counsel, did you want to incorporate by reference the 1995 ARPR? We don't have to worry about it now, but if a lot of people cross on it, we might want to do it.

MR. MICKENS: It's not my call, Your Honor.

JUDGE CHRISTIANSON: I just put that up for thought at this point. Go ahead with your cross.

BY MR. MICKENS:

Q. Page 13, Mr. Krall, roughly lines 25 through 30, here you discuss the transfer of emissions credits; is that correct?

A. Yes. I used the term "credits" because I was referring back to Mr. Sivulich's testimony. I prefer to use the word "SO_2 emission allowance" that's the correct term for what I'm talking about in here.

Q. Okay. So could we use the term "allowance," just for simplicity?

A. That's fine.

Q. All right. Would you agree that PP&L could possess allowances that would be transferred or could be transferred to cover Martins Creek, Sunbury and Holtwood?

A. Yes. PP&L is in fact transferring emission allowances from the Conemaugh station, which has installed a scrubber, a pretty expensive piece of pollution control equipment, and those allowances are being transferred to the accounts of -- no, I take it back, they're being transferred to a general account, ultimately for the use of our power plants.

Q. Okay. But the possibility is there?

A. Yes.

Q. And the possibility exists that PP&L might have or could have excess allowances that it could possibly sell to other utilities?

A. Yes.

Q. Would you refer to page 14 of your testimony?

A. Okay.

Q. Lines 6 through 10, here you state that the fossil fuel plants at Martins Creek, Holtwood and Sunbury would be costly to maintain under the Clean Air Act requirements, generally; is that correct?

A. Yes. I state that there are costly exposures which could render those plants economically obsolete.

Q. You also indicate there that there has been a change in investment strategy by PP&L; is that correct?

A. In those plants, yes.

Q. With regard to those plants.

A. Yes.

Q. Can you give me a reference to the 1995 Annual Resource Planning Report where PP&L changed its investment strategy?

A. Yes. I think if you look at the O&M spending, it would be reduced from previous years. The capital numbers would not reflect the change. As I testified under

cross-examination, we made some changes in the investment strategy of these plants after the company's 1995 construction budget was approved in October of 1994. We looked specifically in the cross-examination at projects that we were planning on undertaking at Sunbury plant; $36 million I think was the total price tag for those, and they were required to comply with the 1997 residual waste requirements of the state. We were able to rescope those projects down to about $18 million, reflecting a more bare bones type operation, but primarily because of these kinds of concerns and making additional investment in plant that might not have a long life.

Q. So you're talking about actions that the company took, but you can't refer me to any language, for example, in the 1995 Annual Resource Planning Report which states that there was a change in philosophy or investment strategy?

A. I have a recollection that there is language in here that --

Q. You can't identify it at this time?

A. I'm trying to think where it might be.

(Witness perusing document.)

Q. Perhaps if you can provide it at a later point, you can provide that as a data request.

A. Okay; fine.

JUDGE CHRISTIANSON: You might find it by the time redirect rolls around.

BY MR. MICKENS:

Q. Would you refer to, again, page 14, lines 24 through 26, of your rebuttal statement?

A. Twenty-four through 26?

Q. Yes.

A. Okay.

Q. Do you disagree with the notion of an industry trend to continue to operate existing power plants?

A. Yes, I do. I'd say that the industry is in pretty much of a state of flux right now, and I would be leery of making generalizations like that.

Q. Is there anything in the 1995 Annual Resource Planning Report that demonstrates that there is no such trend?

A. I don't think the issue of a trend is addressed at all.

Q. Would you refer to page 16 of your testimony, lines 6 through 9?

A. Okay.

Q. Here you discuss the critical units that affect life extension at fossil fuel units; is that correct?

A. Yes.

Q. Critical components.

A. Critical -- yes. And by critical components what I mean are those components which it is either physically not possible to replace or which are so incredibly costly that replacement would probably be economically ruled out.

Q. Would you consider the turbine generator and boiler tubing critical components?

A. The turbine generator, no. The turbine generator can be replaced. It sits on top of the pedestal, and if you can get the right footprint you can replace a turbine. Boiler tubing? Boiler water wall tubing is replaced more as a matter of maintenance on an ongoing basis. When a tube leak occurs, typically some testing will be done to determine how extensive the erosion is and neighboring tubes will be cut out as well. Replacement of water wall tubes tends to be more of a maintenance item.

Q. When you replace a turbine generator, do you believe that you have affected the life span of the unit?

A. I don't believe I would make that kind of investment without some expectation of a fairly long life span.

Q. So your answer would be yes?

A. Yes.

Q. What about boiler tubing?

A. Again, boiler tubing is kind of an ongoing

thing. If you're talking about replacing the boiler drum or some of the main headers, I wouldn't call those tubing. That's a different story. Tubing, that doesn't necessarily say anything about the life of the unit. As I said, a lot of tubing is replaced as an ongoing maintenance item.

Q. Subject to check, would you accept the fact that PP&L has recently replaced a turbine generator at Sunbury and is planning to replace another turbine generator at the same plant in the near future?

A. I don't believe we've replaced the entire turbine as we did at Martins Creek. I believe we replaced most of the steam path components. The reason for that was because the many of the existing components were deteriorated to the point that continued operation until the next turbine overhaul, which is about a five-year horizon, five or six years typically, was in doubt. The decision to replace additional steam path components came from discussions with vendors that identified that efficiency improvements were available if we were to replace those, additional components that maybe didn't need to be replaced but for reliability concerns.

Q. And you would also acknowledge that a turbine generator was replaced at Martins Creek as well?

A. Yes.

MR. MICKENS: That's all I have for this witness,

Your Honor.

JUDGE CHRISTIANSON: Fine. Then probably we can just go ahead with Consumer Advocate.

MS. McCLOSKEY: Thank you, Your Honor.

JUDGE CHRISTIANSON: If you take a long time we'll take a break sometime during your cross.

CROSS-EXAMINATION

BY MS. McCLOSKEY:

Q. Good afternoon, Mr. Krall. My name is Tanya McCloskey. I'm with the Office of Consumer Advocate.

A. Good afternoon.

Q. If you could turn to page 5 of your testimony, line 18, where you are stating that there are supporting studies regarding the reduced lives that you've proposed for the generating facilities that you've been discussing with Mr. Mickens, and specifically in the next paragraph you refer to the PP&L responses to OTS interrogatories, OCA interrogatories and PPLICA interrogatories. Can you tell me when these responses were prepared?

A. I believe the first sets of interrogatories were January, and I would believe those questions came in in January.

Q. So, --

A. If I may, the responses were based on studies that had been done -- well, in fact, it says here January

13. The predecessor studies on which those responses were based date back to May of 1994 and before.

Q. And I believe you told us in the first time around that between May of 1994 and the preparation of your direct testimony, there were no written studies or analyses that embodied the change in these dates. Do you recall that testimony?

A. That's correct.

Q. Then these interrogatory responses that you're referring to were prepared after the filing of your direct testimony; is that correct?

A. The responses were prepared after my direct testimony was prepared, but handwritten versions of these analyses were done in preparation of my testimony to assure that I, in fact, was proposing something that was realistic and truthful.

Q. But there was no analysis that was presented to the company or approved by the company prior to the preparation of your direct testimony; is that correct?

A. There were discussions of the issue with senior managers, but no, they were not presented an official, bound report that said: it is our recommendation, et cetera, et cetera.

Q. So the only document that contained any reference then to the advancement in the deactivation dates

within the company was your direct testimony; correct?

A. That's correct.

Q. Now, at page 10 of your testimony -- and I'm sorry, I lost the line reference there. On that page you indicate that PP&L does not have a formal plan in place to retire the units in 2003. Is that still correct?

JUDGE CHRISTIANSON: It's on line 26.

MS. McCLOSKEY: Yes. Thank you.

THE WITNESS: The reference on line 26 is that the other four witnesses point out that we do not have a plan, and yes, we do not have a capacity plan that indicates retirement of these plants in 2003.

BY MS. McCLOSKEY:

Q. Beginning then at line 30 you state that this highlights the distinction between two different activities: investment recovery and capacity planning. Is it your position that capacity planning has no bearing on investment recovery?

A. No, that's not my position at all. Certainly, if there was an analysis that indicated that those plants should definitively be retired in 2003, and we could say that with a great deal of certainty today, that would affect depreciation.

Q. But your proposal is to effect depreciation even though the company hasn't reached a definitive analysis on

that retirement date; is that correct?

A. That's correct. It's based on the recognition of an exposure that could cause that to occur.

Q. Are you familiar with standard depreciation account principles regarding the capital recovery of investment in plant?

A. In a general way.

Q. Would you agree with me that depreciation accounting is tied to the retirement of the plant?

A. I believe it's tied to a deactivation date, which may or may not be perceived as a retirement date.

Q. Are you familiar with the NARUC manual regarding depreciation accounting practices?

A. No, I'm not.

Q. Let me show you chapter 3, which is page 35. I'll give you both of these because one is a little easier to read.

(Documents handed to witness.)

A. I'd like to see the copyright date on this.

Q. Sure.

(Witness perusing documents.)

A. Nineteen sixty-eight.

Q. Yes. Do you know if there is a more recent one? There's none that we found.

A. No. No, I don't. I'm just trying to put my

mind back where capacity planning would have been in 1968, and the kinds of retirement studies that would have been done in 1968 I think might have been different than are done today.

Q. If you could review the first two sentences in the second paragraph beginning with the words "In all"?

(Witness perusing document.)

A. Okay.

Q. I'm sorry, you were reading to yourself. Could you read that into the record?

A. I'm sorry.

JUDGE CHRISTIANSON: Having reading it to yourself, read it into the record.

THE WITNESS: The first two sentences?

BY MS. McCLOSKEY:

Q. Yes.

A. "In all of the foregoing discussions of ways and means of distributing the cost of plant over its life, it is inherent that the cost of the plant itself will remain on the books of the company until the plant is retired. Through all of the accounting periods encompassed by that life there will be a charge for depreciation expense and a concurrent credit to the depreciation reserve."

Q. Now, will you turn your attention to the second section titled "Depreciation Reserve Entries" and read the

first sentence from that paragraph into the record?

A. "Credits to the depreciation reserve will accumulate during the life of the plant so that, in theory, upon retirement of the plant there will be a credit balance in the reserve equal to the cost of the plant less net salvage."

Q. Would you agree with me then that the NARUC manual on depreciation accounting references the retirement of the plant and not the deactivation of the plant?

A. It says that there shall be -- you took it away from me so I don't know exactly the words -- that there will be accounting activity over the entire life of the power plant. That was the reference to retirement date.

Q. To the retirement. But it is referencing the retirement date of the plant?

A. Yes, it is. But it does not say that there will be any specific schedule that never changes as changes are noted in potential for retirement.

Q. Now, I would like to ask you some additional questions on the 1995 ARPR. I believe, from your responses to Mr. Mickens, you've indicated that you were involved in and coordinated the preparation of the 1995 ARPR?

A. Yes, that's right.

Q. I'm going to ask you some questions regarding other information in the ARPR, and if these are more

appropriately addressed to Mr. Sipics, please let me know, but I believe you're the more technical person for these questions.

A. Okay.

MS. McCLOSKEY: I would like to have marked for identification OCA Cross-Examination Exhibit No. 19.

JUDGE CHRISTIANSON: Nineteen. I guess that's the correct number. I'll check my records.

MS. McCLOSKEY: Which is the Summary of Screening Results from the 1995 ARPR.

JUDGE CHRISTIANSON: This is identified as your number 19, Cross 19.

(Whereupon, the document was marked as OCA Cross-Examination Exhibit No. 19 for identification.)

BY MS. McCLOSKEY:

Q. For reference, that is on page 33 of the large volume of the 1995 ARPR.

A. Okay.

Q. Just so the record is clear, could you please just briefly explain for us what the Summary of Screening Results table is showing?

A. It's an economic screening of options regarding capacity upgrades, continued operation of capacity and load management activities.

Q. Now, if you could refer to the next-to-the-last entry, the pulverized coal unit?

A. Yes.

Q. Three hundred megawatts.

A. Yes.

Q. Does this show a benefit/cost ratio of 0.3?

A. Yes, it does.

Q. Does that indicate that the full revenue requirements cost of the coal unit exceeds the avoided cost by a factor of about 3?

A. Yes.

MR. DeCUSATIS: Your Honor, I simply at this point have some questions about how this all relates to Mr. Krall's testimony regarding the life spans for the older coal plants. I perhaps could understand that they would like to get some of this information in to bolster Mr. Kahal's testimony, but I frankly don't see the relevance of this to Mr. Krall's testimony, which, with regard to the ARPR, was rather narrow and focused as to those parts that deal specifically with the analysis of the economic viability of the older coal plants in light of changing environmental regulation.

JUDGE CHRISTIANSON: Do you want to sort of make an offer of proof?

MS. McCLOSKEY: Well, Your Honor, this is cross-

examination of information which, as we noted earlier with Mr. DeCusatis, does go to questions and issues that were addressed by Mr. Sipics and Mr. Hieronymus. However, we discovered by looking at the front of the ARPR that neither Mr. Sipics nor Mr. Hieronymus prepared the ARPR or would have a working knowledge of that information. We don't want to be in a position on Friday afternoon of asking these questions of Mr. Sipics and discovering that he can't provide the company's information when Mr. Krall was the witness who was here Tuesday that would have the information that is necessary regarding those issues.

If they would like to have Mr. Krall appear Friday, we could go through these with Mr. Sipics. If he wishes to defer to Mr. Krall, we can have Mr. Krall come back. I just thought it was more expedient to go through them at this time.

JUDGE CHRISTIANSON: Let's be off the record briefly.

(Discussion off the record.)

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

MR. DeCUSATIS: Your Honor, we will have Mr. Krall available on Friday. If there are any questions with regard to the testimony of Sipics or Hieronymus that cannot for any reason be answered by them, he will be here and able to field any and all questions that relate to any issues that might have to be referred to him.

JUDGE CHRISTIANSON: Is that sufficient, counsel?

MS. McCLOSKEY: Yes, that will work.

JUDGE CHRISTIANSON: Maybe we can get all three of them on the stand together. I think I did that in one of those NUG cases. I think we did that, what was it, three years ago?

MS. McCLOSKEY: Yes. Yes, we did.

JUDGE CHRISTIANSON: It's being remanded, perhaps.

MS. McCLOSKEY: I heard.

MR. GADSDEN: On procedural grounds.

(Laughter.)

JUDGE CHRISTIANSON: At the moment I think it's in Commonwealth Court, Supreme Court, and back here again, on calculational grounds.

As a matter of fact, to be more blunt about it, I think I went with a gas-fired analogy and the Commission wanted a coal-fired, and I guess it's back to gas-fired at this point.

MS. McCLOSKEY: Yes, it's back to gas.

JUDGE CHRISTIANSON: That's a GPU problem, not a PP&L problem.

Go ahead.

BY MS. McCLOSKEY:

Q. I do have one question remaining that regards the deactivation. I believe in your 1995 ARPR you have an

alternate planning scenario where PP&L retires over 700 megawatts of its coal-fired capacity.

A. Yes.

Q. Under this planning scenario, what resources does PP&L employ to replace that retirement coal capacity?

A. My recollection is it's CTs or power purchases.

MS. McCLOSKEY: I think that's my last question. I'll hold off on my OCA Cross-Examination Exhibit then until Friday.

JUDGE CHRISTIANSON: We'll just keep it identified and hold off on getting it in. It is your No. 19 according to my record. I found my records.

Maybe I'll make a brief statement about ARPRs, based partly on a GPU case I had three years ago. Sometimes the planning seems more unstable than it deserves to be perceived as, I guess. Companies seem to be vacillating and changing their minds, and really they're trying different scenarios and maybe five years is a good lifetime or 30 years, and it seems to be very unstable. But sometimes there's answers to that. I just want to make the comment. That's my mind-set on the whole thing.

Are you done with your cross then?

MS. McCLOSKEY: Yes. I'm done with the rest of my cross. Thank you, Mr. Krall.

JUDGE CHRISTIANSON: To be heard from, perhaps,

further on Friday.

MS. McCLOSKEY: Perhaps.

JUDGE CHRISTIANSON: Then we can check. Anything more from the large industrials?

MR. WILLIAMSON: No, Your Honor.

JUDGE CHRISTIANSON: From the Federal people?

MR. McCORMICK: Just one short line of cross.

JUDGE CHRISTIANSON: Go ahead.

CROSS-EXAMINATION

BY MR. McCORMICK:

Q. Mr. Krall, could you turn to page 9, line 24, of your testimony where you have a question that you respond to that carries over to page 10, line 9?

A. Yes.

Q. And you're discussing at that point, among other things, the testimony of DOD Witness Prisco.

A. Yes.

Q. Do you have a copy of Mr. Prisco's testimony with you?

A. Yes, I do.

Q. You may not necessarily need it, but I just wanted to check, because I have extra copies with me.

Am I correct that in your response in the sentence beginning on line 30 on page 9, and carrying over to line 1 on page 10, that you indicate that neither witness, in a

comparative sense, has offered a yardstick to judge when a cost is too speculative?

A. That's what I said. "Neither witness offers a yardstick which can be used to judge when a cost is too speculative."

Q. When you were reading Mr. Prisco's testimony, am I correct that you interpreted his testimony to mean that there were some speculative costs that he would allow and some speculative costs that he would not allow in dealing with, let's say, the pollution control NOx expenses that he has disallowed in the cost of service?

A. In looking over 20 years of the future, certainly there are going to be uncertain events, outcomes, and they're going to border on the speculative, and as a prudent part of planning one has to consider them and their potential impact on decisions that have to be made today. My only reference to Witness Prisco was to use his word that appears on line 21 at page 12 of his testimony, "speculative."

Q. Yes, but he is disallowing all speculative costs and not those that are just too speculative?

JUDGE CHRISTIANSON: He's not judging the degree of speculativeness.

BY MR. McCORMICK:

Q. He's not using any yardstick. He's just saying

if it's speculative, he's disallowing it. Am I correct in that?

A. One could argue that there's some degree of speculation in all of the assumptions regarding the continued operation of power plants. Certainly fuel forecasts are uncertain, the type of equipment that would have to be replaced is uncertain.

In this particular instance you're right, he only addresses the pollution control costs that he lists here.

Q. And at this particular point of his testimony we're talking about costs that are related to nitrous oxides, basically, and compliance by PP&L with Clean Air Act regulations that may be published at some point in time in the near future?

A. He's addressing Title I and our compliance obligation under Section 184 of Title I, and under Title III, Section 112(n)(1).

Q. Am I correct that, at least at this point in time, that the EPA has not favored us with implementation of those regulations that are to be published under those statutes?

A. I don't believe that the EPA is under an obligation to promulgate regulations under Title I. I believe that the states, through Title I, are now mandated to file state implementation plans that bring the region

into compliance with ozone standards. I don't think we're waiting for EPA regs on that one.

Q. From a matching principle standpoint, that is in the accounting sense, would it seem more appropriate to you to start paying for the implementation costs of compliance today or in rates arising out of this case, or would it be more appropriate to wait to a point in time when we at least had a construction estimate of what it was actually going to cost to comply with the regulations that might be implemented at either the state or the federal level?

A. Well, a construction cost estimate wouldn't be available until, depending on the degree of detail you wanted, the lead time of equipment installation. That seems to me to be an awful long time to wait to recognize a law that already exists.

Q. Yes, but I'm saying from a matching principle, so that the people receiving service are the people paying for the service -- am I correct that today's ratepayers are not required to, and PP&L does not in fact have in place the plant that you are discussing, and yet you're requesting a revenue requirement that would collect from today's ratepayers that higher rate?

MR. DeCUSATIS: Just by point of clarification, I believe there is an assumption in that question that is not correct. I think that they are in fact not reflecting the

life extension that will occur when the investment is made; that in fact the life spans that are being requested and justified by Mr. Krall reflect the lives that those units will have under current investment, and that any change in that life span would not be made until there is an appropriate matching by way of an investment having already been expended in order to extend the lives.

I just want to make sure that we all understand that this case does not include any of the investment costs associated with the pollution control, and that indeed those costs will not be invested until some point in the future.

JUDGE CHRISTIANSON: Yes. There's the used and useful problem if you brought it in.

MR. DeCUSATIS: And as a consequence, the life spans are consistent with the investment that's already been made.

JUDGE CHRISTIANSON: If PP&L wants to accelerate depreciation which would increase your revenue requirement, but the basis is not what they're going to do in the future.

MR. McCORMICK: Your Honor, let me ask the witness.

BY MR. McCORMICK:

Q. Is that the case? That is to say, as to the expenses that we are talking about here where you're addressing $28 million involved in page 12 of Witness Prisco's testimony, which you have discussed at the bottom of page 9 and the top of page 10, and so on, as to the NO_x

regulations; is that the case?

A. I'm sorry?

Q. Or are you talking about expenses collecting -- not dealing with the shortening of plant lives but a request for expenses related to compliance with some prospective compliance expense that is perceived with the potential NOx pollution control expenditures?

A. We have no claim in this case for cost to comply with the ultimate NOx regulations. The NOx work that we've done to date -- and there may be some confusion about that -- is strictly related to complying with the reasonably available control technology regulations, which are the first step, and it appears that it may end up being a three-step process till it's all done. The costs that we're talking about here are the third step.

JUDGE CHRISTIANSON: 2003 is the third step, the expensive step.

THE WITNESS: Yes.

JUDGE CHRISTIANSON: As you project it.

THE WITNESS: Yes.

BY MR. McCORMICK:

Q. But you are talking about the $24 million that was spent at Martins Creek 1 and 2 in capital expenditures and the $6 million in operating expenses, for instance, that is addressed in the data request, OTS-RB-23D, the January 13

data request?

A. If we look at Witness Prisco's testimony beginning on page 11, excerpts from that interrogatory response, maybe the confusing point is that the dollars are given in 1994 vintage dollars, but truly, the installation of selective catalytic reduction, or SCR as I refer to it, at a cost of $24 million in capital and additional operating costs of $6 million is a prospective best guess of what it might take to comply in 2003. There are no costs for any of that kind of hardware in this proceeding.

JUDGE CHRISTIANSON: Let me try to clarify further. And those costs you're using as a basis for projecting you'll pull the plug about 2003.

THE WITNESS: Yes.

JUDGE CHRISTIANSON: Not that you're going to realize them in rates in any sense.

THE WITNESS: That's right.

MR. McCORMICK: That's all the cross I have.

JUDGE CHRISTIANSON: I guess it's partly related to the concept of going competitive, like in the telephone industry where people worry about depreciating it down so we have a better zero basis for our competitive functions five, ten, 15 years from now.

Any further cross?

Mr. Epstein.

CROSS-EXAMINATION

BY MR. EPSTEIN:

Q. Mr. Krall, how are you doing today?

A. Okay. Thanks for asking.

Q. I'll be brief. I have to pick my daughter up at day care in two minutes, which looks like it's probably not going to happen, which is okay, she's in the "no" stage.

A. She must be the same place my daughter is.

Q. I wanted to follow up on a question by OTS in which, if I understood you correctly, I think you had stated that if rate increases were postponed in relation to decommissioning costs, future customers would be unnecessarily at risk. Is that a fair characterization of what you were saying?

A. Would you run that one by me again?

Q. That if rate increases for decommissioning of fossil fuel plants were delayed, future customers would be unnecessarily at risk.

JUDGE CHRISTIANSON: We were talking about that ten-year intergenerational problem.

THE WITNESS: Yes. There would be an exposure that a customer who came on the last day of operation of the plant would get very little service from that plant and end up paying the whole cost of decommissioning.

BY MR. EPSTEIN:

Q. Does PP&L utilize a formula to assess current and future customers when they try to project the costs for decommissioning fossil fuel plants? In other words, is there a --

A. We make forecasts of load growth and sales, but as to being customer specific, no.

Q. So everybody is assessed essentially the same price depending on if they're a residence, industrial or --

A. Subject to rate application.

Q. Do you feel that future customers should be exempt from decommissioning expenses of fossil fuel plants if they receive no service from those facilities?

MR. DeCUSATIS: Your Honor, I would simply note that Mr. Krall has not testified on the subject of decommissioning or cost allocation.

JUDGE CHRISTIANSON: Yes. Well, I'll try a little bit -- he's on depreciation, really. And I guess I'll make a statement which might help; it might not. In Pennsylvania, for better of for worse, we're on this five-year negative salvage program, back based on a Superior Court case of 20, 30 years ago, I think it is. So that I guess in a technical sense negative salvage gets wished on the people very close to the termination of the useful life of the plant, not in the whole life of the plant.

So go ahead. With that background maybe you can try to respond.

THE WITNESS: That really summarizes the answer I would have given; that Pennsylvania law spells out how it's going to happen. Our request for fossil decommissioning expenses to be spread out over time reflects our belief that there's perhaps a better way to do that.

BY MR. EPSTEIN:

Q. But you would not be adverse to assessing future customers who got no electrical benefit from a plant decommissioning costs?

A. It doesn't seem to me to be an equitable situation.

JUDGE CHRISTIANSON: I think maybe they would rather not have the law the way it is in Pennsylvania.

MR. EPSTEIN: I have just a couple more.

JUDGE CHRISTIANSON: Mr. Sivulich is happy enough with the law, I think.

Go ahead.

MR. EPSTEIN: Just two other questions on Bruner Island, and tell me if I'm out of place here. I was not sure where to raise this. I appreciate the response to my on-the-record data request on March 21. I just needed a clarification and guidance if this is the proper place to ask. I don't know if I need approval from you, Your Honor,

or the company.

JUDGE CHRISTIANSON: Go ahead and ask.

THE WITNESS: I'm familiar with Bruner Island. If I can't answer it for you, I think I can probably find out who can.

BY MR. EPSTEIN:

Q. I don't want to be an egomaniac and quote myself, but I think it's transcript 178-179 in which we've talked about the cost to remediate and cap the two basins at Bruner Island was $9.5 million. Does that seem to be accurate?

A. I believe I probably read you some figures from our construction budget.

Q. Okay. The question I have is, I looked -- as you're probably aware, I'm a shareholder, so I looked back in my annual reports, and let me just read you something. From 1990 it said, "The company currently estimates that about $133 million of capital expenditures could be required during the period of '91 through 1996 to correct a groundwater degradation problem at Bruner Island and to meet the residual waste disposal regulations in the form currently proposed by DER. Such expenditures during the years '91 and '93 are expected to total about $42 million." And then also in the 1991 annual report the figure was put at $258 million on page 21.

Perhaps all I need is clarification as to why you have a figure of $258 million in the annual report and $133 million, and your answer was only $9.5 million to remediate the problem at Bruner Island.

A. I think as we were discussing it during cross-examination we were talking about several specific projects that had been approved and, in fact, were being undertaken to meet the Pennsylvania residual waste regulations that require compliance in July of 1997. The larger figures, the $250 million type figures, anticipate future requirements in terms of water toxics reductions and additional wastewater treatment type projects, groundwater degradation type issues. So it's really an exposure type, the kind of thing that we anticipate there will be some requirements. There are studies underway, but they're not definitive as the $9.5 million figure was.

Q. So, in other words, then, the $9.5 million figure might just pertain to the cost to remediate and cap the two basins --

A. Yes.

Q. -- but is not the exhaustive expense for cleaning up Bruner Island?

A. Exactly. Exactly.

Q. Then my final question to you is I talked to someone from the company a few years ago -- and I'm not sure

how you pronounce their name, Lynn Ratzell.

A. Yes. Ratzell. R-a-t-z-e-l-l.

Q. Yes. And one of the things we were talking about was what to do with the ash. I was wondering if you had come up with a formula. At one point I think the company proposed rejoining the ash with concrete and perhaps using it as subsurface. Has the company decided what to do with the ash at Bruner Island?

A. The ash system at Bruner Island is being converted from a wet system to a dry system largely in response to those residual waste regs. It is a much less costly method of ash disposal compared to wet impoundments under the current -- well, they are current regulations -- the regulations to be in force in 1997. Efforts will be made to use that ash for beneficial purposes. The company has an extensive program of ash use, ash marketing. It shows up in structural fill products. It shows up in flowable fill on construction sites. I believe it's included in PennDOT's spec for road construction.

JUDGE CHRISTIANSON: So you're trying to sell the stuff if you can, or give it away?

THE WITNESS: Sell it, yes, or give it away and reduce the disposal cost, but in any event, look for a more cost effective way than landfilling it.

BY MR. EPSTEIN:

Q. My final question for you is that you're anticipating that with the ash at Bruner Island, you will not have to ship it to a hazardous waste facility, but you might find some other way to dispose or to get rid of the waste?

A. Yes. In fact, we work with the Pennsylvania DER on strip mine reclamation programs whereby ash can be trucked back to mine sites and disposed of there.

MR. EPSTEIN: That's it. Thanks.

THE WITNESS: Sure.

JUDGE CHRISTIANSON: Then we're probably at the end of cross.

Any further cross of the witness?

(No response.)

JUDGE CHRISTIANSON: We've exhausted our candidates. Let's be off the record for a few minutes anyway.

(Discussion off the record.)

JUDGE CHRISTIANSON: Back on the record.

I gather we have some redirect.

MR. DeCUSATIS: We have a few questions, Your Honor. It is not very lengthy.

JUDGE CHRISTIANSON: Go ahead.

REDIRECT EXAMINATION

BY MR. DeCUSATIS:

Q. Mr. Krall, you were asked a series of questions by counsel for the Office of Trial Staff concerning the nature of the regulatory action that you may be awaiting with regard to implementation of Clean Air Act requirements which will impact on the company's exposure for new investment in order to continue to operate the older coal units after 2003.

Do you recall those questions and your responses?

A. Yes, I do.

Q. Can you tell us in general what is the nature of the regulatory action that you are awaiting and what uncertainties, if any, it would introduce into the potential for operation of those units beyond 2003?

A. Under Title I, states must file individual state implementation plans or SIPs that demonstrate that they will be in compliance with ambient ozone standards. They must do this through the ozone transport region, which is a 12, 13-state, including the District of Columbia, amalgam

through the northeast corridor.

The law, Title I, specifies that the SIPs must be complete and that they must contain such actions that can be demonstrated through photochemical computer grid modeling that all sites within the northeast ozone transport region will be in attainment of ambient ozone standards.

So with regard to the Title I requirements, we're awaiting the state development of a SIP, the EPA's acceptance of the SIP, and then compliance actions consistent with the SIP.

The SIP itself was to have been filed November 15th of 1994. However, in establishing the dates in Title I of the amendments, it was not fully understood how complicated photochemical grid modeling is, and there have been a number of extensions to the date in order to provide some forgiveness before sanctions kick in. Title I includes some teeth, and as of November 15th, 1994, sanctions are available to the EPA against individual states at the EPA's discretion. Within 18 months, the statute requires that those sanctions become mandatory.

In an effort to avoid the issue of sanctions, 11 of the 13 ozone transport region jurisdictions signed on to a memorandum of understanding which obligates those states to pursue regulations which will enact a two-step reduction in NO_x requirements. The law doesn't contemplate a two-step

reduction. It only contemplates compliance by specified dates, depending on the severity of the ozone problem.

This creates an additional exposure in 1999 for an initial reduction and then the exposure in the year 2003. The memorandum of understanding includes some target figures in the absence of computer modeling that require 55 percent reductions of what are termed out of corridor sources, which would be PP&L's generating plants. We are outside of the non-attainment corridor. In Pennsylvania, only the five Philadelphia counties are in corridor. We would be obligated to make a reduction of 55 percent from 1990 emission levels by 1999 and a 75 percent reduction unless computer modeling shows otherwise in the year 2003.

Computer modeling could indicate 80 or 90 percent reductions by that date or the regulatory process in looking to trade off sources of NO_x and VOCs -- those are volatile organic compounds, primarily automobile exhausts -- could apportion the reductions in a way that might affect us other than what we've indicated here.

So there are quite a few actions that have to be taken under Title I and quite a few uncertainties yet to be resolved, although the initial modeling results that have been done clearly demonstrate that large reductions of NO_x from stationary sources, i.e., power plants, would be beneficial.

With regard to Title III, the law calls for a number of studies to be done to determine the nature of any hazard associated with toxic emissions from power plants and, in addition, a study of mercury specifically as a toxic emission from power plants.

At the conclusion of those studies, an assessment will be made as to the need for additional controls and what types of controls, what method of control, whether it is a trading system or it's a command and control type system. Then there would be a period during which, I presume, EPA would be writing regulations. I believe the law puts that burden on the EPA and that would not be a state effort.

Following the regulations, there would have to be some period to permit construction of whatever technologies are appropriate. So some lead time would have to be involved there.

Those are the steps that we're watching very closely with regard to Title I and Title III and the exposures that they present for these power plants. We've indicated a set of exposures here, but it could turn out to be more significant, in particular on the NO_x side.

Q. Secondly, there were certain questions regarding exhibits accompanying your rebuttal testimony, specifically DAK-5, page 4 and Exhibit DAK-6, and you were asked certain questions with regard to those two exhibits specifically

which elicited information concerning the assumed retirement dates of 1997 and 1998, respectively, for Martins Creek.

Can you explain for us the reasoning that was behind the use of those dates in the screening analyses that are reflected in those two exhibits?

A. Yes. The screening analysis is one of continued operation versus retirement. In order to analyze retirement, one has to postulate a retirement date. As it says in the upgrade plan from '94 and in the ARPR section in '95, the dates were selected as being the earliest dates that we could rationally shut down operation of those plants if the screening study that we were doing indicated that we ought to do that.

So for the 1995 analysis, which indicated a 1998 retirement date for Martins Creek, the belief was if we did that analysis and it indicated that we were to indicate a shut-down case, then we'd want to know the earliest date that we would have to do that. So that's how those dates came to be.

The same logic was used for all power plants in the screening analysis, and we also point out that in no way is that to be taken as a plan on the company's part to retire all of its coal-fired generating capability on the same date three years hence. But for any individual facility, it is conceivable that that would be a realistic date for phasing

out the work force and making other accommodations in terms of power purchase agreements that might be required.

Q. Finally, there was a question to which the answer remained, I believe, open-ended, and that specifically related to any indication in the ARPR that the company had in fact altered investment strategy in recognition of risks and uncertainties associated with the operation of the older coal units beyond 2003.

Have you had an opportunity to review the 1995 ARPR, and if so, what has that examination revealed with respect to the topic you've just discussed?

A. Yes, I have had a chance to review the '95 ARPR and I have identified the language that I knew was in here somewhere, and I'd like to read into the record from page 21 of Appendix A, which relates to the Sunbury power plant.

JUDGE CHRISTIANSON: Let me interrupt. This Appendix A is that five-year report of May 2nd of last year?

THE WITNESS: May 1st this year. This is from this year's 1995 ARPR.

"Specifically, no discretionary investment should be undertaken which requires operation beyond 2003 to recover its costs. Furthermore, the scheduling of projects necessary to continue operation should recognize the 2003 date and seek to defer investments beyond that date." That does summarize our current investment strategy for Sunbury.

The same language appears for Martins Creek on page 32 of Appendix A and for Holtwood on page 44 of Appendix A.

MR. DeCUSATIS: Thank you. That's all we have, Your Honor.

JUDGE CHRISTIANSON: Let me just try one for clarification. Just to relate back to your first answer where you mentioned 2003 relating to that compact of 11 states, is that your main basis for the 2003 projection in your testimony?

THE WITNESS: Yes. The 2003 date is the current date in the memorandum of understanding for the ozone transport region for NO_x, and we also believe when you roll out the events that have to occur to comply with an air toxic requirement, you arrive at roughly the same date until you finish the scientific studies, promulgate and comment, regulations enact, and undertake compliance activities.

JUDGE CHRISTIANSON: Thank you. That's all I need. Let's pause. Perhaps let's be off the record briefly.

(Discussion off the record.)

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

Mr. Mickens I understand has some follow-up. Let's proceed.

MR. MICKENS: Thank you, Your Honor.

RECROSS-EXAMINATION

BY MR. MICKENS:

Q. Mr. Krall, with regard to your statements about the requirements of Title I and Title III, the implementation of SIPs requirements, et cetera, do you recall that on redirect?

A. Yes.

Q. Would you agree that whatever is required in terms of compliance for Title I and Title III, that the determination with regard to the life spans and whether they should be extended or not is something that can be made at this time, and if there are significant requirements, cost requirements with regard to Title I and Title III in the future, that the company can make those expenditures in the future and file any necessary petitions with the Commission if there are significant costs involved after the fact, after the expenditures?

A. You referenced "at this time." Do you mean today? I'm unclear on your question.

Q. What part of it don't you understand?

A. You made reference to "at this time." I'm not sure whether you mean today or at some future date when regulations are enacted.

Q. You were talking about Title I and Title III.

A. Right.

Q. And the fact that there were certain requirements that the company was not aware of now with regard to the SIPs and whether there would be the ambient ozone transport region, whether that would be accepted by the federal agency and all of that. Do you recall that?

A. Yes.

Q. That's what I'm referring to, the fact that there is some uncertainty with regard to that.

A. Yes. There is uncertainty with regard to that.

Q. Now, what I'm saying is: when those determinations are made at some point in the future --

A. That's the point of clarification I was looking for.

Q. You're not suggesting here in your testimony that the company will not have an opportunity to evaluate the situation at that point and make a determination at that time as to how they should proceed, meaning either make the expenditures that would be necessary in order to comply and receive payment later on after filing the appropriate requests with the Commission or making life extensions or whatever else might be necessary, whatever adjustments or spending may be necessary to current plans in order to make sure that compliance is in fact taken care of?

A. No. I would agree that we have the opportunity later on to make that decision, but I'd point out that that

would be to ignore certain exposures that I think are very realistic at this point in time. If we are to follow that line of logic through, ignoring those exposures, we would not have been able to rescope, for example, the projects that we are currently doing for water quality at Sunbury, which are required to operate beyond July 4th of 1997.

Because of the recognition of the 2003 exposure, we've been able to look more critically at the projects. The projects as scoped anticipated a 20-year life. They had features including energy efficiencies that would take long years to pay back, and we have commitments to make at this point in time, and we think it is most prudent to recognize that there is an alternative future, a 2003 future.

Q. Now, you would acknowledge that in a worst-case scenario, there is an exception available for compliance by 2003 if there is a critical need for the generation; is that correct? Would you acknowledge that fact?

A. That there are --

Q. That there is an exception available to PP&L, perhaps, if in a worst-case scenario in terms of not being able to comply by the year 2003 --

A. I don't think we talked about it. Do you mean an exception from --

Q. From the requirements.

JUDGE CHRISTIANSON: Under the Clean Air Act.

MR. MICKENS: That's correct.

THE WITNESS: No. I don't think we talked at all about an exception.

BY MR. MICKENS:

Q. I'm asking you: are you aware of that?

A. No.

Q. You are not aware of that; that there is an exception available if there is a critical need in terms of not being able to comply in the year 2003?

A. No, I'm not. I'm aware of specific language in Title IV regarding the installation of low NO_x burners by primarily the Phase I dates, January 1, 1995, which permitted owners to petition for an 18-month delay if there was critical need, but I'm not familiar with any provision like that in Title I.

Q. Now, with regard to your discussion of the Annual Resource Planning Report 1995 and your reference to page 21 of Appendix A and no discretionary investment, do you recall that discussion?

A. Yes.

Q. How long has the company proposed to pursue this strategy, meaning no discretionary investment? What is the time line that relates to this statement?

A. I would go back to the point where we used this kind of rationale to rescope the water quality projects at

Sunbury, which would have been November-December of 1994.

Q. What I mean is: how long is this no discretionary investment going to be in effect?

JUDGE CHRISTIANSON: I guess to them it is going to be in effect until they retire their plants.

MR. MICKENS: That's what I'm asking.

THE WITNESS: I would say it would be in effect until we had some different view of the future that suggests that operation beyond 2003 is more likely.

JUDGE CHRISTIANSON: Then you start pouring more money back into the plant.

THE WITNESS: I'm not sure I would go with the characterization "pouring;" prudently investing.

BY MR. MICKENS:

Q. The point being that you cannot respond with a specific amount of time in terms of how long this strategy will be pursued; is that correct?

A. As I indicated before, I expect 1999 to be kind of a watershed event; that we think that regulatory issues will be at a point where we'd have a better understanding at or about that date.

MR. MICKENS: Thank you, Mr. Krall. That's all I have.

JUDGE CHRISTIANSON: Fine. Then we can pause in case there is follow-up from any other party, and we'll give the

company a minute or two maybe to think about it.

(Pause.)

MR. DeCUSATIS: We do not have any further redirect.

JUDGE CHRISTIANSON: With that, we'll be done for the day and come back at 10:00 tomorrow.

MR. GADSDEN: Your Honor, if we might just very briefly?

JUDGE CHRISTIANSON: The witness is sort of excused. You are excused for the moment.

THE WITNESS: And returning on Friday.

MR. MICKENS: One other question, if I could, Your Honor.

JUDGE CHRISTIANSON: Go ahead.

MR. MICKENS: It concerns the documents DAK-5 and DAK-6.

BY MR. MICKENS:

Q. The bottom line with regard to these two documents is that you were modeling based upon possible scenarios; is that correct?

A. Yes.

MR. MICKENS: Thank you. That's all I have.

JUDGE CHRISTIANSON: That does clarify it. Thank you. Then until Friday, you are excused.

(Witness excused.)

JUDGE CHRISTIANSON: Mr. Gadsden is passing something

out that he wants to discuss.

MR. GADSDEN: As the schedule indicated, Your Honor, Mr. Beers and Mr. Chappelear were originally scheduled to testify today. We understand that no one has any cross-examination for Mr. Beers. Therefore, I would ask to have marked and admitted into the record a multi-page document consisting of five pages of questions and answers styled, "Statement 14-R, Rebuttal Testimony of Clyde D. Beers." And I am providing the court reporter with two copies.

JUDGE CHRISTIANSON: Yes. At this point, Statement 14-R is accepted into the record.

(Whereupon, the document was marked as PP&L Statement No. 14-R for identification, and was received in evidence.)

MR. GADSDEN: Secondly, as I indicated previously, it had been our understanding that no party had any cross-examination for Mr. Chappelear. Mr. Epstein subsequently indicated that he did have a couple questions. He indicated further that he would get the questions to us in written form and we could work out with him an amenable way to get them answered. Whether that means taking Mr. Chappelear by telephone, submitting a written response, bringing him back, we don't know at this point. There is also a possibility that PPLICA may have some questions for Mr. Chappelear.

MR. WILLIAMSON: No. We will have no cross for Mr. Chappelear.

MR. GADSDEN: Under those circumstances and subject to the standard conditions, I would ask to have marked and admitted as PP&L Statement 17-R the rebuttal testimony of John M. Chappelear.

JUDGE CHRISTIANSON: 17-R is now accepted into the record, and I'm assuming you're going to speak up before Friday or by Friday. It is now accepted.

MR. GADSDEN: Thank you.

(Whereupon, the document was marked as PP&L Statement No. 17-R for identification, and was received in evidence.)

JUDGE CHRISTIANSON: And I'm sure Mr. Epstein and you can work out the details. So we have everything in today that was scheduled for today, and we seem to be done with the hearing.

I think 10:00 tomorrow morning is comfortable enough. We have several PP&L witnesses, two Trial Staff witnesses, and one Consumer Advocate witness tomorrow. So we will be off the record today.

(Whereupon, at 4:10 p.m., the hearing was adjourned, to be reconvened at 10:00 a.m., Wednesday, May 24, 1995, in Harrisburg, Pennsylvania.)

C E R T I F I C A T E

I hereby certify, as the stenographic reporter, that the foregoing proceedings were taken stenographically by me, and thereafter reduced to typewriting by me or under my direction; and that this transcript is a true and accurate record to the best of my ability.

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FORM 2