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C O N T E N T S

<u>WITNESS</u>	<u>DIRECT</u>	<u>CROSS</u>	<u>REDIRECT</u>	<u>RE CROSS</u>
Peter F. Chamberlain				
By Mr. Kleppinger	1137	--	1149	--
By Mr. MacGregor	--	1139	--	--
Paul R. Williams				
By Mr. Kleppinger	1151	--	--	--
By Mr. MacGregor	--	1153	--	--
James S. Schneider				
By Mr. Kleppinger	1155	--	--	--
By Mr. MacGregor	--	1157	--	--
Don A. Hornung				
By Mr. Kleppinger	1159	--	1161	--
By Mr. MacGregor	--	1161	--	--
Robert K. Felter				
By Mr. Kleppinger	1162	--	--	--
By Mr. MacGregor	--	1165	--	--
James H. Rooney				
By Mr. Kleppinger	1167	--	--	--
By Mr. MacGregor	--	1169	--	--
Stephen J. Baron				
By Mr. Kleppinger	1174	--	1223	--
By Mr. Barr	--	1177	--	1228
By Ms. Kenney	--	1206	--	--
By Ms. Moury	--	1209	--	--
	--	1227	--	--
By Mr. Haynes	--	1220	--	--
Maurice Brubaker				
By Ms. Brandeis	1231	--	--	--
By Mr. Barr	--	1232	--	--
By Mr. Haynes	--	1252	--	--
By Ms. Kenney	--	1253	--	--
By Ms. Moury	--	1255	--	--

C O N T E N T S (Continued)

<u>WITNESS</u>	<u>DIRECT</u>	<u>CROSS</u>	<u>REDIRECT</u>	<u>RECROSS</u>
Steven Andersen				
By Mr. Haynes	1270	--	--	--
By Mr. Barr	--	1274	--	--
	--	1321	--	--
By Mr. Mickens	--	1303	--	--
By Ms. Kenney	--	1309	--	--
By Ms. Moury	--	1314	--	--
Charles E. Johnson				
By Ms. Kenney	1322	--	1395	--
By Mr. MacGregor	--	1325	--	--
By Mr. Mickens	--	1346	--	--
By Mr. Kleppinger	--	1348	--	1396
By Mr. Haynes	--	1363	--	--
By Ms. Moury	--	1387	--	--
By Mr. Zielonis	--	1390	--	--

E X H I B I T S

<u>NUMBER</u>	<u>FOR IDENTIFICATION</u>	<u>IN EVIDENCE</u>
<u>PPLICA Statement No.</u>		
✓1 (Chamberlain - Direct)	1138	1139
✓2 (Williams - Direct)	1151	1152
✓3 (Schneider - Direct)	1156	1156
✓4 (Hornung - Direct)	1159	1160
✓5 (Felter - Direct)	1163	1164
✓6 (Rooney - Direct)	1168	1169
✓7 (Baron - Direct)	1175	1176

E X H I B I T S (Continued)

<u>NUMBER</u>	<u>FOR IDENTIFICATION</u>	<u>IN EVIDENCE</u>
<u>PPLICA Exhibit No.</u>		
✓ PFC-1 (Chamberlain)	1138	1139
✓ RKF-1 (Felter)	1163	1164
✓ JHR-1 (Rooney)	1168	1169
✓ SJB-1 through SJB-7 (Baron)	1175	1176
<u>PPLICA Cross-Examination Exhibit No.</u>		
✓ 8 (Testimony of C. Johnson in Indiana, Cause No. 39314)	1361	1363
<u>Bethlehem Steel Statement</u>		
✓ 1 (Brubaker)	1232	1232
<u>CEPFOD Statement No.</u>		
✓ 1 (Andersen - Direct)	1269	1272
<u>CEPFOD Exhibit No.</u>		
✓ 1 (Andersen)	1269	1272
✓ 2 through 16 (Andersen)	1270	1272
<u>OCA Statement No.</u>		
✓ 3 (Johnson - Direct)	1322	1324
<u>Bethlehem Steel Exhibit No.</u>		
✓ MEB-1 through MEB-3 (Brubaker)	1232	1232

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1 Rooney; and then seventh, Mr. Baron.

2 JUDGE CHRISTIANSON: Williams is second?

3 MR. KLEPPINGER: Yes.

4 JUDGE CHRISTIANSON: And Baron is your big gun.  
5 There is a question of expertise. Some of these other  
6 witnesses are experts in their areas. He's your expert  
7 witness, but the others are also.

8 MR. KLEPPINGER: The others are being presented as  
9 in-house company witnesses, not experts in utility  
10 regulation.

11 JUDGE CHRISTIANSON: More factual, right.

12 They know their job, but they don't really have rate  
13 base expertise?

14 MR. KLEPPINGER: That's correct.

15 JUDGE CHRISTIANSON: Go ahead.

16 DIRECT EXAMINATION

17 BY MR. KLEPPINGER:

18 Q. Please state your name and business address for  
19 the record.

20 A. My name is Peter F. Chamberlain. I work for BOC  
21 Gases, 575 Mountain Avenue, Murray Hill, New Jersey.

22 Q. On whose behalf are you appearing here today?

23 A. I appear on behalf of BOC Gases and as a member  
24 of PPLICA.

25 Q. Do you have before you a document, Mr.

1 Chamberlain, which is labeled the Direct Testimony and  
2 Exhibits of Peter F. Chamberlain, consisting of 10 pages of  
3 text, an Appendix, and one exhibit, PFC-1?

4 A. Yes, I do.

5 MR. KLEPPINGER: Your Honor, I would like to have  
6 marked for identification purposes as PPLICA Statement No. 1  
7 the direct testimony and exhibits of Peter Chamberlain.

8 JUDGE CHRISTIANSON: So identified, your Statement  
9 No. 1.

10 (Whereupon, the documents were marked as PPLICA  
11 Statement No. 1 and PPLICA Exhibit No. PFC-1  
12 for identification.)

13 BY MR. KLEPPINGER:

14 Q. Mr. Chamberlain, was PPLICA Statement No. 1  
15 prepared by you or under your supervision?

16 A. Yes, it was.

17 Q. Are there any additions or corrections you'd  
18 like to make to that document at this time?

19 A. Just one correction on page 10, line 17. The  
20 first word, I meant to say "unwarranted." There was a  
21 typographical error there.

22 JUDGE CHRISTIANSON: You need an "un" there before  
23 "warranted." That makes more sense.

24 THE WITNESS: Yes.  
25

1 BY MR. KLEPPINGER:

2 Q. With that one correction, if I were to ask you  
3 the questions contained in this document, would your answers  
4 be the same as set forth therein?

5 A. Yes, they would.

6 Q. And are those answers true and correct to the  
7 best of your knowledge, information and belief?

8 A. Yes, they are.

9 MR. KLEPPINGER: Your Honor, I'd like to move for the  
10 admission of PPLICA Statement No. 1 at this time.

11 JUDGE CHRISTIANSON: Yes. Subject to the standard  
12 condition about motions, it's now accepted into the record.

13 (Whereupon, the documents marked as PPLICA  
14 Statement No. 1 and PPLICA Exhibit No. PFC-1  
15 were received in evidence.)

16 MR. KLEPPINGER: And the witness is available for  
17 cross-examination.

18 JUDGE CHRISTIANSON: Once again, we presume most of  
19 the cross will be from the company.

20 MR. MacGREGOR: Thank you, Your Honor.

21 CROSS-EXAMINATION

22 BY MR. MacGREGOR:

23 Q. Good morning, Mr. Chamberlain.

24 A. Good morning.

25 Q. Could I refer you to page 3 of your testimony,

1 please?

2 A. Okay.

3 Q. Am I correct you there state that electricity  
4 costs account for in excess of 70 percent of total  
5 production costs at your Bethlehem plant?

6 A. You're referring to line 18?

7 Q. Yes.

8 A. That's a rough estimate.

9 Q. Can you tell me in round numbers what your total  
10 electricity costs were for that plant for a recent  
11 12-month period?

12 A. I'm sorry, I don't have that number.

13 Q. Can you tell me what the total production costs  
14 were for the facility for a recent 12-month period?

15 A. I don't have that data in my possession.

16 Q. And it's not presented in your testimony?

17 A. Other than in a percentage form, no.

18 Q. I think you state this in your testimony, but  
19 you would agree with me that BOC is highly unusual in the  
20 regard of its electric cost accounting for such a high  
21 percentage of its total production cost?

22 A. Yes. The air reduction industry is atypical in  
23 that regard.

24 JUDGE CHRISTIANSON: I seem to remember a proceeding  
25 about that. Did you have one, Mr. Kleppinger, a few years

1 ago, about the air compression industry?

2 MR. KLEPPINGER: Not solely related to that issue,  
3 Your Honor. It's not uncommon for them to testify because  
4 of the high percentage.

5 JUDGE CHRISTIANSON: Maybe it's just a case there  
6 that they testified, but factually I'm aware of it, so it  
7 must have happened in some case or another. Go ahead.

8 BY MR. MacGREGOR:

9 Q. Now, having reviewed your testimony, I take it  
10 you have not presented any information concerning the  
11 revenues from the Bethlehem facility?

12 A. Our revenues?

13 Q. Yes.

14 A. No, I have not.

15 Q. And you have presented no information concerning  
16 the profitability of those facilities?

17 A. No, I have not.

18 Q. On page 4 of your testimony, the answer  
19 beginning on line 18, you note that prior to taking service  
20 on PP&L's Rate LP-5, optional interruptible power, that BOC  
21 took service pursuant to interruptible service by agreement;  
22 is that correct?

23 A. Yes.

24 Q. Would you agree with me as a general matter that  
25 prior to going onto the LP-5 optional interruptible rate,

1 that the rate paid by BOC was approximately 4.1 cents per  
2 kilowatt-hour?

3 A. I would agree subject to check.

4 Q. And would you agree with me that BOC's current  
5 rate under the LP-5 optional interruptible power rate is  
6 approximately 3.2 cents per kilowatt-hour?

7 A. Yes, I would agree with that.

8 Q. And would you agree with me that under the rates  
9 proposed by PP&L in this proceeding, BOC would again pay  
10 approximately 4.1 cents per kilowatt-hour?

11 A. That's roughly the calculation that I performed,  
12 yes.

13 Q. Please refer to page 5 of your testimony,  
14 specifically line 16, where you reference the fact that BOC  
15 provides approximately 400 tons per day of oxygen to  
16 Bethlehem Steel.

17 Can you tell me what percentage that represents of  
18 the total production of the plant?

19 A. I couldn't. It varies considerably by the  
20 market conditions, how we allocate production amongst  
21 facilities.

22 And also you're sort of comparing apples and oranges.  
23 What we sell to Bethlehem Steel is in gaseous form and not  
24 in liquid form, so there would be another step involved in  
25 taking the same product that we sell to Bethlehem Steel and

1 comparing it to product that we sell elsewhere.

2 JUDGE CHRISTIANSON: But can you characterize it as a  
3 major fraction of it?

4 THE WITNESS: Oh, sure, yes. It's a significant  
5 portion of the load.

6 JUDGE CHRISTIANSON: Can you say more than half or  
7 not?

8 THE WITNESS: It depends on what -- if you're talking  
9 strictly on tonnage out of the plant, it would be more than  
10 half the load.

11 If you do it in terms of kilowatts or kilowatt-hours,  
12 it would be considerably less. The kilowatt-hours  
13 associated with serving that load are considerably less than  
14 the tonnage that we send out to them.

15 JUDGE CHRISTIANSON: Because of the liquefying --

16 THE WITNESS: Because of the liquefaction that's  
17 required.

18 JUDGE CHRISTIANSON: For some customers?

19 THE WITNESS: For liquid shipment out of the plant,  
20 yes.

21 JUDGE CHRISTIANSON: Fine. Thank you.

22 Go ahead, counsel.

23 BY MR. MacGREGOR:

24 Q. In general, Mr. Chamberlain, what is the  
25 geographic market for products produced from the BOC

1 facility that are not sold to Bethlehem Steel?

2 A. Typically, in an air reduction plant, the radius  
3 of economic sales is roughly 200 miles. The radius is 200  
4 miles.

5 It's a little more complicated with our supply  
6 system, as I mentioned in my testimony, with respect to some  
7 of the other plants that we have.

8 It's not simply a question of -- Bethlehem is not a  
9 stand-alone plant, so market conditions elsewhere,  
10 considerably beyond the 200-mile radius, impact the  
11 production level at Bethlehem.

12 Q. On page 7 of your testimony, the answer that  
13 begins on line 7, you reference facilities in Delaware, West  
14 Virginia, New York, Maine and Illinois.

15 A. Yes.

16 Q. Is it realistic to assume that demand for  
17 product in Maine would be supplied from a plant in Illinois?

18 A. It's a displacement. As you know in the  
19 electric industry, the electrons that you generate and sell  
20 aren't always consumed by your customers.

21 Similarly, load that may be geographically identified  
22 with a certain plant may be the result of displacement from  
23 as far away as Joliet, Illinois.

24 There are several plants in between Joliet and Maine  
25 that I did not mention.

1 JUDGE CHRISTIANSON: So you wouldn't ship that far?

2 THE WITNESS: No, no, no. We would never ship  
3 between Joliet and Maine, but there would be a cascading, a  
4 domino effect of shifting production, depending on the  
5 market demand and production.

6 BY MR. MacGREGOR:

7 Q. So your reference there is to displacement or  
8 product exchanges as opposed to direct transportation from  
9 these facilities?

10 A. That's correct.

11 Q. On page 8 of your testimony, beginning on line  
12 12, you state that, "Even with the steel mill" -- Bethlehem  
13 Steel, I take it -- "taking oxygen, our Bethlehem plant is  
14 the most inefficient plant among those with capacity to  
15 replace" product produced at Bethlehem; is that correct?

16 A. Yes.

17 Q. And from references earlier in your testimony,  
18 with the shutdown of the Bethlehem facility, your plant will  
19 become even more inefficient; is that correct?

20 A. That's correct, in terms of the product, liquid  
21 product shipped out the door.

22 Q. I think, as we agreed earlier, electricity costs  
23 represent roughly 70 percent of the total production costs  
24 of your facility at Bethlehem.

25 A. Yes, that's right, total production costs.

1 Q. And the electric rates you pay to PP&L today  
2 compare favorably or unfavorably to electric rates paid at  
3 other facilities?

4 A. Both. Some rates are lower and some rates are  
5 higher.

6 Q. I guess the question I have -- it seems to me  
7 that we're missing something from the equation. If your  
8 Bethlehem plant is already the most inefficient plant on  
9 your system and will become much more inefficient on the  
10 shutdown of the Bethlehem Steel facilities, electricity  
11 represents 70 percent of your total production costs and  
12 PP&L's rates are higher than some and lower than some as  
13 they currently stand now, why is the plant operating today,  
14 and why would it continue to operate after the Bethlehem  
15 Steel facilities are closed?

16 Are there factors other than electricity costs  
17 involved here?

18 A. Clearly, the reason we're continuing to operate  
19 now is, or one of the primary reasons is our load at  
20 Bethlehem Steel.

21 As I mentioned, that load is a gaseous product, and  
22 therefore the efficiency of serving that load is certainly,  
23 or the kilowatt-hours consumed to serve that load are  
24 considerably less than serving liquid product.

25 If and when Bethlehem shuts down, we'll be faced with

1 the ability to sell liquid product in the market based --  
2 we'll have essentially molecules available to sell that were  
3 going to Bethlehem that we didn't sell, to put through our  
4 more efficient liquefier.

5 In addition, it provides some value to us. We have a  
6 major pipeline system down in Claymont, Delaware. It  
7 provides some value in terms of back-up for that pipeline as  
8 a liquid product.

9 We have facilities that operate intermittently in  
10 other states which, depending on the exact price at any  
11 given time, we can use Bethlehem as a swing plant, possibly.

12 JUDGE CHRISTIANSON: So you seem to be saying you  
13 might keep Bethlehem going but at a fairly low production  
14 level?

15 THE WITNESS: Unfortunately, as I mentioned in our  
16 testimony, in terms of a level overall, you can't adjust the  
17 output of these facilities very easily.

18 You're either running them pretty much full out or  
19 you're shutting them down, so it's a question of operating  
20 them on and off for various reasons.

21 We also get value out of liquid argon that's produced  
22 out of that facility, which is a fairly valuable commodity  
23 in the market today.

24  
25

1 BY MR. MacGREGOR:

2 Q. So you would agree with me as a general  
3 proposition that there are factors other than electricity  
4 prices that will contribute to the decision as to whether to  
5 continue to operate this facility or not?

6 A. The bottom line will be whether we're making the  
7 product profitably, and 90 percent of that or 70 to 90  
8 percent of that decision will be based on the electricity  
9 price.

10 Q. And the plant operated prior to 1992; is that  
11 correct?

12 A. Yes, it did.

13 Q. Under the ISA rate schedule?

14 A. Yes, it did.

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

16 JUDGE CHRISTIANSON: Fine, thank you.

17 Any redirect?

18 MR. KLEPPINGER: I don't know if there are other  
19 questions.

20 JUDGE CHRISTIANSON: I'll check. Anybody else have  
21 cross for the witness? I just guessed not.

22 (No response.)

23 JUDGE CHRISTIANSON: I hear no candidates, so do you  
24 want a moment?

25

## REDIRECT EXAMINATION

1  
2 BY MR. KLEPPINGER:

3 Q. Just one question, Mr. Chamberlain. When Mr.  
4 MacGregor took you through the rates per kilowatt-hour that  
5 this plant was paying under LP-5 versus the ISA agreement  
6 versus the proposed interruptible rate in this case, did  
7 your answers assume constant operating characteristics of  
8 the plant?

9 A. Yes, it did.

10 Q. And based on your testimony to Mr. MacGregor in  
11 his last series of questions, is there some question as to  
12 whether those operating characteristics will remain constant  
13 at the Bethlehem facility?

14 A. Yes. As I just explained, we may be  
15 intermittently operating that facility.

16 Q. And if those operating characteristics change,  
17 would not the average cent per kilowatt-hour rate paid by  
18 that plant change?

19 A. I would expect it to, yes.

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

22 JUDGE CHRISTIANSON: Yes. That's not his -- well, I  
23 guess that's sort of your area. You've made it your area,  
24 like it or not.

25 THE WITNESS: Excuse me?

1 JUDGE CHRISTIANSON: You've learned a little bit  
2 about it.

3 THE WITNESS: I'm sorry, I --

4 JUDGE CHRISTIANSON: I was going to say, you're not  
5 expert in that area, but I guess you've made yourself  
6 somewhat familiar with electric rates and how they work.

7 THE WITNESS: Yes.

8 JUDGE CHRISTIANSON: That's just a comment, more than  
9 anything.

10 Then, anything further for the witness?

11 (No response.)

12 JUDGE CHRISTIANSON: The witness is excused.

13 (Witness excused.)

14 MR. KLEPPINGER: Thank you, Your Honor.

15 At this time, PPLICCA would like to call Mr. Paul  
16 Williams to the stand.

17 (Pause.)

18 JUDGE CHRISTIANSON: It's always interesting to get  
19 these people expert in other areas. It teaches us a little  
20 bit of humility, I guess, as far as utility rates.

21 MR. KLEPPINGER: This witness has not been previously  
22 sworn, Your Honor.

23 Whereupon,

24 PAUL R. WILLIAMS

25 having been duly sworn, testified as follows:

1 JUDGE CHRISTIANSON: Proceed, counsel.

2 DIRECT EXAMINATION

3 BY MR. KLEPPINGER:

4 Q. Please state your name and business address for  
5 the record.

6 A. My name is Paul R. Williams. My business  
7 address is 7201 Hamilton Boulevard in Allentown, and I work  
8 for Air Products and Chemicals, Incorporated.

9 Q. And on whose behalf are you appearing here  
10 today?

11 A. I am appearing here today on behalf of Air  
12 Products and Chemicals, Incorporated and as a member of  
13 PPLICA.

14 Q. Do you have before you a document which is  
15 labeled, the Direct Testimony of Paul Williams, consisting  
16 of seven pages of text?

17 A. Yes, I do.

18 MR. KLEPPINGER: Your Honor, I'd like to have marked  
19 for identification purposes PPLICA Statement No. 2, the  
20 direct testimony of Paul Williams.

21 JUDGE CHRISTIANSON: So identified, your Statement 2.

22 (Whereupon, the document was marked as PPLICA  
23 Statement No. 2 for identification.)

24  
25

1 BY MR. KLEPPINGER:

2 Q. Mr. Williams, was PPLICA Statement No. 2  
3 prepared by you or under your supervision?

4 A. Yes, it was.

5 Q. Are there any additions or corrections you'd  
6 like to make to that statement at this time?

7 A. Yes, just on page 4, line 22. Instead of  
8 "allowed," the word should be "followed." It's "followed by  
9 the expansion of the gas," in the description of the  
10 process.

11 Q. With that correction, if I were to ask you the  
12 questions contained in PPLICA Statement No. 2 today, would  
13 your answers be the same as contained therein?

14 A. Yes.

15 Q. And are those answers true and correct to the  
16 best of your knowledge, information and belief?

17 A. Yes, they are.

18 MR. KLEPPINGER: Your Honor, I'd like to move for the  
19 admission of PPLICA Statement No. 2 at this time.

20 JUDGE CHRISTIANSON: Yes. Under the standard  
21 conditions, it's now accepted into the record.

22 (Whereupon, the document marked as PPLICA  
23 Statement No. 2 was received in evidence.)

24 JUDGE CHRISTIANSON: And again, we're about ready for  
25 cross.

1 MR. KLEPPINGER: The witness is available for cross,  
2 Your Honor.

3 JUDGE CHRISTIANSON: Proceed.

4 MR. MacGREGOR: Thank you, Your Honor.

5 CROSS-EXAMINATION

6 BY MR. MacGREGOR:

7 Q. Good morning, Mr. Williams.

8 A. Good morning.

9 Q. Am I correct that it's your opinion that Air  
10 Products operates in a competitive environment?

11 A. Yes.

12 Q. And its ability to compete, would you agree,  
13 depends upon a variety of factors including but not limited  
14 to the price of electricity and other utilities, services?

15 A. Yes.

16 Q. What would some of those other factors be beyond  
17 utility costs?

18 A. Well, the first thing is, there has to be a  
19 market for the product, so depending on the market for  
20 product is what's going to drive whether or not you're going  
21 to even be interested in producing anything.

22 And then it comes down to, where can you produce it  
23 and sell it into that market profitably.

24 Q. Any other factors?

25 A. That's kind of a gross simplification, but

1 that's the bottom line, is where can you make it and sell it  
2 profitably.

3 Q. Have you provided any information in your  
4 testimony, either in total or any specific facility, on  
5 total operation and maintenance expenses?

6 A. No.

7 Q. Have you provided any information, either in  
8 total for Air Products or for any individual facility, as to  
9 revenues?

10 A. No.

11 Q. Would the answer be the same as to information  
12 regarding profitability?

13 A. Yes, the answer would be the same.

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

15 JUDGE CHRISTIANSON: And again, unless someone speaks  
16 up, we'll assume there's no other cross, and Mr. Kleppinger  
17 has the floor.

18 MR. KLEPPINGER: No redirect, Your Honor.

19 JUDGE CHRISTIANSON: Fine. The witness then is  
20 excused.

21 (Witness excused.)

22 MR. KLEPPINGER: Your Honor, at this time, PPLICA  
23 would like to call Mr. Don Hornung -- no, wait, I'm going  
24 out of order, I apologize -- Mr. James Schneider, excuse me.

25 JUDGE CHRISTIANSON: Right. You've got to follow

1 your script.

2 MR. KLEPPINGER: That's right.

3 He has not been previously sworn, Your Honor.

4 Whereupon,

5 JAMES S. SCHNEIDER

6 having been duly sworn, testified as follows:

7 JUDGE CHRISTIANSON: Proceed, counsel.

8 DIRECT EXAMINATION

9 BY MR. KLEPPINGER:

10 Q. Please state your name and business address for  
11 the record.

12 A. My name is James S. Schneider. My business  
13 address is 216 Greenfield Road, Lancaster, Pennsylvania.

14 Q. And on whose behalf are you appearing here  
15 today?

16 A. I'm appearing as an employee of R. R. Donnelley  
17 & Sons in Lancaster and as a member of PPLICA.

18 Q. Do you have before you a document labeled,  
19 Direct Testimony of James S. Schneider, consisting of seven  
20 pages of text and an appendix?

21 A. Yes.

22 MR. KLEPPINGER: Your Honor, I'd like to have marked  
23 for identification purposes PPLICA Statement No. 2, the  
24 direct testimony of James Schneider -- I'm sorry, 3.

25 JUDGE CHRISTIANSON: So identified.

1 (Whereupon, the document was marked as PPLICA  
2 Statement No. 3 for identification.)

3 BY MR. KLEPPINGER:

4 Q. Mr. Schneider, was PPLICA Statement No. 3  
5 prepared by you or under your supervision?

6 A. Yes, it was.

7 Q. Are there any additions or corrections you'd  
8 like to make to that testimony at this time?

9 A. No, there are not.

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

13 A. Yes, they would.

14 Q. And are those answers true and correct to the  
15 best of your knowledge, information and belief?

16 A. To the best of my knowledge, yes.

17 MR. KLEPPINGER: Your Honor, I'd like to move for the  
18 admission of PPLICA Statement No. 3, the direct testimony of  
19 James Schneider.

20 JUDGE CHRISTIANSON: Yes. Again, under the standard  
21 conditions, No. 3 is now accepted into the record.

22 (Whereupon, the document marked as PPLICA  
23 Statement No. 3 was received in evidence.)

24 MR. KLEPPINGER: And the witness is available for  
25 cross-examination.

1 JUDGE CHRISTIANSON: Proceed.

2 MR. MacGREGOR: Thank you, Your Honor.

3 CROSS-EXAMINATION

4 BY MR. MacGREGOR:

5 Q. Good morning, Mr. Schneider.

6 A. I have the same questions essentially for you I  
7 had for Mr. Williams initially. Have you provided any  
8 information as part of your testimony in this proceeding  
9 either for Donnelley in total or for any individual facility  
10 regarding total operating and maintenance expenses, revenues  
11 or profitability?

12 A. No.

13 Q. Have you provided any information concerning the  
14 percentage electric costs represent as a function of total  
15 operating and maintenance expenses?

16 A. No, I have not.

17 Q. On page 5 of your testimony, lines 7 through 9,  
18 you state that the increase requested by PP&L in this  
19 proceeding would change your average cost of electricity  
20 from 4.49 cents per kwh to 5.41 cents per kwh; is that  
21 correct?

22 A. Yes.

23 Q. Can you tell me what the average rate paid by  
24 Donnelley was prior to its going on to the LP-5 optional  
25 interruptible rider?



1 MR. KLEPPINGER: Yes.

2 Whereupon,

3 DON A. HORNUNG

4 having been duly sworn, testified as follows:

5 JUDGE CHRISTIANSON: Proceed.

6 DIRECT EXAMINATION

7 BY MR. KLEPPINGER:

8 Q. Please state your name and business address.

9 A. My name is Don Hornung, and I'm at 19 East  
10 Chocolate Avenue, Hershey Foods.

11 Q. And on whose behalf are you appearing here  
12 today?

13 A. I'm appearing on Hershey Foods' behalf as a  
14 member of PPLICA.

15 Q. Do you have before you a document entitled,  
16 Direct Testimony of Don A. Hornung on behalf of Hershey  
17 Foods Corporation?

18 A. Yes, I do.

19 MR. KLEPPINGER: Your Honor, I'd like to have marked  
20 for identification as PPLICA Statement No. 4 the direct  
21 testimony of Don Hornung.

22 JUDGE CHRISTIANSON: Yes, so identified, your No. 4.

23 (Whereupon, the document was marked as PPLICA  
24 Statement No. 4 for identification.)

25

1 BY MR. KLEPPINGER:

2 Q. Mr. Hornung, was PPLICA Statement No. 4 prepared  
3 by you or under your supervision?

4 A. Yes, it was prepared by me.

5 Q. Are there any additions or corrections you'd  
6 like to make to that statement at this time?

7 A. No.

8 Q. If I were to ask you the questions contained in  
9 PPLICA Statement No. 4 today, would your answers be the same  
10 as set forth therein?

11 A. Yes, they would.

12 Q. And are those answers true and correct to the  
13 best of your knowledge, information and belief?

14 A. Yes, they are.

15 MR. KLEPPINGER: Your Honor, I'd like to move for the  
16 admission at this time of PPLICA Statement No. 4, the direct  
17 testimony of Don Hornung.

18 JUDGE CHRISTIANSON: Yes, once again, it's accepted  
19 under the standard conditions concerning motions.

20 (Whereupon, the document marked as PPLICA  
21 Statement No. 4 was received in evidence.)

22 JUDGE CHRISTIANSON: And he's available for cross?

23 MR. KLEPPINGER: He's available for cross-  
24 examination.

25 MR. MacGREGOR: Thank you, Your Honor.

## CROSS-EXAMINATION

1  
2 BY MR. MacGREGOR:

3 Q. Good morning.

4 A. Hello.

5 Q. Mr. Hornung, could you please refer to page 4 of  
6 your testimony? The sentence beginning on line 9, you state  
7 that the increase proposed by PP&L in this case would  
8 increase Hershey's electric costs by approximately  
9 \$2 million per year; is that correct?

10 A. Yes.

11 Q. And you note further down in that page that  
12 Hershey has received benefits under PP&L's EDI and IDI  
13 programs of approximately \$1.5 million per year?

14 A. Yes, I do.

15 Q. Have you provided any information in your  
16 testimony regarding Hershey's total electric costs?

17 A. No, I haven't.

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

19 JUDGE CHRISTIANSON: Okay. We can check again for  
20 possible redirect. Again, speak up if anybody else has  
21 cross.

## REDIRECT EXAMINATION

22  
23 BY MR. KLEPPINGER:

24 Q. Just one question, Mr. Hornung.

25 Reference was made to the EDI and IDI credits being

1 received by Hershey Foods.

2 A. Yes.

3 Q. Is it your understanding that those will  
4 continue indefinitely?

5 A. No. It's my understanding that they'll be  
6 phased out, 1998, 1999, and it will be zero.

7 MR. KLEPPINGER: Thank you.

8 I have nothing further, Your Honor.

9 JUDGE CHRISTIANSON: Fine. Then the witness is  
10 excused.

11 (Witness excused.)

12 MR. KLEPPINGER: At this time, PPLICA would call Mr.  
13 Robert Felter.

14 Whereupon,

15 ROBERT K. FELTER

16 having been duly sworn, testified as follows:

17 JUDGE CHRISTIANSON: Proceed.

18 DIRECT EXAMINATION

19 BY MR. KLEPPINGER:

20 Q. Please state your name and business address.

21 A. Robert Felter, 200 Keystone Industrial Park,  
22 Scranton, Pennsylvania.

23 Q. On whose behalf are you appearing here today,  
24 Mr. Felter?

25 A. Thomson Consumer Electronics as a member of

1 PPLICA.

2 Q. Do you have before you a document entitled,  
3 Direct Testimony and Exhibits of Robert Felter, consisting  
4 of approximately six pages of text and an exhibit labeled  
5 RKF-1?

6 A. I do.

7 MR. KLEPPINGER: Your Honor, I'd like to have marked  
8 for identification purposes PPLICA Statement No. 5, the  
9 direct testimony and exhibits of Robert K. Felter.

10 JUDGE CHRISTIANSON: Yes, so identified, your No. 5.

11 (Whereupon, the document was marked as PPLICA  
12 Statement No. 5 and PPLICA Exhibit No. RKF-1  
13 for identification.)

14 BY MR. KLEPPINGER:

15 Q. Mr. Felter, was PPLICA Statement No. 5 prepared  
16 by you or under your supervision?

17 A. Yes, it was.

18 Q. Are there any additions or corrections you'd  
19 like to make to that testimony at this time?

20 A. Yes, there are. With all due respect on  
21 National Secretaries' Day, we have two typos. Page 3, line  
22 10, "wages and benefits is approximately \$90 million per  
23 year."

24 And if you will, on page 6, line 9, we would really  
25 prefer to "alleviate" the adverse competitive consequences,

1 not "elevate" them.

2 Q. And as counsel asking the questions, I'll take  
3 responsibility for that mistake as opposed to your  
4 secretary.

5 With those corrections, Mr. Felter, if I were to ask  
6 you the questions contained in this document, would your  
7 answers be the same as set forth therein?

8 A. Yes.

9 Q. And are those answers true and correct to the  
10 best of your knowledge, information and belief?

11 A. Yes, they are.

12 MR. KLEPPINGER: Your Honor, I'd like to move at this  
13 time the admission of PPLICA Statement No. 5.

14 JUDGE CHRISTIANSON: Yes. Under the standard  
15 conditions, again, the statement is now admitted into the  
16 record.

17 (Whereupon, the documents marked as PPLICA  
18 Statement No. 5 and PPLICA Exhibit No. RKF-1  
19 was received in evidence.)

20 JUDGE CHRISTIANSON: And we can have cross.

21 MR. KLEPPINGER: The witness is available for cross-  
22 examination.

23 MR. MacGREGOR: Thank you.  
24  
25

## CROSS-EXAMINATION

1  
2 BY MR. MacGREGOR:

3 Q. Good morning, Mr. Felter.

4 Am I correct, Mr. Felter, that Thomson has three  
5 facilities in Pennsylvania?

6 A. Yes.

7 Q. And the largest is in Scranton?

8 A. Yes.

9 Q. At page 4 of your testimony at the bottom, you  
10 reference certain of the operating costs associated with the  
11 Scranton facility; is that correct?

12 A. Yes.

13 Q. Have you provided any information in your  
14 testimony regarding total electricity costs at the Scranton  
15 plant?

16 A. No.

17 Q. Any information concerning revenues from that  
18 plant?

19 A. No.

20 Q. Any information concerning the profitability of  
21 that plant?

22 A. No.

23 Q. On page 5 of your testimony, lines 14 through  
24 16, you reference the fact that prior to going on to the  
25 LP-5 interruptible rate, Thomson was paying approximately

1 5.2 cents per kilowatt-hour; is that correct?

2 A. That's right.

3 Q. Would I be correct that Thomson is currently  
4 paying approximately 3.4 cents per kilowatt-hour?

5 A. That is correct.

6 Q. And under PP&L's proposed increase in this case,  
7 Thomson would begin paying approximately 4.8 cents per  
8 kilowatt-hour?

9 A. I believe so.

10 MR. MacGREGOR: That's all I have, Your Honor, thank  
11 you.

12 JUDGE CHRISTIANSON: Just nothing really for the  
13 witness. I just want to highlight at the bottom of that  
14 page up to the next page is mentioned the 28 percent  
15 increase and 22.46 if there were no overall increase  
16 essentially.

17 These are numbers which might be noticed by people.  
18 I just want to make sure counsel is aware. They seem like  
19 good numbers to me, more or less.

20 MR. MacGREGOR: They are generally accurate, Your  
21 Honor.

22 JUDGE CHRISTIANSON: Okay.

23 That's not really by way of cross of the witness,  
24 just to highlight.

25 Any redirect?

1 MR. KLEPPINGER: No, Your Honor.

2 JUDGE CHRISTIANSON: Then the witness is excused.

3 (Witness excused.)

4 MR. KLEPPINGER: At this time, PPLICA calls  
5 James H. Rooney to the stand.

6 Whereupon,

7 JAMES H. ROONEY

8 having been duly sworn, testified as follows:

9 DIRECT EXAMINATION

10 BY MR. KLEPPINGER:

11 Q. Please state your name and business address.

12 A. My name is James Rooney and I work for Armstrong  
13 World Industries in Lancaster, Pennsylvania.

14 Q. And on whose behalf are you appearing today?

15 A. I'm appearing on Armstrong's behalf as a member  
16 of PPLICA.

17 Q. Mr. Rooney, do you have before you a document  
18 labeled, Direct Testimony of James Rooney, consisting of  
19 some 16 pages of text and an exhibit labeled JHR-1?

20 A. Yes, I do.

21 MR. KLEPPINGER: Your Honor, I'd like to have marked  
22 for identification as PPLICA Statement No. 6 the direct  
23 testimony of James H. Rooney.

24 JUDGE CHRISTIANSON: So identified, your No. 6.

25

1 (Whereupon, the document was marked as PPLICA  
2 Statement No. 6 and PPLICA Exhibit No. JHR-1  
3 for identification.)

4 BY MR. KLEPPINGER:

5 Q. Mr. Rooney, was PPLICA Statement No. 6 prepared  
6 by you or under your supervision?

7 A. Yes, it was.

8 Q. Are there any additions or corrections you'd  
9 like to make to this statement at this time?

10 A. Yes. There are three corrections I'd like to  
11 make, please.

12 The first one is on page 10, line 12. The change  
13 there is from "whole" to "wholesale."

14 Q. It's the last word in the line.

15 A. The second change is on page 11, line 4. The  
16 word "on" should be "in."

17 And the last change is on page 9, and it's on Table  
18 1. On Table 1, there are five items. The fifth item, which  
19 currently reads, \$5,706,000, should read, \$4,907,000.

20 JUDGE CHRISTIANSON: \$4,907,000?

21 THE WITNESS: That's correct.

22 JUDGE CHRISTIANSON: Fine.

23 BY MR. KLEPPINGER:

24 Q. With those corrections, Mr. Rooney, if I were to  
25 ask you the questions contained in PPLICA Statement No. 6

1 today, would your answers be the same as set forth therein?

2 A. Yes, they would be.

3 Q. And are those answers true and correct to the  
4 best of your knowledge, information and belief?

5 A. Yes, they are.

6 MR. KLEPPINGER: Your Honor, I'd like to move for the  
7 admission of PPLICA Statement No. 6, the direct testimony of  
8 James H. Rooney.

9 JUDGE CHRISTIANSON: Yes. The statement is now  
10 accepted into the record.

11 (Whereupon, the document marked as PPLICA  
12 Statement No. 6 and PPLICA Exhibit No. JHR-1  
13 was received in evidence.)

14 MR. KLEPPINGER: And the witness is available for  
15 cross-examination.

16 JUDGE CHRISTIANSON: Then proceed.

17 MR. MacGREGOR: Thank you.

18 CROSS-EXAMINATION

19 BY MR. MacGREGOR:

20 Q. Good morning, Mr. Rooney.

21 A. Good morning.

22 Q. Are you aware of the fact that PP&L has not  
23 filed for a base rate increase in 10 years?

24 A. Yes, I am.

25 Q. Are you aware that Armstrong received a

1 substantial rate decrease in 1991 with PP&L's offering of  
2 interruptible rates?

3 A. I don't believe it was 1991.

4 Q. 1992?

5 A. I'm not sure of the exact years, but I don't  
6 believe it was 1991.

7 Q. Do you think it was 1992? You don't know when  
8 your interruptible rates went into effect?

9 A. We have three different plants and we negotiated  
10 those rates differently.

11 Q. Okay, let's go plant by plant. Can you tell me  
12 when they went into effect for each plant?

13 A. The Marietta and Lancaster plants were in effect  
14 -- this is 1995 -- they were in effect in 1994.

15 Q. Okay.

16 A. There was a change made in the interruptible  
17 rate for the Innovation Center which was made early in 1994,  
18 and prior to that, I'm not sure whether the Innovation  
19 Center interruptible rate was in effect for one or two years  
20 prior to that.

21 Q. So regardless of the precise timing, Armstrong  
22 is taking interruptible service from PP&L today?

23 A. A percentage of our service is interruptible,  
24 yes. We've gone through a detailed analysis of our plant's  
25 operation and have come up with what percentage we can deal

1 with on an interruptible basis.

2 Q. And those interruptible rates are lower than the  
3 previous firm rates which those plants would be --

4 A. That's correct, they are.

5 Q. At page 5 of your testimony at the bottom, you  
6 state your belief that many utilities are trying to increase  
7 their rate base to prepare for deregulation.

8 Will you please provide for me a complete list of all  
9 utilities who you believe are doing that, with specific  
10 references to the rate base claims you have in mind?

11 A. I'd be glad to do that in some subsequent  
12 document. I'm not prepared to do that today.

13 Q. I would like to make that an on-the-record data  
14 request, please.

15 A. Okay.

16 Q. Have you conducted any independent analysis of  
17 whether the Susquehanna plant is used and useful other than  
18 reading Mr. Kahal's testimony?

19 A. I have not, no.

20 Q. Have you read the company's testimony on that  
21 subject?

22 A. I have read the company's testimony. I'm not  
23 sure I read the total company's testimony on that particular  
24 subject.

25 Q. Who is the company's witness on that subject?

1           A. The company's witness that I read testimony on  
2 was Ollie Kasper.

3           Q. Did you read Mr. Sipic's testimony?

4           A. I did not read Mr. Sipic's testimony, no.

5           Q. Page 6 of your testimony, the question says,  
6 "Why doesn't Armstrong just accept the increase and pass it  
7 along to your customers?" And you note in your answer that  
8 Armstrong cannot simply an electric rate increase on to  
9 customers, presumably due to competitive reasons; is that  
10 correct?

11          A. That would be one of the reasons, yes, sir.

12          Q. When Armstrong received rate decreases from PP&L  
13 by going on to interruptible service, did it reduce its  
14 prices?

15          A. No, sir, it did not.

16          Q. Page 14 of your testimony beginning at line 6,  
17 you note competition from the Marietta facility with other  
18 Armstrong plants --

19          A. Correct.

20          Q. -- in different locations. Have you provided  
21 any information in your testimony regarding factors other  
22 than electricity rates for those facilities?

23          A. No, I have not.

24          Q. And at page 14, line 16, you note that the  
25 Marietta facility must interrupt if asked to do so by PP&L.

1 A. Yes, sir.

2 Q. How frequently has that occurred?

3 A. I'm not really sure. They just went on that  
4 rate I believe last summer, I believe I mentioned to you.

5 Q. So they probably have not been interrupted to  
6 date?

7 A. I don't believe they have other than for the  
8 tests they had to go through.

9 Q. On the bottom of 15 and carrying over to page 16  
10 of your testimony, I was a little confused, and I don't know  
11 if there's a typo there or I'm just not following what  
12 you're saying.

13 A. I'm sorry, page 16, which line, please?

14 Q. The very bottom of 15. The sentence starts,  
15 "For Armstrong," and then going on to 16, "the cap should be  
16 the same as PP&L charges non-competitive customers that have  
17 choices."

18 A. It should be, "competitive customers that have  
19 choices." Thank you for that correction.

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

21 JUDGE CHRISTIANSON: Again, we presumably are ready  
22 for redirect.

23 MR. KLEPPINGER: We have no redirect, Your Honor.

24 JUDGE CHRISTIANSON: I'm just scanning that  
25 paragraph. He is comparing it to wholesale prices,

1 basically. Okay, then the witness is excused.

2 (Witness excused.)

3 MR. KLEPPINGER: Your Honor, at this time, PPLICA  
4 would call to the stand Mr. Stephen J. Baron.  
5 Whereupon,

6 STEPHEN J. BARON

7 having been duly sworn, testified as follows:

8 JUDGE CHRISTIANSON: Proceed.

9 DIRECT EXAMINATION

10 BY MR. KLEPPINGER:

11 Q. Please state your name and business address for  
12 the record.

13 A. Stephen J. Baron, and my business address is 35  
14 Glenlake Parkway, Suite 475, Atlanta, Georgia, 30328.

15 Q. And on whose behalf are you appearing here  
16 today?

17 A. On behalf of PPLICA.

18 Q. Mr. Baron, do you have before you a document  
19 labeled, Direct Testimony and Exhibits of Stephen J. Baron,  
20 which consists of some 78 pages of text and seven exhibits  
21 labeled, SJB-1 through SJB-7?

22 A. Yes, I do.

23 MR. KLEPPINGER: Your Honor, I'd like to have marked  
24 for identification purposes as PPLICA Statement No. 7 the  
25 direct testimony and exhibits of Stephen J. Baron.

1 JUDGE CHRISTIANSON: So identified, your No. 7.

2 (Whereupon, the documents were marked as PPLICA  
3 Statement No. 7 and PPLICA Exhibits Nos.  
4 SJB-1 through SJB-7 for identification.)

5 BY MR. KLEPPINGER:

6 Q. Mr. Baron, was PPLICA Statement No. 7 prepared  
7 by you or under your supervision?

8 A. Yes, it was.

9 Q. Are there any additions or corrections to  
10 Statement No. 7 you'd like to make at this time?

11 A. Yes. There's one typographical error correction  
12 I'd like to make. On page 5 at line 20, the reference to  
13 the number of people employed by PPLICA members should be,  
14 "more than 26,000." So the "20,000" should be changed to  
15 "26,000."

16 JUDGE CHRISTIANSON: The zero becomes a six?

17 THE WITNESS: Correct.

18 BY MR. KLEPPINGER:

19 Q. With that correction, Mr. Baron, if I were to  
20 ask you the questions contained in PPLICA Statement No. 7  
21 and the accompanying exhibits, would your answers be the  
22 same as set forth therein?

23 A. Yes, they would.

24 Q. And are those answers true and correct to the  
25 best of your knowledge, information and belief?

1 A. Yes, they are.

2 MR. KLEPPINGER: Your Honor, I'd like to move for the  
3 admission of PPLICA Statement No. 7 at this time.

4 JUDGE CHRISTIANSON: Again, under the standard  
5 conditions, it's accepted into the record.

6 (Whereupon, the documents marked as PPLICA  
7 Statement No. 7 and PPLICA Exhibits Nos.

8 SJB-1 through SJB-7 were received in evidence.)

9 JUDGE CHRISTIANSON: I'll just note that this  
10 testimony and other testimony, there's a lot of information  
11 that's been accepted very quickly, but only because it's  
12 preprinted and all counsel have had a chance to review it.

13 There's really a lot in this particular guy's  
14 testimony.

15 MR. KLEPPINGER: Yes, there is, Your Honor.

16 JUDGE CHRISTIANSON: Then we're ready for cross, and  
17 once again, we might as well start with the company.

18 MR. MacGREGOR: Mr. Barr will cross-examine Mr.  
19 Baron.

20 JUDGE CHRISTIANSON: You can learn a lot. Like in  
21 motor carrier cases, you learn a lot about various  
22 industries doing these cases. It's quite interesting.

23 Go ahead, counsel.  
24  
25

## CROSS-EXAMINATION

1  
2 BY MR. BARR:

3 Q. Good morning, Mr. Baron.

4 A. Good morning.

5 Q. Could you please turn to page 6 of your  
6 testimony at lines 9 to 13?

7 JUDGE CHRISTIANSON: Say again?

8 MR. BARR: I'm sorry, page 6.

9 JUDGE CHRISTIANSON: Go ahead.

10 THE WITNESS: Yes, I have that.

11 BY MR. BARR:

12 Q. You there describe what you believe to be a  
13 disproportionately large rate increase for PPLICA members  
14 that are interruptible customers. Is that a fair  
15 characterization?

16 A. Yes.

17 Q. In particular, you point to an allegedly huge  
18 increase for interruptible LP-5 and LP-6, right?

19 A. That's correct.

20 Q. Do you know what have been the cumulative net  
21 changes in the rates available to interruptible customers  
22 under LP-5 and LP-6 since 1985?

23 A. I have not done a calculation of that.

24 Q. Are you familiar with PP&L's filing of new  
25 interruptible rates in 1991 that were significantly lower

1 than its firm rates available at that time?

2 A. I am aware of the filing, the fact that the  
3 company implemented interruptible rates as part of an EDI  
4 program, I believe, at that time.

5 Q. Are you aware of the impact that those rates had  
6 on the costs of the LP-5 and LP-6 interruptible customers?

7 A. As I said, I haven't done any specific  
8 calculation. I'm certainly aware that there were reductions  
9 as a result of that change.

10 Of course, the issue in this case is the increase  
11 proposed.

12 Q. I understand. That's the only issue you address  
13 here in the testimony; is that fair?

14 JUDGE CHRISTIANSON: I suggest counsel is suggesting  
15 a return to the status quo before 1991, but go ahead. You  
16 don't have to respond to that.

17 MR. KLEPPINGER: You can, if you like.

18 (Laughter.)

19 JUDGE CHRISTIANSON: You may, if you like.

20 THE WITNESS: I think there's no question that the  
21 company did file in the '91-'92 time frame for a reduction,  
22 but the issue in this case and what's before us is the large  
23 increase especially to interruptible customers proposed by  
24 the company.

25 I think Your Honor mentioned the 28 percent, which is

1 the increase to interruptible customers, representing large  
2 customers on the PP&L system.

3 And that's really the focus of my testimony, but I  
4 think it's also the focus of what this case is about.

5 JUDGE CHRISTIANSON: I know one witness indicated it  
6 was over 20 percent even with no increase overall.

7 THE WITNESS: I believe that was in reference to a  
8 data response that the company filed in this case, that  
9 given the tariffs and the way that they have proposed them,  
10 it would be I believe 22 percent, assuming the company got  
11 no increase.

12 I believe the company has said that they have no  
13 specific plan, should there be no increase.

14 JUDGE CHRISTIANSON: All right. Go ahead.

15 BY MR. BARR:

16 Q. Mr. Baron, just to return briefly to the subject  
17 that the Judge mentioned about returning to the status quo,  
18 would it surprise you to find that even under the proposed  
19 rates, interruptible customers will be paying approximately  
20 5 percent less under the proposed rates than they were in  
21 1991 before the filing of the interruptible rates at that  
22 time?

23 A. As I said, I haven't done a calculation.  
24 Certainly, something like that wouldn't surprise me. There  
25 are a lot of other factors that influence that such as fuel

1 costs in particular on the PP&L system.

2 And because I haven't done that analysis and examined  
3 what the specific implications are of say the base rate  
4 change or the interruptible proposal versus fuel costs, I  
5 could agree with it, but I haven't done the calculation.

6 JUDGE CHRISTIANSON: Fundamentally agree, but the  
7 numbers may not be exactly the way he said?

8 THE WITNESS: That's correct, Your Honor. It may not  
9 represent I think the point that the company is trying to  
10 make.

11 MR. BARR: Thank you.

12 JUDGE CHRISTIANSON: Agreement in principle I guess  
13 is what you have.

14 BY MR. BARR:

15 Q. Mr. Baron, could you please turn to page 8 of  
16 your testimony? There at line 13 and 14, you compare the  
17 company's LP-5 proposed rates and certain market price  
18 projections for the future.

19 You conclude that the LP-5 rate will not conform to  
20 the needs of the market; is that a fair characterization, or  
21 would you like to amend that?

22 A. I think the statement in my testimony basically  
23 compares what the proposed LP-5 and LP-6 rates would be to  
24 the company's expectations of market prices.

25 And I think it's a factual statement that PP&L's

1 proposed rates, if you define the market the way PP&L did  
2 and accept that, PP&L's LP-5 and LP-6 rates would be in  
3 excess of twice the market rate. And I think that's my  
4 statement.

5 Q. What's the result if the company in fact has  
6 offered LP-5 customers a rate that is in fact uncompetitive  
7 in the future?

8 A. I'm not sure I understand what you mean by --

9 JUDGE CHRISTIANSON: I guess it depends on the status  
10 of competition in the year 2000.

11 MR. BARR: Well, even perhaps in the year 1996.

12 BY MR. BARR:

13 Q. You have a statement that the LP-5 rate increase  
14 proposal is not competitive, so I'm just asking what you see  
15 as being the consequences of its not being competitive, if  
16 in fact that proves to be true.

17 JUDGE CHRISTIANSON: I guess, assume no retail  
18 wheeling.

19 THE WITNESS: The premise of my statement is that if  
20 you define the market either as the way, based on the  
21 wholesale rates that the company offers or based on the  
22 company's own assessment of the market, the firm rates or  
23 the LP-5 and LP-6 rates, firm or interruptible, are simply  
24 not competitive, if you use that as the standard.

25 Obviously, if a customer is captive to PP&L and they

1 have no choice --

2 JUDGE CHRISTIANSON: It doesn't matter. In some  
3 sense, it doesn't matter.

4 THE WITNESS: At this instant in time, there's  
5 nothing they could do. But certainly as a measure of where  
6 these rates line up relative to current market conditions  
7 and as the utility industry evolves into a more competitive  
8 environment when industrial customers may be able to take  
9 alternatives, it clearly paints a picture that these rates  
10 are not anywhere in line with what expectations would be of  
11 a market price.

12 And that's the statement that I'm really making in  
13 this testimony.

14 BY MR. BARR:

15 Q. Mr. Baron, in the event that the customers can  
16 do something about it -- let's put aside for a moment what  
17 the response would be -- does the company have an  
18 alternative to simply watching the rate, if it is  
19 uncompetitive, drive the customers to those alternatives?  
20 Is this LP-5 rate the only way the company has to meet their  
21 customers' competitive needs?

22 A. Are you referring to a special contract that's  
23 separate from the rate proposal? I'm not sure I understand  
24 the exact --

25 JUDGE CHRISTIANSON: I guess there are some gas

1 companies that have competitive rates, and --

2 MR. BARR: Well, actually, Your Honor, I'm referring  
3 to a particular part of the filing, the competitive rate  
4 rider.

5 BY MR. BARR:

6 Q. Are you familiar with that, Mr. Baron?

7 A. I have seen the competitive rate rider. I  
8 haven't really reviewed the implication, and certainly that  
9 is distinct from the company's tariffs that it's proposing  
10 for all of its customers in this case.

11 That's not to say that there may not be some impact  
12 from that, but the proposal the company is making for the  
13 members of PPLICA is to propose substantial increases in  
14 this case. I think that's a fact.

15 Q. Mr. Baron, the PPLICA members' testimony which  
16 was just admitted into the record referred to various  
17 alternatives they might have to shift production, to shut  
18 down, to take other steps in response to uncompetitive  
19 rates, but you haven't looked at the competitive rate rider  
20 as an alternative to those dire results?

21 A. I've seen the competitive rate rider. It's not  
22 a focus of my testimony. It's not a focus of the tariffs  
23 the company proposed at issue in this case.

24 Q. Are you saying that the competitive rate rider  
25 is not a part of the tariffs that are being proposed in this

1 case?

2 A. No. I think I said what -- my statement should  
3 be clear. The competitive rate rider is an offering the  
4 company makes. It's not an explicit proposal for a certain  
5 rate level.

6 The company's LP-5 and LP-6 tariffs and rate  
7 schedules and the interruptible rate schedule is a specific  
8 tariff. That is the rate that the customers of PP&L will  
9 face unless the company comes back at some subsequent period  
10 after this rate case and agrees to just drop the rates.

11 I can't say that that couldn't happen, but everything  
12 that we have before us in this case is that the company is  
13 proposing substantial increases.

14 And it doesn't make sense to me that the company  
15 would be proposing substantial increases on the members of  
16 PPLICA and other LP-5 and large industrial customers and at  
17 the same time ask me to accept that in reality, they really  
18 want to reduce their rates through the competitive rider.

19 I can't answer that. It would be speculative on my  
20 part. It just doesn't make sense.

21 Q. Mr. Baron, just to understand your position, I  
22 understanding you're focusing on the LP-5 and LP-6 rates,  
23 but today, without the company's filing a new LP-5 or LP-6  
24 rate or making some other new rate filing, the customers  
25 could negotiate with the company a lesser competitive rate

1 under the competitive rate rider if the circumstances were  
2 right; isn't that right?

3 A. I suppose it would be possible if PP&L deemed  
4 that they desired to give some lower rate. As I said, it  
5 doesn't make sense to me as an analyst that the company  
6 would have filed substantial increases in this proceeding  
7 for the same customers that you're suggesting in this  
8 question they would desire to reduce the rates to.

9 JUDGE CHRISTIANSON: Can you agree that the  
10 ratemaking theory is different, eliminating the capacity  
11 charge is different from meeting competition?

12 THE WITNESS: With respect --

13 JUDGE CHRISTIANSON: That is, they could withdraw  
14 this and use a different theory to cut rates, that is to  
15 meet competition rather than eliminate the capacity charge.

16 THE WITNESS: They could -- I mean, there are ways to  
17 meet competition on a case-by-case basis, and a negotiated  
18 type of arrangement is one way certainly that utilities do  
19 that.

20 JUDGE CHRISTIANSON: I guess you'd prefer to have the  
21 existing interruptible type mechanism rather than meeting  
22 competition.

23 THE WITNESS: I think, yes, the protection of a  
24 tariff -- I think both are certainly appropriate, but I  
25 think that everything else being equal, what the customers

1 of PP&L's system face are the tariffs that they offer.

2 And the signals that the company has presented in  
3 this case are that they desire to increase the industrial  
4 rates substantially.

5 And if I were an industrial customer and I saw this  
6 filing, that's what I would conclude. And that's not  
7 consistent with the position that, we really want to help  
8 you and reduce your rates in response to competition.

9 JUDGE CHRISTIANSON: Well, perception is a lot of  
10 reality, and with that, I'll try not to interrupt for a  
11 while. Go ahead.

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1 BY MR. BARR:

2 Q. Mr. Baron, you testified to some unhappiness in  
3 your view that the proposal is not competitive. Are you  
4 suggesting that the rates should be set on the basis of the  
5 market or competition as opposed to inappropriate cost  
6 allocation and derivation?

7 A. No, that is not my testimony. My testimony goes  
8 through a series of recommendations, starting with the cost  
9 of service study and moving towards a reasonable ratemaking  
10 process to come up with the recommended increases for each  
11 rate class based on what the company receives. The purpose  
12 of the introductory information with respect to competitive  
13 alternatives is to provide some framework for evaluating the  
14 company's proposal. I am not recommending that the rates be  
15 based on that in this case.

16 Q. Thank you.

17 I would like to turn now to page 60 of your  
18 testimony.

19 MR. KLEPPINGER: Sixty?

20 MR. BARR: Sixty, 6-0.

21 BY MR. BARR:

22 Q. At lines 16 to 19 -- I don't know if you're  
23 there yet.

24 A. Yes. I have it.

25 Q. You recommend that the company create new

1 interruptible rate schedules; is that right?

2 A. No. As a matter of fact, what I'm recommending  
3 is that the company maintain its existing interruptible rate  
4 schedule.

5 Q. But this is a proposal that there be an  
6 LP-5/LP-6 interruptible rate schedule; is that right? I  
7 mean they do not currently have an LP-5/LP-6 interruptible  
8 rate schedule.

9 A. That was just a reference to keep in context of  
10 this case. In other words, the company in this case  
11 effectively proposed an LP-5 interruptible rate and an LP-6  
12 interruptible rate. My proposal and recommendation in this  
13 case is to maintain the existing LP-5 interruptible rate,  
14 which would serve all current LP-5 interruptible customers,  
15 both those that under the company's proposal would have  
16 moved to LP-6, and also those who would stay on LP-5.

17 The designation LP-5/LP-6 interruptible was simply to  
18 provide some continuity to what the company is proposing. I  
19 think it's clear in my testimony that I am recommending that  
20 the existing interruptible rate be increased to reflect the  
21 increase granted by the company, but that the structure be  
22 maintained.

23 Q. Mr. Baron, I don't wish to be argumentative, but  
24 could you point to me in the tariffs that are attached to  
25 Mr. Kasper's testimony where there is an LP-5 interruptible

1 rate as a separate schedule?

2 A. Mr. Kasper proposed it as an interruptible  
3 credit. It certainly is a distinct rate. The company's  
4 proof of revenue analysis so designates it. I can point to  
5 you, if you would like, in Mr. Kasper's exhibits where he  
6 shows separate billing calculations for LP-5 firm, LP-5  
7 interruptible, LP-6 firm and LP-6 interruptible. There are  
8 four distinct calculations of rates in Mr. Kasper's exhibit.  
9 This would begin on -- if you'll give me a moment.

10 (Witness perusing document.)

11 A. It's beginning on attachment IV-C, page 15,  
12 which is the summary for all LP-5, and it shows the  
13 calculation and the design of LP-5 firm. On page 16 it  
14 shows the calculation of revenues and the design of LP-5  
15 optional interruptible power. On page 17 it shows the  
16 calculation and design of the LP-6 firm, and on page 18, the  
17 LP-6 interruptible. Those are four distinct tariffs that  
18 have been calculated. You can combine them into one tariff  
19 if you so choose, but there are four distinct groups.

20 Q. Mr. Baron, are the cost allocation exhibits  
21 attached to his testimony tariffs?

22 A. They are not specifically tariffs in the legal  
23 sense of the term. They are separate calculations showing  
24 the rates, the billing determinants for each of the four  
25 distinct groups of customers on LP-5. That's what I was

1 referencin g in my testimony, if it wasn't clear to you.

2 JUDGE CHRISTIANSON: I think we can agree there was a  
3 change, and I have one follow-up on that. For instance, in  
4 this case there is a rule of thumb that no class would be  
5 increased by more than 1.5 times the overall, I think it  
6 was. Would you apply that separately to the interruptible  
7 industrial?

8 THE WITNESS: Yes, Your Honor. The proposal that I'm  
9 making, and I think, except for interruptible, the one that  
10 the company apparently has agreed to based on a data  
11 response, is that no rate schedule shall be increased.

12 JUDGE CHRISTIANSON: This is the point I'm helping  
13 you make, basically.

14 THE WITNESS: Yes. I've got a data response, it's a  
15 response to the Office of Small Business Advocate Question  
16 23, and it says, "Please provide the monthly system peaks,  
17 coincident peaks," et cetera, and the answer the company  
18 gave in the last line is, "The interruptible demands are  
19 those for Rate Schedules L-5I, L-4I, ISM, IS-2 and ISL." As  
20 I read this, and certainly it's my position in this case,  
21 that the current interruptible customers on the LP-5 rate  
22 are on a separate rate schedule, LP-5I.

23 The company has -- there's no dispute that in the  
24 tariff it's all contained on the same piece of paper, but  
25 there are two distinct rates on that piece of paper. One of

1 them is the LP-5 firm rate, and the other is the LP-5  
2 interruptible, which is designated L-5I. And so I made the  
3 recommendation in this case to basically be consistent, when  
4 we apply the gradualism principle and the cap, so that all  
5 the rate schedules are covered by that, including  
6 interruptible, and not just aggregate them into the LP-5  
7 grouping.

8 JUDGE CHRISTIANSON: We're far away from the old  
9 residential, commercial and industrial categories.

10 THE WITNESS: Right. There's no question about it.  
11 But customers do take service on interruptible. It's a  
12 separate rate schedule currently; the rate elements. It's  
13 got a demand charge which is entirely different from the  
14 firm rate; it has energy charges which are different. The  
15 company separately calculates the billing determinants for  
16 these customers in its filing. I think it's reasonable to  
17 consider that these customers are a separate rate class and  
18 should be afforded the same gradualism provisions as  
19 residential or RTS or any other separate rate schedule.

20 JUDGE CHRISTIANSON: I've allowed the witness to go  
21 on some. Again, my apologies to counsel. I never do this  
22 to rate of return witnesses. I'm very interested in rate  
23 design, as a matter of fact. It's just your bad luck that  
24 I'm interested in your topic.

25 MR. BARR: Your Honor, we're interested too, though.

1 And it may appear to be a matter of semantics, but in fact  
2 the --

3 JUDGE CHRISTIANSON: It's an important matter.

4 MR. BARR: Yes.

5 JUDGE CHRISTIANSON: Usually counsel likes to do his  
6 own questioning, and I'll try to let you do that.

7 MR. BARR: Okay.

8 BY MR. BARR:

9 Q. The rate schedule that the company has on file  
10 that's available to the public and is a binding rate  
11 schedule is called Rate Schedule LP-5, Large General  
12 Service; isn't that correct, Mr. Baron?

13 A. Yes.

14 Q. Included in that, among other provisions, is  
15 something called an optional interruptible power provision?

16 A. Yes.

17 Q. Which has certain limited availability; isn't  
18 that right?

19 A. Yes.

20 Q. In fact, one reason it has limited availability  
21 is that the Commission earlier this year essentially froze  
22 its availability at the request of the company?

23 A. Yes.

24 Q. So there is not -- although for purposes of cost  
25 allocation in Mr. Kasper's exhibits there are revenue

1 requirements and projections and whatnot, and allocations  
2 that may be stated separately, there is one LP-5 rate  
3 schedule with various options under it, one of which is the  
4 interruptible option?

5 A. I would not agree with the way you characterize  
6 it as for purposes of cost allocation. Mr. Kasper's exhibit  
7 shows the calculation of revenues, and we have a separate  
8 page, page 16, for example, that shows the present rate  
9 revenues, the proposed rate revenues, for LP-5 optional  
10 interruptible customers. It's not for cost allocation  
11 purposes, it's for rate design purposes.

12 JUDGE CHRISTIANSON: If it helps, counsel, I'll agree  
13 with you generally; I'll take notice of what the tariffs are  
14 and how you structured the tariffs. And he's advocating a  
15 change to that, obviously.

16 MR. BARR: Right. I really don't want to discuss too  
17 much at further length how the witness interprets the tariff  
18 and the included provisions.

19 JUDGE CHRISTIANSON: He is clearly advocating  
20 something that is not on your books as such.

21 BY MR. BARR:

22 Q. You are advocating something that is not in the  
23 tariff right now; is that correct? You're advocating a new  
24 tariff provision and a new tariff class; is that correct?

25 MR. KLEPPINGER: If I can interrupt, I need a

1 clarification to that question, whether you're now referring  
2 to the existing LP-5 tariff or the proposed LP-5 tariff and  
3 what's contained therein?

4 MR. BARR: The proposed.

5 THE WITNESS: So you're asking me if I'm advocating a  
6 change in the tariff the company is proposing for  
7 interruptible?

8 BY MR. BARR:

9 Q. Yes.

10 A. Yes. I'm basically -- I think my testimony is  
11 I'm recommending that the current optional interruptible  
12 rate for LP-5 customers be maintained for all interruptible  
13 customers. The one that's in the Supplement 40, basically  
14 that that rate structure be continued for interruptible, but  
15 be increased.

16 JUDGE CHRISTIANSON: And even made more distinct is  
17 what you're saying, a more distinct category?

18 THE WITNESS: Yes. It would have a separate  
19 designation in terms of tariff designation, but the rate  
20 itself that's contained in there, the demand charge, the  
21 energy charge, the terms and conditions, would be continued  
22 and just increased based on my recommendation.

23 So in that sense, I didn't look at it -- maybe we are  
24 arguing about semantics. I didn't look at it that I am  
25 proposing a new tariff. Clearly, the company refers to it

1 as Rate Schedule L-5I. That was the basis for my  
2 assumption. It certainly could be and should be a new  
3 tariff in that it now would be the company's proposed LP-5  
4 firm, LP-6 firm and an interruptible tariff. And the  
5 interruptible tariff would follow the existing rate  
6 structure in LP-5 for optional interruptible.

7 If that's not clear, I can try to go through it  
8 again.

9 BY MR. BARR:

10 Q. No. I think this has helped clarify your  
11 position, and I appreciate that.

12 I have one more question. You said a little while  
13 ago that you think that the interruptible customers under  
14 the LP-5 rate schedule should receive the same 1.5 times  
15 limitation on increase as the other customers are receiving;  
16 is that correct?

17 A. Yes. That was the recommendation I'm making;  
18 that the LP-5 interruptible customers be treated as a rate  
19 schedule with the same gradualism constraints applied to all  
20 other rate schedules.

21 Q. Mr. Baron, in 1991 when those customers received  
22 an effective 20 percent rate decrease upon the filing of the  
23 new interruptible schedules, did the other LP-5 and LP-6  
24 customers also receive a 20 percent discount -- reduction?  
25 I'm sorry.

1 MR. KLEPPINGER: Counsel, you continue to refer to  
2 1991, and I think for clarity of the record, --

3 JUDGE CHRISTIANSON: Yes. I was going to make that  
4 point.

5 MR. KLEPPINGER: -- the optional interruptible power  
6 provision, the LP-5 tariff, was proposed by the company in  
7 May of 1992. I don't know if you're referring to a  
8 different interruptible schedule, but the LP-5 optional  
9 interruptible power that's in effect today was proposed by  
10 the company in May of 1992 and approved 60 days after that.

11 JUDGE CHRISTIANSON: Okay, that clarifies it. It is  
12 approximately the same time. We're talking about the same  
13 thing, basically.

14 MR. BARR: That's the event I'm referring to.

15 MR. KLEPPINGER: That's the year you're referring to?

16 MR. BARR: Yes.

17 MR. KLEPPINGER: Thank you.

18 JUDGE CHRISTIANSON: You might have thought about it  
19 in '91. That's why he remembers '91.

20 THE WITNESS: To the best of my knowledge, the firm  
21 customers, if that's what you're referring to, at that time  
22 did not receive interruptible -- were not on the  
23 interruptible rate, so they didn't receive any change in  
24 their tariff, in their bill, as a result of the  
25 interruptible rate, if that's what you're asking.

1 BY MR. BARR:

2 Q. I would like to turn to a different subject now.  
3 This is at pages 65 to 72. You address the company's  
4 proposed credit for interruptible customers on a demand  
5 basis. You have several different criticisms you level  
6 there; is that right?

7 A. Yes.

8 Q. On page 68 you point to the PJM capacity  
9 deficiency rate, and you note that that would be a more  
10 accurate resource value for interruptible loads than what  
11 PP&L has used here in this case; is that right?

12 A. Yes.

13 Q. Do you know what date this figure was derived  
14 on?

15 A. I have seen a document at some point. I don't  
16 recall the date.

17 Q. Are you aware that this figure, the PJM  
18 deficiency rate, has been adjusted since this figure was put  
19 out?

20 A. This is the most recent information, I believe,  
21 that was contained in the company's filing. I don't have  
22 any more recent information, if that's what you're referring  
23 to. I believe this was in Mr. Sipic's testimony in this  
24 case.

25 Q. Would you be surprised to find that the value

1 has been reduced to \$65 a kilowatt year?

2 A. I wouldn't be surprised, no.

3 Q. Would that result in a lower credit per kilowatt  
4 month if put into this calculation?

5 A. The answer is yes, and I can calculate that for  
6 you.

7 (Witness computing on calculator.)

8 A. That would come out to about \$6.45 using the  
9 methodology that I talk about in my testimony.

10 Q. Under your theory?

11 A. The PJM capacity deficiency rate adjusted for  
12 the active load management factor on a 12-month basis would  
13 be \$6.45.

14 Q. Thank you.

15 I would like to turn to page 67. There, in  
16 criticizing the company's demand credit, you analogize the  
17 company to a monopsonist. This analogy appears intended to  
18 suggest that the price used by the company, \$300, is below  
19 an appropriate market price, just as a real monopsonist  
20 would require sellers to sell at less than market. I'm  
21 trying to understanding the role of your analogy here, or  
22 your metaphor, whatever you --

23 A. Maybe you could point to me exactly where you're  
24 referring in my testimony first.

25 Q. I'm sorry. At lines 3 to 6 you say that

1 "Essentially, under PP&L's framework interruptible customers  
2 who desire to purchase lower quality power are being told  
3 that they are in effect buying firm power but are also  
4 selling peaking capacity to PP&L. Since the interruptible  
5 customers must sell their 'capacity' to PP&L, the company is  
6 a monopsonist in these transactions."

7 A. Yes. The discussion in that part of my  
8 testimony is referring to the overall framework that the  
9 company is proposing in this case, that of assuming for the  
10 purposes of rate design and the actual rate that  
11 interruptible customers are selling capacity, peaking  
12 capacity, to PP&L. In that discussion I am identifying the  
13 fact that in this transaction PP&L is the only purchaser of  
14 that capacity, and that is a classic monopsonist situation  
15 where there is basically a monopoly purchaser from the  
16 market. PP&L's customers don't have an opportunity to sell  
17 their capacity in a market to anybody else except PP&L. And  
18 I'm criticizing really the entire framework that the company  
19 is using to require captive customers to take their  
20 interruptible service under those provisions.

21 I've argued in my testimony that interruptible power  
22 is a low quality purchase rather than what the company  
23 argues, which is selling capacity, peaking capacity, and I'm  
24 really referring to the fact that as a monopsonist I don't  
25 think it's appropriate that PP&L use this framework for

1 interruptible rates.

2 Q. I guess in part I'm trying to clarify here that  
3 your references to their selling capacity and to PP&L buying  
4 as a monopsonist is really just an analogy based on your  
5 view of the practical effect, again, in your view, of the  
6 use of this combustion turbine \$300 credit that the company  
7 is using. I mean they're getting a credit, as I -- well,  
8 it's just an analogy, if I could put it simply; isn't that  
9 right?

10 A. No. I'm really referring in my testimony, and  
11 really starting I guess on page 66, that I believe the  
12 company's entire framework of setting interruptible rates  
13 not on cost of service but rather on what the value of  
14 interruptible load is on an equivalent basis to peaking  
15 capacity, that's the discussion and the concern I have. I  
16 didn't address in my testimony the legitimacy or validity  
17 particularly of the \$300 investment cost that the company  
18 has suggested in this study, though I didn't really do an  
19 analysis of whether that is reasonable or not. It is  
20 certainly higher than the PJM capacity deficiency rate even  
21 as adjusted by what you just indicated previously, the  
22 lowering of the rate. The \$300 is still lower than the, I  
23 think it was, \$65 or \$64 annual rate.

24 But the monopsonist issue that I'm raising is really  
25 talking about the whole framework. Interruptible customers

1 should be afforded the same opportunity to purchase energy  
2 at a cost of service based rate, and simply because they  
3 desire to take it under lower quality conditions, I don't  
4 see that as justifying all of a sudden reversing the  
5 transaction and now making it the case that the  
6 interruptible customer is selling something to PP&L. It is  
7 my viewpoint; I think it's a legitimate one.

8 Q. If they were in fact selling power to PP&L, and  
9 if they were doing it at a competitive market level, what  
10 would be the rate of the competitive market level for  
11 interruptible power in the PJM area right now?

12 JUDGE CHRISTIANSON: Selling capacity, really.

13 BY MR. BARR:

14 Q. Yes. Capacity.

15 A. I don't know. I would guess the \$65, perhaps.  
16 It depends on the nature of the market. If industrial  
17 customers were entitled to sell capacity to utilities  
18 outside of PJM or what-have-you, it could change that. I  
19 haven't done a study of what that is. You indicated that  
20 the new capacity deficiency rate is somewhere around \$65.  
21 That could be a number. I just don't know.

22 The point of the matter is, interruptible customers  
23 today, and under your proposal, don't have that option and  
24 will not have that option. They must sell it to PP&L at  
25 whatever rate PP&L gets approved.

1 JUDGE CHRISTIANSON: You seem to be making a rather  
2 theoretical point right here. Does it have practical  
3 consequences?

4 THE WITNESS: Your Honor, I think that the practical  
5 consequence is whether interruptible customers should be  
6 required to be treated differently than other customers  
7 because they want to take power with less reliability. They  
8 are essentially -- all of these customers are essentially  
9 purchasing electricity from PP&L. They are agreeing to  
10 purchase or they desire to purchase electricity with lower  
11 reliability, lower quality, and the company is saying: once  
12 you tell us that you want lower quality power, which does  
13 cost less, all of a sudden now we will treat you as though  
14 you were selling us capacity. It's an interesting theory,  
15 but I don't think it's applicable and appropriate for a  
16 regulated electric utility where the customers don't have  
17 the options to buy electricity from anybody and sell their  
18 capacity, if that's how it's deemed, to anybody else.

19 MR. BARR: Your Honor, --

20 JUDGE CHRISTIANSON: That's enough for me.

21 BY MR. BARR:

22 Q. I'm sorry. I had originally started with the  
23 question, I guess, about the market value. If one could  
24 come up with an appropriate market value, would you think  
25 that would be an appropriate price to credit these customers

1 under this sort of hypothetical imputed sale that you've  
2 constructed here?

3 A. No, I do not. I basically -- I think my  
4 testimony mentions and states that if interruptible  
5 customers were permitted to sell their so-called capacity,  
6 if that's how it's deemed, to the market, had access to all  
7 utilities, not just in PJM but anywhere, through  
8 transmission agreements, that may be an appropriate way to  
9 develop the transaction.

10 I think what you're asking me is if someone comes up  
11 with a hypothetical market price, can we then go use our  
12 method? And I don't agree with that.

13 Q. Have you read Witness Johnson's testimony on  
14 this subject?

15 A. Yes, I have.

16 Q. He advances a market price of, I believe, \$15?

17 A. Yes, he did.

18 Q. You're not agreeing with the use of that market  
19 price?

20 A. No, absolutely. I think that's egregious.

21 Q. I suspected that would be the case, Mr. Baron.

22 I would like to go on to your discussion of an  
23 implied interruptible credit, which is at page 72, lines 16  
24 to 18.

25 A. Yes.

1 Q. Can you explain what the implied interruptible  
2 credit is that you reference here?

3 A. The concept or the number?

4 Q. The number, I guess, to begin with.

5 A. The number is basically -- it's about \$7.10 a  
6 kilowatt, and what it represents --

7 Q. I'm sorry; if I could just ask, where does that  
8 appear in your testimony?

9 A. It doesn't. I've done the calculation, though.

10 JUDGE CHRISTIANSON: That was going to be his third  
11 question.

12 BY MR. BARR:

13 Q. Could we get the work papers for that  
14 calculation?

15 A. Sure.

16 JUDGE CHRISTIANSON: That would be a data request,  
17 essentially.

18 MR. BARR: That's an on-the-record data request; yes.

19 THE WITNESS: Certainly.

20 BY MR. BARR:

21 Q. I'm sorry. Could you continue?

22 A. Did you ask me --

23 JUDGE CHRISTIANSON: He might be done. I think you  
24 were done with the response.

25

1 BY MR. BARR:

2 Q. Well, the first question was, what was the  
3 number, and then the other question was, what was the role?

4 A. The explanation of what it means?

5 Q. Yes.

6 A. Basically, given the Commission's prior orders,  
7 I did calculate that, the Commission's prior orders in the  
8 case you referred to earlier concerning interruptible and  
9 some of the issues before Your Honor in this case. The  
10 implied interruptible credit is basically -- under the rate  
11 design recommendation that I'm making for interruptible  
12 customers, this would be the average kilowatt difference,  
13 the demand charge difference, between firm and  
14 interruptible. So it's equivalent to the type of  
15 interruptible credit that the company is actually proposing  
16 in this case. I believe for LP-6 customers, the larger,  
17 high load factor LP-5 customers, the company is proposing  
18 interruptible credits of \$6 and \$8. That, by definition in  
19 the way the company actually designed their tariffs, that's  
20 a discernible number on the tariff. It says: reduce the  
21 bill by \$6 or \$8 per kilowatt.

22 The company's current interruptible rate, the  
23 optional LP-5 interruptible rate that's in existence now, is  
24 not stated that way. It is simply a different tariff and  
25 the billing determinants are determined based on firm power

1 and so forth.

2 My recommendation in this case, as I indicated  
3 previously, is to continue with the existing tariff but  
4 increase it based on my recommendation. When you do that  
5 you can actually calculate the difference between the firm  
6 rate and the interruptible rate, and that's what the \$7.10  
7 represents.

8 MR. BARR: Thank you.

9 Your Honor, those are all the questions I have.

10 JUDGE CHRISTIANSON: Fine. We'll probably break  
11 fairly soon, but let's begin further cross at least.

12 Anything from Trial Staff?

13 MR. MICKENS: No cross, Your Honor.

14 MS. KENNEY: Your Honor, I do have some cross.

15 MR. MELIA: No cross.

16 JUDGE CHRISTIANSON: Consumer Advocate, you have  
17 some. I suspected you might.

18 MS. KENNEY: Thank you, Your Honor.

19 CROSS-EXAMINATION

20 BY MS. KENNEY:

21 Q. Good morning, Mr. Baron.

22 A. Good morning.

23 Q. If you can't hear me, let me know.

24 JUDGE CHRISTIANSON: We all seem to have voice  
25 problems this morning.

1 BY MS. KENNEY:

2 Q. Yes. I may have to move closer, because my  
3 voice isn't going to get much louder.

4 A. So far I can hear you.

5 Q. Okay. Just let me know if you can't.

6 My name is Mary Kenney. I represent the Office of  
7 Consumer Advocate.

8 I would like to refer you to pages 7 and 8 of your  
9 testimony. There you provide a comparison of the company's  
10 LP-5 rate proposal to the company's wholesale rates, and you  
11 also compare the LP-5 and LP-6 average energy prices with  
12 market prices. Is it your position that the LP-5 rate  
13 should reflect the market price of energy?

14 A. No. I indicated to counsel that I have a  
15 specific recommendation based on cost of service and  
16 gradualism for the LP-5 tariffs. I'm not recommending that  
17 in this case.

18 Q. Is that an eventual goal of your recommendation?

19 A. I think it's an eventual goal of industrial  
20 customers -- and the utility industry appears to be moving  
21 in that direction -- to give customers an opportunity to  
22 face competitive rates on a market-based environment, but  
23 that's not what I'm proposing in this case.

24 Q. I would like to refer you also to pages 29 to 32  
25 of your testimony. On those pages you discuss your proposal

1 to allocate the capacity value of non-utility generation, or  
2 NUGs, on a demand basis in the cost of service study. Under  
3 your proposal, would the ECR be set at zero for all groups  
4 for the first year of implementation?

5 A. The recommendation that I made with respect to  
6 the NUG treatment in the cost study was a means to align the  
7 cost of service with the ECR calculations that the company  
8 made in its filing. Basically, the reason I did it -- and I  
9 need to preface it before I answer your question. The  
10 company assumed in its filing, even though it rolled in the  
11 ECR, the company assumed in its filing that the NUG  
12 reallocation would take place; and there's a reference in  
13 Exhibit Future I, Schedule D, that shows that. They then  
14 transferred those adjustments into the cost of service study  
15 on the revenue side, and as I explain in my testimony,  
16 revenues are reduced, let's say, for high load factor LP-5  
17 customers, to reflect that.

18 My adjustment in the cost study simply aligns the  
19 expense side of the income calculation with the revenue side  
20 that the company already made. If the fuel adjustment were  
21 zeroed for this, as the premise of your question, then this  
22 would be also zeroed. In other words, my point is simply  
23 that there should be a matching between revenues and  
24 expenses in the cost study. The company didn't do that on  
25 the revenue side, so I adjusted the expense side. If the

1 revenue side were zeroed in terms of this NUG adjustment for  
2 the purposes of the cost allocation, then it would also be  
3 done for the expense side.

4 MS. KENNEY: Thank you, Mr. Baron. I have no further  
5 questions.

6 JUDGE CHRISTIANSON: Anything from the federal  
7 government?

8 MR. McCORMICK: No questions.

9 JUDGE CHRISTIANSON: Small Business?

10 MS. MOURY: Yes, Your Honor.

11 JUDGE CHRISTIANSON: Go ahead.

12 MS. MOURY: Thank you.

13 CROSS-EXAMINATION

14 BY MS. MOURY:

15 Q. Good morning, Mr. Baron.

16 A. Good morning.

17 Q. First, Mr. Baron, if you would turn to page 19  
18 of your direct testimony. Here you refer to modifications  
19 which you're proposing to the 12-CP study if it is to be  
20 relied on in this case. My question is: if you were  
21 relying on the 1-CP method in this case, would you also be  
22 recommending those same changes?

23 A. Yes, I would.

24 Q. Have you done a cost study using the 1-CP  
25 method, making those changes?

1 A. No, I have not.

2 Q. I understand that your reason for using the  
3 12-CP method in making your revenue distribution proposal  
4 even though you prefer the 1-CP method is essentially based  
5 on past Commission decisions; correct?

6 A. Yes. That's in large part.

7 Q. Are you aware that within the last two years the  
8 Commission has approved a proportional responsibility or  
9 weighted 12-CP allocator for UGI Electric?

10 A. I am not familiar with that.

11 Q. Are you not familiar with that allocator or not  
12 familiar with whether it has been approved by this  
13 Commission?

14 A. Both.

15 Q. Since you did not perform a cost study using the  
16 single CP method with your changes, then I would assume that  
17 you also did not develop a proposed revenue distribution  
18 using results that would come from that method?

19 A. That's correct.

20 Q. Is it possible that if you had relied on the  
21 1-CP method, that you would have actually ended up proposing  
22 smaller increases for the GS-3 and LP-4 classes and a larger  
23 increase for the LP-5 class?

24 A. I don't believe so, but I honestly -- the rate  
25 of return results for LP-5 under the 1-CP method showed that

1 LP-5 customers were earning substantially in excess of cost  
2 of service, and I believe that given my reliance on cost of  
3 service in my revenue distribution method, that it would  
4 have shown much more favorable results to LP-5 customers  
5 than that which I'm recommending.

6 Q. What I would like to do, Mr. Baron, is go  
7 through the results of the company's 12-CP and 1-CP and  
8 apply your methodology for distributing the revenue increase  
9 then. I would refer you to page 20 of your testimony, to  
10 Figure 1.

11 A. Yes. I have Figure 1.

12 Q. Now, this chart shows that under the company's  
13 12-CP study at present rates, the GS-1 and GS-3 classes have  
14 the highest relative rates of return; is that right?

15 A. Yes.

16 Q. And looking on page 22 to Figure 2, this chart  
17 shows that according to PP&L's 1-CP cost study at present  
18 rates, the GS-1 and GS-3 classes still have the highest  
19 relative rates of return; is that right?

20 A. Yes.

21 Q. So would you agree that under either of those  
22 methods, the GS-1 and GS-3 classes should get significant  
23 rate relief relative to the other major rate classes?

24 A. I would expect so, yes.

25 Q. Staying with Figure 2, which shows the results

1 of the 1-CP method, would you agree that the class providing  
2 the smallest subsidy is the LP-5 class?

3 A. Figure 2, the 1-CP method?

4 Q. Yes. With the exception of -- no, that's right;  
5 is providing the smallest subsidy.

6 JUDGE CHRISTIANSON: Yes, that's the smallest.

7 THE WITNESS: In terms of the classes that -- first  
8 of all, these are relative rate of return indices.

9 JUDGE CHRISTIANSON: You're not talking about dollars  
10 here, you're just talking about rate of return.

11 THE WITNESS: Exactly, Your Honor. So it would be  
12 somewhat -- I don't believe I had a chart for this, I'm  
13 pretty sure I didn't, for the dollar subsidies. I mean the  
14 information is in the filing. So it's hard to say dollar-  
15 wise what are the largest.

16 BY MS. MOURY:

17 Q. But according to Figure 2, it's showing a  
18 relative rate of return of some 200 percent for the GS-3 and  
19 the LP-4 classes, and a relative rate of return of about 130  
20 percent for the LP-5 class; right?

21 A. Yes.

22 Q. Now, if we would look at your proposed revenue  
23 distribution at Exhibit SJB-4, we would see a proposed  
24 increase for the GS-3 class of 7.41 percent, and a proposed  
25 increase for the LP-5 class of 7.29 percent; is that right?

1           A.    Yes.  For the LP-5 firm customers.  And then  
2 there's LP-5 firm, which are just larger current LP-5  
3 customers.

4           Q.    If you had relied on the 1-CP results as shown  
5 here, don't you think it's possible that the GS-3 and  
6 probably even the LP-4 classes would have received  
7 substantially smaller increases than you've proposed in  
8 Exhibit SJB-4?

9           MR. KLEPPINGER:  I'll object, Your Honor.  That calls  
10 for undue speculation on a theory that's not even being  
11 advocated here, and it also calls for the witness to accept  
12 the methodology of 1-CP unadjusted for the corrections that  
13 were made by Mr. Baron to the PP&L cost of service study.  I  
14 don't know what value the record will have with a very  
15 generalized, speculated number in it.

16           MS. MOURY:  Well, Your Honor, I would have gone  
17 through this comparison with his changes in the 12-CP and  
18 the 1-CP if he produced those, but he didn't, and I think  
19 that this at least is representative of what might have  
20 happened as between those two studies.

21           JUDGE CHRISTIANSON:  I'll agree with Mr. Kleppinger  
22 that there is a strong element of speculation, but I'll ask  
23 the witness to try to respond to the general thrust of the  
24 question, if you can.

25           THE WITNESS:  I would assume that in the case of GS-1

1 -- of course, I'm proposing a zero increase to GS-1 already.  
2 Under my recommendation that would be maintained. To the  
3 extent that the relative rate of return for GS-3 and LP-4  
4 would be higher for the subsidies, larger, under the study  
5 that you're hypothesizing, which I haven't done, if that  
6 were the case, then the results would be lower. How much  
7 lower I don't know, because remember I'm not proposing to  
8 reduce the subsidies 100 percent, I'm proposing a 50 percent  
9 reduction in the subsidies. There are adjustments that  
10 occur because I am applying a gradualism principle. So what  
11 the actual final result would be really is speculative.

12 JUDGE CHRISTIANSON: Yes. There are a lot of  
13 conflicting forces going on here.

14 THE WITNESS: Correct. Correct. Because the last  
15 step basically deals with the gradualism principle and how  
16 that will play out. I certainly would be willing to say  
17 that I wouldn't expect it to be any worse than this.

18 BY MS. MOURY:

19 Q. If you would just assume for the moment that you  
20 had done the 1-CP study with your changes and that the rates  
21 of return shown for the GS-3 and LP-4 classes would have  
22 been higher than in the study that you do show the results  
23 for, the 12-CP adjusted for your changes. If those classes  
24 showed higher rates of return and you would then find it  
25 necessary to assign smaller percentage increases to those

1 classes based on those results, wouldn't the only major rate  
2 class that you could shift that responsibility to be the  
3 LP-5 class because of your cap of 17.55 percent on the other  
4 major classes?

5 A. I don't know if that would work out or not. For  
6 example, when the adjustments that I've talked about are  
7 applied, it would change the LP-5 rate of return  
8 substantially as well, because all of the adjustments impact  
9 LP-5 legitimately. So it's hard to say whether the LP-5  
10 change -- what that would be. In other words, it may be  
11 that the relative rate of return indices that you're looking  
12 at on Figure 2 are no longer in the same relative position.  
13 I just don't know. So it really is speculative without  
14 doing quite a few calculations.

15 Q. Now, regarding the aspect of your proposal that  
16 calls for a cap in the increase to any class of 1.5 times  
17 the system average increase, I note on page 51 of your  
18 testimony, lines 1 through 7, that you indicate that this  
19 cap is appropriate given the substantial revenue increase  
20 sought by PP&L in this case. Would you agree that in the  
21 event the final revenue award is much lower than what PP&L  
22 has proposed, that an increase to a particular class that is  
23 greater than 1.5 times the system average increase wouldn't  
24 necessarily violate the concept of gradualism?

25 A. I think it would on a relative basis. As a

1 matter of fact, I have a recommendation as to how the  
2 Commission should apply and distribute the rate increase  
3 should the company get an increase less than they've  
4 requested. I think the example I used was \$20 million of  
5 increase, and showed how it would apply. I have maintained  
6 the gradualism principle because I think it is important  
7 that within a rate proceeding, that customers are not unduly  
8 affected more than other customers. That's really the  
9 gradualism principle.

10 So I am recommending that that be maintained, the  
11 distribution that I'm proposing be maintained, regardless of  
12 the level of increase.

13 Q. My last question does actually relate to your  
14 proposal for a distribution of the revenue on a \$20 million  
15 increase, which I believe approximates the PPLICA revenue  
16 requirement proposed here?

17 A. Yes. The adjustments that we have recommended  
18 produce that result.

19 Q. Did you perform a cost allocation study using  
20 the 12-CP method with your recommended changes at that level  
21 of rate relief?

22 A. The cost of service study is based on present  
23 rates, so those would be -- present rate revenues -- and  
24 that would be unaffected by the authorized increase. So the  
25 present rate cost of service study that I use, that I

1 developed, which is the company's study adjusted for the  
2 three items that I discussed, that would be applicable  
3 regardless of the level of increase. In other words, I  
4 think what you're asking is if the company gets less than  
5 \$20 million -- let's say they got \$20 million of increase,  
6 did I do a cost of service study on that? I didn't do one  
7 at proposed rates. The recommendations that I'm making, and  
8 really I think all the parties in this case are making, are  
9 based on what's called the present rate --

10 Q. Right.

11 A. -- revenue cost of service study.

12 Q. Your recommendation, though, for distributing a  
13 \$20 million increase is essentially a proportionate scale-  
14 park of your proposal for distributing a full revenue  
15 increase; is that right?

16 A. Yes; that's correct.

17 Q. Would you agree that reducing the allowed return  
18 on rate base would likely have a proportionately greater  
19 impact on the residential and commercial classes than on the  
20 industrial classes?

21 A. It wouldn't affect the present rate revenue cost  
22 of service study because the rate of return is derived there  
23 based on the test year.

24 Q. One last question, Mr. Baron. Would you agree  
25 that if you employed a proportionate scale-back of your

1 proposed method for allocating the revenue increase, that  
2 after this case is over, if you were to perform a cost  
3 allocation study to see where all the classes ended up, that  
4 there wouldn't have been as much progress toward cost-based  
5 rates as if you employed some other scale-back?

6 A. I honestly don't know. We would have to do the  
7 study.

8 Q. All right. I ended that question not quite the  
9 way I intended to. Let me just try this one more time.

10 You have proposed a 50 percent reduction in the  
11 subsidy for all of the classes subject to some constraints  
12 where you got into decreases and capping it at 1.5 times the  
13 system increase.

14 A. Yes, that's right.

15 Q. If a \$20 million revenue award were made and  
16 your recommended distribution were followed, those classes  
17 would not see a 50 percent reduction, would they, in the  
18 subsidy?

19 A. Except for the effect of the cap, they would,  
20 but because of the gradualism provision that I'm putting  
21 on -- in other words, if there was no gradualism adjustment  
22 that I'm recommending, the 50 percent subsidy reduction, if  
23 it were redone at the authorized level of revenues, would  
24 reflect that. So the methodology basically addresses the  
25 issue that the final rates contain subsidies 50 percent of

1 the level that were in existence in present rates. That  
2 would still be true even if the company got a lower  
3 increase. It's not true in total because of the gradualism  
4 principle that I'm applying. But in terms of figuring out  
5 what the implications are, one thing I can tell you clearly  
6 is that if we reduced all subsidies in one fell swoop, that  
7 would have a different result than what I'm recommending.  
8 I'm not recommending that because of the impacts, particular  
9 on residential customers.

10 Q. Would you agree that the relative rates of  
11 return would not improve as significantly?

12 A. I think that's probably true, yes.

13 MS. MOURY: That's all I have, Your Honor.

14 Thank you, Mr. Baron.

15 JUDGE CHRISTIANSON: Go ahead, Bethlehem Steel, if  
16 you want.

17 MS. BRANDEIS: We have no questions for Mr. Baron.

18 JUDGE CHRISTIANSON: I was going to follow up on that  
19 line, but I'm not sure I want to.

20 If you approach a zero increase, would some of your  
21 principles change about gradualism especially?

22 THE WITNESS: My recommendation I think would be, if  
23 there were no increase to the company, that there simply be  
24 no increases to any rate schedule.

25 JUDGE CHRISTIANSON: But wouldn't that be an

1 opportunity to make some rate design changes?

2 THE WITNESS: It certainly would be an opportunity.  
3 I guess the problem would be that you would end up where the  
4 company got no increase, but some customers, depending on  
5 the ultimate outcome, did get increases.

6 JUDGE CHRISTIANSON: Yes. There's a gradualism  
7 problem there too, I guess.

8 THE WITNESS: If you followed the 1.5 times,  
9 certainly there would be. And I would think that in  
10 general, if the company got no increase, my recommendation  
11 would probably be in this case not to increase any  
12 customers. Of course, if they get a decrease it becomes  
13 more problematic in that regard.

14 JUDGE CHRISTIANSON: That's another kettle of fish.  
15 Well, then, let's check. I've been delaying the  
16 break so we can break --

17 MR. HAYNES: I have some questions.

18 JUDGE CHRISTIANSON: Oh, Mr. Haynes. Yes.

19 MR. HAYNES: Just two lines.

20 JUDGE CHRISTIANSON: We have to talk to you on break  
21 about some changes to scheduling we've made. Go ahead with  
22 your questions.

23 CROSS-EXAMINATION

24 BY MR. HAYNES:

25 Q. Mr. Baron, I'm Bob Haynes, representing the

1 Central Eastern Pennsylvania Fuel Oil Dealers.

2 At page 36 of your testimony, if you could turn to  
3 that --

4 JUDGE CHRISTIANSON: What page?

5 MR. HAYNES: Page 36.

6 BY MR. HAYNES:

7 Q. At the top of the page, beginning at line 1, by  
8 your testimony there you're not making any representations  
9 about the truth or accuracy of any PP&L rate filings with  
10 the Commission other than the rate filings that you  
11 reference, the EDI and the economic development rate  
12 filings?

13 A. That's what I'm referring to, the economic  
14 development rate filing.

15 Q. So you have made no independent analysis of  
16 whether PP&L's submissions for Rate Schedule RTS have been  
17 true and correct?

18 A. I have not examined that at all.

19 Q. Turning to page 40 of your testimony, in  
20 Figure 3, am I correct that you have grouped as residential  
21 all of the residential rate schedules, that would be RS, RTS  
22 and RTD, together?

23 A. Yes; for the purposes of this presentation, yes.

24 Q. And if I went to your supporting Exhibit SJB-2,  
25 page 5, would that provide the breakout of the specific rate

1 classes?

2 A. Yes. It would show --

3 Q. Some of the rate classes?

4 A. Yes. It would show RTS in that one, for  
5 example.

6 Q. What rate class has the largest deficit under  
7 your class cost of service study?

8 A. RTS.

9 MR. HAYNES: That's all the questions I have. Thank  
10 you.

11 JUDGE CHRISTIANSON: Fine. That does clarify that.  
12 Then we might as well -- do we have any more cross for the  
13 witness, or follow-up on other cross?

14 (No response.)

15 JUDGE CHRISTIANSON: We might as well take a break.  
16 Do you want a few minutes with your witness?

17 MR. KLEPPINGER: We can do redirect now, if you want  
18 to do that before the break.

19 JUDGE CHRISTIANSON: If you're ready to go, go ahead  
20 and do it.

21 MR. KLEPPINGER: I think we're ready to go.

22 JUDGE CHRISTIANSON: Go ahead. Learned counsel  
23 doesn't have to talk to his witness.

24 THE WITNESS: This will be a surprise to me.

25 JUDGE CHRISTIANSON: Well, the lawyer is in control.

1 THE WITNESS: We've done this before.

2 REDIRECT EXAMINATION

3 BY MR. KLEPPINGER:

4 Q. Just a few quick ones, Mr. Baron. You made  
5 reference at one point to an OCA interrogatory response, and  
6 you referenced Question 23, and you did not put a set number  
7 on that. For ease of the parties' reference, I think you  
8 should read in what set of that OCA --

9 A. The reason I didn't, there was no set number on  
10 this --

11 Q. If you can read the upper right-hand corner,  
12 just so people can reference it?

13 A. The responding witness was Mr. Slivka, and it  
14 was dated February 17, 1995, Question 23.

15 JUDGE CHRISTIANSON: February, that was pretty early.

16 BY MR. KLEPPINGER:

17 Q. Secondly, during your cross-examination by the  
18 company you were referring to various pages out of one of  
19 Mr. Kasper's exhibits, and at one point you referenced page  
20 16, and so the record is clear, could you identify that page  
21 by the volume number in that exhibit? I believe it's  
22 Volume IV.

23 A. Yes. It's Volume IV-C -- Volume IV, and it's  
24 Section C, page 16.

25 Q. Next, Mr. Baron, during cross-examination by the

1 company reference was made to the PJM capacity deficiency  
2 rate having changed and using that as a calculation for a  
3 demand credit based on a value approach to pricing the  
4 credit. Do you recall those questions?

5 A. Yes.

6 Q. Just so the record is clear, it is your  
7 position, is it not, that that value approach not be used  
8 irrespective of what the number turns out to be?

9 A. That's correct. That's correct.

10 Q. Now, in responding to the Administrative Law  
11 Judge's inquiry of what occurs with a zero increase, I  
12 believe it was your testimony earlier -- correct me if I'm  
13 wrong -- that if there is no revenue requirement increase  
14 awarded to PP&L in this case but if the interruptible rate  
15 design change occurs as proposed by the company, there would  
16 in fact be an increase to the interruptible group of  
17 customers?

18 A. Oh, absolutely, and I think the company  
19 indicated it would be in the neighborhood of 22 percent.

20 JUDGE CHRISTIANSON: One of your statements had that  
21 number in it, 22-point-something or other.

22 THE WITNESS: Yes. And I believe it was a response  
23 by the company to an on-the-record data request.

24 JUDGE CHRISTIANSON: That was the basis for the  
25 number.

1 THE WITNESS: That's correct.

2 BY MR. KLEPPINGER:

3 Q. Finally, Mr. Baron, the company asked you  
4 questions regarding the implementation of the optional  
5 interruptible power provisions in 1992. Do you recall those  
6 questions?

7 A. Yes.

8 Q. When you participated in the proceeding before  
9 the Commission regarding the freezing or the closure of that  
10 interruptible rate provision, did you have occasion to  
11 review the company's original submission to the Commission  
12 for those rates?

13 A. Yes.

14 Q. There has already been identified in this case,  
15 Mr. Baron, PPLICA Cross-Examination Exhibit No. 5, which is  
16 a copy of the company's filing to the Commission. I would  
17 like to show you that at this time, if you don't have it on  
18 the stand.

19 A. I believe I've got that. Dated June 1, 1992,  
20 Phase IV?

21 Q. That is correct.

22 Could you turn to page 12 of that document?

23 A. Yes, I have that.

24 Q. The last paragraph I call your attention to, and  
25 after you have a chance to review that, I would like to ask

1 you whether or not in this presentation by PP&L to the  
2 Commission proposing the optional interruptible power  
3 provision, that the company indicated that the proof of  
4 revenue calculations confirm that for total class  
5 consumption, the interruptible rates produce the same  
6 revenues as firm rates?

7 A. Yes. That's what the filing by PP&L says.

8 MR. KLEPPINGER: Thank you.

9 I have nothing further, Your Honor.

10 JUDGE CHRISTIANSON: Just from my memory, the recent  
11 proceeding you're talking about is the one that Schnierle  
12 had.

13 MR. KLEPPINGER: That's correct.

14 JUDGE CHRISTIANSON: Then we can check. Any more for  
15 the witness? The bidding closes soon.

16 MS. MOURY: Your Honor, could I make a request to ask  
17 a couple questions on one area that was on the back of my  
18 page that I forgot?

19 MR. KLEPPINGER: Absolutely not.

20 (Laughter.)

21 MS. MOURY: It will only really take a couple  
22 minutes.

23 JUDGE CHRISTIANSON: We'll allow special permission  
24 even though it is almost 11:30.

25 MS. MOURY: I know. I hated to do it.

1 JUDGE CHRISTIANSON: Go ahead and try. Mr.  
2 Kleppinger is acquiescing I guess.

3 MS. MOURY: I appreciate that.

4 FURTHER CROSS-EXAMINATION

5 BY MS. MOURY:

6 Q. Mr. Baron, what I wanted to ask you about is  
7 your testimony where you discuss the fact that the company  
8 didn't present any information relating to the specific  
9 increase for the LP-5 interruptible subset.

10 A. Yes.

11 Q. And you said that that was a similar situation  
12 for LP-4.

13 A. That's correct.

14 Q. Am I correct that the overall increase for the  
15 LP-4 would be similar to that for LP-5 for the interruptible  
16 customers?

17 A. Yes. I believe it's Table 1 in my testimony.

18 (Witness perusing document.)

19 MR. KLEPPINGER: Page 44 of his testimony has that  
20 table, which breaks it out.

21 THE WITNESS: Yes. The LP-4 interruptible customers  
22 would be increased by 34 percent.

23 BY MS. MOURY:

24 Q. But your specific interruptible rate design  
25 proposals don't impact on LP-4 interruptible?



1 proceeding?

2 A. Actually, I've reviewed -- I don't believe I saw  
3 testimony. I have reviewed this document.

4 JUDGE CHRISTIANSON: I'm not sure there was a formal  
5 proceeding in 1992. It was just a 60-day notice thing.

6 MR. BARR: A submission.

7 JUDGE CHRISTIANSON: There was obviously information  
8 filed with the filing, tariff filing.

9 BY MR. BARR:

10 Q. When that rate was, as your counsel put it,  
11 frozen or closed in a proceeding late last year, pursuant to  
12 Commission order early this year, did you testify at that  
13 time?

14 A. Yes.

15 Q. Did you advocate that the interruptible option  
16 be kept open?

17 A. Yes.

18 Q. Did the Commission accept that recommendation?

19 A. No.

20 MR. BARR: I have no other questions.

21 JUDGE CHRISTIANSON: Yes, you might as well clarify  
22 the point.

23 Well, then, we seem to be about due for a break.  
24 It's been a couple hours now. Let's take about 15 minutes.

25 You're excused.

1 (Witness excused.)

2 (Recess.)

3 JUDGE CHRISTIANSON: Let's go ahead and be back on  
4 the record.

5 We have a Bethlehem Steel witness ready to go. I  
6 might as well swear in the witness.

7 Whereupon,

8 MAURICE BRUBAKER

9 having been duly sworn, testified as follows:

10 JUDGE CHRISTIANSON: Then with the absence of Mr.  
11 Kleppinger, who's out with his people, we'll continue.

12 MR. WILLIAMSON: Your Honor?

13 JUDGE CHRISTIANSON: Yes.

14 MR. WILLIAMSON: I'm Mr. Williamson, here in his  
15 place.

16 JUDGE CHRISTIANSON: Oh, that's right. I'm sorry.  
17 You'll do, yes.

18 MR. WILLIAMSON: Thank you, Your Honor.

19 JUDGE CHRISTIANSON: I'm so used to Kleppinger these  
20 cases.

21 MR. WILLIAMSON: Most people are always happy to see  
22 me here instead of him.

23 JUDGE CHRISTIANSON: Yes, you're less long-winded  
24 than he is.

25 (Laughter.)

1 JUDGE CHRISTIANSON: Go ahead.

2 DIRECT EXAMINATION

3 BY MS. BRANDEIS:

4 Q. Will you please state your name and business  
5 address for the record?

6 A. My name is Maurice Brubaker. My business  
7 address is 7730 Forsythe Boulevard, St. Louis, Missouri.

8 Q. And on whose behalf are you testifying?

9 A. I'm testifying on behalf of Bethlehem Steel  
10 Corporation.

11 Q. And Mr. Brubaker, do you have before you a  
12 document labeled, Testimony and Exhibit of Maurice Brubaker,  
13 consisting of I believe 18 pages and an exhibit?

14 A. Yes, I do.

15 Q. And was this document prepared by you or under  
16 your direction?

17 A. It was.

18 Q. And do you have any corrections or additions to  
19 this testimony?

20 A. I do not.

21 Q. If I were to ask you the questions today, would  
22 your answers be the same?

23 A. Yes, they would.

24 Q. And are these answers true and correct to the  
25 best of your knowledge, information and belief?

1 A. Yes, they are.

2 MS. BRANDEIS: Your Honor, I would like to move for  
3 admission of the testimony of Mr. Brubaker and have it  
4 marked as Bethlehem Steel Statement No. 1.

5 JUDGE CHRISTIANSON: So identified, and under the  
6 standard conditions, Statement No. 1 for Bethlehem Steel is  
7 now accepted into the record.

8 (Whereupon, the documents were marked as  
9 Bethlehem Steel Statement No. 1 and  
10 Bethlehem Steel Exhibits Nos. MEB-1 through  
11 MEB-3 for identification and received in  
12 evidence.)

13 MS. BRANDEIS: The witness is available for cross-  
14 examination.

15 JUDGE CHRISTIANSON: Fine. We can go ahead with  
16 counsel present, which is what we need, really. We can  
17 start with the company.

18 MR. BARR: Thank you, Your Honor.

19 CROSS-EXAMINATION

20 BY MR. BARR:

21 Q. Mr. Brubaker, you'll have to bear with me.  
22 Because of the switch in the schedule, I may have a little  
23 more trouble reading these notes than I would this  
24 afternoon, but we'll forge ahead, all right?

25 JUDGE CHRISTIANSON: We try to keep counsel off

1 balance that way.

2 MR. BARR: That's right.

3 (Laughter.)

4 BY MR. BARR:

5 Q. Now, your sponsor in this case is Bethlehem  
6 Steel. Is that the single largest customer on the PP&L  
7 system?

8 A. To my knowledge, it is, yes.

9 Q. Under which rate schedules does Bethlehem  
10 purchase power?

11 A. Bethlehem has one major facility that purchases  
12 power under the ISA schedule, and another major facility  
13 that purchases power under the LP-5I schedule.

14 There are other facilities that Bethlehem has I'm  
15 sure in addition to the two major facilities that take  
16 power, but our focus in this case is certainly on those two.

17 Q. Do you know the amount in cents per kilowatt-  
18 hour that Bethlehem pays on average to the company under its  
19 various rate schedules?

20 A. I have information about that. It's my  
21 understanding that Bethlehem considers that information to  
22 be somewhat sensitive and confidential.

23 Q. That's something the company doesn't have in its  
24 possession?

25 (No response.)

1 Q. I'm sorry, confidential in the sense that it's  
2 something the company doesn't know, or --

3 A. Which company?

4 Q. I'm sorry. When I say "the company," I'm  
5 referring to PP&L.

6 A. I'm sure that PP&L does know it.

7 JUDGE CHRISTIANSON: He just doesn't want to speak it  
8 out in open court, necessarily.

9 THE WITNESS: I'm advised by --

10 MS. BRANDEIS: Your Honor, the company regards that  
11 information as proprietary and confidential.

12 MR. BARR: I'm not asking for the specific  
13 information in this case. I'm verifying that he knows what  
14 it is.

15 JUDGE CHRISTIANSON: He knows what it is because it's  
16 been shared, presumably, with PP&L in a private sense. Go  
17 ahead. Is that the case?

18 THE WITNESS: Yes. Yes, sir, I'm aware of what it  
19 is.

20 BY MR. BARR:

21 Q. Are you aware of the relationship of that cost  
22 per kilowatt-hour to the cost paid by other customers on the  
23 system in general?

24 JUDGE CHRISTIANSON: Is it above or below, I guess is  
25 the main thought.

1 THE WITNESS: I would think above some, and below  
2 others. Perhaps -- it's difficult to give a precise answer  
3 to that question without revealing the information that the  
4 company prefers to keep confidential.

5 BY MR. BARR:

6 Q. Well, maybe I can make it simple. Isn't it true  
7 that as a customer under the ISA schedule and under the  
8 LP-5I schedules, that Bethlehem is paying among the lowest  
9 rates of any customer served by the company?

10 A. I believe the ISA contract rate is below the  
11 average for let's say the LP-5 tariff. For the Bethlehem  
12 facility on the LP-5I schedule, it pays the same rate that  
13 any other customer with the same load characteristics on  
14 that schedule would pay.

15 Q. But if the ISA is lower, then the average would  
16 be lower?

17 A. Yes.

18 Q. Mr. Brubaker, please turn to your Schedule 1 to  
19 your testimony.

20 A. Of which exhibit?

21 Q. Exhibit MEB-1, Schedule 1.

22 A. Okay.

23 Q. Here you compare PP&L's rates with those of a  
24 selection of other utilities; is that right?

25 A. Yes, it is.

1 Q. Those utilities are found in, as I understand  
2 it, Wisconsin, Illinois, Indiana and Ohio as well as  
3 Pennsylvania; is that right? I guess there are a few others  
4 like Minnesota in there, too; midwestern companies.

5 A. Basically correct, yes.

6 Q. Does PP&L compete for power sales with any of  
7 those companies?

8 A. When customers look around for siting of new  
9 facilities or for expansion of existing facilities, if they  
10 are looking at them in the industrialized midwest region,  
11 then this would be an array of utilities that an informed  
12 industrial customer would look at.

13 Q. Except for the couple of Pennsylvania companies,  
14 those are all companies that are actually selling power on  
15 different power pools; isn't that right? They're not part  
16 of the PJM system and it's not possible even for a municipal  
17 say for the most part in Pennsylvania to buy power from most  
18 of these companies?

19 A. At the moment, that's correct, yes.

20 Q. Power sales are made, however, in direct  
21 competition with PP&L in Pennsylvania from other  
22 Pennsylvania utilities?

23 A. I'm not sure that I follow your question. What  
24 market are you speaking of?

25 Q. Well, at this moment, I'm speaking of the

1 wholesale market.

2 A. With that context, let me have your question  
3 again.

4 Q. Power sales are made by companies, other power  
5 companies in Pennsylvania in competition with PP&L sales; is  
6 that right?

7 A. Yes, but not at these rates.

8 Q. I understand that. Power sales are also made by  
9 New York and Maryland power companies in Pennsylvania?

10 A. In the wholesale market?

11 Q. Yes.

12 A. Yes.

13 Q. Are any Maryland or New York companies or New  
14 Jersey companies listed in this comparison chart you have?

15 A. No. Those are not listed. Generally, those,  
16 with the exception possibly of Maryland, those are not  
17 places where an industrial customers looking to site new  
18 facilities or to expand production would go.

19 Q. That's the context of your comments about the  
20 alternatives?

21 A. Yes.

22 Q. Do you know why power sales from many of these  
23 Ohio utilities would be cheaper than those charged by PP&L  
24 or other Pennsylvania companies?

25 A. In part, the other utilities have lower costs or

1 have rates for industrial customers set closer to cost.

2 Q. For some of these Ohio companies and Indiana  
3 companies, isn't it due in large part to their far higher  
4 reliance on inexpensive coal-run facilities?

5 A. That's part of my previous answer, that part of  
6 it was due to lower costs. And that could be one. But some  
7 of these other utilities do have nuclear power generation as  
8 well.

9 In fact, the one that's next to the bottom, Indiana  
10 Michigan, has a major nuclear facility.

11 Q. Some of the others on this list that are at the  
12 bottom almost entirely rely on coal, though; don't they?

13 A. Yes, but not all of them.

14 Q. In your testimony, you state that the  
15 interruptible rate proposed by the company is draconian, and  
16 if I can quote, "will substantially erode its competitive  
17 position."

18 A. Yes.

19 Q. Is that right?

20 A. That's what I said, and I believe that to be  
21 true.

22 Q. What's the result, if the company mistakes the  
23 market for electricity and does in fact employ interruptible  
24 rates that are draconian, or too high in the sense that  
25 you're using it here? What's the result of that, if you're

1 correct about its being draconian?

2 A. Well, the result would be a further erosion in  
3 PP&L's competitive position, which will make it less  
4 attractive as a source for new customers siting facilities,  
5 and makes the economics of staying on the PP&L system at  
6 current levels of production or at higher levels of  
7 production much less attractive to customers.

8 Q. So apart from the effect on potential new  
9 customers, the other result is that people might essentially  
10 leave the system or reduce their purchases in response; is  
11 that your answer?

12 A. That's a possible consequence, yes.

13 Q. Well, those seem to be the two consequences that  
14 we might see; is that right?

15 A. Yes.

16 Q. Would the resulting load loss result in reduced  
17 revenue to the company?

18 A. Yes, it would.

19 Q. Who would bear the burden of that load loss, in  
20 the immediate short term?

21 A. In the short term, it would be the utility, but  
22 unless the utility approach to life has changed, eventually  
23 there will be a request for the other customers to pick it  
24 up.

25 Q. But the immediate impact, until the next rate

1 case, is certainly all shareholder burden; is that right?

2 A. That's correct, yes.

3 Q. So the company does have a stake in estimating  
4 correctly whether or not the interruptible rate is properly  
5 designed; is that right?

6 A. Well, it should have an interest. It should  
7 have a stake.

8 Q. Are you familiar with the company's competitive  
9 rate rider?

10 A. Yes. I've read that.

11 Q. If the company faces a situation in which a new  
12 customer would like to move into the service territory or an  
13 existing customer is considering shifting production or  
14 shutting down, does the competitive rate rider give the  
15 company the flexibility to deal with that competitive need?

16 A. It does in a particular circumstance. If the  
17 customer is aware of it and if the utility is willing to  
18 negotiate a price that's mutually acceptable, it does.

19 But that doesn't mean that the standard tariffs  
20 should not also be cost based and as low as reasonably  
21 possible.

22 Q. Mr. Brubaker, looking at this theme of the  
23 draconian increase, are you aware of the level of rates that  
24 Bethlehem paid in 1991 before the company's interruptible  
25 rate initiative in 1992?

1 A. I have not seen data on what they paid in 1991.

2 Q. So you don't know how the level of the charges  
3 they're paying right now under this increase compares to  
4 what they were paying back in 1990, '91, '92?

5 A. No, I do not know.

6 Q. I'd like to turn to page 10 of your testimony at  
7 lines 13 to 17. There you assert that interruptible  
8 customers do not, and I'd like to quote, "cause PP&L to  
9 incur any generation related capital expense." Is that  
10 right?

11 A. Yes.

12 Q. How many days can the company interrupt  
13 Bethlehem's power purchases under Rate Schedule LP-5?

14 A. I believe the limitation is 20 times per  
15 calendar year.

16 Q. No more than 200 hours?

17 A. 200 hours total, correct.

18 Q. So the remaining 345 days of the year, Bethlehem  
19 has a right to firm power, in essence; is that right?

20 A. Well, subject always to the risk of interruption  
21 under the tariff. I presume that the utility found that  
22 these interruption frequencies and durations were adequate  
23 for its purpose.

24 Q. But Bethlehem has a right to power the rest of  
25 the year, other than the interruptible periods?

1           A.    I believe that's correct, yes.

2           Q.    Does the company incur capital expenses in  
3 maintaining the production facilities that are used to serve  
4 Bethlehem on those other 345 days or in fact the other days  
5 of the year that Bethlehem is in fact taking power?

6           A.    Let me try to respond this way. Capital  
7 expenditures would usually be incurred to maintain  
8 generation facilities.

9           To the extent that someone causes the utility to have  
10 to build facilities, there would be some responsibility. To  
11 the extent that you don't cause them to be incurred, which  
12 is the case for interruptible customers, there would not be  
13 a responsibility, because the interruptible customers are  
14 permitted to use generation from the facilities when those  
15 facilities are not required to supply the needs of firm  
16 power customers.

17           Therefore, the obligation for the cost rests with the  
18 firm customers, not with the interruptible customers. There  
19 is an incurrence of variable O&M expense to produce power  
20 out of the facilities to supply the needs of interruptible  
21 customers, and that's fully accounted for in the cost of  
22 service analysis.

23           Q.    Let me understand your answer, Mr. Brubaker.  
24 The company is not required or caused to maintain production  
25 facilities to serve interruptible customers under the LP-5

1 schedule at all, despite the fact that it can only interrupt  
2 power 20 times a year and it will provide substantial power  
3 to them throughout the year; is that your position?

4 A. I think you misstated it a little bit in the  
5 beginning of your statement. The position is that the  
6 utility does not plan to build facilities to serve  
7 interruptible load.

8 Certainly when those facilities are available to  
9 supply the load, it makes economic sense for both the  
10 utility and the customer for it to be supplied.

11 But that's an operating consideration and does not  
12 reach to the planning consideration or the incurrence of  
13 cost.

14 Q. If customers become interruptible customers  
15 after the company has already planned and put in place  
16 facilities adequate to meet the system's load, in other  
17 words, additional interruptible customers are not causing  
18 the company to build new capacity; is that right?

19 A. I would answer it this way, that in the long  
20 term, the planning function does not include building to  
21 serve interruptible load.

22 Q. I think we may have a semantic disagreement  
23 here, Mr. Brubaker --

24 A. Okay, let's try it again.

25 Q. -- which I am having some difficulty with.

1           When did Bethlehem become an interruptible customer?

2           A.   At one of its facilities, I believe it became an  
3 interruptible customer in the mid to late 1980's. At the  
4 other facility, I believe it was in maybe 1992 or 1993.

5           Q.   Before that time, it was a firm customer, which  
6 in your theory caused the company to incur capital expenses?

7           A.   The firm load would have been in the planning,  
8 and the utility would have been planning with the idea of  
9 serving that load as firm, yes.

10          Q.   At page 12, at lines 11 to 13, if I could turn  
11 your attention to that, you state that the typical and  
12 generally accepted approach is not to allocate generation  
13 capacity costs to loads which are interruptible.

14          Could you please give me all the examples you know of  
15 in which no demand costs and fixed charges are assessed to  
16 interruptible customers?

17          A.   Well, I can give you some. In doing cost of  
18 service studies, typically utilities in Ohio, Delaware,  
19 South Carolina, West Virginia, Indiana, Illinois --

20          Q.   I'm sorry. I don't mean to interrupt, but could  
21 you give me a specific rate example rather than just a list  
22 of jurisdictions? Do you have any specific examples in mind  
23 when you say this?

24          A.   That's what I was trying to do, is saying to you  
25 that utilities in these states typically do not allocate

1 those costs.

2 Q. Do you know of any specific examples or specific  
3 cases in which this type of ratemaking has been actually  
4 implemented, or this is just your general knowledge based on  
5 your experience?

6 A. Well, I've been in rate cases for most of the  
7 utilities in these states --

8 Q. Right.

9 A. -- and so what I'm telling you is based on my  
10 experience.

11 Q. This is your general recollection?

12 A. Yes. I mean, I can remember explicitly that  
13 Cleveland Electric Illuminating and Toledo Edison, for  
14 example, do not allocate any generation capital costs to  
15 their interruptibles; neither does Illinois Power Company,  
16 nor Commonwealth Edison Company.

17 Q. What do they charge them?

18 A. You can get a pretty good indication of that  
19 from the schedule we looked at previously, Schedule 1 of  
20 Exhibit 1 -- I'm sorry, that's firm. We have to look at  
21 Exhibit 2.

22 (Pause.)

23 A. I forget now all the ones I mentioned, but  
24 Illinois Power Company is around 4 cents. Ohio Power  
25 Company is around 3 cents. Union Electric is around

1 3 cents, and some of the others aren't on this.

2 Q. And do you believe that these are reflecting  
3 only variable costs?

4 A. Well, the cost allocation reflects variable  
5 costs. Frequently, there's some contribution margin  
6 above --

7 Q. In the rate design process, is that right?

8 A. -- in the rate design, yes. But I'm saying --

9 Q. None of those are Pennsylvania utilities; is  
10 that right?

11 A. That's correct.

12 Q. That's not the typical and generally accepted  
13 practice here in Pennsylvania?

14 A. In Pennsylvania, there's been more of a tendency  
15 to put some allocation on the interruptible customers, but  
16 that's not the normal practice.

17 Q. Well, normal in this state --

18 A. In the industry. What I've read in Pennsylvania  
19 is not all that definitive about being, in principle, this  
20 is what we should do. It was more of a, to my recollection,  
21 a fact situation and the Commission or the parties made an  
22 interpretation and made a decision. But it's not exactly  
23 put forth as being the theoretical approach that's correct  
24 for all times.

25 Q. Mr. Brubaker, could we turn to your Schedule 1

1 again? This is Schedule 1, page 1 of 3, MEB-1, Schedule 1.

2 A. Yes.

3 Q. That compares the average cost in mills per  
4 kilowatt of an industrial customer with 12,000 demand --  
5 load, rather, and a 68 percent load factor; is that right?

6 A. Yes.

7 Q. Do you know what the average load factor is for  
8 the LP-5 interruptible customers of PP&L?

9 A. I can remember calculating it. It's higher than  
10 68 percent; around 80 percent, probably.

11 Q. So this is not for an average customer of PP&L?

12 A. Well, this is for an array of customers,  
13 different sizes and load factors going up to 74 percent. If  
14 you did it at higher load factors, it would be --

15 Q. The results would change?

16 A. I don't think you would change the relative  
17 rankings very much.

18 Q. You don't know because you haven't done that?

19 A. Well, I know what the rates of these other  
20 utilities look like. They all respond with and provide  
21 lower average cost as load factor increases, as does PP&L's  
22 rates.

23 So if you did it at 80 percent or 85 percent, yes,  
24 all the numbers are different. But are you going to have a  
25 substantial reordering? No, I don't think so.

1 Q. Okay. But you haven't done that calculation?

2 A. I haven't, and I don't feel that I need to.

3 Q. Okay. I just asked you the question, Mr.

4 Brubaker.

5 Turning to page 2 of that same exhibit, this shows an  
6 example of an industrial customer with a 30,000 kW load. Do  
7 you know how many PP&L customers have a 30,000 kW load?

8 A. No, I don't.

9 Q. Do you know if any do?

10 A. I didn't go look, no. I don't know if any  
11 specifically do. My memory is that there are one or two  
12 that are in that vicinity, but it's been a while.

13 Q. One or two, maybe.

14 On page 3 of this same exhibit, it shows a 75,000  
15 load and another set of comparisons. Are there any PP&L  
16 customers that fall into that category?

17 A. Well, there are a couple of locations that I can  
18 think of that have a load bigger than that. I don't know if  
19 anybody is precisely 75.

20 These are presented just to give a variety of load  
21 characteristics.

22 Q. But they may not correspond to what any PP&L  
23 customers actually pay or whether they would fit under this  
24 ranking?

25 A. They may not correspond exactly, but I think

1 they're certainly indicative.

2 MR. BARR: Your Honor, if I could have a minute?

3 JUDGE CHRISTIANSON: Yes. We can pause.

4 (Pause.)

5 MR. BARR: I'm ready now.

6 BY MR. BARR:

7 Q. Mr. Brubaker, at page 2 of your -- actually,  
8 really, page 1 down at the bottom, line 16 through page 2  
9 and then further on, pages 3 through 6, you discuss at some  
10 length the many significant risk factors that you see  
11 arising in the industry that will continue to put pressure  
12 on electric utilities.

13 In fact, on page 6, lines 2 to 3, you refer to the  
14 need to retain load, need of the stockholders among others  
15 to retain load; is that right?

16 A. Yes.

17 Q. I take it you would agree with me that this  
18 pattern of competition has significantly increased risks for  
19 the shareholders of PP&L and other utilities?

20 A. If they don't manage their costs properly, it  
21 will.

22 Q. Then they're at higher risk; is that right?

23 A. Well, it's a risk that has to be managed.

24 Q. Well, it's a risk, and if it's not managed, it  
25 will have bad results, I guess, is the way to put it?

1           A.   Well, it will just get worse, and then  
2 shareholders will be in even worse shape.

3           Q.   Is this a significantly higher level of risk  
4 than was in existence back in say 1984, PP&L's last rate  
5 filing?

6           A.   In the sense that there are competitive  
7 pressures that need to be addressed and more reason to pay  
8 attention to cost levels as compared to 1984, I think that  
9 would be the case.

10          Q.   More challenges?

11          A.   More challenges and more opportunities, and more  
12 reason I think to shift from a cost-plus outlook on life to  
13 a competitive approach to the market for utilities.

14          Q.   In the ordinary course of ratemaking, I guess  
15 would that new characteristic be taken into account in the  
16 company's rate of return?

17          A.   That's an interesting question there, because  
18 that's the old approach, I think, which suggests that, gee,  
19 our costs maybe are up, so we need to raise our rates.

20                The problem here is that the rates are already high,  
21 and adding further to that by enhancing the rate of return  
22 given to shareholders I think only serves to intensify the  
23 problem and make matters worse. It's really going in the  
24 wrong direction.

25          Q.   Mr. Brubaker, I guess I wasn't asking about the

1 overall level of the rates, only about whether it would  
2 affect the rate of return on equity.

3 A. Well, I'm not --

4 Q. Understanding that the ultimate result has to be  
5 taken into account by the Commission when it sets the rate  
6 order.

7 A. I think I responded to your question by  
8 suggesting that, no, it would not necessarily follow that  
9 you would give a utility a higher rate of return under that  
10 circumstance.

11 Q. Despite the higher risk?

12 A. Yes, because it's up to the utility then to  
13 manage that circumstance. And if rates are high and you're  
14 facing more competition, doing things to increase your rates  
15 is not going in the right direction.

16 Q. The overall level of the rates, in your view,  
17 shouldn't be increased, but you're not referring to a  
18 particular component; is that right?

19 A. Well, to the extent that rate of return is a  
20 driving force or one component of the overall cost, I think  
21 it follows.

22 Q. You simply think rates should be lower; is that  
23 a fair summary?

24 A. I'm suggesting that the approach to business  
25 needs to be changed, and it doesn't make sense as we move

1 into a more competitive world to worry about not being  
2 competitive because rates are high, and then turn around and  
3 make them even higher because that somehow is presumed to be  
4 for a utility more risky.

5 Q. You think there should be a new approach --

6 A. It just perpetuates itself.

7 Q. You think there should be a new paradigm or  
8 approach in ratemaking; is that right?

9 A. Well, I think how we approach the level of  
10 costs, cost control needs to be certainly addressed in the  
11 competitive market.

12 MR. BARR: I have no other questions, Your Honor.

13 JUDGE CHRISTIANSON: Fine. I was going to get into  
14 that with the rate of return type witness, but it's not  
15 needed.

16 Anything from Trial Staff?

17 MR. MICKENS: No, Your Honor.

18 MR. WILLIAMSON: No, Your Honor.

19 MR. HAYNES: I have just a couple questions.

20 JUDGE CHRISTIANSON: Go ahead.

21 CROSS-EXAMINATION

22 BY MR. HAYNES:

23 Q. Good afternoon, Mr. Brubaker.

24 A. Good afternoon.

25 Q. My name is Bob Haynes, representing the Central

1 Eastern Pennsylvania Fuel Oil Dealers.

2 Turning to your Schedule MBE-3, page 1 -- I guess  
3 that's Schedule 1.

4 A. Okay.

5 Q. Does that not show all your class rate of  
6 returns under present rates, under your adjustments?

7 A. Yes, it does.

8 Q. And for Rate Schedule RTS, does that not show a  
9 negative return of 2.9 percent?

10 A. Yes, it does.

11 Q. Now, if I turn to Schedule 2, that would show  
12 the rate of return under proposed rates; is that not  
13 correct?

14 A. That is correct.

15 Q. Does that show a negative return of 1.02 for  
16 Rate Schedule RTS?

17 A. It sure does.

18 MR. HAYNES: That's all the questions I have.

19 JUDGE CHRISTIANSON: Anything from Consumer Advocate?

20 CROSS-EXAMINATION

21 BY MS. KENNEY:

22 Q. Good afternoon, Mr. Brubaker. My name is Mary  
23 Kenney. I'm with the Office of Consumer Advocate. If you  
24 can't hear me, just let me know.

25 A. I can hear you fine.

1 Q. Okay. I'd like to refer you back to your  
2 schedule which you discussed with Mr. Barr, Exhibit MEB-1,  
3 Schedules 1 and 2.

4 And I note in your discussion, you stated that you  
5 had not included New York or New Jersey on those schedules.  
6 If you have included the industrial power costs for New  
7 Jersey and New York, would you expect that PP&L would be  
8 more in the center of the list of the companies that you  
9 presented?

10 A. Yes, I would. Most of those utilities would be  
11 at or higher.

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

13 JUDGE CHRISTIANSON: Moving right along, anything  
14 from the federal people?

15 MR. McCORMICK: No, sir.

16 JUDGE CHRISTIANSON: And the other institution we  
17 have, Small Business Advocate?

18 MS. MOURY: I just have one, Your Honor.

19 JUDGE CHRISTIANSON: Go ahead.

20 MS. MOURY: Thank you.

21 JUDGE CHRISTIANSON: Are you sure about that?

22 (Laughter.)  
23  
24  
25

## CROSS-EXAMINATION

1  
2 BY MS. MOURY:

3 Q. Good afternoon, Mr. Brubaker. I'm Karen Moury  
4 with the Office of Small Business Advocate. My only  
5 question relates to your testimony at page 13 where you  
6 indicate that in future cost of service studies,  
7 interruptible load should be segregated as a separate cost.

8 A. Yes.

9 Q. Did you perform any cost study where you  
10 separated that load?

11 A. No, I did not.

12 Q. Is there any particular reason that you didn't?

13 A. I inquired of the company for some information  
14 about the revenue separation, and they expressed a problem  
15 in separating it from the tariff. And under the time  
16 constraints, it just wasn't possible to do that.

17 MS. MOURY: That's all I have, Your Honor. Thank  
18 you.

19 JUDGE CHRISTIANSON: Then we seem to be done with  
20 cross-examination for the witness. Do you want a moment  
21 with your witness?

22 MS. BRANDEIS: Can I just have one moment off the  
23 record?

24 JUDGE CHRISTIANSON: Let's be off the record briefly.  
25 (Discussion off the record.)

1 MS. BRANDEIS: I have no redirect, Your Honor.

2 JUDGE CHRISTIANSON: Then the witness is excused.

3 (Witness excused.)

4 JUDGE CHRISTIANSON: Let's be off just briefly.

5 (Discussion off the record.)

6 JUDGE CHRISTIANSON: We've had some discussion off  
7 the record about the discovery efforts involved with this  
8 party. How much it's tied to the witness we'll perhaps see  
9 in a little bit.

10 I understand Mr. Thomas is here to discuss the matter  
11 along with Mr. Haynes, obviously, and are aware of the other  
12 litigation ongoing.

13 I could make remarks about standing, but I don't  
14 think we need to do that right now. I think it's  
15 appropriate for PP&L to not bring up the question of  
16 standing, because I think it's just as well to thrash the  
17 thing out in this forum to the degree we can.

18 But go ahead, you have questions about the discovery.  
19 Go ahead and set it up. Would you like to bring up the  
20 issues now?

21 MR. BARR: Yes, Your Honor. I'd just like to I guess  
22 explain the issue from the company's standpoint.

23 JUDGE CHRISTIANSON: Right.

24 MR. BARR: The company sent a data request to Mr.  
25 Andersen's sponsor in light of its testimony. These

1 objections came back with essentially the same blanket  
2 objection applied to each of the interrogatories, almost  
3 regardless of the subject matter of the interrogatory.

4 To put the issue before Your Honor, I'm happy to make  
5 an oral motion to compel at this time, and I'm also happy to  
6 note that we would be willing to withdraw some of these  
7 interrogatories in the interest of moving the proceeding  
8 along, although I think they're all relevant.

9 The central purpose of the interrogatories is to  
10 address the premise of Mr. Andersen's testimony, at least as  
11 it relates to the RTS rate schedule.

12 Much of his testimony is spent combing over old PP&L  
13 documents and extracting statements which he purports show  
14 that the company was aware that the RTS rate would be below  
15 cost, aware that it would cause troubles for other  
16 ratepayers and for shareholders over time.

17 The premise, though, that underlies his whole line of  
18 argument is that it's anti-competitive. And I appreciate  
19 counsel's comment that this is not the antitrust case and  
20 the two are separate, but it's also true that the oil  
21 dealers wouldn't be here probably if it weren't for the  
22 antitrust case.

23 We're not going to challenge their standing here, as  
24 you suggested, but it's a little hard for us to accept that  
25 that isn't the principle reason why they're present here in

1 the room right now as opposed to their customer charges that  
2 the oil dealers pay.

3 The customer leads off his discussion by saying, and  
4 I quote from page 2, "The membership of CEPFOD" -- why don't  
5 I just say "oil dealers" when that comes up -- "is also in  
6 direct competition with PP&L in certain segments of the  
7 energy market."

8 Lines 14 to 15, it says, "If PP&L services that are  
9 in competition with fuel oil are subsidized, both the fuel  
10 oil dealers members and other rate classes are harmed."

11 Now, a little more pointedly, a couple pages later,  
12 when asked, "What Commission actions do you recommend?", Mr.  
13 Andersen says, "Since 1984, RTS customers have been heavily  
14 subsidized. As a result, PP&L has been able to convert  
15 customers from oil heat to off-peak electric heat. The only  
16 way in which the oil dealers' members can regain their  
17 customers is if the subsidies are eliminated."

18 This is the predicate for his testimony, predicate  
19 for the rather extraordinary relief that he asks the  
20 Commission to grant, which is termination of the rate  
21 schedule and the requirement that the company absorb  
22 substantial dollars as shareholder costs.

23 It's an extraordinary remedy. It premises the level  
24 of competition between the company and the oil dealers, and  
25 that is the principal subject of our data request.

1           If they are to pursue this line of tack on RTS, we  
2 think it's relevant to know whether or not, in the real  
3 world, there is any factual predicate for claims of  
4 competition, for claims that the RTS rate drove off their  
5 heating customers among the other claims that are here.

6           Now, there are other issues that are addressed  
7 specifically herein that are tied to various portions of the  
8 testimony, but I think this is a recurrent theme throughout  
9 these data requests.

10           Now, as I said, we're willing to limit some of them  
11 and to withdraw a number of them, but we think that it is in  
12 fact quite relevant. It goes to the heart of their case.

13           And if they think it's irrelevant, which is in fact  
14 the objection here -- it's not just that the witness didn't  
15 consider it; it is that it is neither admissible nor  
16 reasonably calculated to lead to discovery of admissible  
17 evidence -- if that's the case, then we would in fact, in  
18 the alternative to compelling the responses, move to strike  
19 portions of his testimony which address these very same  
20 issues which counsel now say are irrelevant.

21           JUDGE CHRISTIANSON: Then let's get a response.

22           MR. THOMAS: If Your Honor please, the answers to  
23 these are not due at the present time, so with respect to,  
24 if this was a timing issue, they would not have these  
25 answers in order to cross-examine Mr. Andersen. So there's

1 no reason why we shouldn't proceed with Mr. Andersen's  
2 testimony right now without these answers.

3           Secondly, the whole issue they claim is, they say  
4 that they don't compete, apparently, they need to find out  
5 whether or not they compete with my clients.

6           Their own documents, quoted on page 8 of Mr.  
7 Andersen's testimony, say, "At the present time, our  
8 standard residential rate cannot compete on a price basis  
9 with oil and gas in the heating industry."

10           They know they compete, and it's not an issue of how  
11 much competition is involved or how much of a market share  
12 they got. It's an issue of whether or not they're using an  
13 anti-competitive rate -- a rate where they're selling below  
14 cost, which in antitrust court would be something where they  
15 would be going off in handcuffs, attempting to monopolize --  
16 whether or not they can use that kind of rate, get that kind  
17 of rate continued.

18           Now, as to the issues here, we don't just say that  
19 certain of these questions that they ask are irrelevant. We  
20 point out it's a burden.

21           We've got 38 members. They want us to go out and get  
22 all the information from all these 38 members. We claim  
23 that this is material which we've gotten from them. They  
24 want us to regurgitate it back.

25           There are numerous objections that have been posed

1 here, and there's no reason to hold up this witness'  
2 testimony and go through these things one by one and decide  
3 each of these six or seven different objections --  
4 incidentally, I resent the fact that we sent in a blanket  
5 objection. We carefully tailored them to each one of those,  
6 depending upon whether they applied or not.

7 And we did say that certain of these, we'll give you  
8 certain information which we can, such as fuel prices, which  
9 is relevant to the competitive issue.

10 But as to the efficiency of oil heaters and things  
11 like that that they've asked, it has nothing to do with this  
12 proceeding, has nothing to do with whether or not PP&L  
13 should be entitled to continue to sell their electric  
14 service below cost.

15 JUDGE CHRISTIANSON: Go ahead, if you have further.

16 MR. BARR: If I could briefly respond, Your Honor,  
17 putting aside the timing issue, the claim is made in these  
18 answers that they believe that the information is  
19 irrelevant.

20 And we contend that it simply isn't true, but if it  
21 is true, we need to know that now and take it into account  
22 in terms of Mr. Andersen's testimony, because it renders  
23 certain major statements he makes irrelevant as well.

24 JUDGE CHRISTIANSON: Well, give me an example or two  
25 of the statements and what your objection is.

1 MR. BARR: I think the one that I read earlier about  
2 -- the factual statement which he makes at 4 about PP&L  
3 being able to convert customers from oil heat to off-peak  
4 electric heat.

5 I mean, he goes ahead and says it, and then when we  
6 ask about that question, we say in our second data request,  
7 "Please provide the oil dealers' documentation of the number  
8 of existing oil heated homes within the company's service  
9 area that were converted to RTS service by year for the  
10 period 1985 to 1994."

11 I mean, it goes to the precise subject that he raises  
12 in his testimony affirmatively. Now, the answer I hear in  
13 part is that, well, they'd like to point to various snippets  
14 of statements from various company documents that they have  
15 received in the antitrust litigation.

16 The problem with that position is that it limits the  
17 field of debate to what the company may or may not have said  
18 in the documents.

19 We're happy to address that, and we will be  
20 addressing that in some detail in questioning Mr. Andersen  
21 and in our own rebuttal testimony.

22 But there's a larger question, which is -- and also,  
23 there's a question of whether that's even very relevant for  
24 this proceeding.

25 And we would contend that most of these documents are

1 not very relevant, even if they were accurately portrayed by  
2 the fuel oil dealers.

3 Beyond that, there's another issue when we respond to  
4 this, which is our view that this whole portrayal of the  
5 role of RTS is wrong, that as a factual question, RTS did  
6 not have this effect, that the impact on the fuel oil  
7 dealers in the late 1980's, early 1990's was not due to the  
8 RTS rate schedule.

9 Those are facts which contradict the claims in the  
10 testimony. We think they're relevant. I mean, the  
11 contention which is repeated in virtually every one of these  
12 objections that it is not relevant we think is at odds with  
13 the witness' testimony.

14 JUDGE CHRISTIANSON: You said the thrust of his  
15 testimony is that there is competition and there is movement  
16 of customers from one --

17 MR. BARR: It's a premise. Now, also, he says in  
18 some places that it did happen as a factual matter. He says  
19 in other places that the company believed it would happen.

20 I understand that's a more minor argument to be  
21 making, but at the same time, we think it's relevant for the  
22 Commission to know whether or not any of that was true.

23 I mean, if this is just to be confined to a debate  
24 over what was in the documents, it may not be a very  
25 important point, anyway.

1           But we think it's our right to have what they know to  
2 be the facts on this question of whether or not competition  
3 did exist between RTS and the oil heating facilities.

4           JUDGE CHRISTIANSON: Go ahead, if you have a little  
5 more.

6           MR. THOMAS: Your Honor, first of all, there's no  
7 problem in this proceeding of them asking Dr. Andersen any  
8 question they want and finding out what the extent of his  
9 knowledge is, the extent of his preparation on any of these  
10 issues. So there's no reason to hold up his testimony based  
11 upon this.

12           Secondly, there are documents which state, documents  
13 they have, which show the number of customers they  
14 transferred over from oil to electric.

15           This is a very hotly contested issue in the antitrust  
16 litigation as to what the number of people are who were  
17 transferred over.

18           And I don't want testimony coming out here based  
19 upon, when there hasn't been proper study, and having that  
20 come in and being used as an admission in the antitrust  
21 litigation.

22           JUDGE CHRISTIANSON: I understand that position.

23           MR. THOMAS: That's our greatest concern of what is  
24 going on here. They are not exactly the same oil dealers in  
25 the two litigations.

1 JUDGE CHRISTIANSON: And obviously, the focus here is  
2 on PP&L and its ratemaking.

3 MR. THOMAS: That's correct.

4 JUDGE CHRISTIANSON: The initial thing, I think I'll  
5 proceed with the witness and we'll let the discovery take  
6 care of itself, partly because of the timing on it.

7 But I'm not agreeing with some of the assertions of  
8 irrelevancy, essentially. We'll worry about that when it  
9 comes the time.

10 Now, I don't know if I want to make the pronouncement  
11 about the discovery at this point or not. I'm inclined to  
12 at least allow some of it, but let me digress a little bit.

13 For the witness, is your expertise in the oil  
14 industry at all? Are you basically here as a utility  
15 expert?

16 MR. ANDERSEN: I'm basically a utility expert, that's  
17 correct.

18 JUDGE CHRISTIANSON: Well, the immediate response is  
19 that I'm going to allow cross-examination to proceed. I'll  
20 require PP&L to cross-examine.

21 We'll hold open the question of the discovery  
22 matters, maybe to be sort of narrowed. But inasmuch as the  
23 oil dealers are going into the question of, I guess for lack  
24 of a better word we'll call it the stealing of customers, I  
25 think some of their own costs and some of their structure

1 may be relevant.

2 But I'm not going to address that at this point.  
3 We'll let that go in the due course of the discovery.  
4 Perhaps it causes PP&L some trouble in cross-examining, and  
5 if so we might possibly even go off the record for a  
6 question or two and then we'll see what happens on the  
7 record.

8 But I would guess that this witness doesn't have much  
9 detailed knowledge about the material involved in the  
10 discovery. But go ahead, you want to say something.

11 MR. BARR: Yes, Your Honor. I don't think we  
12 necessarily object to the course of action you've outlined  
13 by going forward with the witness and allowing us to further  
14 litigate the issue of the discovery requests.

15 And we're happy to submit a written motion to compel,  
16 laying out in detail cross-references and what-not to the  
17 testimony.

18 But I would make two points. One is that we would  
19 like to reserve our right to strike his testimony depending  
20 on the outcome of that discovery dispute, and if it's upheld  
21 in fact that some of these --

22 JUDGE CHRISTIANSON: Particularly if I rule that  
23 certain things are irrelevant, you'll take me at my word and  
24 say that some of his testimony is irrelevant.

25 MR. BARR: Exactly. The other point I'd like to make

1 is that whether or not Mr. Andersen is aware of any of this  
2 data, it's our position that the oil dealers are asking for  
3 serious rate relief from the Commission at the expense of  
4 the company.

5 And to the extent they have raised arguments that  
6 require a factual response, we don't think that they can  
7 simply, as it were, hide behind the witness and claim that  
8 if the witness doesn't have the information, they don't have  
9 to produce it.

10 JUDGE CHRISTIANSON: Yes, I'll allow that  
11 possibility, that there may be a need for information for  
12 you to respond to the basic thrust of their case.

13 Now, the Commission, obviously from the public input  
14 hearings, is going to be influenced by the screams of  
15 anguish of the residential heating customers, but that's  
16 only one element of the whole equation of the Commission  
17 decision, and they may be influenced obviously by the oil  
18 dealers' concerns.

19 But we'll hold that open, and we'll even hold open  
20 the possibility of motions to strike made in the regular  
21 course of the proceeding if they're tied to my rulings on  
22 the discovery or the view taken of the discovery as far as  
23 relevancy and such like that is concerned.

24 If you come back with some significant development on  
25 the discovery, I'll entertain the possibility of a motion to

1 strike after the fact on his testimony.

2 But let's try to get his testimony put together now  
3 and cross-examined now, and as the proceeding develops, we  
4 can even address the matter again in the rebuttal phase and  
5 see just where we go.

6 But depending on my rulings, there might be some  
7 reason for you to ask that some portions of his testimony be  
8 struck, particularly if I declare something irrelevant.  
9 That's a basis for you to come back again.

10 But I'm not opening a big window on this whole thing.  
11 I expect there to be very limited destruction of his  
12 testimony later in the case.

13 But with that, let's introduce the witness.

14 MR. HAYNES: I don't think Mr. Andersen has been  
15 sworn.

16 JUDGE CHRISTIANSON: Yes, he hasn't been sworn yet.  
17 Whereupon,

18 STEVEN ANDERSEN  
19 having been duly sworn, testified as follows:

20 JUDGE CHRISTIANSON: Proceed, counsel.

21 We'll probably break for lunch soon. We might start  
22 a little bit of cross, just to see where we're going with  
23 it.

24 MR. HAYNES: At this time, Your Honor, I'd ask that  
25 there be marked for identification CEPFOD Statement No. 1,

1 which is 44 pages of question-and-answer testimony, followed  
2 by Schedule A, followed by Appendix A.

3 May it be identified as the direct testimony of  
4 Steven Andersen?

5 JUDGE CHRISTIANSON: So identified.

6 (Whereupon, the document was marked as CEPFOD  
7 Statement No. 1 for identification.)

8 JUDGE CHRISTIANSON: My copy has all one binding, but  
9 I guess he broke it in three pieces.

10 MR. HAYNES: At this time, I'd like to be marked for  
11 identification CEPFOD Exhibit No. 1, which is a multipage  
12 volume of responses to discovery that Mr. Andersen relied  
13 upon in preparing his testimony. May it be so identified?

14 JUDGE CHRISTIANSON: So identified.

15 (Whereupon, the document was marked as CEPFOD  
16 Exhibit No. 1 for identification.)

17 MR. HAYNES: At this time, I'd like there to be  
18 marked for identification CEPFOD Exhibits Nos. 2 through 16.  
19 This is a multipage volume of documents that were produced  
20 in discovery and other proceedings.

21 The documents were sent out to PP&L to request  
22 admission to their authenticity, and the time period to deny  
23 their authenticity has expired.

24 I'd like this to be identified as CEPFOD Exhibits  
25 Nos. 2 through 16. They are bound together in Volume 2 of

1 2.

2 JUDGE CHRISTIANSON: So identified, and you've got  
3 basically three volumes you're handing to the court  
4 reporter, or have handed.

5 (Whereupon, the documents were marked as  
6 CEPFOD Exhibits Nos. 2 through 16 for  
7 identification.)

8 MR. HAYNES: Two copies have been provided to the  
9 court reporter.

10 DIRECT EXAMINATION

11 BY MR. HAYNES:

12 Q. Dr. Andersen, would you please state your name  
13 and business address for the record?

14 A. My name is Steven Andersen. My business address  
15 is 13300 Council Bluff Drive, Austin, Texas, 78727.

16 Q. Do you have before you what has been identified  
17 as CEPFOD Statement No. 1, CEPFOD Exhibit No. 1 and CEPFOD  
18 Exhibits 2 through 16?

19 A. Yes, I do.

20 Q. Do you have any corrections to the information  
21 set forth in either the prepared testimony or the exhibits?

22 A. Yes, I have two corrections.

23 Q. What are they?

24 A. The first is at page 3, line 29. The phrase,  
25 "that this service is also subsidized" should be revised to,

1 "that this service may also be subsidized."

2 Q. What is the reason for that change?

3 A. Basically, I prepared some additional analysis  
4 in the course of -- the testimony and the analysis were  
5 prepared simultaneously.

6 Later stages of my analysis caused me to modify my  
7 conclusion, but unfortunately at page 3, the text does not  
8 reflect my final conclusion.

9 Q. And what is your other change?

10 A. At page 21, I would request that lines 9 through  
11 12 be designated as single-spaced, in order to make clear  
12 that that's a direct quote rather than a paraphrase.

13 Q. Do you have any other corrections?

14 A. No, I don't.

15 Q. Or additions?

16 A. None.

17 Q. Was the information set forth in CEPFOD  
18 Statement No. 1 and CEPFOD Exhibits Nos. 1 through 16  
19 prepared by you or under your direction and supervision?

20 A. Well, the testimony was prepared by me, and I  
21 compiled the materials that are included in Exhibits 1  
22 through 16. I didn't prepare those materials.

23 JUDGE CHRISTIANSON: You're not the author of those  
24 things?

25 THE WITNESS: That's correct.

1 BY MR. HAYNES:

2 Q. Is the information contained in CEPFOD Statement  
3 No. 1 and Exhibits 1 through 16 true and correct to the best  
4 of your information, belief and knowledge?

5 A. My response I guess would be the same. My  
6 testimony is true and correct to the best of my knowledge.  
7 The exhibits are what they are. They're materials supplied  
8 to me and they are documents that I relied upon in the  
9 course of preparing my testimony.

10 MR. HAYNES: At this time, Your Honor, I would ask  
11 that there be moved into evidence CEPFOD Statement No. 1 and  
12 CEPFOD Exhibits Nos. 1 through 16 as identified in this  
13 proceeding, subject to the cross-examination of the parties  
14 and such motions as may be made.

15 JUDGE CHRISTIANSON: Subject to any motions on cross  
16 and subject to the possibility of a motion by PP&L in  
17 connection with the discovery matter, the materials you've  
18 offered are now accepted into the record.

19 (Whereupon, the documents marked as CEPFOD  
20 Statement No. 1 and CEPFOD Exhibits Nos. 1  
21 through 16 were received in evidence.)

22 MR. HAYNES: Dr. Andersen is available for cross-  
23 examination.

24 JUDGE CHRISTIANSON: Let's just get started, just so  
25 we can get a flavor of where we're going. How much time do

1 you think you have, about?

2 MR. BARR: It's very hard to say.

3 JUDGE CHRISTIANSON: It depends on the answers?

4 MR. BARR: Yes. I would suspect though, that it's  
5 not more than, even if the answers are long and there are  
6 follow-up questions, an hour and a half.

7 JUDGE CHRISTIANSON: Okay. Let's be off the record.

8 (Discussion off the record.)

9 JUDGE CHRISTIANSON: Let's take a half-hour at this  
10 point and be back at 1:15.

11 (Witness temporarily excused.)

12 (Whereupon, at 12:45 p.m., the hearing was adjourned,  
13 to be reconvened at 1:15 p.m., this same day.)  
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1 Q. Have you attached to your testimony all the  
2 documents that you reviewed in reaching your conclusions?

3 A. No. Some of the documents were redundant, and  
4 therefore not attached.

5 Q. Can you give a list of those documents that you  
6 have --

7 A. No, I can't.

8 Q. You don't recall. You just saw them and decided  
9 they were redundant and duplicative?

10 A. The documents were sent to me for my review.

11 Q. Are you a consultant to the oil dealers in  
12 connection with their antitrust litigation?

13 A. No, I'm not.

14 Q. Who provided the documents to you?

15 A. Mr. Thomas.

16 Q. So the documents attached to your testimony,  
17 plus a few ones that were redundant and duplicative, are the  
18 universe of data that you were given to make your  
19 examination and make recommendations in this case, apart  
20 from the materials the company submitted on the question of  
21 the RTS background and how the program was implemented and  
22 so forth; is that correct?

23 A. Yes; that's correct.

24 Q. You didn't undertake any studies independently  
25 of the competitive situation in Pennsylvania or the

1 competitive situation between oil dealers and PP&L or other  
2 utilities?

3 A. No, I did not.

4 Q. Have you ever done any such studies?

5 A. No.

6 Q. Mr. Andersen, a basic premise of your criticism  
7 of RTS and your recommendations to the Commission is the  
8 concept that it is below cost; is that right?

9 A. That's correct.

10 Q. Are you aware that in late 1994 a number of oil  
11 dealers who have participated in the antitrust litigation  
12 submitted many of the same documents that you have submitted  
13 to the PUC staff with a request that they investigate and  
14 find fault with the RTS program?

15 MR. HAYNES: Objection, Your Honor. It assumes facts  
16 not in evidence.

17 JUDGE CHRISTIANSON: I guess you could ask him if  
18 he's aware of it or not.

19 MR. BARR: That's what I meant. I'm sorry. All I'm  
20 asking is whether he's aware of this request by the oil  
21 dealers.

22 MR. HAYNES: It's assuming certain factual matters --

23 JUDGE CHRISTIANSON: It's assuming that it was  
24 submitted to the Commission.

25 MR. HAYNES: That's exactly right, Your Honor.

1 MR. THOMAS: It's assuming such a request was made.

2 MR. HAYNES: There is no information in the record to  
3 support that.

4 MR. BARR: Your Honor, I appreciate the objection, I  
5 mean not to show my hand or anything, but I have documents  
6 related to that request, so I can reassure you and the  
7 witness that I'm not engaging in a hypothetical.

8 JUDGE CHRISTIANSON: I'll allow it to continue  
9 subject to renewal of the motion.

10 MR. BARR: Why don't I start again on that.

11 THE WITNESS: The answer is no.

12 BY MR. BARR:

13 Q. You're not aware?

14 A. No.

15 Q. You have not been informed of that effort before  
16 the Commission or of its result?

17 A. No.

18 JUDGE CHRISTIANSON: Let me try my own question.  
19 Were you basically brought on just for this litigation  
20 before the PUC?

21 THE WITNESS: Yes.

22 BY MR. BARR:

23 Q. More specifically, have you ever seen a letter  
24 from John Povilaitis of this Commission's offices dated  
25 April 3, 1995 to counsel for a number of the oil dealers

1 discussing the RTS rate schedule?

2 A. I don't recall seeing such a letter.

3 JUDGE CHRISTIANSON: Povilaitis is our chief counsel.  
4 You'd probably remember him that way.

5 You don't remember the letter?

6 THE WITNESS: I don't remember the name or the  
7 letter, and I don't think that I have ever seen it.

8 MR. BARR: Your Honor, it's an important issue. I  
9 would like to make sure the witness has in fact not seen it.

10 JUDGE CHRISTIANSON: Okay. Give him a copy.

11 MR. BARR: If anybody else would like to see a copy,  
12 I can give it to them as well.

13 MR. HAYNES: I would.

14 (Document handed to witness and Counsel Haynes.)

15 MR. BARR: Would Your Honor like a copy?

16 JUDGE CHRISTIANSON: I can take a look at it.

17 (Document handed to Judge Christianson.)

18 JUDGE CHRISTIANSON: I guess the only question is:  
19 was the witness familiar with this letter before he received  
20 it, handed by counsel?

21 (Pause.)

22 JUDGE CHRISTIANSON: This is something to do with the  
23 Commission litigating the other proceeding, I gather.

24 MR. BARR: As I understand it, it was a request to  
25 investigate three discrete issues, one of which was whether

1 or not the RTS rate schedule was below cost, one of which  
2 was whether or not the Commission had been supplied accurate  
3 information about the promotional activities of the company  
4 with regard to RTS, and then finally, whether or not it was  
5 in compliance with the promotional regs. Then the  
6 Commission, the offices rejected it.

7 MR. THOMAS: He's characterizing a request that was  
8 made, and he should make the full record by sending in a  
9 copy of the request by Ms. Cox and also the subsequent  
10 letter from Ms. Cox asking for further clarification and  
11 explanation of the basis for these things if this entire  
12 thing is determined to be relevant.

13 MR. BARR: Well, this is not yet in the record.

14 JUDGE CHRISTIANSON: This is only a statement of  
15 counsel, it's not evidence or anything of that nature, so  
16 we'll try to keep away from any characterization. And I'm  
17 not making any conclusions about characterizations. I  
18 haven't even read the whole letter, frankly.

19 Go ahead.

20 BY MR. BARR:

21 Q. Now that you've had a chance to examine this  
22 letter, have you ever seen that before?

23 A. No.

24 Q. Thank you.

25 When you took the stand, Mr. Andersen, you amended

1 your testimony at page 3, on the last line.

2 A. Yes.

3 Q. And you changed it to read, as I understand it,  
4 "...the discount that PP&L proposes to offer other electric  
5 space heating customers is not supported by differences in  
6 cost, and that this service may also be subsidized," instead  
7 of "is also subsidized."

8 A. Yes.

9 Q. Now, you refer generally to having performed  
10 certain additional analysis since submitting the testimony.  
11 Can you explain in greater detail the reason for this  
12 change?

13 A. Yes. If you go to pages 43 and 44 of my  
14 testimony, starting at line 20, PP&L, in response to  
15 discovery, provided as its explanation for a declining block  
16 rate, or justification for a declining block rate, the  
17 notion that all customer costs are not recovered through the  
18 customer charge, and therefore a declining block energy  
19 charge was justified as a mechanism for recovering the  
20 balance of customer costs. I looked at that question and  
21 concluded that PP&L's argument was not supported by the  
22 facts in this case. Specifically, I discuss that issue in  
23 the preceding several questions and answers.

24 I think looked at a second possible justification for  
25 a declining block rate structure, which would relate to the

1 question of whether or not large volume residential  
2 customers have significantly higher load factors than do  
3 small volume residential customers, because if that were the  
4 case, then such a relationship might provide some basis for  
5 a declining block structure.

6 PP&L was unable to provide the information that was  
7 required in order to accurately perform such an analysis,  
8 and I've included the company's response in Volume I of my  
9 exhibits. However, I did try to piece together, as I  
10 describe at page 43 and 44, different snippets of  
11 information regarding coincident peak demand and energy  
12 usage for RS space heating customers, and I did find that  
13 there is a difference in load factor, or at least that the  
14 evidence indicates that there is a difference in load  
15 factor, with respect to coincident peak. That information  
16 is displayed in Table 10 at page 44.

17 I then asked myself the question whether or not this  
18 difference in load factor might be sufficient to support a  
19 significant tail block differential, and in the footnote at  
20 page 44 I indicate that under certain rather stringent  
21 assumptions the data that I've managed to compile might  
22 support a tail block differential as large as 1.4 cents in  
23 order to account for load factor differentials between the  
24 RS general and RS space heating customers.

25 That analysis, in combination with the fact that

1 there may be some unrecovered "customer costs" that are  
2 really customer costs, depending upon what the Commission  
3 does with respect to the RS customer charge, led me to the  
4 conclusion that the existing tail block differential of 1.96  
5 cents may or may not be justified on the basis of cost.

6 But I don't consider this analysis sufficiently  
7 detailed and sufficiently comprehensive; for example, it  
8 doesn't even consider the question of distribution cost  
9 differences among RS and RS space heating customers. I  
10 don't consider that analysis to be definitive. I would  
11 consider it to be, at most, a preliminary look at the kinds  
12 of things one would look at in order to evaluate the  
13 appropriate structure for the RS energy charge.

14 Therefore, I conclude that, one, PP&L has provided no  
15 adequate evidence to support either the existing two-block  
16 energy charge or the company's proposal to expand the two-  
17 block structure to a three-block structure, and that a  
18 comprehensive analysis of the question may or may not  
19 demonstrate that the existing tail block is cost based.  
20 Therefore, it is my recommendation in the case that the  
21 Commission not change the current differential.

22 Q. Thank you for that explanation.

23 I would like to turn now to page 3 of your testimony,  
24 at lines 11 to 14.

25 A. Yes.

1 Q. You state there that under the RTS rate a  
2 customer pays only about 2 cents a kilowatt-hour for heating  
3 service?

4 A. Yes.

5 Q. Can you point out a place in the company's  
6 existing or proposed tariffs which show a 2 cent charge for  
7 heating service?

8 A. No. That's the effective cost after one  
9 accounts for the fact that all non-space heating usage is  
10 priced at a rate that is substantially lower than the rate  
11 for RS service.

12 Q. Right. The customers don't pay 2 cents for any  
13 discrete portion of their service, though. That's how you  
14 would view it given your reallocation of the costs?

15 A. That's correct. If you view their space heating  
16 load as incremental and compare the incremental kilowatt-  
17 hours sold to service their space heating needs with the  
18 incremental revenues that are derived from RTS service, it  
19 comes out to 2 cents a kilowatt-hour.

20 Q. Do you know the average cost per kilowatt-hour  
21 for RTS customers under current rates?

22 A. My recollection is that it's approximately 4  
23 cents.

24 (Pause.)

25 A. Would you like me to make a calculation and tell

1 you --

2 Q. No. That's all right. I'm just crossing off  
3 some questions from my list, Mr. Andersen. I'm trying to  
4 move you towards that 3:00 departure time.

5 A. I appreciate that.

6 Q. In your testimony generally you state at a  
7 number of points, and in sometimes varying terminology, that  
8 the RTS service is below cost?

9 A. Yes.

10 Q. Please turn to your testimony at page 20.

11 A. I'm there.

12 Q. At footnote 6 you refer to a 1992 analysis  
13 within the company that refers to a positive margin for RTS  
14 even given the company's promotional activities; is that  
15 right? Not that you're accepting it. That's what it says.

16 A. On the basis of an incremental analysis, not an  
17 embedded or fully-distributed analysis, --

18 Q. Right.

19 A. -- yes, that's what the company concluded.

20 Q. Now, this document, CEPFOD 42, is that in your  
21 exhibits, this DM 0139547?

22 A. I think it's in Volume II -- oh, Volume I.  
23 Pardon me. If you'll go to -- perhaps the Volume I could  
24 have been organized a little bit better, but the way it's  
25 structured, as indicated in the index, is that the CEPFOD

1 responses that I've used or relied upon are first, then OTS,  
2 then OCA. And 42, yes, is the last of the CEPFOD responses.

3 Q. Okay. Thank you.

4 At several points you refer to a revenue deficiency  
5 or shortfall of \$7,000, or \$5,000, if customers convert to  
6 RTS; is that right?

7 A. That's a present value of lost margin, really.  
8 That's from a shareholder perspective.

9 Q. Right.

10 Could you please turn to page 12?

11 A. Sure.

12 Q. At lines 16 to 20 there you refer to the costs  
13 of customers switching from baseboard or fossil fuel as a  
14 switch that resulted in a present value revenue deficiency  
15 of \$5,000 to \$7,000?

16 A. Yes.

17 Q. I would like to turn to that document.

18 A. They are two-sided. Which one?

19 Q. The only one that I actually have in my set --  
20 for some reason the sets that we had did not have the 699  
21 document, the exhibit book that we received, but I do have a  
22 document that addresses the same issue, which is the 707  
23 document.

24 A. Okay. That begins at page 109 of Volume II. I  
25 tried to make Volume II a little bit easier to work through.

1 Q. I'm sorry; 109?

2 A. It's actually 113, the page that you've  
3 referenced me to. It's numbered in the lower right-hand  
4 corner.

5 Q. Right.

6 A. And I think you'll see the statement that -- in  
7 the last bullet there, "Accordingly, PP&L should obtain  
8 additional revenues of about \$6,000 to \$7,000 plus program  
9 costs per RTS customer converted from fossil to RTS." So  
10 that would be the \$7,000 for fossil.

11 Q. That's the basis for your testimony?

12 A. Well, that's the document that's cited in that  
13 particular place. There are lots of calculations in the  
14 documents that I've provided as Exhibit II.

15 Q. This issue is discussed in different places in  
16 these documents?

17 A. Yes, it has been. It's discussed at various  
18 places in my testimony also.

19 Q. Are you familiar with one of the documents that  
20 shows that conversions from fossil fuel as opposed to  
21 baseboard results in little long-term rate impact?

22 A. That would assume that all of the RTS demand is  
23 off peak. That would make sense to me. Because if all of  
24 the RTS demand is off peak, and if the company is correct in  
25 believing that the demand for a fossil conversion customer

1 during the on-peak period is the same as a residential RS  
2 general non-heating customer, then there's no net increase  
3 in peak demand as a result of converting that customer from  
4 fossil to RTS, and under those circumstances at least the  
5 generation and perhaps transmission costs would not or might  
6 not change appreciably. I don't know about distribution,  
7 though. I'm not sure that that statement would reflect the  
8 incremental distribution costs associated with RS versus RTS  
9 service. And then there might be some incremental energy  
10 costs.

11 But the question mark in my mind would be (a) whether  
12 or not that statement reflects adequately the incremental  
13 distributions costs, and (b) the question of whether or not  
14 the premise that the RTS peaking problem could be solved  
15 somehow or another is valid.

16 Q. I would like to turn to this RTS peaking issue.  
17 Please turn to your testimony at page 10, down at line 33,  
18 and carrying over to page 11, line 21.

19 A. Yes.

20 Q. There you have quotes from a document from 1987.  
21 This is a statement which in effect concludes that despite  
22 expected adverse impacts on system peak needs and other load  
23 management cost issues, the company went ahead with  
24 marketing RTS solely to realize short-term benefits. I'm  
25 trying to paraphrase the import of your testimony, so if you

1 don't agree with that, please let me know.

2 A. Well, I'm not sure that there were any short-  
3 term or long-term benefits. There may have only been costs.

4 Q. That's your characterization of the document?

5 A. It's a statement of fact.

6 Q. That's how you see the RTS?

7 A. That's how I see the documents that I have  
8 reviewed that relate to the costs and benefits associated  
9 with RTS service.

10 Q. Now, this particular document that has this  
11 discussion in it I take it is one that you regarded as being  
12 fairly important because it is support for your conclusion  
13 elsewhere regarding the RTS peaking problem. For example,  
14 you on page 18 say, "The RTS peaking problem was known to  
15 exist in 1987." Page 18, line 9.

16 A. Uh-huh.

17 Q. And you go ahead and quote this document at  
18 pages 19 and 20 as well.

19 A. I think that there are documents as well that  
20 support the proposition. I think there are documents  
21 stating --

22 Q. I understand that. I didn't ask you that, Mr.  
23 Andersen. I just asked you whether or not you think this is  
24 an important document.

25 A. It's an important document, yes. I've included

1 it in Volume II of my exhibits, and I've cited it at some  
2 length in my testimony.

3 Q. I would like to turn to Volume II right now,  
4 which I think in the handwritten pages, pages 35 and 36,  
5 includes this 1987 document.

6 A. Yes. I'm there.

7 JUDGE CHRISTIANSON: You're going by those  
8 handwritten numbers in the lower right-hand corner?

9 MR. BARR: Yes. I'm going by those handwritten  
10 numbers. That seems to be the easiest way to find these  
11 documents in the set --

12 JUDGE CHRISTIANSON: Yes. That helped me a little  
13 bit.

14 BY MR. BARR:

15 Q. How does this document define near-term benefits  
16 -- define "near term"? I'm sorry.

17 A. The general definition of near term is the time  
18 period between the date of the study and the expected date  
19 of the company's next rate case, which generally was  
20 expected to be in 1995.

21 Q. This is a 1987 document?

22 A. That's correct. The near term may be slightly  
23 -- the definition of near term may be slightly different in  
24 this document, but in general the definition of near term  
25 that I've encountered most frequently in these documents is

1 the time that elapses between the date of the study  
2 preparation and the date of the company's next rate case.

3 Q. I was really just referring to this document. I  
4 take it you're not implying the company knew in 1987 that it  
5 wouldn't be filing until 1995? That's just your general  
6 interpretation of the term

7 A. Their prediction in 1989 was that they would be  
8 filing in the 1994-95 time frame. Eighty-seven, I'm not  
9 certain what the company's expected date for filing for rate  
10 relief might have been.

11 Q. On page 35 here it says, "Summary and  
12 Conclusions." Doesn't it say here that there are in fact  
13 near-term benefits for the period through 1995? It says,  
14 "Near-term benefits by increasing sales and reducing revenue  
15 requirements per kilowatt-hour."

16 A. That's not a benefit. You can give away  
17 kilowatt-hours at fuel cost and achieve that benefit. So  
18 the whole notion that minimizing revenue requirement per  
19 kilowatt-hour represents a benefit is bogus.

20 Q. I take it you're taking a narrow definition of  
21 cost per kilowatt-hour by defining that as being price per  
22 kilowatt-hour; is that what you're saying?

23 A. No. Cost. Cost.

24 Q. If the company can reduce cost per kilowatt-  
25 hour, that's not a benefit?

1           A.    The situation we're talking about here is the  
2 company has excess capacity, or surplus capacity, and  
3 wants --

4           Q.    Well, --

5           A.    I can't respond briefly to your question.  Would  
6 you like me to respond?

7           Q.    I guess my question is as a general matter, if  
8 we can keep it a general matter, that the company says that  
9 there are benefits by reducing revenue requirements per  
10 kilowatt-hour.  Are you saying that that's not a benefit?

11          A.    Not necessarily.

12          Q.    The study, however, does conclude that there are  
13 benefits?  I would like to move away a little bit from  
14 whether or not you think it's beneficial to reduce costs per  
15 kilowatt-hour and simply go to what this study says, which  
16 is, it says there are benefits.

17          A.    Well, let me be more specific then.  If the  
18 mechanism by which you reduce costs per kilowatt-hour is the  
19 promotion of RTS service, then the reduction in costs per  
20 kilowatt-hour is not a reflection of benefits and, in fact,  
21 costs are being imposed rather than benefits received.

22          Q.    Mr. Andersen, it seems a little circular.  I  
23 guess the question they're examining here is whether they  
24 should promote the service, and the answer is that there are  
25 benefits from promoting it.  And they don't tie it to

1 assuming that they will be promoting the service.

2 A. And my response is that in that context that  
3 statement is false.

4 Q. So you disagree with the document?

5 A. I disagree with that statement.

6 Q. Other parts of the document, however, you rely  
7 upon heavily in supporting your conclusions?

8 A. You can rely upon what the company knew or  
9 believed at the time and not agree with the conclusions that  
10 they reached on the basis of what they believed to be true  
11 at the time.

12 Q. Why don't we move for the moment from the  
13 question of whether or not the document says there are near-  
14 term benefits and whether or not it may be true to a  
15 question of long-term costs. On the next bullet point on  
16 this document it says, "Continuing today's marketing  
17 programs and achieving the goals for the Residential Thermal  
18 Storage Program described on page 7 and through the long-  
19 term beyond 1995 will," and then it goes on to mention some  
20 of the problems that you refer to in your testimony; is that  
21 right?

22 A. Yes.

23 Q. Everywhere in this document where it refers to  
24 peak demand growth and other problems like that, it's  
25 referring to the period after 1995, is it not?

1 A. No.

2 Q. Can you point to me where it discusses long-term  
3 problems --

4 A. This document?

5 Q. Yes. This document. I'm not referring to other  
6 documents. I'm referring to this document.

7 A. Well, I can cite you problems. Now, I don't  
8 know whether or not they're discussed in this document, so  
9 it will take me a moment.

10 Q. Mr. Andersen, the context for my discussion is  
11 your citing this document for the proposition that the  
12 company acted in apparent disregard for the absence of  
13 benefits and the presence of costs, and I'm just trying to  
14 tie down where those benefits -- whether the company had  
15 felt there were any benefits and when the costs were likely  
16 to occur in the context of this document.

17 A. In looking at my notes, I note that one page  
18 that I wanted to refer to was page 35, and in particular, on  
19 bullet item 2, the last item, "increase the need for  
20 additional distribution facilities."

21 Q. I'm sorry; where at page 35?

22 A. Page 35, bullet item 2, last item.

23 Q. I'm sorry, Mr. Andersen. Is that handwritten  
24 page 35?

25 A. Yes. Bullet item 2.

1 Q. There are four unnumbered bullet points.

2 A. Second bullet, third item.

3 Q. Okay; yes.

4 A. "Increase the need for additional distribution  
5 facilities." That's an immediate not a post-1995 cost.

6 Q. But it says up above that, though, it says,  
7 "through the long term beyond 1995."

8 A. Those costs are immediate. That is, as soon as  
9 you add an RTS customer and serve the higher demands that  
10 are imposed upon the system by that customer, there is a  
11 likely impact on the distribution plant that is installed in  
12 order to provide service.

13 Q. But the other two costs are not short term? It  
14 says that these are problems for the long term beyond 1995,  
15 does it not?

16 A. Assuming that there's no market for the excess  
17 capacity that the company was effectively disposing of, I  
18 guess that would be true.

19 Q. I would like to turn to another page in this  
20 document. Further on, for some reason, the pages start  
21 being numbered here. I'm not certain why that is the case,  
22 but --

23 A. It must have been the white-out gremlin.

24 Q. These pages have been whited out?

25 A. No. I numbered them, and the copy that I have

1 is numbered as I numbered them.

2 Q. Okay.

3 A. So I don't know what the problem is with your  
4 copy.

5 Q. Down at the lower right-hand corner it says page  
6 48 in handwritten form.

7 A. I'm there.

8 MR. HAYNES: As an explanation, there is another  
9 numbering system, that is the numbering system in the  
10 antitrust litigation.

11 MR. BARR: That's the one that is eight numbers long.  
12 I've been trying to avoid that. Those are often not very  
13 sequential because they change from each exhibit.

14 MR. HAYNES: That's why we did the handwritten --

15 MR. BARR: No. It's helpful.

16 BY MR. BARR:

17 Q. The bottom bullet there says, "As RTS systems  
18 are added to the PP&L system in the 1986-95 period, there  
19 will be no increase in the system peak demand resulting from  
20 the RTS systems," and then it says, "an increase in energy  
21 use during the off-peak periods"; is that right?

22 JUDGE CHRISTIANSON: That's what it says in the last  
23 bullet on page 10 of the document.

24 THE WITNESS: I've read what you cited. Yes, but I  
25 don't know what the assumptions underlying that statement

1 are.

2 BY MR. BARR:

3 Q. I guess they were among the other assumptions at  
4 the time that underlay the parts of the document which you  
5 relied upon.

6 MR. HAYNES: Is that a question?

7 JUDGE CHRISTIANSON: I'm not sure.

8 MR. HAYNES: Objection, and ask that it be stricken.

9 MR. BARR: That's okay.

10 JUDGE CHRISTIANSON: We'll just call it a statement  
11 of counsel in preparation for another question.

12 MR. BARR: Yes.

13 THE WITNESS: What I'm doing is flipping back a few  
14 pages and trying to place that statement in context.

15 (Witness perusing document.)

16 JUDGE CHRISTIANSON: I think in this case we got some  
17 indication of shifting of peaks and people turning on their  
18 microwaves in the afternoon and the question about peaking,  
19 and as well with the street lighting rate I think; that the  
20 peak may be shifting in the late afternoon or increasing.

21 THE WITNESS: Well, if I go back to page 44, for  
22 example, it looks to me like the analysis we're looking at  
23 here is based on outdoor ambient temperature of 7 degrees  
24 Fahrenheit. Do you see that at the beginning of the second  
25 bullet on that page? Which would I don't believe correspond

1 to design-day conditions for PP&L's system. I think it gets  
2 a little chillier than 7 degrees Fahrenheit.

3 BY MR. BARR:

4 Q. Well, I guess the company experts who prepared  
5 this know best. I guess the question I have: is that the  
6 first time you tried to analyze that particular portion of  
7 the report that you were relying on?

8 A. No.

9 Q. Okay. The statement about no increase in peak  
10 and increased usage off peak that we just discussed, is your  
11 review of the context here that that's the first time that  
12 you either looked at (a) the prediction of no increase on  
13 peak, and (b) that's the first time you've attempted to  
14 reconcile that with the rest of the document?

15 A. No. I reviewed all of the pages that are bound,  
16 and I know for a fact that there was some hope that the  
17 problem of peaking could be mitigated, but that as of this  
18 date has not been.

19 Q. I would like to return to the Summary and  
20 Conclusions, which would be at page 37 in the handwritten  
21 pagination; a typed page 4 appears on the bottom of that  
22 page, on the side, depending on how you look at it.

23 A. I'm there.

24 Q. It refers to a decrease in the emphasis on RTS  
25 systems would lead to various other results; is that right?

1 Then it goes on to note that over time the benefits of RTS  
2 may diminish; is that right?

3 A. Yes.

4 Q. Has the company deemphasized the RTS program?

5 A. It's spending less money now to promote the  
6 program than it has in the past.

7 Q. Are less individuals signing up for RTS now than  
8 in recent years?

9 (Pause.)

10 JUDGE CHRISTIANSON: If you want to just say you  
11 don't know, go ahead and say it.

12 THE WITNESS: No. I have the information on customer  
13 count in my testimony.

14 JUDGE CHRISTIANSON: And again, if counsel wants, you  
15 can get it, but I don't know if you want him to get it.

16 THE WITNESS: There's also, in Volume I of the data  
17 request responses, a listing of the number of RTS customers  
18 by year since, I think, '89 or '90.

19 JUDGE CHRISTIANSON: I suspect it's been tailing off  
20 a little bit, but we don't know for sure.

21 THE WITNESS: My recollection is that customer growth  
22 pretty closely tracked promotional expenditures, and since  
23 promotional expenditures have tailed off, I would expect  
24 that customer growth has also tailed off.

25 JUDGE CHRISTIANSON: And judging by the public input

1 sessions, this rate filing has certainly discouraged people  
2 from going on to the RTS.

3 THE WITNESS: I would not be surprised to know that.

4 JUDGE CHRISTIANSON: I was there for a lot of irate  
5 customers complaining about it. So was Mr. Russell. But I  
6 know the background, the history, is what you're concerned  
7 about.

8 THE WITNESS: That's correct.

9 BY MR. BARR:

10 Q. Mr. Andersen, you do have a listing in two  
11 places of the progression in customers in your testimony.

12 A. Yes.

13 Q. We don't need to get into it right now. It is  
14 there and can be reviewed in the record.

15 A. It is there, yes.

16 Q. And it shows a declining sign-up list?

17 A. My recollection is that it's declining.

18 Q. Do you know what the marketing goals and  
19 projections for RTS use were that were used in making the  
20 various long-term assumptions in this study?

21 A. I've reviewed documents that indicated what they  
22 were, but I don't recall what the number is.

23 Q. Do you recall seeing a projection that was the  
24 basis for these figures that would project 45,000 RTS  
25 customers by 1995?

1 MR. HAYNES: I'm going to object that it assumes  
2 facts not in evidence unless he provides a cite.

3 MR. BARR: I'm asking whether or not the figure is  
4 one that he saw.

5 THE WITNESS: I remember a projection, and I don't  
6 remember whether it was precisely 45,000. If you show my  
7 the document, I'll tell you whether or not I've reviewed it.

8 BY MR. BARR:

9 Q. Was it a lot, though? I mean was it a number  
10 you --

11 A. I don't recall the magnitude.

12 Q. At page 19 of your testimony, lines 21 to 25,  
13 you mention possible third-party harms resulting from the  
14 termination of the RTS rate, particularly so-called  
15 infrastructure?

16 A. Yes.

17 Q. I take it that that reference comes from the  
18 study we were just looking at, the 1987 document; is that  
19 the source?

20 A. There's a 1987 cite and there's a 1991 cite.

21 Q. Have you quantified those costs at all?

22 A. No.

23 Q. Do you know anything about the infrastructure  
24 involved in this beyond general surmise from having observed  
25 the fact that there is an RTS thermal storage physical plant

1 required?

2 A. I recall reviewing some documents that went  
3 through who the manufacturers of the various types of  
4 equipment were and differences from one manufacturer to the  
5 next regarding the technologies that they were offering.

6 Q. Is that it, though?

7 A. That's about it.

8 Q. At page 21, footnote 7, you refer to PP&L's  
9 requested deferral of certain promotional expenses  
10 associated with RTS?

11 A. Yes.

12 Q. Is the company seeking to recover those deferred  
13 costs in this rate case?

14 A. I don't know.

15 Q. Mr. Andersen, are you an electrical engineer?

16 A. No.

17 Q. Have you sought or received the assistance of an  
18 electrical engineer or other technical consultation in  
19 preparing your testimony?

20 A. No.

21 Q. Could you please turn to your testimony at page  
22 29, lines 4 to 9?

23 A. I'm there.

24 Q. Do you know what the cost of a 3 kva transformer  
25 is?

1 A. I know what the embedded cost is.

2 Q. The cost of going out and buying one I'm  
3 referring to.

4 A. No.

5 Q. The 13 percent figure, is that the embedded cost  
6 figure that you've used?

7 A. That's correct.

8 Q. On page 43, line 2, you have the statement, "It  
9 is therefore meaningless to ration residential access to  
10 electricity service."

11 A. Yes.

12 Q. Is someone recommending that access to  
13 electricity service be rationed in this case?

14 A. Well, that's the only practical interpretation  
15 that one can put on the customer charge from a pricing  
16 perspective; that is, when you charge on the basis of head  
17 count, the only thing that you could conceivably ration on  
18 that basis would be access to the system. But as I state in  
19 the testimony, that concept is meaningless.

20 Q. I take it by that you mean that no one is going  
21 to decline having electricity service because they're  
22 unhappy with the connection charge rising by a couple  
23 dollars?

24 A. I wouldn't go so far as to say that.

25 Q. Then what do you mean?

1           A.     It's conceivable that there may be some  
2 customers out there that would find it necessary to go from  
3 absolute minimum consumption, a couple of light bulbs  
4 hanging in a shed or some such thing, to withdrawal from the  
5 system. I don't know that such a situation might exist, but  
6 I couldn't preclude that possibility.

7           MR. BARR: Your Honor, those are all the questions I  
8 have at this time.

9           JUDGE CHRISTIANSON: That's fine. That relaxes our  
10 timing problems quite a bit.

11           Then we can perhaps check. We've been going at it  
12 for only about 45 minutes. We ought to all be fresh at this  
13 point.

14           Trial Staff have anything?

15           MR. MICKENS: Yes. A couple of questions, Your  
16 Honor.

17           JUDGE CHRISTIANSON: Go ahead, counsel.

18                                   CROSS-EXAMINATION

19           BY MR. MICKENS:

20           Q.     Good afternoon, Mr. Andersen.

21           A.     Good afternoon.

22           Q.     My name is Ken Mickens. I represent the Office  
23 of Trial Staff in this proceeding. I just have a couple of  
24 questions.

25           I think you've testified that in your opinion PP&L

1 has aggressively promoted the RTS service at periods over  
2 the last few years; is that correct?

3 A. Yes.

4 Q. Now, in connection with your review of this  
5 area, have you determined or detected any misrepresentation  
6 about the savings that the RTS customers would receive under  
7 that schedule by PP&L, misrepresentations with regard to  
8 savings, as opposed to Rate Schedule RS, in connection with  
9 those promotions?

10 A. Only in a very indirect way. There is, in the  
11 studies that I've supplied, a recognition of an RTS problem.  
12 There's a document labeled "The Future is 1994" that  
13 indicates that a pricing problem is very likely to exist in  
14 the company's next rate case; that it's likely that the  
15 level and structure of the RTS rate will be challenged.  
16 Failure to disclose that information to a potential RTS  
17 customer could, I think, be construed as misrepresentation;  
18 that is, the customer might not have been fully informed of  
19 the risks that might be associated with going on the rate.  
20 Offsetting that, however, would be the pricing guarantees  
21 that are provided for in the tariff. The problem is that  
22 those pricing guarantees apply to the situation in which the  
23 rate is withdrawn, not the situation in which there is a  
24 substantial increase.

25 So I think that one might interpret that 1989

1 document as fitting your description.

2 Q. Have you had an opportunity to talk to any RTS  
3 customers?

4 A. No, I have not.

5 Q. I believe you've also indicated in your  
6 testimony that you have an opinion as to why the company  
7 decided to offer Rate Schedule RTS even though, in your  
8 opinion, it would be uneconomic to do so; is that correct?

9 A. Yes.

10 Q. Could you just briefly summarize why you believe  
11 that's the case? What was the reason, in your opinion?

12 A. The RTS rate was, in my opinion, part of an  
13 overall marketing plan designed to maximize kilowatt-hour  
14 sales and maximize market share.

15 Q. Why was that so important vis-a-vis -- I guess  
16 you're talking about oil dealers and I guess to a certain  
17 extent gas companies; is that correct? When you talk about  
18 maximizing market share, you're talking about --

19 JUDGE CHRISTIANSON: The home heating market.

20 BY MR. MICKENS:

21 Q. -- the home heating market?

22 A. Well, the home heating market and also, to some  
23 degree, the commercial and even potentially the industrial  
24 market, because a -- for example, a gas company that's  
25 contemplating laying down a distribution system has to look

1 at the potential market that's there, the total investment  
2 that has to be made in order to serve that market, and what  
3 its likely market share is going to be once that investment  
4 has been made. Now, if you can shave off or foreclose a  
5 significant segment of that market, you may place that  
6 natural gas distribution company in a position where it's  
7 uneconomic to expand its system. So conceivably you could  
8 have impacts, indirect impacts, on market shares in both  
9 commercial and industrial as well as residential.

10 Q. Okay.

11 A. But that would be applicable primarily to the  
12 natural gas situation. I don't think that would apply to  
13 the oil situation.

14 Q. It's interesting because the natural gas  
15 situation for home heating, from what I've been able to  
16 detect, they have not been very aggressive at all. So the  
17 question is: what was the threat, what was the perceived  
18 threat?

19 MR. BARR: Your Honor, I would like to interpose an  
20 objection to this line of cross-examination.

21 MR. HAYNES: I'd like a clarification as well.

22 JUDGE CHRISTIANSON: You've got both sides hating you  
23 at this moment.

24 MR. MICKENS: Your Honor, I'm simply --

25 MR. BARR: He seems to be performing a direct case on

1 cross, and I --

2 MR. MICKENS: I'm simply asking the question -- the  
3 witness has testified to the fact that the company decided  
4 to provide this rate even though it was uneconomic for a  
5 reason, and I understand what he said; that in order to  
6 increase market share. My question is simply if that is the  
7 case, why was the company so concerned about increasing  
8 market share when it seems to me that the competitors that  
9 they were apparently concerned about have not been all that  
10 aggressive in going after that share? That's all my  
11 question is.

12 JUDGE CHRISTIANSON: I guess what turned PP&L on?

13 THE WITNESS: Well, I don't know how aggressive or  
14 passive fuel oil distributors and natural gas distribution  
15 companies have been in the marketplace. What I do know is,  
16 as discussed at pages 7 and 8 of my direct, electric heating  
17 was not, absent RTS service, competitive with fossil fuels.

18 BY MR. MICKENS:

19 Q. On price.

20 A. On price. And price, I would think, is an  
21 important consideration, at least it has always been for me  
22 when I've considered alternative heating systems. Price is  
23 an important consideration in the overall choice that one  
24 makes.

25 Q. And even though under utility rate equation --

1 under utility rate equation, PP&L would come in for a rate  
2 increase based upon its costs to provide service to its  
3 customers whether they are high or low, theoretically. So I  
4 guess what I'm asking in regard to that is: given that  
5 fact, why was there such a concern about market share?

6 MR. HAYNES: I object to the phrasing of the  
7 question. If he says assuming that fact to be true --

8 MR. MICKENS: I'll rephrase the question.

9 BY MR. MICKENS:

10 Q. Assuming that fact, why was there such a concern  
11 about market share? And that's my final question.

12 A. I think that in the 1985-1987-'89 time frame  
13 there was a significant interest on the part of PP&L in  
14 maximizing kilowatt-hour sales. Whether or not that  
15 objective, that corporate objective, made sense, whether it  
16 was a rational policy, whether it was the appropriate thing  
17 to do, I guess we'll find out in rebuttal as to what PP&L  
18 has to say about my interpretation of the situation.

19 JUDGE CHRISTIANSON: And you're saying sales, PP&L  
20 may not have worried about residential sales or industrial  
21 sales, they just wanted sales.

22 THE WITNESS: Yes. And the company has in fact  
23 followed many marketing avenues in --

24 JUDGE CHRISTIANSON: Including RTS.

25 THE WITNESS: Including RTS, yes. This was one of a

1 package deal, a total marketing plan.

2 JUDGE CHRISTIANSON: Go ahead, Mr. Mickens.

3 MR. MICKENS: That's all I have, Your Honor. That  
4 responded to my question.

5 JUDGE CHRISTIANSON: I'll just make one comment. I  
6 just finished up a Bell Telephone case where Bell was  
7 accused of the same sort of thing, of trying to preempt  
8 certain areas of the market, because Bell is a bigger entity  
9 than PP&L is for many people. But I just wrote up a case  
10 about Bell Telephone, a promotional rate case. It should  
11 see the light of day pretty soon.

12 Then anything from Mr. Kleppinger?

13 MR. KLEPPINGER: We have no questions for this  
14 witness, Your Honor.

15 JUDGE CHRISTIANSON: And we'll worry about Mr. Haynes  
16 on redirect.

17 Consumer Advocate?

18 MS. KENNEY: Thank you, Your Honor.

19 CROSS-EXAMINATION

20 BY MS. KENNEY:

21 Q. Good afternoon, Dr. Andersen. My name is Mary  
22 Kenney and I represent the Office of Consumer Advocate.

23 I would like to turn your attention to page 4 of your  
24 testimony, lines 5 through 16.

25 A. Yes.

1 Q. There you discuss your proposal to eliminate the  
2 RTS rate and move those customers onto Rate RS. Would you  
3 agree with me that a thermal storage system requires more  
4 energy to heat a home than a conventional electrical system?

5 JUDGE CHRISTIANSON: Because of possible losses in  
6 the storage element of it.

7 THE WITNESS: Yes. But it's not a very large --  
8 possible losses and possible customer responses to  
9 differences in price; that is, a customer taking service  
10 under RS may make a different decision regarding the size  
11 and efficiency of the refrigerator they buy than would a  
12 customer taking service under RTS because there's a large  
13 differential in the cost of running the refrigerator.

14 BY MS. KENNEY:

15 Q. Am I correct that you note in your testimony at  
16 page 8, line 28, that an average RTS customer uses about 2.6  
17 times as much energy as an average RS customer?

18 A. Yes.

19 Q. Is that correct?

20 A. I recall that.

21 Q. So would you agree that if you move the RTS  
22 customers to Rate RS, on average the bills for these  
23 customers will be higher than the bills for the existing RS  
24 customers?

25 A. Well, your assumption, first of all, that those

1 customers will migrate to RS may not be correct. They may  
2 migrate to RTD instead. Secondly, I -- but let's ignore the  
3 RTD issue. Let's assume they migrate to RS. Yes, I would  
4 agree that they would see a substantial increase in their  
5 bills; however, I've also recommended that that increase be  
6 partially or perhaps even totally offset by a lump sum  
7 payment by PP&L of \$50 per month.

8 Q. Have you analyzed whether the \$50 per month that  
9 you recommend will adequately compensate the RTS customers  
10 for the increased cost of energy that they will experience  
11 over the remaining life of their RTS systems?

12 A. Not over the remaining life. On an annual basis  
13 PP&L estimates that RTS service saves a customer  
14 approximately \$500 to \$600 a year as opposed to RS service.  
15 Fifty dollars a month, it so happens -- or maybe it's not  
16 chance; maybe it was an accurate calculation at the time the  
17 \$50 a month was included in the tariff. Fifty dollars a  
18 month will compensate the RTS customer for the damages or  
19 the increase in his electric bill that he experiences for as  
20 long as the \$50 a month is paid. After that, the customer  
21 would face substantially higher costs of electricity. But  
22 by the same token, if the customer has fully recovered the  
23 incremental cost incurred to install the system as opposed  
24 to a non-storage baseboard type heating or what-have-you,  
25 heating system or what-have-you, there is no -- in some

1 sense there is no harm to the customer either.

2 Q. Have you analyzed the effect that these  
3 increased electric costs due to the thermal storage system  
4 may have on the resale value of the homes that currently  
5 have the thermal storage systems in place?

6 A. All else equal, it would reduce the resale value  
7 of the home.

8 Q. At page 4, lines 21 to 30, you discuss an  
9 alternative if the RTS rate is not abolished. On line 29  
10 you note that access should be limited for existing  
11 customers. Were you referring to existing customers or to  
12 the location of the equipment?

13 A. Well, the reference is quite clearly to existing  
14 customers, and until I looked at Mr. Johnson's testimony on  
15 the RTS rate, I hadn't thought about the question of  
16 locations versus customers. I really haven't decided  
17 whether or not in my own mind a location-specific  
18 restriction rather than a customer-specific restriction  
19 would be more appropriate.

20 Q. Would you agree with me, though, that the loss  
21 of the rate location will have an impact on the potential  
22 resale value of the home if new buyers would automatically  
23 experience increased electric costs?

24 A. Yes. If they're aware of that fact.

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

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JUDGE CHRISTIANSON: Anything from the Department of  
Defense?

MR. McCORMICK: No questions.

JUDGE CHRISTIANSON: Small Business had something?

MS. MOURY: Yes, Your Honor.

JUDGE CHRISTIANSON: Go ahead.

## CROSS-EXAMINATION

1  
2 BY MS. MOURY:

3 Q. Good afternoon, Mr. Andersen. I am Karen Moury  
4 with the Office of Small Business Advocate.

5 A. Good afternoon.

6 Q. First, I'd like to refer you to page 2 of your  
7 testimony, to line 9, where you indicate that the membership  
8 of CEPFOD is served by PP&L and therefore has a direct  
9 interest in PP&L's residential and commercial rates.

10 Under which rate schedules do the members of CEPFOD  
11 receive service?

12 A. I don't know. I would assume that they are  
13 served under either GS-1 or GS-3.

14 JUDGE CHRISTIANSON: Counsel is looking for small  
15 business customers.

16 BY MS. MOURY:

17 Q. Which of PP&L's rate classes have customers who  
18 take service from PP&L that competes with the service  
19 provided by members of CEPFOD?

20 A. The focus of my analysis in this case has been  
21 the residential segment of the market, but there would also  
22 be potentially a commercial market out there. Well, no.  
23 There is a commercial market in which -- there is a  
24 commercial market for electric space heating; and therefore,  
25 there would be competition in that market or potential

1 competition, a potential for competition between electric,  
2 gas and oil, but the RTS rate is not offered, to my  
3 knowledge, to commercial customers.

4 Q. Now, you've proposed that the minimum system  
5 analysis for the distribution system be rejected; is that  
6 correct?

7 A. With respect to poles, conductor, conduit and  
8 overhead lines.

9 Q. Do you know what the impact of your proposal to  
10 have those classified as demand related would be on Rate  
11 Schedules GS-1 and GS-3?

12 A. I can tell you what the difference between the  
13 allocation factors is. I can't tell you what the dollar  
14 amount of the difference is.

15 Q. That's all right.

16 Now, at least one of the reasons that you propose to  
17 reject the minimum system approach and classify all poles,  
18 lines and transformers as demand related is based on your  
19 quote from the Bonbright treatise where Professor Bonbright  
20 has criticisms of the minimum system concept.

21 A. Well, the Bonbright, quote, "illustrates" the  
22 fact that there is a longstanding objection to the concept  
23 of a minimum system.

24 Q. That would be the quote that you set forth on  
25 pages 30 and 31 of your direct testimony; is that right?

1 A. Thirty and 31?

2 Q. Yes.

3 A. That's right.

4 Q. Do you have Professor Bonbright's treatise with  
5 you?

6 A. No, I don't.

7 MS. MOURY: Your Honor, may I approach the witness to  
8 share my copy of Bonbright with him?

9 JUDGE CHRISTIANSON: Go ahead.

10 MS. MOURY: And the other thing I've done is I made a  
11 number of copies of a three-page excerpt from this treatise,  
12 which I think contains the quote.

13 JUDGE CHRISTIANSON: Then Mr. Haynes can go back to  
14 the counsel table.

15 MS. MOURY: I don't have a lot of copies, but I have  
16 a few.

17 JUDGE CHRISTIANSON: Counsel can share unless they've  
18 memorized Bonbright, in which case they don't need it.

19 (Document handed to witness and parties.)

20 JUDGE CHRISTIANSON: Now we're talking about minimum  
21 system as opposed to zero intercept or something like that?

22 MS. MOURY: Well --

23 JUDGE CHRISTIANSON: Well, you can go on.

24 MS. MOURY: All right.

25

1 BY MS. MOURY:

2 Q. Now, Dr. Andersen, as I understand, you set  
3 forth this quote from Bonbright to support essentially your  
4 classification of the costs that we've discussed as demand  
5 related; is that correct?

6 A. Yes. This is the post-mortem addition of  
7 Bonbright.

8 Q. I was going to clarify that. You have quoted, I  
9 believe, pages 247 and 248, but would you agree that this  
10 quote is set forth in this copy of Bonbright starting  
11 actually at page 491? In the first full paragraph on page  
12 491, it is about halfway down.

13 A. 491?

14 Q. Correct.

15 (Witness perusing document.)

16 A. I'm becoming progressively more and more  
17 convinced that I need glasses. Can I accept subject to  
18 check?

19 Q. Yes.

20 JUDGE CHRISTIANSON: Okay. We'll accept it subject  
21 to check.

22 MS. MOURY: All right.

23 BY MS. MOURY:

24 Q. And you set forth the quote starting with, "In  
25 any case, the annual costs," et cetera, and you continue

1 down to the end of the second full paragraph on page 491?

2 A. Yes.

3 JUDGE CHRISTIANSON: The one that ends at the next-  
4 to-the-last line.

5 THE WITNESS: It looks to me, just sort of scanning  
6 it, that portion of Dr. Bonbright's text survived his death.

7 BY MS. MOURY:

8 Q. Will you read into the record the very first  
9 sentence of the paragraph following your quote, which would  
10 start, "While, for the reason just suggested"?

11 A. "While, for the reason just suggested, the  
12 inclusion of the costs of a minimum size distribution system  
13 among the customer-related costs seems to us clearly  
14 indefensible. Its exclusion from the demand-related costs  
15 stands on much firmer ground. For this exclusion of  
16 minimum" --

17 Q. That would be plenty. That is the only sentence  
18 that I needed to have read in. But in fact, what you are  
19 proposing would put all of the costs into the demand-related  
20 portion despite the fact that Bonbright rejects that idea  
21 even more strongly than the inclusion of those costs as  
22 customer related?

23 A. One has to be a little bit careful here. I've  
24 made several objections, and one objection is to the  
25 classification of those costs as customer related; and in my

1 view, those costs are driven primarily by the need to serve  
2 the demands the customer imposes upon the system.

3 To some extent, those costs may vary with the  
4 geographic characteristics of the service area and the  
5 demographic characteristics of the service area. But my  
6 question would be: what is the point of quantifying those  
7 costs if you don't know what to do with them once they've  
8 been quantified? That is if they're not customer related,  
9 they're not demand related, they're not energy related, what  
10 are they?

11 Q. Well, doesn't actually Professor Bonbright go on  
12 to say that; that going down on page 492, "To which cost  
13 function does it then belong? The only defensible answer in  
14 our opinion is that it belongs to none of them"?

15 A. But unfortunately, that violates the revenue  
16 constraint.

17 Q. But wouldn't you agree that Bonbright doesn't  
18 endorse either a minimum system or a 100 percent demand  
19 method?

20 A. I would agree.

21 Q. One last question. If your recommendation  
22 regarding the minimum cost allocation method were rejected,  
23 would it have any impact on your proposals regarding the RTS  
24 rate schedule?

25 A. The only impact it would have would be that it

1 would eliminate an adjustment that I have indicated is  
2 appropriate in Table 8 on page 37. That is I've suggested  
3 that the revenue deficiency for RTS is larger than  
4 calculated by PP&L.

5 If the Commission were to reject my recommendation  
6 regarding the allocation or classification really of  
7 distribution plant, then we would move back towards a total  
8 RTS revenue requirement of \$42 million rather than what I've  
9 indicated to be an adjusted revenue requirement of \$46  
10 million at page 37.

11 Other than that, it is a purely numerical issue, and  
12 it would have -- the only impact it would have in practical  
13 terms would be if the Commission said PP&L should -- or  
14 determined that PP&L should absorb the RTS revenue  
15 deficiency that exists after adjusting rates in this case,  
16 then the amount that PP&L would have to absorb would be  
17 somewhat smaller if you do not accept my recommendations  
18 regarding minimum system costs.

19 MS. MOURY: That's all I have, Your Honor.

20 JUDGE CHRISTIANSON: Then Bethlehem Steel I see is  
21 here.

22 MS. BRANDEIS: I'm back again, Your Honor, but we  
23 have no questions for the witness. Thank you.

24 JUDGE CHRISTIANSON: Then we seem to be at the end of  
25 cross-examination unless there is follow-up by one party or

1 another.

2 Go ahead.

3 MR. BARR: Very brief follow-up, Your Honor.

4 FURTHER CROSS-EXAMINATION

5 BY MR. BARR:

6 Q. Mr. Andersen, in response to questions from Mr.  
7 Mickens, you said -- I don't have it down here precisely,  
8 but you spoke to the approach of the company in the  
9 '85-'87-'89 time period in terms of maximizing kilowatt-hour  
10 sales; is that correct?

11 A. Yes.

12 Q. The basis for your statement about that  
13 perceived I think you said mind set is solely the documents  
14 which you have attached to your testimony; is that right?

15 A. That's correct.

16 MR. BARR: That's all.

17 JUDGE CHRISTIANSON: We seem to be at the end of  
18 cross-examination. Do you folks want a couple minutes with  
19 your witness?

20 MR. HAYNES: Just a couple minutes.

21 JUDGE CHRISTIANSON: Let's be off for five minutes.

22 (Recess.)

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

24 I understand there is no redirect for the witness,  
25 and I'll swear in the witness.

1 Whereupon,

2 CHARLES E. JOHNSON

3 having been duly sworn, testified as follows:

4 MS. KENNEY: Your Honor, I would like to have marked  
5 for identification as OCA Statement No. 3 the direct  
6 testimony of Dr. Charles Johnson on cost of service and rate  
7 design issues. I would note that Dr. Johnson has also  
8 prepared another statement, No. 5, which deals with  
9 depreciation issues, which will be the subject matter of  
10 cross-examination next week.

11 JUDGE CHRISTIANSON: Right.

12 (Whereupon, the document was marked  
13 as OCA Statement No. 3 for  
14 identification.)

15 DIRECT EXAMINATION

16 BY MS. KENNEY:

17 Q. Dr. Johnson, could you please state your  
18 business address for the record?

19 A. My address is 12510 Prosperity Avenue, Silver  
20 Spring, Maryland.

21 Q. Dr. Johnson, do you have before you a copy of  
22 your prepared, prefiled direct testimony in this case  
23 consisting of 28 pages of questions and answers and five  
24 schedules?

25 A. Yes, I have.

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

3 A. Yes, they were.

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

7 A. I have one correction on page 3 -- I'm sorry --  
8 on page 7 at line 3. The number "\$2.6 million" should be  
9 "\$12.4 million." That does not affect any of the other  
10 numbers in my testimony.

11 Q. Dr. Johnson, just for clarification, could you  
12 please explain the change in that number?

13 A. Yes. The 2.6 million in credits for the LP-5  
14 class was only a portion of the full amount of credits and  
15 did not include the total.

16 Q. Subject to this correction, are the testimony  
17 and the schedules true and correct to the best of your  
18 knowledge, information and belief?

19 A. Yes.

20 Q. And subject to this correction, if I were to ask  
21 you these same questions today under oath, would your  
22 answers be the same?

23 A. Yes, they would.

24 MS. KENNEY: Your Honor, I would ask that Dr.  
25 Johnson's direct testimony marked for identification as OCA

1 Statement No. 3 be admitted into evidence subject to any  
2 cross-examination and timely motions by opposing counsel.

3 JUDGE CHRISTIANSON: Yes. No. 3 is accepted under  
4 the standard conditions.

5 (Whereupon, the document marked as  
6 OCA Statement No. 3 was received in  
7 evidence.)

8 MS. KENNEY: Your Honor, all parties were previously  
9 served copies of Dr. Johnson's testimonies and I have  
10 provided two copies to the court reporter. Dr. Johnson is  
11 available for cross-examination.

12 JUDGE CHRISTIANSON: Fine. We can start. The only  
13 thought is, in case we have to break off today, could we  
14 take cross from counsel that might not be here next week?

15 Does the company have much for the witness?

16 MR. MacGREGOR: I'm sorry?

17 JUDGE CHRISTIANSON: Do you have very much cross for  
18 the witness?

19 MR. MacGREGOR: I have some cross. I can probably  
20 finish by 3:00. Is the idea if we don't finish by 3:00  
21 we're going to do it next week?

22 JUDGE CHRISTIANSON: Well, I can call in Herb Cohen  
23 or we can delay a little bit. I have to go to a Bureau  
24 Directors' meeting at 3:00 is my problem.

25 MS. KENNEY: Dr. Johnson is available today. I know

1 that today was designated as a rate design and cost of  
2 service issue.

3 JUDGE CHRISTIANSON: I can call in Herb Cohen if  
4 that's easier.

5 MS. KENNEY: I don't know who will be here next week  
6 and not next week, so he certainly is available. I know  
7 people have made certain schedule arrangements, but he will  
8 also be available next week if there is a problem.

9 MR. MacGREGOR: I'd just as soon get him out of the  
10 way today, if we can.

11 JUDGE CHRISTIANSON: Go ahead.

12 CROSS-EXAMINATION

13 BY MR. MacGREGOR:

14 Q. Good afternoon, Dr. Johnson.

15 A. Good afternoon.

16 Q. Starting with the class cost of service study,  
17 am I correct that you have proposed three basic adjustments  
18 to the company's study, one relating to the allocation of  
19 products costs, a second related to distribution costs, and  
20 the third involving the value of the interruptible rate  
21 credits?

22 A. That's correct.

23 Q. Now, subject to check, under the company's  
24 proposed cost of service study, the RS class return under  
25 present rates is 5.84 percent or approximately 80 percent of

1 system average; is that correct?

2 A. I don't have that before me, but that sounds  
3 about right.

4 Q. I don't know to what extent you've had an  
5 opportunity to review the testimony of some of the other  
6 parties in this case, but if you could accept subject to  
7 check that the cost of service study presented by the  
8 colleges in this case shows an RS return of 3.72 percent or  
9 about 50 percent of system average and the study presented  
10 by the PP&L Industrial Customer Alliance or whatever they're  
11 called shows an RS return of 5.33 percent or approximately  
12 73 percent of system average. Are you familiar with those  
13 figures or would you be willing to accept that subject to  
14 check?

15 A. I'll accept them subject to check if you'll  
16 repeat them so that I can check them.

17 Q. Oh, sure. I'm sorry. As I read the cost of  
18 service study presented by the colleges, they show an RS  
19 return at present rates of 3.72 percent, which I calculate  
20 to be about 50 percent of the system average, and the PPLICA  
21 study by Mr. Baron shows an RS return of 5.33 percent or  
22 approximately 73 percent of system average.

23 A. Okay. I'll accept those subject to check.

24 Q. Would I be correct, if we were to look at  
25 Exhibit CEJ-1, Schedule 1, page 1 attached to your

1 testimony, that your proposed cost of service study shows a  
2 different result for the RS class, in particular, a rate of  
3 return that is virtually identical to the system average at  
4 present rates? Is that correct?

5 A. That's correct.

6 Q. And under your cost of service study, the RS  
7 class tracks cost shall we say better than any other rate  
8 class or it is more closely aligned with cost of service  
9 than any other rate classification?

10 A. Yes.

11 Q. Now, with respect to the allocation of  
12 production costs, am I correct that the company used a 12-CP  
13 methodology to allocation production costs in this case?

14 A. That's correct.

15 Q. And you propose a different method, a peak and  
16 average method, which allocates production costs on the  
17 basis of both demand and energy?

18 A. Yes.

19 Q. So as I understand, your demand allocation  
20 method in this case relies on both demand and energy  
21 allocation factors

22 A. Well, I don't want to characterize it as a  
23 demand allocator. It is a combined allocator. It was  
24 easier to do the calculation that way than to separate the  
25 investment into two separate portions and allocate an energy

1 portion on energy and a demand portion on demand.

2 Q. Well, I've sort of gotten the terminology from  
3 page 7 of your testimony, line 15, where you refer to the  
4 subject area as demand allocation methodology. If you want  
5 to revise that, that would be fine.

6 A. Well, I refer to the demand allocation  
7 methodology that PP&L used. I tried to avoid using the term  
8 "demand allocation" for my approach. I may have failed, but  
9 I would want to be careful about the terminology, yes.

10 Q. On page 9 of your testimony at the bottom, am I  
11 correct that the end result of your methodology is to  
12 allocate roughly 60 percent of production plant costs on the  
13 basis of energy and roughly 39 percent or 40 percent on the  
14 basis of class demands, about a 60/40 split, roughly?

15 A. That's correct. That's roughly right.

16 Q. Now, the energy portion I take it of that would  
17 be allocated based upon class kilowatt-hour usage?

18 A. Yes.

19 Q. And the demand portion, you propose to use a  
20 5 coincident peak method consisting of three winter months  
21 and two summer months?

22 A. That's correct.

23 Q. Do you know of any other utility that has  
24 adopted a peak and average method that uses a 5-CP for the  
25 demand component and an energy allocation for the energy

1 component?

2 A. I don't know of a specific company that uses a  
3 5-CP in their peak and average method. There are a number  
4 of different measures of peak demand that could be used, and  
5 this one seemed the appropriate one for the reasons that I  
6 stated in my testimony.

7 Q. Dr. Johnson, as a general matter, would you  
8 agree or disagree with the proposition that a utility should  
9 seek to implement measures to encourage customer classes to  
10 improve their load factors?

11 A. I don't think that is the objective that a  
12 utility ought to set out to achieve. There are a great many  
13 other objectives that the utility ought to be attempting to  
14 achieve, and that is certainly not one that strikes me as a  
15 high priority.

16 Q. Should a utility seek to implement measures to  
17 encourage customers and customer classes to reduce their  
18 load factor?

19 A. It depends on the circumstances that the utility  
20 faces. If the utility -- but as a matter in and of itself,  
21 the answer would be no.

22 Q. Regardless of how you feel about increasing or  
23 decreasing load factors, under your peak and average  
24 methodology, am I correct that if a rate class were to  
25 maintain a constant contribution to peak demand but

1 increased its load factor, it would be assigned a greater  
2 portion of production costs?

3 A. If you're comparing the production capacity  
4 allocation methodology that I have proposed compared to  
5 another allocation methodology.

6 Q. Well, that wasn't really my question. I'm just  
7 saying under your methodology using the peak and average  
8 method, if, all else equal, a rate class improved its load  
9 factor but maintained the same contribution to system peak,  
10 all else equal, that class would be allocated a greater  
11 proportion of production costs.

12 A. I think that depends on the assumptions you  
13 make.

14 Q. I don't think so, but --

15 A. Would you mind running through those assumptions  
16 for me again?

17 Q. It is fairly simple, I think. I'm saying that  
18 under a peak and average method where productions costs are  
19 allocated both on the basis of class contribution to peak  
20 and class contribution to average demand, that if a rate  
21 class improves its load factor by increasing its energy  
22 usage over the course of a year but maintained its  
23 contribution to the system peak or the 5-CP or whatever the  
24 peak allocators are for the demand portion, all else equal,  
25 that class would be allocated a greater portion of

1 production costs.

2 A. If the -- the answer to that is yes. If the  
3 customer class used the facilities of a utility more  
4 intensively over the course of a year, then they would be  
5 allocated costs commensurate with that more intense  
6 utilization.

7 Q. How does the company allocate energy costs in  
8 its study? Based on a class kilowatt-hour usage?

9 A. That's my understanding, yes.

10 Q. And you have not proposed any change to that  
11 methodology in this case?

12 A. I have not.

13 Q. Would you agree with me that the company's  
14 energy costs vary over time, particularly between on-peak  
15 and off-peak periods?

16 A. They vary somewhat. There is not a great deal  
17 of variation in the average costs by peak period and off-  
18 peak period.

19 Q. Do you know what those costs are?

20 A. Do you mean the average cost per kilowatt-hour  
21 on-peak versus off-peak?

22 Q. Yes.

23 A. No. I don't have those at my fingertips.

24 Q. Could I refer you to page 14 of your testimony?  
25 I'm turning now to secondary distribution costs now.

1 A. I have page 14.

2 Q. You start on line 9 by stating that Mr. Kleha  
3 used the minimum size method described in the NARUC Cost  
4 Allocation Manual; is that correct?

5 A. That was his characterization that he used it as  
6 a guide. He did not utilize every detail of the method that  
7 is described there.

8 Q. So your testimony is Mr. Kleha did not use the  
9 minimum size method described in the NARUC Cost Allocation  
10 Manual?

11 A. That's correct. He did not use it. He used it  
12 as a guide.

13 Q. As a guide.

14 A. That was his characterization of how he used it.  
15 I accept his characterization that it was a guide, but he  
16 did not follow the method in every detail.

17 Q. As I understand it, the company allocates a  
18 portion of secondary distribution costs on a customer basis  
19 and partly on a demand basis; is that right?

20 A. That's correct.

21 Q. And on the other hand, all of the primary  
22 distribution costs are allocated based on demand. There is  
23 no customer component in the company's study?

24 A. That is my understanding.

25 Q. Do you believe or have you conducted a study to

1 determine whether primary distribution costs are entirely  
2 demand related and have no customer component?

3 A. I have not examined that issue in this case.

4 Q. Now, rather than perform your own study for the  
5 allocation of secondary distribution costs, you made an  
6 adjustment to the company's study; is that correct?

7 A. Yes.

8 Q. Could you just summarize what you did under that  
9 adjustment? I was having a little trouble following it in  
10 the testimony.

11 A. The company has separated the secondary  
12 distribution system into two components. One gets  
13 characterized as a customer-related component, and the  
14 residual, whatever is left over of those investment costs,  
15 gets characterized as demand related.

16 My adjustment to that approach is to examine the  
17 load-carrying capacity of the so-called customer component  
18 and to make an adjustment to the demand allocator that  
19 accounts for the load-carrying capacity of that so-called  
20 customer-related component. And --

21 Q. And what specific adjustment was that? I don't  
22 mean to interrupt you, but what is the specific adjustment  
23 that is made? Is it shown in your exhibit?

24 MS. KENNEY: Your Honor, if Mr. Johnson could  
25 complete his answer, then Mr. MacGregor could ask the next

1 question, but I believe that Dr. Johnson was speaking at the  
2 time, and I would like him to be able to complete his  
3 answer.

4 JUDGE CHRISTIANSON: Let me interrupt, because I have  
5 to turn into a pumpkin myself in a minute. I'll allow the  
6 witness to complete his answer, but let me break for a  
7 while. I assume I have the consent of everybody for Judge  
8 Cohen to come in for a bit to try to finish up this witness,  
9 and I'll get him, because I have a meeting at 3:00. So  
10 let's be off for just a couple minutes.

11 (Recess.)

12 JUDGE CHRISTIANSON: Back on the record.

13 At this point, I've been called to a Bureau  
14 Directors' meeting, and I've arranged for Judge Cohen to  
15 finish out this witness. I think we'll convene at 10:00  
16 tomorrow morning. I don't think there is any need to be  
17 early tomorrow.

18 I'm assuming you'll just finish out this witness, and  
19 if anything much comes up, I can deal with it after the  
20 fact, but I assume it will be a fairly smooth transition  
21 with Judge Cohen presiding just to finish out this witness.  
22 But if anything much comes up, I'll haunt you after the  
23 fact.

24 You might as well go ahead and complete your  
25 response. Are you ready to complete it or do you want to

1 start over again?

2 THE WITNESS: I can complete the answer, Your Honor.

3 JUDGE CHRISTIANSON: Go ahead.

4 THE WITNESS: The specific adjustment that I made to  
5 the allocator used to allocate the demand-related portion of  
6 the secondary distribution system was derived by calculating  
7 the number of transformers allocated to each rate class and  
8 determining their load-carrying capability and subtracting  
9 that load from the demand allocator. That is not in my  
10 exhibit. It was in my workpapers.

11 BY MR. MacGREGOR:

12 Q. Could you supply a copy of those workpapers to  
13 me, please?

14 MS. KENNEY: Would you like to make an on-the-record  
15 data request for those?

16 MR. MacGREGOR: I sure would.

17 MS. KENNEY: Then we will supply the workpapers.

18 BY MR. MacGREGOR:

19 Q. Can you tell me in summary what the overall  
20 effect was on the demand allocator, a change from what to  
21 what?

22 A. Sure.

23 JUDGE CHRISTIANSON: Let me just interrupt, because I  
24 have to leave. Judge Cohen will finish out today, because  
25 you shouldn't be much longer. Again, I admonish you all to

1 be on your best behavior for the moment.

2 JUDGE COHEN: We have replacement ball players. Now  
3 we have replacement ALJs.

4 (Laughter.)

5 JUDGE CHRISTIANSON: Being the Chief, I can arrange  
6 my own replacement whenever I want to. But again, we'll be  
7 starting at 10:00 tomorrow, and I assume you'll be done with  
8 this witness probably within a half-hour or an hour.

9 MR. MacGREGOR: I would think so.

10 JUDGE CHRISTIANSON: We're pretty well done with  
11 company cross-examination, and I've been just going around  
12 the table, basically. Most of the people here are familiar  
13 to you, and they'll speak up if they're not.

14 Thank you.

15 JUDGE COHEN: Just let me grab the appearance sheet  
16 here.

17 JUDGE CHRISTIANSON: Yes. There are a lot more names  
18 on the appearance sheet than are here in person, as a matter  
19 of fact.

20 JUDGE COHEN: All right. We'll do our best.

21 Just for the record, I'll note that Acting Chief  
22 Judge Christianson was called to a Bureau Directors' meeting  
23 and was required to attend, and I am temporarily just for  
24 completion of the record today sitting in for him and  
25 presiding over the hearing.

1 THE WITNESS: The adjustment was based on the minimum  
2 system having over 300,000 10 kva transformers and nearly  
3 46,000 25 kva transformers. I estimated a reasonable  
4 carrying capacity for that minimum system to be about  
5 4,500,000 kilowatts, and the customer allocation of that was  
6 about 87 percent to the RS class, which is I think what you  
7 were asking about.

8 The result of subtracting that demand from the demand  
9 allocator, for the residential class, that exceeded that  
10 allocator in the demand allocator portion, so that rather  
11 than making that negative, I set it at zero.

12 For the RTS class, the residual was 211,000 kilowatt-  
13 hours, about 10 percent, a little over 10 percent of the  
14 demand allocator for secondary distribution system.

15 BY MR. MacGREGOR:

16 Q. You lost me there with the zero and the negative  
17 numbers, Dr. Johnson. What is it that went to zero; the  
18 customer component or the demand component?

19 A. No. What went to zero was the demand component  
20 for the RS class of the demand allocator that was used by  
21 the company. The customer-related component was allocated  
22 in exactly the manner as Mr. Kleha did for the company's  
23 study. For the demand allocator, I adjusted the demands.

24 Q. What was the overall dollar effect in terms of  
25 allocation of dollars to the RS class?

1           A.    I don't have that right at my fingertips. I'd  
2 have to go through the thing. The total dollars that are  
3 being allocated is the same. It's simply the distribution  
4 is different amongst the classes.

5           Q.    Well, that's what I'm trying to get at. What is  
6 the difference? What difference does it make?

7           A.    Well, it makes a substantial difference.

8           Q.    Well, can you quantify that for me specifically  
9 either right now or in response to a data request?

10          A.    Well, I mean, you could compare the results of  
11 the cost study that I performed with that prepared by Mr.  
12 Kleha. You could look at the dollar amount allocated to  
13 each class in the workpapers, which you will be provided,  
14 and compare that with Mr. Kleha's.

15                If you want to know specifically for each class what  
16 the difference was, I could go through those and compare  
17 them, but I don't think that's what you're after.

18          Q.    Well, it kind of is what I'm after. I mean, you  
19 made more than one change to the company's cost of service  
20 study. In fact, you made three changes to the company's  
21 cost of service study, and I'm asking you what the impact is  
22 on the RS class cost allocation of this change in  
23 methodology in the treatment of secondary distribution  
24 costs.

25          A.    Do you mean you want to know what the rate of

1 return would have been for that cost modification alone?

2 Q. Well, either the rate of return change or the  
3 difference in the dollar allocation.

4 A. If you perform only the adjustment related to  
5 the minimum distribution system that I recommend, the rate  
6 of return for the RS class is 7.13 percent, which is 97.6  
7 percent of the overall rate of return.

8 Q. So I take it then, just looking at the secondary  
9 distribution issue, move the RS class return from the 5.84  
10 percent out of the company's study to the 7.13 percent  
11 figure you referenced just now?

12 A. That's correct.

13 Q. Do you have workpapers supporting that  
14 calculation you can provide me?

15 A. I could provide you the summary page that is  
16 similar to the Schedule No. 1 in my testimony. This is a  
17 computer program that I put in simply the values and printed  
18 out summary pages and did not print out the full cost of  
19 service study for any of the studies except the one that I  
20 filed with my testimony, and that was included in my  
21 workpapers. I could provide you the summary pages.

22 Q. Could you also provide me -- I really don't want  
23 all the output. Could you also provide the change in any of  
24 the allocators? Would that be something you could pull off  
25 the computer, which allocation factors changed in the study,

1 which allocators changed?

2 A. Yes. That's in my workpapers. That would be in  
3 in the workpapers for my original study. It is simply a  
4 matter of changing those allocators one at a time.

5 Q. Okay, fine. Thank you.

6 A. Would you give me just a moment to make a note?

7 Q. Sure.

8 (Pause.)

9 A. I'm ready.

10 Q. Referring to page 19 of your testimony with  
11 respect to the RTS rate --

12 A. I have that.

13 Q. -- you indicate that under certain parameters,  
14 it may be that the rate of return indicated for the RTS  
15 class or the cost allocated to the RTS class, to say it more  
16 precisely, may be, quote, "grossly overstated," is that  
17 correct, at the bottom of that page?

18 A. That's correct.

19 Q. Now, why is that?

20 A. In reviewing the class demands over the last I  
21 think six years of data that I have, five years, perhaps, of  
22 data that I have, the winter peaks of PP&L were more often  
23 in the morning and the contribution to the peak demand of  
24 the RTS class was relatively small, something around 40 or  
25 50 -- I believe that's the number.

1 (Witness perusing document.)

2 A. Yes, that range, 40 to 50 megawatts during the  
3 morning hours when that peak demand for the company occurred  
4 at typically 8:00 or 9:00 a.m.

5 When the peak demands for the company occurred in the  
6 evening at 5:00 or 6:00 p.m., the RTS class demands were  
7 about four times that large.

8 If the company can develop a method of addressing  
9 this rate schedule where the RTS class can avoid being on  
10 the system at the time of the evening peak to the extent  
11 that it was in the cold months of a year ago, then the class  
12 would be responsible for a much lower level of production  
13 cost allocation than was reported in the company's study or  
14 for my study, for that matter.

15 I did not make the adjustment in the study that I  
16 filed, but if such an adjustment were made, the costs  
17 assigned to the RTS class would be lower than those shown in  
18 my study or the company's study and the rate of return would  
19 therefore be higher.

20 Q. Can I refer you to page 25 of your testimony,  
21 please, on the issue of the Rate RS design?

22 A. Yes.

23 Q. You take issue with the company's proposed  
24 increase in the customer charge for a couple of reasons, one  
25 of which is stated at the very bottom of the page on 25 and

1 going over on 26, where you note that the company's claim  
2 was based on the premise that all of the costs of the  
3 minimum distribution system are customer related; is that  
4 correct?

5 A. Yes.

6 Q. And you disagree with that minimum distribution  
7 system method and have proposed an adjustment to that method  
8 that we discussed previously; is that correct?

9 A. Yes. That adjustment does address at least in  
10 part the problem of total cost allocation. I should be  
11 clear about that, though. It doesn't make the assumption  
12 that what the company has categorized as customer-related  
13 distribution system costs are indeed customer-related costs.

14 Q. I understand that.

15 A. Okay.

16 Q. My question really is a little different, and I  
17 didn't state it very well, I guess. To the extent that the  
18 costs the company has characterized as customer related  
19 under its minimum distribution system method are incorrectly  
20 classified as customer costs, then the alternative is to  
21 treat them as demand costs; is that correct?

22 A. (No response.)

23 Q. And as you state I think on page 26 of your  
24 testimony, line 3, therefore, the costs of the minimum  
25 distribution system are not fully customer related but

1 partially demand related and do not need to be recovered in  
2 the initial blocks as claimed by PP&L; is that correct?

3 A. Yes. That's what I state there. I would note  
4 that we've already had some discussion about distribution  
5 system costs and whether they are demand or customer  
6 related, and I would certainly concede that there is a great  
7 deal of disagreement over the issue and that there is a  
8 great deal of ambiguity in how those costs ought to be  
9 addressed. But for the most part, we only have essentially  
10 three parameters on which we allocate costs, energy, demand  
11 and numbers of customers.

12 Q. That's really my point. Whether they are  
13 customer related or demand related, I think reasonable  
14 persons could agree or disagree, but you're not proposing  
15 that any portion of these costs of the secondary  
16 distribution system as we are discussing them here are  
17 energy related, are you, and you have not so allocated them  
18 in your cost of service study?

19 A. I have not.

20 Q. Now, I was a little curious about page 26 of  
21 your testimony and the sentence I just read where you say  
22 that the costs are at least partially demand related and do  
23 not need to be recovered in the initial blocks as claimed by  
24 PP&L.

25 Is it your position that it is appropriate to recover

1 a substantial portion of demand costs in the tail energy  
2 block of a rate?

3 A. Well, I don't want to get bogged down in  
4 terminology here, but there are two functions that a rate  
5 structure serves. One is to recover the revenue and the  
6 other is to send price signals to the customers; and at the  
7 one extreme you would set prices totally on marginal costs  
8 and ignore the embedded costs, and at the other extreme you  
9 would set them based totally on allocated embedded costs and  
10 ignore the marginal costs.

11 My view is that these two interests have to be  
12 balanced. It is inappropriate to consider as some analysts  
13 do the notion that all fixed costs are demand-related costs.  
14 I reject that entirely, and I think it is inappropriate to  
15 make that identification.

16 So when you say demand-related costs being recovered  
17 in the tail block, if by demand-related costs you're talking  
18 about fixed costs, then I would say that is in a sense an  
19 irrelevant question.

20 Q. How about secondary distribution system costs?

21 A. The question is: is it appropriate to recover  
22 any of those in the tail block?

23 Q. A substantial portion in the tail block.

24 A. I think it is unavoidable that some of those be  
25 recovered through the tail block. There are a great many

1 utilities that have a single energy block for residential  
2 usage, and what is not recovered in the customer charges are  
3 recovered in the energy charge.

4 As I say, it is essentially unavoidable.

5 Q. Well, one alternative would be to create some  
6 sort of blocking of the energy charges and try to recover at  
7 least some portion of the demand-related costs in the  
8 earlier blocks of the rate; is that correct?

9 A. Yes. That can be done and some utilities do it.  
10 As I pointed out, that is putting more emphasis on the  
11 allocation of embedded costs and a little less on the  
12 marginal cost pricing aspect of the rate.

13 Q. Which result does the marginal cost theory  
14 support? I'm sorry. I guess I'm not following you. If  
15 you're a marginal cost person, where would you want to  
16 recover your fixed costs or demand costs?

17 A. I think most economists would want to recover  
18 them in some sort of tax, but the idea would be to set the  
19 usage prices closer to the marginal costs.

20 MR. MacGREGOR: That's all I have. Thank you, Dr.  
21 Johnson.

22 JUDGE COHEN: Are we going this way?

23 MR. MICKENS: Yes, Your Honor. I have some.

24 JUDGE COHEN: Mr. Mickens.  
25

## CROSS-EXAMINATION

1  
2 BY MR. MICKENS:

3 Q. Good afternoon, Mr. Johnson.

4 A. Good afternoon.

5 Q. My name is Ken Mickens. I represent the Office  
6 of Trial Staff. I just have a question or two for you.

7 Looking at page 26 of your testimony --

8 A. I have that.

9 Q. -- beginning at approximately line 13, you  
10 indicate that both the demand charge and the energy charge  
11 should be increased to recover the appropriate revenue.  
12 That is for Rate Class RTS; correct?

13 A. Yes.

14 Q. Then later on on the page beginning at line 22,  
15 you indicate that this rate class should be closed to new  
16 customers and the existing locations should be  
17 grandfathered; is that correct?

18 A. Yes.

19 Q. And then if you flip over to page 27, at the  
20 bottom of the page beginning at line 24, you state, "I would  
21 propose that future rate increases for this 'frozen' class  
22 be approximately the same percentage as that received by  
23 Rate RS customers;" correct?

24 A. Yes.

25 Q. Is that what you're proposing be done with the

1 RTS class in this proceeding in terms of the increase that  
2 should be -- first of all, are you recommending an increase  
3 for Rate Class RTS in this proceeding?

4 A. Yes. That is shown in my Schedule 2 on page 4.  
5 The percentage increase in total revenue for the RS and RTS  
6 classes were set to be equal to the company's overall  
7 requested percentage increase.

8 Q. Okay. And when you say future there, you're  
9 saying that that is the way it should be done in perpetuity  
10 in the future?

11 A. Well, at least for some time until some of the  
12 other recommendations can be played out. I think that my  
13 suggestion that the RTS tariff be examined to see whether or  
14 not there are ways that the class can be taken off peak  
15 would make a difference.

16 If the class rates of return continue to be  
17 substantially lower, then at some future time some other  
18 course of action might be necessary, but certainly in the  
19 near term for those customers who are on the rate now, that  
20 recommendation is what I would support.

21 If the rate is frozen as these heating systems  
22 expire, then it will become less of a problem in the future.

23 MR. MICKENS: Thank you. That's all I have, Your  
24 Honor.

25 JUDGE COHEN: Mr. Kleppinger?

1 MR. KLEPPINGER: Thank you, Your Honor.

2 CROSS-EXAMINATION

3 BY MR. KLEPPINGER:

4 Q. Good afternoon, Dr. Johnson.

5 A. Good afternoon.

6 Q. I'm David Kleppinger representing the PP&L  
7 Industrial Customer Alliance, also known to Mr. MacGregor as  
8 PPLICA.

9 Let me begin with your testimony at pages 6 and 7,  
10 where you generally discuss the EDI and IDI credits  
11 beginning on line 18 of page 6 and carrying over to page 7.

12 Do I understand your logic here that if the provision  
13 of EDI and IDI credits do actually provide benefits to  
14 ratepayers in excess of costs, then it would be appropriate  
15 to allocate those costs to all ratepayers? Is that the  
16 import of your testimony?

17 A. Yes. I think that is a more appropriate  
18 allocation of those costs than to reallocate them only  
19 within the classes that receive them.

20 I would point out that the OCA has recommended that  
21 those costs not fully be recovered from ratepayers, which is  
22 the reason I did not make this allocation in my cost study.

23 Q. I understand; and that is based, is it not, on  
24 your belief that the company hasn't shown that there have  
25 been benefits in excess of costs?

1 A. Among other reasons, yes.

2 Q. Okay. But at least philosophically, in the  
3 event that those costs were in fact less than the benefits,  
4 you don't have a problem with an allocation to all customer  
5 classes?

6 A. I do have a problem with an allocation on rate  
7 base, for example. I think that is an inappropriate basis  
8 for allocation. But in general, if those benefit the  
9 ratepayers generally, then they ought to be recovered from  
10 the ratepayers generally.

11 Q. We may have disagreements on which precise  
12 allocator to use, but okay.

13 A. That's correct.

14 Q. Now, are you aware that PP&L's optional  
15 interruptible power provision of Rate Schedule LP-5 was  
16 presented to the Commission as part of the EDI Phase IV  
17 program in June of 1992?

18 A. Yes.

19 Q. When you discuss EDI and IDI programs at pages 6  
20 and 7 of your testimony, are you including the optional  
21 interruptible power provision?

22 A. Well, actually, at the discussion there, I was  
23 not including them, but I would certainly concede that the  
24 same philosophy would apply. To the extent that there is a  
25 value to that interruption, it should be allocated to the

1 general body of ratepayers, and I think that I did that by  
2 my modification of the company's methodology of treating the  
3 interruptible credits by using the current value of that  
4 capacity rather than the embedded cost of a combustion  
5 turbine peaking unit.

6 Q. When you use the term "value" in attempting to  
7 identify the value of that interruptible load, do you equate  
8 that value then to the benefit from your perspective that  
9 customers are receiving from that interruptible load?

10 A. You mean customers other than interruptible  
11 customers?

12 Q. That's correct.

13 A. Yes. That's the benefit that customers other  
14 than interruptible customers receive.

15 Q. Now, you did agree with me, I believe, that the  
16 optional interruptible power provisions of Rate Schedule  
17 LP-5 were proposed as part of the EDI Phase IV program.

18 Would you agree with me that in the company's  
19 presentation of that program to the Commission, there were  
20 benefits other than the value of the interruptible load  
21 presented to the Commission, namely the economic benefits to  
22 the customers who are going to be receiving that  
23 interruptible rate?

24 A. I have not read the company's filing in that  
25 proceeding. I did note that in this proceeding, Mr. Kasper

1 it was mentioned that there was an economic development  
2 component to the discount that was given to interruptible  
3 customers as a part of the interruptible credit.

4 Q. And Dr. Johnson, that would be then a broader  
5 definition, would it not, of the benefit of interruptible  
6 load than the definition of benefit of interruptible load  
7 that you have used in your testimony to define the credit to  
8 be used in the cost of service study; isn't that correct?

9 A. If there is a benefit, an economic development  
10 benefit, then yes, that would be broader than the benefit  
11 that I have characterized and used in my allocation.

12 Q. Now, if we could address just briefly the  
13 specifics of your value quantification. I'd just like to  
14 show you -- I didn't plan on making it an exhibit. It's  
15 just to refresh your memory -- an interrogatory answer of  
16 Mr. Sipics to Consumer Advocate Set V, No. 46, which  
17 describes his methodology for developing the \$300 per kW  
18 value and then \$45 per kW year.

19 (Document handed to witness.)

20 Q. It is just one paragraph, if you want to take a  
21 chance to look at that.

22 (Pause.)

23 A. Yes. I've reviewed that.

24 Q. Now, is it your understanding -- well, first of  
25 all, you are generally familiar with the methodology that

1 Mr. Sipics used on developing the data underlying this  
2 interrogatory, are you not?

3 A. Yes.

4 Q. What I was having difficulty with in  
5 understanding your development of the \$15 per kW rate base  
6 offset at lines 10 and 11 of your testimony on page 18 is  
7 that if I were to apply the 15 percent carrying charge rate  
8 that Mr. Sipics used to the \$15 number that you have  
9 employed, that would translate into a combustion turbine  
10 cost of \$100 per kW as opposed to Mr. Sipics' \$300 per kW;  
11 is that correct?

12 A. No, I don't think so.

13 Q. Well, isn't the derivation, working backwards in  
14 Mr. Sipics' interrogatory, the \$45 per kW year divided by  
15 .15 fixed carrying charge rate to get back to the \$300 per  
16 kW combustion turbine?

17 A. That's not the way I did my calculation.

18 Q. If we were to use the type of calculation Mr.  
19 Sipics used, would we not generate a \$100 per kW combustion  
20 turbine number by taking your \$15 per kW year and dividing  
21 it by the 15 percent carrying charge?

22 MS. KENNEY: I'd just like to make an objection.  
23 Dr. Johnson has stated that that's not how he arrived at his  
24 \$15 per kW year, so I'm not quite sure how using Mr. Sipics'  
25 analysis to Dr. Johnson's analysis relates.

1 MR. KLEPPINGER: Well, let me ask Dr. Johnson this  
2 question then.

3 BY MR. KLEPPINGER:

4 Q. Is the \$15 per kW year that you have used in  
5 essence your proxy for the carrying cost of a combustion  
6 turbine?

7 A. No. The \$15 was the relative investment value  
8 of a \$300 per kW combustion turbine at the current PJM  
9 value, the value for capacity deficiency payments.

10 Q. Well, then haven't you made two different value  
11 assessments on a \$300 per kW CT unit, first the PJM value of  
12 73 and then a modification to that to get it to the 15 per  
13 kW year? Is that what has essentially been done?

14 A. Right. I have used both of those values.

15 Q. Now, when you referred us earlier to your  
16 Schedule 2, page 4 of 4, regarding the class increases that  
17 you are proposing, you have not differentiated in this  
18 distribution within the LP-5 class between firm and  
19 interruptible; is that correct?

20 A. That's correct; I have not.

21 Q. Now, Mr. MacGregor had asked you a few questions  
22 about your cost of service study modifications and I have a  
23 few additional ones in that regard.

24 If I understood your response to his question on what  
25 impact your change in the secondary distribution system

1 allocation had, it was that it increased the residential  
2 class rate of return from 5.84 to 7.13. Are my notes  
3 accurate?

4 A. Yes, to 7.13 percent rate of return, which is a  
5 97.6 percent rate of return index for that class.

6 Q. Right. Now, the LP-5 customer class would not  
7 be impacted, would they, by your distribution plant  
8 allocation change in the cost study, because those customers  
9 take service at 69,000 volts?

10 A. I don't think they have any impact at all.

11 Q. Okay. So the changes in your cost study that  
12 would impact upon the LP-5 class rate of return are your  
13 change to the production plant allocator and your change to  
14 the treatment of the interruptible credits in the cost  
15 study; is that correct?

16 A. That would be correct.

17 Q. And conversely, those two issues, namely the  
18 production demand allocator and -- I know you don't like  
19 that term -- production plant allocator and the  
20 interruptible credit issue, would only account for the  
21 movement on the residential class from the 7.13 percent that  
22 you got to with the distribution plant allocation change to  
23 the 7.31 percent final residential class rate of return in  
24 your cost study?

25 A. Right, if you did them sequentially in that

1 order, if you added them on.

2 Q. Right. But --

3 A. It does make a difference which order you apply  
4 them.

5 Q. But my point is that the secondary distribution  
6 allocation change that you have made has a more significant  
7 impact on the residential class rate of return than the  
8 other two changes you made in the cost study?

9 A. I would certainly agree with that.

10 Q. And conversely, those other two changes in the  
11 cost study, the production plant allocator and the  
12 interruptible credit allocator, do have a significant impact  
13 on the LP-5 rate of return, which I believe under your study  
14 was reduced to 3.09 percent at present rates?

15 A. Yes, that's right. It is reduced to 3.09  
16 percent.

17 Q. And you'll agree with me that that is  
18 substantially below where the company's cost study had the  
19 LP-5 rate of return?

20 A. Yes. It is below the company's study value.  
21 And I think I didn't answer your question, but yes, it would  
22 be the result of the two adjustments other than the one  
23 related to the minimum distribution system.

24 Q. Now, I think when you and I had discussions  
25 previously, we have made reference to the NARUC Cost

1 Allocation Manual, and you indicated some familiarity with  
2 that document; correct?

3 A. I recall some of those discussions.

4 Q. And in those discussions, I believe we agreed  
5 that in that Cost Allocation Manual, the peak and average  
6 method is listed as one of the judgmental energy weightings  
7 in the cost allocation study. Do you recall that heading  
8 that is in the Cost Allocation Manual?

9 A. Yes.

10 Q. Now, the judgment at least that you've applied  
11 in this case would produce from a classification standpoint,  
12 I believe, the 60/40 split that you discussed with Mr.  
13 MacGregor; that 60 percent of production plant would be  
14 classified as energy and 40 percent demand?

15 A. That's approximately right, yes.

16 Q. Now, in the NARUC Cost Allocation Manual, there  
17 are also examples of peak and average studies, are there  
18 not?

19 A. There are several, yes.

20 Q. And if I could show you that document at this  
21 time and have you focus your attention on the notes to the  
22 three tables that discuss peak and average studies and tell  
23 me what the classifications of production plant are in terms  
24 of the energy and demand split in those three studies  
25 compared to the study that you've presented in this case.

1 (Document handed to the witness.)

2 A. Do you want me to identify those percentage  
3 splits?

4 Q. That's correct.

5 A. Okay. The one that you showed me on Table 4-14  
6 is a 63 percent demand related and the 36.7 percent energy  
7 related.

8 Q. Okay. And then on the next two pages, there are  
9 two additional variations of the peak and average, which  
10 also provide those classification percentages in the notes  
11 section.

12 A. Right. It's 58.21 percent demand related and  
13 41.79 percent energy related for Table 4-15. On the  
14 following page, Table 4-16, which is actually the 12-CP and  
15 an equal percentage of energy -- well, 1/13th is classified  
16 as energy related, which is --

17 Q. About 7 percent?

18 A. -- 7.69 percent.

19 Q. So at least in general, will you agree with me,  
20 Dr. Johnson, that the three types of peak and average  
21 studies done in the NARUC cost allocation manual all produce  
22 a demand classification that is substantially larger than  
23 the demand classification you've used in your study, namely  
24 the 40 percent?

25 A. Yes, they do. I would note that I have given

1 what I consider to be substantial reasons behind the  
2 percentage split that I used, and the justifications given  
3 in the NARUC cost allocation manual are not very strong, I  
4 would add.

5 Q. Now, to your knowledge, Dr. Johnson, has the  
6 Commission ever previously approved a peak and average cost  
7 allocation method for Pennsylvania Power & Light Company?

8 A. Certainly not in the past ten years.

9 Q. How about in the 1984 and '85 rate case?

10 A. I don't believe so there, either.

11 Q. Now, we talked about the effect of the change in  
12 the production plant allocator on LP-5. Have you examined  
13 the load factor characteristics of each of the major rate  
14 schedules in this case?

15 A. You mean the load factors of individual  
16 customers?

17 Q. Customer classes, for example the LP-5 load  
18 factor versus the residential load factor.

19 A. Well, I have not made any thorough investigation  
20 of that. I certainly would be surprised if the load factor  
21 for LP-5 were lower than the residential class.

22 Q. I would be, too.

23 And isn't the fact that the rate of return has been  
24 reduced in your cost study because of that production plant  
25 allocation change reflective of the fact that, as I think

1 you said to Mr. MacGregor, that a peak and average  
2 allocation methodology will allocate a larger portion of  
3 production plant costs to the higher load factor classes  
4 than a 12-CP cost allocation methodology would?

5 A. Yes, it certainly will. I would point out, as I  
6 did with Mr. MacGregor, that that is because these base load  
7 plants are there primarily because the utility needs to  
8 provide large amounts of energy year-round.

9 And intense use of those facilities should carry with  
10 it the cost consequence of the company having installed that  
11 kind of generating capacities.

12 Q. And those are the same plants in service that  
13 were in service in the last rate case in 1985, were they  
14 not? I mean, those were the same plants that were being  
15 litigated in that case that are being litigated in this  
16 case? They haven't added any new capacity since 1985; is  
17 that correct?

18 A. That's right.

19 Q. Now, you have recently testified before this  
20 Commission in the West Penn Power rate case; did you not?

21 A. Yes.

22 Q. And that would be at Docket R-942986. I'm sure  
23 you don't remember that, but subject to check, will you  
24 accept that that's the docket number in that case?

25 (No response.)

1 MR. KLEPPINGER: Ms. Kenney is always good with the  
2 docket numbers. She probably knows that.

3 MS. KENNEY: I'll accept that subject to check.

4 (Laughter.)

5 BY MR. KLEPPINGER:

6 Q. And do you recall what the weighting  
7 classifications were in your testimony in that case for the  
8 production plant on a demand and energy basis, what  
9 portions?

10 A. Not precisely, because I didn't use an explicit  
11 percentage, so I don't know what it worked out to be. But  
12 it was roughly an equal weighting of the two.

13 Q. So it was closer to a 50/50 split?

14 A. Yes.

15 Q. Now, do you recall having testified before the  
16 Indiana Utility Regulatory Commission at Cause No. 39314 in  
17 September of 1992?

18 A. I recall testifying in about that time frame.  
19 I'm not good with docket numbers. I don't know that that  
20 was the docket number.

21 MR. KLEPPINGER: I have a full copy of your testimony  
22 from that docket which I'll be happy to share with counsel,  
23 and then an excerpt that I'd like to have marked, Your  
24 Honor, for identification as PPLICA Cross-Examination  
25 Exhibit No. 8.

1 JUDGE COHEN: What are those initials, again?

2 MR. KLEPPINGER: PPLICA.

3 JUDGE COHEN: Exhibit?

4 MR. KLEPPINGER: Cross-Examination Exhibit No. 8.

5 JUDGE COHEN: It will be so identified.

6 (Whereupon, the document was marked as PPLICA  
7 Cross-Examination Exhibit No. 8 for  
8 identification.)

9 MR. KLEPPINGER: After your counsel has a chance to  
10 review that testimony, I just want you to verify that in  
11 fact it is a true copy of your testimony from that docket.

12 There's only one point I plan on making with this,  
13 counsel.

14 (Pause.)

15 BY MR. KLEPPINGER:

16 Q. Dr. Johnson, do you recognize PPLICA Cross-  
17 Examination Exhibit No. 8 as a true and correct copy of your  
18 testimony provided before the Indiana Utility Regulatory  
19 Commission in 1992?

20 A. Yes.

21 Q. Now, in that proceeding, you also had proposed,  
22 had you not, a peak and average methodology?

23 A. Yes.

24 Q. And instead of five coincident peaks there, you  
25 were using six coincident peaks?

1 A. Yes.

2 Q. If I could call your attention to page 4 of  
3 PPLICA Cross-Examination Exhibit No. 8, will you agree with  
4 me that your alternative recommendation in the event that  
5 the Commission did not use the peak and average method was  
6 to use the 12 coincident peak method?

7 A. Yes. That's my recommendation at line 3.

8 Q. Now, in your testimony in this case at page 2,  
9 you listed the jurisdictions in which you testified and you  
10 made my life more difficult because Indiana was not listed  
11 there.

12 Can we make that correction to your testimony at this  
13 time?

14 A. Yes.

15 Q. Thank you.

16 A. I don't know how I overlooked that one.

17 MR. KLEPPINGER: I have no further questions, Your  
18 Honor. Thank you.

19 JUDGE COHEN: Thank you, Mr. Kleppinger.

20 MR. KLEPPINGER: And I'd like to move the admission  
21 of PPLICA Cross-Examination Exhibit No. 8.

22 JUDGE COHEN: Hearing no objection, it will be  
23 admitted.

24

25

1 (Whereupon, the document marked as PPLICA  
2 Cross-Examination Exhibit No. 8 was  
3 received in evidence.)

4 JUDGE COHEN: Mr. Haynes?

5 CROSS-EXAMINATION

6 BY MR. HAYNES:

7 Q. Good afternoon, Dr. Johnson. My name is Bob  
8 Haynes, representing the Central Eastern Pennsylvania Fuel  
9 Oil Dealers.

10 A. Good afternoon, Mr. Haynes.

11 Q. I have a few questions for you.

12 When were you retained to present testimony in this  
13 proceeding?

14 A. I don't know the exact date.

15 Q. Approximately, a month?

16 (No response.)

17 MS. KENNEY: You can make that an on-the-record data  
18 request of Dr. Johnson.

19 MR. HAYNES: If counsel could provide it?

20 MS. KENNEY: Or you can ask counsel for that.

21 MR. HAYNES: If counsel can supply the witness, I'll  
22 accept that.

23 THE WITNESS: I don't recall. It was January or  
24 perhaps December.

25 MR. HAYNES: That's close enough.

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BY MR. HAYNES:

Q. Am I correct that you have reviewed the company's filing?

A. Yes.

Q. And you reviewed the discovery responses in this proceeding?

A. I think I've reviewed a fair number of them. I certainly haven't looked at every page of paper that's --

Q. In the rate structure/cost of service area?

A. Yes.

Q. What other information or sources of information have you relied upon in forming your opinion on the rate structure testimony that you've offered today?

A. Well, I would have to include a great many articles and books on the subject of ratemaking and rate design specifically.

Q. I'll limit the question specifically to the PP&L rate increase, and not any general background information that you might have.

A. Well, primarily publicly available information about the company.

Q. Such as?

A. Well, annual reports to shareholders, such things as reviews and various publications such as Moody's or EEI reports, things of that nature.

1 Q. Did you review any consumer letters concerning  
2 Rate Schedule RTS in forming your opinion?

3 A. I did not.

4 Q. Were you aware of any concern by RTS ratepayers  
5 that they were being unfairly treated by Rate Schedule RTS?

6 A. You mean by the company's proposal?

7 Q. Or present or proposed rates.

8 A. Well, I was aware that at the public hearings,  
9 concern was raised about the company's proposals for Rate  
10 Schedule RTS.

11 Q. Did that influence your testimony?

12 A. I don't know. I suppose anything that one  
13 accepts as input influences someone to some extent, but I  
14 don't think I had a great deal of input from that.

15 Q. Have you made any analysis to determine the  
16 income level of Rate Schedule RTS customers --

17 A. No.

18 Q. -- in relation to other PP&L customers?

19 A. I'm sorry, I didn't mean to interrupt you. No,  
20 I have not.

21 Q. Turning to page 7 of your prepared direct  
22 testimony, OCA Statement 3, I believe --

23 A. I have that page.

24 Q. Turning to lines 8 and 9, I think there was some  
25 cross-examination concerning this testimony by Mr.

1 Kleppinger.

2 You indicate that PP&L has not shown any net benefits  
3 to ratepayers for the economic development rate; is that a  
4 fair summation of your testimony at that point?

5 A. Yes.

6 Q. What evidence should PP&L have presented in its  
7 direct case to satisfy your belief that it fulfilled its  
8 burden of proof?

9 A. Well, it seems to me that there are a great many  
10 things that the company could have done to have shown that  
11 that was a benefit to the body of ratepayers other than  
12 those receiving direct credits.

13 And the only analysis that was provided was a cost of  
14 service study assuming that a certain number of those  
15 customers had left the system.

16 And I view that as woefully inadequate for showing  
17 that customers receive a benefit. But as far as a specific  
18 analysis, I haven't done such an analysis.

19 Q. I'm just saying, what should have been presented  
20 that would satisfy your concern, what information other than  
21 a cost of service study?

22 A. Well, I think it should start off with an  
23 analysis of how many of those customers might have stayed on  
24 the system absent those EDI/IDI credits.

25 We don't know, beyond the company's assertion that

1 they would have left, that there is any relevance at all to  
2 that statement.

3 Q. So it's important to have as much information in  
4 terms of the net benefit analysis; is that your testimony?

5 A. Well, I think that there's a minimal amount, and  
6 it's important to have at least that much.

7 Q. Have you reviewed any evidence that Rate  
8 Schedule RTS provides any net benefit to ratepayers other  
9 than Rate Schedule RTS ratepayers?

10 A. Well, I'm not sure what sort of benefit you  
11 would want. It would seem to me that each class ought to  
12 pay its fair share.

13 And to the extent that it does so, you're not looking  
14 really for benefit from those other customers. Now, to the  
15 extent that there may be some surplus capacity on the  
16 system, it can be argued that there is some benefit, I  
17 suppose, to increasing sales. But that ought to be  
18 demonstrated.

19 Q. Under that analogy, wouldn't there be a net  
20 benefit in PP&L providing free electricity to light up high  
21 crime areas?

22 A. They could certainly make that argument.

23 Q. Would that be --

24 A. But they would have to -- I'm sorry.

25 Q. Could that be something that you would support

1 as a way to increase --

2 JUDGE COHEN: Let the witness finish.

3 MS. KENNEY: I was going to say, could we please let  
4 the witness finish?

5 THE WITNESS: No. I think that whatever actions they  
6 undertake to increase sales, given that they have excess --  
7 surplus capacity; I want to be careful about my terms --  
8 they ought to justify as beneficial to the body of  
9 ratepayers.

10 And absent that showing, then I could not conclude  
11 that there is a benefit to other ratepayers.

12 BY MR. HAYNES:

13 Q. Now, that takes me back to my first question in  
14 this line. What evidence have you reviewed in this  
15 proceeding -- and we talked about that earlier -- that  
16 establishes that Rate Schedule RTS provides a net benefit to  
17 all ratepayers?

18 A. Well, I have a hard time with the question,  
19 because I'm not sure what benefit you expect one class to  
20 provide to other classes.

21 Q. Well, we began this line of cross-examination  
22 with your analysis of the benefits from an industrial  
23 development credit.

24 Now, there you were readily able to define a net  
25 benefit. Now, is there some difference between the net

1 benefit that I used in my question concerning Rate Schedule  
2 RTS that you don't understand?

3 A. Well, yes. The difference is that the EDI/IDI  
4 credits are a program that the company undertook with the  
5 stated objective of increasing sales.

6 And the question as to whether or not, A, sales were  
7 increased above what they would have been anyway and, B,  
8 whether or not that benefitted other customers has not been  
9 demonstrated.

10 As far as the existence of the RTS class, if that  
11 class paid its full cost of service, then one would not  
12 conclude that it was either a benefit or a detriment to  
13 other ratepayers.

14 If the class were subsidized, you could certainly  
15 conclude that at least initially it would appear that there  
16 is no benefit, that other customers are harmed by the  
17 existence of that class.

18 Q. Would you agree that every cost of service study  
19 presented in this proceeding by yourself, by Mr. Baron, by  
20 Mr. Brubaker, by Mr. Eisdorfer, by Dr. Andersen -- I don't  
21 think I've missed any -- that all those cost of service  
22 studies show the Rate Schedule RTS at a negative rate of  
23 return under present and proposed rates?

24 A. I actually don't recall. But I will mention  
25 that as I've pointed out in my testimony --

1 Q. Well, I had a simple question that I don't think  
2 really asked for much elaboration.

3 MS. KENNEY: Your Honor, I would ask --

4 MR. HAYNES: It was a simple yes or no answer.

5 JUDGE COHEN: Answer yes or no, and then you may  
6 amplify if you feel it's necessary.

7 THE WITNESS: I don't honestly remember. I suspect  
8 that may be the case. I know mine did and the company's did  
9 have negative rates of return. I just don't recall for the  
10 other studies.

11 But my point was that I did address the issue in my  
12 direct testimony that if it is possible for this class to be  
13 moved off-peak, then the peak demand allocator used by the  
14 company, and by the rest of us for that matter, would  
15 overstate the costs to this class and they would have a  
16 higher rate of return.

17 For that matter, after the testimony, I did such a  
18 study and their rate of return is positive under that study.

19 MR. HAYNES: I would ask that that be stricken from  
20 the record as non-responsive to my question and totally  
21 gratuitous testimony.

22 JUDGE COHEN: You might not like the answer, for what  
23 it's worth.

24 MR. HAYNES: No. My question was asked on all the  
25 other cost of service studies in the proceeding, and he

1 answered that he didn't know, and that was all gratuitous.

2 MS. KENNEY: Your Honor, I would note that Mr. Haynes  
3 started off his question by asking the witness to recall  
4 what he had analyzed, what work he had done and all of that,  
5 and Dr. Johnson's answer is responsive to that.

6 MR. HAYNES: That was my initial question 20  
7 questions ago. The specific question that was before the  
8 witness at this time called for the cost of service studies  
9 that have been admitted into this record.

10 JUDGE COHEN: I've ruled. I've overruled your  
11 objection.

12 MR. HAYNES: I'd ask that a copy of that be provided  
13 as an on-the-record data request, along with any work  
14 papers.

15 THE WITNESS: Excuse me. As I indicated with the  
16 company attorney, I don't have the work papers for that in  
17 terms of the full back-up of the study.

18 The only thing I printed out was the summary pages,  
19 which give the rate of return. I can provide you with the  
20 work papers developing the allocator.

21 BY MR. HAYNES:

22 Q. That's what I'm interested in.

23 A. Okay. But I don't have the full 40 or 50 pages  
24 of the study.

25 Q. And at whose request did you do that study?

1           A. I believe I did that after having read your  
2 witness' testimony.

3           Q. Dr. Andersen?

4           A. Yes. I was curious about what impact that  
5 actually would have.

6           Q. And you made an assumption that they did not  
7 contribute to the system peak; is that the sole change you  
8 made?

9           A. No. The assumption I made was that their demand  
10 for the winter peaks was at a level consistent with their  
11 peak in the morning hours, which was around 40 to 50  
12 megawatts rather than the 200 or 230 megawatts that they  
13 contributed in the evening peak, which was used in the  
14 company study.

15          Q. What did you say the company study indicated?

16          A. Well, during those winter months of 1994, I  
17 think there were four months where the monthly peak demands  
18 occurred in the winter -- I'm sorry, the monthly peak  
19 demands in the winter occurred in the evening, at which time  
20 the RTS class demand was in the range of 200 to 230  
21 megawatts.

22           I replaced those values with the value that was  
23 closer to the level of demand, which was 40 to 50 megawatts  
24 in the other winter months when the demand occurred in the  
25 morning, the monthly peak demand occurred in the morning.

1           And I simply replaced those high demands with lower  
2 demands and redid the study.

3           Q.   Turning to page 19 of your testimony, lines 18  
4 through 24, you discuss those system peaks that you were  
5 referencing.

6           A.   I'm sorry, I didn't catch the page number.

7           Q.   Nineteen, lines 18 through 24.

8           A.   Yes. Yes, I have that.

9           Q.   In terms of the information on lines 19 and 20,  
10 what is the source of your information that the RTS  
11 contribution to the morning peak is quite modest?

12          A.   That was one of the OCA data requests. I can  
13 identify the number if you'll give me just one moment.

14          (Pause.)

15          A.   That was Attachment 1 of OCA Set III, Question  
16 15.

17          Q.   Would that be the same response for the evening  
18 peak?

19          A.   Well, this is a list of the monthly peak demands  
20 going back to October of 1989, and it gives the hour of the  
21 peak demand.

22          And for the RTS class -- I was wrong earlier. I said  
23 it was 40 to 50 megawatts in the morning. The one month of  
24 the winter months that it occurred in the morning, it was  
25 just under 55 megawatts.

1           For the other months, it ranged from around 220 to  
2 260 megawatts. So I replaced those higher numbers with the  
3 55 megawatt number, essentially.

4           It's not a terribly sophisticated analysis. I don't  
5 want to give any suggestion that it is or that I believe  
6 that it is.

7           I simply wanted to look at a rough guide as to what  
8 the change would be, and if the company were able to make  
9 those kinds of changes to the RTS tariff and avoid the peak  
10 demand, what would the cost of service be.

11           Q. And I believe that on line 23 -- and you were  
12 subject to cross-examination by Mr. MacGregor on this point,  
13 on your "grossly overstated costs" -- would that cost  
14 quantification be shown in the cost of service study that  
15 you'll be providing?

16           A. That's right. I have that number somewhere  
17 here, if you want it.

18           Q. In terms of your prior sentence, what is the  
19 source of your information for your testimony that says, "It  
20 is my understanding that PP&L intends to install load  
21 control devices"?

22           A. That was from cross-examination of the company.  
23 I believe it was Mr. Kasper responded. I'm not absolutely  
24 certain on that. I would have to check my notes.

25           But one of the company witnesses indicated that it

1 was their intention to look at the possibility of, I believe  
2 he characterized them as load override controls.

3 And I would point out that my statement about the  
4 costs being overstated for this class are premised on the  
5 assumption that something can be done to move them off the  
6 peak.

7 If it's not possible either to do -- I think I  
8 suggested it might be possible in the valley during the  
9 daytime hours, they might be able to charge the system.

10 Now, if the equipment that's currently in place can't  
11 accommodate that kind of adjustment and the company simply  
12 can't make it happen with the equipment that's in place  
13 unless they replace significant pieces of it, then this  
14 doesn't have any meaning.

15 So this is premised on their being changes in the  
16 tariff that will eliminate that large contribution to the  
17 peak demand.

18 Q. How does a heating system that qualifies for  
19 Rate Schedule RTS operate?

20 A. You mean just generally?

21 Q. Yes, your understanding.

22 A. My understanding is they have a storage medium,  
23 either fluid or in some cases solid devices that are heated  
24 up during the off-peak period for the tariff, which varies  
25 as I understand it from customer to customer, or at least

1 within groups of customers; and that the heating system is  
2 not on during the peak hours that's selected by that  
3 customer; that heat is drawn from those storage mediums  
4 during the time that the customer requires heat, that they  
5 don't have electricity supplied to their heating system.

6 Q. And is it your understanding that the heating  
7 system should provide sufficient heat through the storage to  
8 satisfy the on-peak time as defined in the term?

9 A. Well, there's no guarantee that will happen. As  
10 I understand, during the cold period of a year ago, it did  
11 not, that there were overrides on the system, that customers  
12 did in fact override that so that they were provided heat  
13 when the storage system couldn't supply it.

14 And I would assume that's part of the reason that the  
15 peak demands in those months were so high for the RTS class.  
16 So that can certainly happen, that the system doesn't  
17 provide sufficient heat.

18 Q. You would agree that under theory, they are  
19 designed to provide sufficient heat, though?

20 A. Yes, I would assume that they are sized to be  
21 able to provide heat through, I don't know, maybe a fifty  
22 year winter. I don't know the technical details.

23 But it's like the hundred year flood. If you've  
24 built dikes and dams for the fifty year flood, when the  
25 hundred year flood comes, you get carried away. The same is

1 true with cold weather.

2 You can design it for a reasonably expected level of  
3 cold weather, but if you get something even colder than  
4 that, it's not going to make it.

5 Q. And I think you alluded to the cross-examination  
6 in the prior hearing about the customer override provision.  
7 Is that what you were alluding to, for the override?

8 A. As I understood it, the customers can turn a  
9 switch or push a button, whatever the mechanism is, and  
10 override the timing device so that they can draw electricity  
11 through their heating system, even though it's supposed to  
12 be an off-peak period for them.

13 Q. Turning to page 26, line 16 of your testimony,  
14 Statement 3---

15 A. I have that.

16 Q. Actually, it's line 17 -- you indicate that  
17 customers are going to be inconvenienced. How would a  
18 customer be inconvenienced under Rate Schedule RTS?

19 A. Well, there is a limit to the amount of heat  
20 they can get out of the system, and if cold weather comes  
21 and the system doesn't provide sufficient heat, that  
22 certainly is inconvenience.

23 Q. Isn't that true with every heating system, that  
24 there's a limit to the capacity of the heating system?

25 A. It sounds true to me.

1 Q. Well, would you agree with me that Rate Schedule  
2 RTS customers receive a discount from the RS rate schedule  
3 for each kilowatt-hour of energy consumed?

4 A. That's right. Their rate schedule is separate,  
5 and the prices in it are lower than for the standard  
6 residential tariff.

7 Q. For all other electrical uses other than  
8 heating, that would also receive the discount; would it not?

9 A. That's correct. It would be priced the same,  
10 for whatever end use the customer used it for.

11 Q. And have you seen any evidence in this  
12 proceeding that RTS customers on average have a higher  
13 electrical use than RS customers?

14 A. Yes.

15 Q. And would you agree with me that the customers'  
16 nonheating use, the RTS customers' nonheating use is not  
17 subject to any load management control?

18 A. As far as I know, it's not.

19 Q. So, would it not be true that a Rate Schedule  
20 RTS customer could have an electric space heater plugged in  
21 during the on-peak times and still receive the benefit of  
22 Rate Schedule RTS?

23 A. Yes. They would still receive the lower priced  
24 energy under the RTS schedule for whatever use.

25 Q. On lines 22 and 23 of your same page, page 26,

1 you make a recommendation to close the availability of Rate  
2 Schedule RTS to new customers and to grandfather the  
3 customers at the existing locations.

4 That means that once the equipment is installed, that  
5 customer and succeeding customers at that location will  
6 receive Rate Schedule RTS. Is that what you're proposing?

7 A. That's right. The idea behind grandfathering  
8 the existing location was to prevent someone who had  
9 installed this equipment who was in a position where they  
10 had to sell their house, not to take an economic loss  
11 because the housing price would decline in value if their  
12 rate were eliminated and they were forced to take service  
13 under the standard RS rate.

14 Q. Do you think housing values is an appropriate  
15 determination for establishing public utility rates?

16 A. Well, to the extent that it impinges on the way  
17 those rates were established and the way those customers are  
18 taking electric service, it doesn't seem to me that it would  
19 be wise to ignore it.

20 Q. Would you agree with me that the Rate Schedule  
21 RTS customer had other heating options available in lieu of  
22 Rate Schedule RTS?

23 A. I would assume that most of them did. There was  
24 a period of gas moratoriums 15 or 16 years ago where many  
25 customers could not get natural gas service. I don't know

1 whether that applied to the gas companies in PP&L's service  
2 territories, but it certainly applied in many parts of the  
3 country.

4 Q. Under your proposal, would you allow a Rate  
5 Schedule RTS customer to install a new RTS system if his  
6 current system fails?

7 A. Well, I didn't address that in my testimony. It  
8 does seem to me, though, that it would be inappropriate to  
9 allow a customer to continue to install a new system.

10 As to where you draw the line between repairing an  
11 existing system or replacing some components and replacing  
12 the system, that might take a little more doing.

13 But I certainly would not think it appropriate to  
14 allow a customer to replace their entire system and start  
15 the process over again.

16 Q. Have you made any analysis of the payback period  
17 that a Rate Schedule RTS customer receives from signing up  
18 for Rate Schedule RTS versus Rate Schedule RS or RTD?

19 A. I have not made any analysis. I have seen  
20 references to analyses performed by others. Those analyses  
21 -- I believe Dr. Andersen suggested eight years was the  
22 relevant number.

23 And the problem with looking solely at the payback  
24 period is, I think that there are cost impacts on those  
25 customers after the payback period if you put them on the RS

1 class rate.

2 They would pay more for their heating service under  
3 that rate because they have the storage system, and that  
4 seems inequitable to me.

5 So looking solely at the payback period doesn't seem  
6 to me to be the appropriate basis for determining when the  
7 rate should be terminated or if the rate should be  
8 terminated.

9 JUDGE CHRISTIANSON: Let me announce for the record  
10 that I'm back. Thanks to Judge Cohen. I'm surprised it  
11 took so long, but we had our Bureau Directors meeting,  
12 mainly about budget problems, and I shouldn't be at liberty  
13 to go into details in this forum.

14 MR. HAYNES: We're on the record, too, by the way.

15 JUDGE CHRISTIANSON: Very unhappy news for a lot of  
16 people. But go ahead with your testimony.

17 (Pause.)

18 JUDGE CHRISTIANSON: I guess that was his last  
19 response.

20 MS. KENNEY: Yes. I think it's time for a question.

21 JUDGE CHRISTIANSON: I'm frankly surprised you're  
22 still at it.

23 BY MR. HAYNES:

24 Q. At the bottom of page 26, line 25, you make a  
25 reference to good faith. What do you mean by that, the good

1 faith of the customer?

2 A. Good faith on the part of the customer who  
3 signed up for the RTS rate, believing that they were taking  
4 an economically sensible action and they were taking an  
5 action that they believed was doing good to the environment.

6 Q. But from the RTS customers' perspective, it is a  
7 sound economic decision, isn't it, to sign up for RTS?

8 A. Yes, it has been. I mean, depending --

9 JUDGE CHRISTIANSON: You could say "was" rather than  
10 "is".

11 THE WITNESS: Well, it depends on what happens in the  
12 future.

13 BY MR. HAYNES:

14 Q. Well, compared to Rate Schedule RS, the  
15 alternatives are Rate Schedule RS or RTD.

16 A. Well, it would be if the current rate  
17 differences are maintained. If they get hammered with a  
18 huge rate increase and the rate gets terminated, then it may  
19 not be economically beneficial to them.

20 But certainly if the rate is continued with the  
21 current differential between the standard service and RTS  
22 service, yes, it would have been a great deal for them.

23 Q. On page 27, line 4, you make a reference to a  
24 cost based rate for review by the Commission. Would that be  
25 a cost based rate as you have developed in your cost of

1 service study?

2 A. Well, generally along those lines. I don't know  
3 that I could say that the cost of service study I have would  
4 provide a basis for doing that, but it should cover the  
5 reasonable costs that one would allocate in an embedded cost  
6 study, and certainly it ought to cover their incremental  
7 costs.

8 Q. On page 27, you talk about the on-peak and  
9 off-peak hours. Would you agree with me that PP&L or this  
10 Commission could change the RTS tariff to modify the  
11 on-peak/off-peak designation so as to eliminate any RTS  
12 customers being on the evening peak?

13 A. Yes. That was my suggestion, that they change  
14 those hours so that during that valley in the middle of the  
15 day, the customers could charge their heating system and  
16 then stay off later in the evening.

17 I don't know the technical details about the  
18 capacities of the storage systems and the timing mechanisms  
19 they have on them, whether they can do that with the  
20 existing equipment.

21 But I would be a little concerned to say, well, the  
22 on-peak hours now are going to be from 7:00 a.m. to  
23 8:00 p.m., we're just simply going to stretch that to make  
24 sure they miss the company's monthly peak demand.

25 Q. When is the monthly peak demand?

1           A. Well, it occurred during those cold winter  
2 months, or at least several of them, at 5:00 or 6:00 in the  
3 evening.

4           Q. Would you agree with me that one of the options  
5 in the current tariff provides an on-peak time from 9:00  
6 a.m. to 7:00 p.m.?

7           A. Yes, that's right.

8           Q. And if the company had that option, it would  
9 miss the winter peak as you defined it?

10          A. Well, sure. It would do that. I guess their  
11 objective was to try to get some diversity amongst these  
12 customers.

13           If you have them all on the 9:00 to 7:00, then  
14 presumably they would all be on full blast from 8:00 until  
15 9:00, and the monthly peak demand does occur at that hour in  
16 some months.

17           So there's a problem that the bimodal peak demands  
18 occur early in the morning, at 8:00 or so in the morning,  
19 and at 5:00 or 6:00 in the evening.

20           And in order to miss both of those, you've got to  
21 start the on-peak period before that morning one and run it  
22 past the hour in the evening at which the evening peak would  
23 occur, and that's an awfully long time.

24           And it seemed to me the only way you might be able to  
25 do that is by allowing them to charge in the middle of the

1 day. Now, as I said before, I don't know whether the  
2 equipment that they have can permit that to happen.

3 So there are lots of assumptions in what I've said  
4 here about whether or not the RTS costs are overstated in  
5 the cost study. It's all premised on the assumption that  
6 something can be done about their peak demand.

7 Q. And that would be true for all customer classes,  
8 would it not, under some sort of demand-side management?

9 A. Yes. To the extent that any customer class  
10 undertakes demand-side management, as a class, they can  
11 change their contribution to the peak demand.

12 Q. Now, you also recommended that Rate Schedule RTS  
13 and Rate Schedule RS, essentially the rate differential  
14 between the two remain the same in the future; is that  
15 correct?

16 A. That's right.

17 Q. Is your recommendation based upon the existing  
18 cost structure of PP&L? For example, if the next cost of  
19 service study that PP&L files shows that Rate Schedule RTS  
20 has even a worse rate of return than in this case, would  
21 that modify your opinion?

22 A. Well, I guess if the company cannot make the  
23 kind of modifications that reduce the impact of the RTS  
24 customers on the peak demand and other costs of the system,  
25 then sure, I guess I would have to reassess that notion.

1 But as far as my recommendation is concerned, that's  
2 premised on the notion that something can be done to change  
3 this, and that the class be frozen and new customers not be  
4 permitted to sign up for this rate schedule.

5 Q. And that existing customers, to the extent their  
6 equipment fails, would not be allowed to renew it?

7 A. Yes. As I said earlier, I don't know where you  
8 might draw the line between maintenance and repair of their  
9 existing thermal system and replacement of it, but somewhere  
10 there there's a line that if it requires replacement of a  
11 major component then, yes, they ought not to be allowed to  
12 maintain this rate and replace their thermal storage system  
13 with a new one.

14 They ought to be required to, if they're going to  
15 replace the system, they ought to replace it with some other  
16 heating system or be required to take electric service under  
17 a different rate schedule.

18 MR. HAYNES: That's all the questions I have. Thank  
19 you, Dr. Johnson.

20 JUDGE CHRISTIANSON: Then I guess we're still going  
21 around the table. We'll skip the sponsor of the witness.

22 MR. McCORMICK: I have no questions.

23 JUDGE CHRISTIANSON: Small Business?

24 MS. MOURY: I have a couple, Your Honor.  
25

## CROSS-EXAMINATION

1  
2 BY MS. MOURY:

3 Q. Good afternoon, Dr. Johnson.

4 A. Good afternoon, Ms. Moury.

5 Q. The first request I have is an on-the-record  
6 data request for a copy of your cost allocation study that  
7 is summarized in Exhibit CEJ-1. I believe another party may  
8 have informally requested that from you as well, but we had  
9 not.

10 MS. KENNEY: Just for clarification purposes, I  
11 believe the company requested it and you requested it. I  
12 believe it has also been provided to a couple of parties who  
13 are present. So in order to not repeat sending it out --

14 JUDGE CHRISTIANSON: Who wants it?

15 MS. KENNEY: Who wants it? The company?

16 MR. MacGREGOR: Yes. I asked for it.

17 MS. KENNEY: OSBA.

18 MS. BRANDEIS: We got it, didn't we?

19 MS. KENNEY: Yes.

20 MR. KLEPPINGER: I have it.

21 MR. HAYNES: I'll take it.

22 JUDGE CHRISTIANSON: Mr. Kleppinger has it.

23 MR. KLEPPINGER: Yes. I asked for it informally  
24 before today's hearing.

25 JUDGE CHRISTIANSON: Mr. Zielonis?

1 MR. ZIELONIS: I don't think I have it, Your Honor,  
2 but I'd like a copy.

3 MS. KENNEY: Mr. Haynes, Mr. Zielonis, Ms. Moury and  
4 the company. That will save us some time. Thank you.

5 JUDGE CHRISTIANSON: So your request is being  
6 honored.

7 Go ahead.

8 BY MS. MOURY:

9 Q. Dr. Johnson, would you please now turn to your  
10 Exhibit CEJ-1, Schedule 1, page 1?

11 A. What page?

12 Q. Page 1.

13 A. I have that.

14 Q. Now, from the results of your cost allocation  
15 study shown here, I see that the relative rate of return for  
16 the GS-1 class is 227.12 percent; is that correct?

17 A. Yes.

18 Q. And that compares to PP&L's result of 197  
19 percent, approximately. Would you accept that subject to  
20 check?

21 A. Yes.

22 Q. Now, turning to your Schedule 2, page 4, you  
23 show a proposed increase of 5.93 percent for the GS-1; is  
24 that correct?

25 A. That's right. That's of total revenues.

1 Q. And that compares to PP&L's proposed increase of  
2 3.89 percent. Would you again accept that subject to check?

3 A. Yes. This was the proposed increase at the  
4 company's requested revenue level.

5 Q. And the 5.93 percent that you are proposing  
6 compares to PP&L's 3.89 percent?

7 A. I'll accept that subject to check, and the  
8 answer is yes.

9 Q. Now, could you explain to me why when you reduce  
10 the costs allocated to the GS-1 class you then proposed a  
11 larger increase for that class?

12 A. Well, primarily because I do not expect the  
13 increase requested by the company to be granted, and I view  
14 the percentage increases here to be much less firm than the  
15 ideas behind their implementation, which I described in my  
16 testimony.

17 For the GS-1 class, what I did was to limit the  
18 increase for all the lighting classes to one-and-a-third  
19 times the overall increase, and the GS class simply made up  
20 the difference, and it took that much, the 5.93 percent to  
21 get to the total revenue. It was not that I consciously  
22 compared that percentage to the company's percentage.

23 MS. MOURY: That's all I have, Your Honor. Thank  
24 you.

25 JUDGE CHRISTIANSON: Then perhaps Bethlehem Steel.

1 MS. BRANDEIS: No. We have no questions, Your Honor.

2 JUDGE CHRISTIANSON: Then we're done with cross.

3 MR. ZIELONIS: Your Honor?

4 JUDGE CHRISTIANSON: Mr. Zielonis.

5 MR. ZIELONIS: I have a few questions for the  
6 witness.

7 JUDGE CHRISTIANSON: Go ahead.

8 MR. ZIELONIS: Thank you, Your Honor.

9 CROSS-EXAMINATION

10 BY MR. ZIELONIS:

11 Q. Good afternoon, Dr. Johnson.

12 A. Good afternoon.

13 Q. Following up on cross-examination by Mr. Haynes,  
14 did I hear you state that it should be a goal of the rate-  
15 setting process to protect housing values?

16 JUDGE CHRISTIANSON: Of customers, I guess.

17 MR. ZIELONIS: Yes, especially the RTS customers.

18 THE WITNESS: No. I don't think I testified that  
19 that should be a goal of the rate-setting process.

20 BY MR. ZIELONIS:

21 Q. What was your testimony?

22 JUDGE CHRISTIANSON: Or what is it now?

23 THE WITNESS: My concern was that customers who had  
24 signed up for the RTS rate schedule who are currently taking  
25 service under that rate schedule, that the rate schedule be

1 made available to that location for so long as the equipment  
2 remained operational and in place rather than identifying it  
3 with the customer who was currently taking service.

4 The reason for that is that those customers taking  
5 service currently should not be economically penalized for  
6 having installed thermal storage systems.

7 JUDGE CHRISTIANSON: So in effect, it holds up the  
8 real estate value, but that's not his direct object.

9 BY MR. ZIELONIS:

10 Q. That is the indirect effect?

11 A. Yes. It is an indirect effect, absolutely.

12 Q. Should the ratemaking process also consider as a  
13 factor when establishing rates the level and the impact of  
14 economic activity and business activity in the service  
15 territory as an important consideration?

16 A. Do you mean just as a general proposition?

17 Q. Yes.

18 JUDGE CHRISTIANSON: Is it better to support business  
19 activity than not I guess we can start with.

20 THE WITNESS: To the extent that it doesn't harm  
21 other ratepayers, I could support that.

22 BY MR. ZIELONIS:

23 Q. In your testimony, you indicate on page 27 the  
24 use of the load control mechanism for the RTS customer class  
25 in order to ensure that they're not on system during peak,

1 and you mention in your testimony that the peaks occur in  
2 the morning and in the evening.

3 When you state that, Mr. Johnson, is that for a  
4 particular month or is that for each day in the month when  
5 the peak occurs?

6 A. Well, I have not looked at each day for PP&L in  
7 this proceeding. I was referring to the monthly peak  
8 demands for the company during those winter months.  
9 However, my experience with utilities that are winter  
10 peaking utilities is that they typically have a morning peak  
11 and an evening peak -- sometimes those are about the same  
12 level. Sometimes they're not -- and there is a valley in  
13 the middle of the day.

14 So that is based on my experience of having seen  
15 typical utilities, other utilities, who operate with winter  
16 peak demands and having looked at the fact that in some  
17 months the peak demand occurs in the morning and in some  
18 months it occurs in the evening.

19 Q. Now, for purposes of your 5-CP study that you  
20 used for determining your demand allocator, did you use the  
21 single peak or did you use both peaks?

22 A. No. I used the monthly peak demand, which was  
23 in the evening in two of the three winter months.

24 Q. Would not the use of the 1-CP methodology  
25 minimize your concerns about the peak occurring for the RTS

1 customer both in the morning and in the evening?

2 A. No. The use of the 1-CP method would exacerbate  
3 the volatility of the rate of return for this class, because  
4 in one study it might be based on a morning peak demand and  
5 in the next study it might be an evening peak demand. So in  
6 one study they might have a reasonably acceptable rate of  
7 return and in the other it might be negative.

8 So the 1-CP would not be a good method at all. This  
9 is one of the reasons I don't support the 1-CP method under  
10 any circumstances.

11 Q. Now, on page 9 of your testimony -- do you have  
12 that, Mr. Johnson?

13 A. Yes.

14 Q. In the sentence on lines 2 through 4 -- do you  
15 have that?

16 A. I'm sorry. Lines 2 through 4?

17 Q. Yes. It starts, "A utility with a high load  
18 factor."

19 A. Yes.

20 Q. Do you assume in that sentence that both  
21 utilities have the same level of base load plant?

22 A. No. I was assuming they both had the same peak  
23 demand and that the amount of base load plant that each  
24 utility had would be a function essentially of the load  
25 factor, but more specifically the amount of energy that the

1 customers require.

2 Q. So for the high load factor -- would the high  
3 load factor utility in this sentence, Mr. Johnson, have a  
4 greater level of base load plant than the utility with the  
5 low load factor? I'm having a problem trying to define what  
6 it is "would have" means in this sentence. I don't know if  
7 it means base load plant or cost.

8 A. Okay. Let me try this then. The two utilities  
9 that are being compared would have the same peak demand.  
10 The utility with the higher load factor has more energy  
11 demands placed on it by its customers. It would therefore  
12 have more base load capacity and consequently have a higher  
13 amount of production investment than the utility that had  
14 the lower load factor.

15 MR. ZIELONIS: Your Honor, that's all the questions I  
16 have.

17 JUDGE CHRISTIANSON: Then we seem to be about at the  
18 end of cross-examination unless somebody has follow-up.

19 Any follow-up by the company?

20 MR. MacGREGOR: No, Your Honor.

21 JUDGE CHRISTIANSON: Then we can check for the  
22 possibility of redirect.

23 MS. KENNEY: Can we have a break, Your Honor?

24 JUDGE CHRISTIANSON: Let's take ten minutes.

25 (Recess.)

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

2 I understand there is some redirect. Before we  
3 forget, Mr. Kleppinger, did you get in your Cross-  
4 Examination Exhibit 8?

5 MR. KLEPPINGER: Yes, it was moved.

6 JUDGE CHRISTIANSON: Okay. Go ahead.

7 REDIRECT EXAMINATION

8 BY MS. KENNEY:

9 Q. Dr. Johnson, Mr. Kleppinger asked you about your  
10 testimony in a prior West Penn Power proceeding. Do you  
11 recall that?

12 A. Yes.

13 Q. In your discussion with him, you discussed that  
14 there was an equal weighting in your study that was  
15 performed in the West Penn proceeding. Can you explain the  
16 reasons that you used an equal weighting in the West Penn  
17 proceeding and used a 60/40 weighting in this proceeding in  
18 your cost of service study?

19 A. Yes. In the West Penn case, I simply followed  
20 one of the methodologies identified in the NARUC Cost  
21 Allocation Manual. The reason I have not used the 50/50  
22 weighting in this case was explained at some length in my  
23 testimony as to why the use of the load factor was a  
24 reasonable proxy for the division between the energy and  
25 demand components of the production investment.

1 Q. Dr. Johnson, also in response to Mr. Haynes, you  
2 were asked a number of questions about the operational  
3 characteristics of the thermal storage units. Am I correct  
4 that you are not a heating engineer and are not intimately  
5 familiar with all of the details of the operations of the  
6 thermal storage units that are the subject of a great deal  
7 of testimony in this proceeding today?

8 A. That's correct.

9 MS. KENNEY: Thank you. That's all the questions  
10 that I have.

11 JUDGE CHRISTIANSON: That should be fairly to the  
12 point. Any follow-up on that?

13 MR. KLEPPINGER: Just one brief one, Your Honor.

14 RECROSS-EXAMINATION

15 BY MR. KLEPPINGER:

16 Q. Dr. Johnson, of the three peak and average  
17 studies that you and I discussed from the NARUC manual, will  
18 you agree with me that none of those studies used an equal  
19 50/50 classification of production plant between demand and  
20 energy as we read into the record previously?

21 A. That's correct; and I was using 50/50 as a  
22 shorthand. It was equal weighting of the average demand and  
23 the peak demand, which, as I said earlier when you were  
24 cross-examining me, did not produce 50 percent to each  
25 component, but it was an equal weighting of the average

1 demand and the peak demand.

2 Q. The only thing that threw me off in your  
3 response to Ms. Kenney was your reference to the NARUC  
4 manual being 50/50, and I just wanted to clarify that.

5 A. You and I had come to kind of that agreement we  
6 would call it 50/50 when it was really equal weighting, but  
7 it's not a 50 percent energy/50 percent demand. That's not  
8 what it is.

9 MR. KLEPPINGER: Thank you.

10 JUDGE CHRISTIANSON: Any follow-up on the follow-up?

11 MS. KENNEY: No, Your Honor.

12 JUDGE CHRISTIANSON: Fine. Then the witness for this  
13 portion of his presentation is excused.

14 (Witness excused.)

15 JUDGE CHRISTIANSON: We seem to be done for the day  
16 to be coming back 10:00 tomorrow morning with the Sierra  
17 Club, if I remember correctly; and I probably don't have to  
18 call them, because I said I'd call them if it was not 10:00.  
19 Maybe I'll call them anyway.

20 So we're off the record for today.

21 (Discussion off the record.)

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

24 MR. KLEPPINGER: I want to let Your Honor know that I  
25 did attempt to reach Mr. Barak at the end of the day of our

1 first hearing this week to notify him that we intended to  
2 move to strike portions of Mr. Biewald's testimony. I  
3 received his recording device when I attempted to do that  
4 and left him a detailed message to that effect.

5 JUDGE CHRISTIANSON: That is sufficient. I might not  
6 even call him now, because I said I'd call him if it was  
7 other than 10:00. He'll just hear it when he gets here  
8 tomorrow morning. Thank you.

9 Then we're done for the record today.

10 (Whereupon, at 4:55 p.m., the hearing was adjourned,  
11 to be reconvened at 10:00 a.m., Thursday, April 27, 1995, in  
12 Harrisburg, Pennsylvania.)

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C E R T I F I C A T E

I hereby certify, as the stenographic reporter, that the foregoing proceedings were taken stenographically by me, and thereafter reduced to typewriting by me or under my direction; and that this transcript is a true and accurate record to the best of my ability.

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