

COMMONWEALTH OF PENNSYLVANIA

KJR

PUBLIC UTILITY COMMISSION

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 :
Pennsylvania Public Utility Commission :
versus Pennsylvania Power & Light Company : Docket Nos.
 Investigation into a proposed \$261,000,000 : R-943271
 annual rate increase. : R-943271C0001
 : through
 Further Hearing. : R-943271C00130
 :
 ----- x

Pages 1640 through 1729

Hearing Room 1
North Office Building
Harrisburg, Pennsylvania

Tuesday, May 2, 1995

DOCUMENT FOLDER

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

BEFORE:

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C O N T E N T S

<u>WITNESS</u>	<u>DIRECT</u>	<u>CROSS</u>	<u>REDIRECT</u>	<u>RECROSS</u>
Eugene M. Brady	1643	--	--	--
By Mr. MacGregor	--	1645	--	--
By Mr. Simms	--	1660	--	--
By Mr. Kleppinger	--	1663	--	--
Craig R. Kuennen	1666	--	--	--
By Mr. MacGregor	--	1670	--	--
Joseph J. Sivulich				
By Mr. Mickens	1677	--	1700	--
By Mr. Gadsden	--	1679	--	1703
Charles T. Weakley, III				
By Mr. Simms	1704	--	1717	--
By Mr. MacGregor	--	1707	--	--
Lane Kollen				
By Mr. Kleppinger	1719	--	--	--
By Mr. MacGregor	--	1721	--	--

E X H I B I T S

<u>NUMBER</u>	<u>FOR IDENTIFICATION</u>	<u>IN EVIDENCE</u>
<u>CEO Statement No.</u>		
1 (Brady - Direct)	1644	1645
2 (Kuennen - Direct)	1666	1669
<u>CEO Exhibit No.</u>		
CRK-2 (Kuennen)	1669	1669

FORM 2

E X H I B I T S (Continued)

<u>NUMBER</u>	<u>FOR IDENTIFICATION</u>	<u>IN EVIDENCE</u>
<u>OTS Statement No.</u>		
2 (Sivulich - Direct)	1679	1679
4 (Weakley - Direct)	1704	1707
<u>OTS Exhibit No.</u>		
2 (Sivulich)	1679	1679
4 (Weakley)	1705	1707
<u>PPLICA Statement No.</u>		
9 (Kollen - Direct, with Exhibits LK-1 through LK-5)	1720	1721

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FORM 2

P R O C E E D I N G S

ADMINISTRATIVE LAW JUDGE ROBERT A. CHRISTIANSON:

Let's be on the record. I am Administrative Law Judge Robert Christianson. We are here today for the last two days of hearings concerning cross-examination of other witnesses.

I think we have a full week scheduled at the end of the month for the final rebuttal phase of this proceeding. We've talked about various issues and we've touched on settlement from time to time, but there is no need to discuss those matters now.

We might as well go ahead with the witnesses for the Commission on Economic Opportunity. We'll probably put them there next to Trial Staff, as we decided off the record.

We sort of reconfigured the hearing room a little bit. This is not the best hearing room for acoustics, as people will find out as we go along.

But we might as well go ahead and just present your first witness. Let's be off the record.

(Discussion off the record.)

JUDGE CHRISTIANSON: Let's go on.

We have a witness in what is the equivalent of our witness stand there at the table. Frankly, I don't recall. Have you been sworn in this proceeding?

1 MR. BRADY: No.

2 JUDGE CHRISTIANSON: Will you stand and raise your
3 right hand?

4 Whereupon,

5 EUGENE M. BRADY

6 having been duly sworn, testified as follows:

7 DIRECT TESTIMONY

8 JUDGE CHRISTIANSON: Perhaps I'll set you up to get
9 your testimony in. You've prepared a written statement,
10 have you?

11 THE WITNESS: We submitted a written statement
12 earlier.

13 JUDGE CHRISTIANSON: Let me find that. Do you have
14 two copies with you for the court reporter?

15 THE REPORTER: I have two.

16 JUDGE CHRISTIANSON: Oh, you have two already. Then
17 your cover letter mentions the numbers, so Brady will be
18 Statement No. 1 and Craig Kuennen will be Statement No. 2.

19 So go ahead, just introduce yourself briefly and
20 state your background, give your name and address and your
21 job.

22 THE WITNESS: My name is Eugene M. Brady. My
23 business address is 211 South Main Street in Wilkes-Barre,
24 Pennsylvania.

25 JUDGE CHRISTIANSON: You prepared this statement

1 which is labeled Statement No. 1, is that the case?

2 THE WITNESS: I don't know what your label is, but I
3 did prepare a statement.

4 JUDGE CHRISTIANSON: The statement carrying your
5 name.

6 THE WITNESS: Yes.

7 JUDGE CHRISTIANSON: We'll have the court reporter
8 mark this as Commission on Economic Opportunity Statement
9 No. 1, which is the indication in the cover letter.

10 (Whereupon, the document was marked as CEO
11 Statement No. 1 for identification.)

12 JUDGE CHRISTIANSON: Let me ask, was this prepared by
13 you or under your direction?

14 THE WITNESS: Yes, it was.

15 JUDGE CHRISTIANSON: Is it true and correct to the
16 best of your knowledge, information and belief?

17 THE WITNESS: It is.

18 JUDGE CHRISTIANSON: Do you adopt this statement as
19 part of your testimony today?

20 THE WITNESS: I do.

21 JUDGE CHRISTIANSON: Do you have any supplement or
22 any additional statements to make about it?

23 THE WITNESS: No, I don't.

24 JUDGE CHRISTIANSON: Then we seem to be ready to go
25 with cross. At this point, I'm accepting Mr. Brady's

1 statement, that is the Commission on Economic Opportunity
2 Statement No. 1, into the record subject to possible adverse
3 motions on cross.

4 (Whereupon, the document marked as CEO
5 Statement No. 1 was received in evidence.)

6 JUDGE CHRISTIANSON: And we might as well start.
7 There might be other people crossing the witness, but we
8 might as well start with the company.

9 MR. MacGREGOR: Thank you, Your Honor.

10 CROSS-EXAMINATION

11 BY MR. MacGREGOR:

12 Q. Good morning, Mr. Brady.

13 A. Good morning.

14 Q. Could you refer to page 1, line 10 of your
15 testimony, please? You there describe the Commission on
16 Economic Opportunity and its function and reference that, it
17 is part of "our responsibility" to advocate for the
18 interests of your constituents within the bureaucracy and
19 PP&L's rate increase, et cetera. Do you see that reference?

20 A. I do.

21 Q. Can you explain what you mean by "bureaucracy"
22 in that testimony?

23 A. I think the structure of the Public Utility
24 Commission.

25 JUDGE CHRISTIANSON: I guess one question, do you

1 include PP&L when you say that?

2 THE WITNESS: When I wrote it, I simply meant this
3 process, which I guess, since PP&L is a party to the
4 process, it would involve them.

5 JUDGE CHRISTIANSON: Okay. Go ahead, counsel.

6 BY MR. MacGREGOR:

7 Q. And then on page 11, line 1 of your testimony
8 and continuing on to line 12, you note your view that the
9 proposed rate increase falls disproportionately --

10 A. I'm sorry, the page?

11 Q. One, line 11.

12 A. Okay.

13 Q. You reference that the proposed rate increase
14 falls disproportionately on residential ratepayers in
15 general and low income ratepayers in particular.

16 Can you explain for me what the basis for your
17 statement is that the proposed increase falls
18 disproportionately on low income ratepayers?

19 A. Relative to low income ratepayers, it's a
20 function of their use, of the usage for many of the people.
21 Our concern is that for people that are in the base load
22 category that are low income -- and that is a large portion
23 of the low income population -- that they would be affected
24 when you compare it to the whole rate class
25 disproportionately.

1 If I could explain, for example, if you took
2 low income as a category and you compared it to other rates
3 that you have -- industrial rates, for example, commercial
4 rates -- then people that are low income, because they're in
5 the residential category, would be disproportionately
6 affected.

7 JUDGE CHRISTIANSON: Let me check one thing for my
8 question. I think I might be anticipating counsel. Are you
9 assuming a close parallel between low income and low usage?

10 THE WITNESS: No.

11 JUDGE CHRISTIANSON: Go ahead.

12 BY MR. MacGREGOR:

13 Q. That was my next question. That is not part of
14 your testimony here, that low income residential ratepayers
15 use more or less than an average residential ratepayer?

16 A. No, it's not.

17 Q. Page 2, line 16 in your testimony, you state
18 that your organization serves as a subcontractor for PP&L's
19 WRAP and Low Income Usage Reduction Program; is that
20 correct?

21 A. Yes.

22 Q. For how long has CEO functioned in that
23 capacity?

24 A. Since the inception of those programs.

25 Q. And am I correct that for 1994, PP&L's payments

1 to CEO were slightly in excess of \$300,000?

2 A. I don't have that before me, but that very well
3 could be the case.

4 Q. Can you tell me, continuing on to lines 18 and
5 19 of your testimony, what payments CEO received in 1994
6 from PG&W and UGI?

7 A. I could not give you exact figures without
8 checking on that. And since it wasn't one of the questions
9 that was provided in advance of this, I don't have that
10 material, but I'd be glad to obtain it and send it in.

11 JUDGE CHRISTIANSON: Do you think it's less than
12 PP&L?

13 THE WITNESS: Individual companies, less?

14 JUDGE CHRISTIANSON: Yes.

15 THE WITNESS: Yes, because of the size of the
16 companies being smaller, I would say so.

17 BY MR. MacGREGOR:

18 Q. I would appreciate your providing that
19 information to me, and I would like to make an on-the-record
20 data request.

21 A. Will I be separately asked for that now in
22 writing, or should I make note?

23 JUDGE CHRISTIANSON: Make note at this point.
24 Basically, the rule calls for a response within 10 days, but
25 respond to PP&L. Basically he's asking for the amount

1 you're getting from UGI and PG&W.

2 THE WITNESS: In the calendar year 1994?

3 JUDGE CHRISTIANSON: That's probably good enough.

4 MR. MacGREGOR: That's fine, yes.

5 JUDGE CHRISTIANSON: And again, get it to PP&L. Who
6 else wants the information? Does the Staff want it?

7 MR. MICKENS: No.

8 JUDGE CHRISTIANSON: You don't need it. Does anybody
9 else need it?

10 MS. McCLOSKEY: No.

11 MR. KLEPPINGER: No.

12 JUDGE CHRISTIANSON: Then just to PP&L at this point.
13 Again, other people deserve it, but we try to limit
14 dissemination because we realize that every envelope costs a
15 few pennies to get it to its destination.

16 Get it to PP&L within about a week or so. That would
17 be sufficient.

18 THE WITNESS: Who in PP&L would I send it to? The
19 same as we do with the --

20 MR. MacGREGOR: Testimony.

21 JUDGE CHRISTIANSON: The service sheet, I guess, yes,
22 the lawyers present, basically. Now and then, some firms
23 name three or four or five lawyers. I cut it down myself to
24 one or two. I don't know how law firms handle that.

25 Then go ahead.

1 BY MR. MacGREGOR:

2 Q. And more generally, Mr. Brady, can you tell me
3 what CEO's total operating budget was for 1994?

4 A. In general, I would say it was in the area of
5 \$7 million.

6 JUDGE CHRISTIANSON: Let me interrupt just a moment.

7 If the noise gets bad, we can close the door. I
8 think they're open because of ventilation, because the
9 carpet is new.

10 We could close that, and if it gets real bad, we'll
11 close the other ones, but leave the other ones open for now
12 because it will help keep the air moving. That's always a
13 problem with closing it. It doesn't want to close.

14 Go ahead, counsel.

15 BY MR. MacGREGOR:

16 Q. And could you provide me a general breakdown of
17 the sources of funding for that \$7 million?

18 A. A listing of the type of funding for the
19 sources?

20 Q. By major category.

21 A. There's contracts with government that would be
22 federal, state, county and municipal, that would probably
23 represent 60 percent.

24 There's private funding through a variety of service
25 including fees, et cetera. There's funding from the utility

1 companies for different program activities. There would be
2 money from foundations.

3 JUDGE CHRISTIANSON: Is a lot of this money earmarked
4 for a particular program?

5 THE WITNESS: Right. The money would in most
6 instances be provided for specific purposes and with the
7 funds normally would come a contract with a specific
8 provision for how the money would be utilized.

9 JUDGE CHRISTIANSON: A particular program might have
10 a particular person monitoring that program or whatever?

11 THE WITNESS: That could be.

12 BY MR. MacGREGOR:

13 Q. If you could refer to page 5 of your testimony,
14 you state on line 12 that there must be a corporate
15 commitment from the shareholders and senior management to
16 implementing PP&L Partners: Communities in Action.

17 Are you aware that the company's Board of Directors
18 has approved this program?

19 A. I am aware in reading your material that it was
20 brought before the Board and was approved, yes.

21 Q. And regarding the social programs and the
22 shareholder dollars that are planned to be expended for
23 these programs, is it your testimony in this proceeding that
24 this Commission can or should order PP&L to undertake
25 certain specific expenditures from its corporate

1 shareholders' funds?

2 A. As opposed to out of the rate base?

3 Q. Yes.

4 A. No, that's not what we testified.

5 Q. Now, at the bottom of page 5 of your testimony,
6 you note that at a spending level of \$6.7 million a year,
7 over the next five years PP&L would spend \$33.5 million on
8 these social programs.

9 And you state that this is a recommendation that is
10 not contingent upon a rate increase. Do you see that
11 reference?

12 A. I do.

13 Q. In making that statement, did you review the
14 company's response to PP&L Industrial Customer Alliance
15 Interrogatory Set III, No. 2?

16 A. I probably did not.

17 Q. I'll provide you with a copy of that.

18 (Document handed to the witness.)

19 Q. Particularly focusing your attention on Subpart
20 B of that question, which is the company's willingness to
21 spend an additional \$3.53 million directly dependent upon
22 rate recovery of that amount, if you could look at the
23 company's response to Subpart B, does the company there
24 indicate that it has made a three-year commitment to these
25 programs and that at the end of three years, the company

1 will assess the effectiveness of the program, and that one
2 factor that will be considered at that time in determining
3 whether to continue or to scale back the program will be the
4 cost recovery allowed for the costs in this proceeding?

5 A. I see that as an answer.

6 Q. Now, in addition to proposing that PP&L increase
7 its spending on social programs --

8 A. Could I just ask you a question on that?

9 Basically, the point that you're making I guess is that, the
10 answer that we provided that the company should -- is based
11 on what the company had indicated at a hearing when some of
12 our staff was present, that they planned on spending this
13 money whether or not the rate increase was approved or not.

14 And I don't think it's inconsistent. Your answer
15 appears to be that that is still the plan of the company
16 to --

17 JUDGE CHRISTIANSON: I thought I heard three years
18 instead of five years.

19 THE WITNESS: Is that difference that you're --

20 BY MR. MacGREGOR:

21 Q. You state that in five years, the company would
22 spend \$33.5 million, and that that recommendation is not
23 contingent upon a rate increase, and I'm simply pointing out
24 to you that the company has previously stated to an
25 interrogatory response that it has made a three-year

1 commitment only to the project, and it will be reevaluated
2 at that time, and continuation of the program will depend in
3 part upon cost recovery that's allowed for these amounts in
4 this proceeding.

5 JUDGE CHRISTIANSON: I guess one question related to
6 that would be, do you want to insist on the five year
7 commitment?

8 THE WITNESS: Well, we were really paralleling the
9 fact that the statement had been made and at that time we
10 weren't aware of this particular, I was not aware of this.

11 So it was our assumption that basically the statement
12 was made by the company that they planned on doing this
13 whether the rate increase was approved or not, and now I see
14 that they've clarified that in this to say that they plan on
15 doing it for three years, and to a somewhat lesser level.

16 JUDGE CHRISTIANSON: Yes.

17 MR. SIMMS: One point of clarification?

18 JUDGE CHRISTIANSON: Yes.

19 MR. SIMMS: Is that interrogatory on the record?

20 JUDGE CHRISTIANSON: I gathered it was not.

21 MR. MacGREGOR: It's not in the record. I'm just
22 cross-examining him about an interrogatory response. I'm
23 not proposing to put it in the record.

24 MS. McCLOSKEY: Could you tell us who the sponsoring
25 witness is?

1 MR. MacGREGOR: Oh, yes, Mr. Stathos. I'm sorry.

2 JUDGE CHRISTIANSON: If you want to get it in the
3 record, you can do it later, obviously. He's now asking the
4 witness if the witness' views are changed by this what we
5 might call a lesser undertaking by PP&L.

6 We'll assuming that this undertaking is the company's
7 undertaking at this point, and if we have to develop that
8 further -- in fact, I guess the company might be willing to
9 make it part of the record if you want to make the response
10 part of the record.

11 MR. MacGREGOR: We may put it in the rebuttal
12 testimony, Your Honor, if we think it's appropriate. I
13 think I can cross-examine the witness about interrogatory
14 answers that were supplied during the course of the
15 proceeding.

16 MR. SIMMS: I was just asking for a point of
17 clarification, whether or not it was an exhibit.

18 MR. MacGREGOR: Oh, no. I'm not trying to put it
19 into the record at this point.

20 BY MR. MacGREGOR:

21 Q. Now, on page 6 of your testimony and then going
22 on to page 7, Mr. Brady --

23 A. Could I just -- I guess I'm uncomfortable with
24 this, to an extent. Our point was, and I guess it's your
25 function to question me, but the concern that we had was

1 that, you know, basically that the company would follow
2 through what they stated that they were going to do.

3 And I guess when I ask if this is on the record, when
4 you say it intends to, that's a current plan. It's not a
5 commitment. It's a projection, or how would --

6 Q. I'm not here to answer any questions, Mr. Brady.
7 I'm here to ask the questions.

8 JUDGE CHRISTIANSON: We can handle that later, the
9 characterization in detail. But again, if you would want to
10 respond to it or Consumer Advocate or Staff, we can develop
11 that.

12 THE WITNESS: I think that's the purpose of, just so
13 it's understood, the nature of my presentation was that we
14 were hopeful that the company was making that as a
15 commitment as opposed to a statement that would be made in
16 the course of a rate case and perhaps not occur later.

17 And I guess I was just asking, is this a commitment
18 to do this or a projection, and to get a clarification.

19 JUDGE CHRISTIANSON: And we can clarify that as we go
20 along. It's close to a commitment from what it looks like
21 at this point, because the company can hardly back away from
22 it, having fairly publicly make the undertaking. But we can
23 worry about that as we go along.

24 Go ahead with your cross, now.
25

1 BY MR. MacGREGOR:

2 Q. Just so the record is clear, the company has not
3 agreed at this point to the spending levels set forth at the
4 top of page 6 of your testimony. That's your recommendation
5 for what the company should do.

6 A. Right, as opposed to -- you're saying they did
7 agree to what they made in that statement that you presented
8 me?

9 Q. On the top of page 6 of your testimony, you have
10 five years of information about spending levels.

11 A. Oh, right.

12 Q. And that's what you would like the company to do
13 with its shareholders' money, not what the company has
14 proposed to do; is that correct?

15 A. That's the recommendation that we've presented
16 based on a 20 percent increase, which is consistent with the
17 lowest level of the rate increase that PP&L has requested.

18 Q. Now, in addition to wanting PP&L to spend more
19 money on these social programs, you want them to delegate at
20 least part of the control over the planning and spending of
21 that money to local organizations through a series of block
22 grants; is that correct?

23 A. Well, I guess what's correct is that not -- what
24 we're saying is that if there's going to be a percentage
25 increase in the rate base, if there could be a percentage

1 increase in what the company spends, as opposed to just
2 asking the company to spend more money. That is our
3 position.

4 And as far as the delegation of -- I'm sorry, you're
5 saying the administration?

6 Q. Well, you state on page 6 of the testimony that
7 PP&L is not the proper entity to determine how this money
8 should be spent and that the expertise in developing and
9 operating these programs lies within community based
10 organizations, I assume such as CEO; is that correct?

11 A. Community based organizations throughout the
12 territory, which in our area we would feel we have that
13 background.

14 Q. If you can refer to page 10 of your testimony,
15 you state on lines 7 through 9 that the funds, meaning the
16 funds for the social programs, are now proposed to be
17 divided equally among the five regions with no consideration
18 given to the fact of the previous division versus regional
19 separation; is that correct?

20 A. That's correct, that the charts that were
21 provided by the company appear to be presented in that
22 manner.

23 Q. Now, you reference the hearings previously where
24 the company witnesses were cross-examined. Are you aware
25 that the company indicated at that time that the company was

1 willing to consider changing the appropriation of the funds
2 depending on the level of poverty within individual regions?

3 A. I am aware that some of the people in the
4 company have indicated to me that that has occurred, but I
5 was not present at the hearings and I don't know the detail
6 of that.

7 JUDGE CHRISTIANSON: Maybe it would help if I could
8 at this point ask PP&L to really undertake a reconfiguration
9 of the distribution of the money based on either population
10 or poverty or whatever, because considering the status of
11 the record at this point, I think the company should make a
12 move to sort of reconfigure, and probably the
13 reconfiguration would be a little bit away from the present
14 mode of distribution.

15 MR. MacGREGOR: Well, we will address that issue in
16 our rebuttal testimony, Your Honor, and it will be our
17 position that we have in fact done that and that the
18 proposal we have on the table does accurately reflect the
19 economic conditions of the individual regions.

20 JUDGE CHRISTIANSON: Fine.

21 MR. MacGREGOR: And we'll explain that in the
22 rebuttal. That's all I have for this witness, Your Honor.

23 JUDGE CHRISTIANSON: Then let me check if other
24 people have cross of this witness. Anything from Trial
25 Staff?

1 MR. SIMMS: Yes, Your Honor.

2 JUDGE CHRISTIANSON: Go ahead.

3 MR. SIMMS: Thank you.

4 CROSS-EXAMINATION

5 BY MR. SIMMS:

6 Q. Good morning, Mr. Brady.

7 A. Good morning.

8 Q. My name is Johnnie Simms. I'm with the Office
9 of Trial Staff. I'd like to refer you to your testimony on
10 page 5 at the bottom and the top of page 6.

11 Would I be correct that your recommendation for the
12 company to increase its funding is based upon the Commission
13 approving the company's request in this proceeding?

14 A. Yes.

15 Q. Would I also be correct that if the Commission
16 denies the company's request, that your recommendation on
17 page 6 for increased funding over five years would not be a
18 recommendation by the organization?

19 A. Well, we certainly wouldn't object if PP&L
20 decided to do that, but our point is that if there is a
21 corresponding increased that's passed on to the low income
22 customer, we feel that the resources that are there to
23 assist that customer to better pay the bills should be
24 proportionately increased.

25 Q. Now, let me refer you to page 7, line 18 of your

1 testimony. In that sentence, you refer to a block grant, do
2 you not?

3 A. Yes.

4 Q. Would I be correct that your reference to a
5 block grant only refers to the proposals by the company for
6 the utilization of the shareholders' money?

7 A. That's the money that they divided out such as
8 the Build-A-Neighborhood and the Affordable Housing
9 components, which were described as not coming out of the
10 rate by the company? I guess if I could have that
11 clarification; I don't have it before me.

12 Q. Well, let me clarify this point for you. Do you
13 recall from earlier exhibits that the company divided the
14 projects --

15 A. Right.

16 Q. -- into ratepayers' share and shareholders'
17 share?

18 A. Yes, I do.

19 Q. Now, the block grant that you're referring to
20 here only referred to the shareholders' share of that money;
21 is that correct?

22 A. And I guess, in order to answer your question,
23 as I recall that breakout, it was, Build-A-Neighborhood and
24 Affordable Housing components were both components that
25 would come out of shareholders' money in PP&L's plan.

1 If that's the case, the reason that we think that
2 these proposed programs would be best in a block grant is
3 that I think if you took Build-A-Neighborhood, what we're
4 saying is that the neighborhood should have the say in how
5 the money would be used, or Affordable Housing component, it
6 should be something that once again the neighborhood is
7 involved in the planning and implementation of the program.

8 And in that I believe that it did come out of the
9 non-rate base, the answer would be yes to your question.

10 Q. Well, let me pose this question to you. If in
11 fact the Build-A-Neighborhood program included ratepayers'
12 share of that program as well, would you still be advocating
13 the block grant recommendation?

14 A. Yes, I would.

15 Q. Now, if in fact the company and the Commission
16 approve a block grant recommendation that you have proposed,
17 would that block grant also include the administration of
18 that program by neighborhood groups?

19 A. I think that that would be acceptable.

20 Q. Well, I'm asking you, is your recommendation
21 that the block grant, would money also include the
22 administration of the programs by your group, organizations?

23 A. I would say that the design of the block grant
24 would be acceptable if it was workable to not include -- to
25 have the administration be provided by the neighborhood

1 groups, yes.

2 Q. Well, let me pose this question to you. Your
3 recommendation is that your organization or organizations
4 such as yours is willing to perform these services free?

5 A. Our organization would perform the services
6 without the administrative money in this instance of the
7 Build-A-Neighborhood or the Affordable Housing component.
8 We would do that without an administrative cost. We would
9 be willing to do that, yes.

10 MR. SIMMS: Okay, thank you.

11 No further questions, Your Honor.

12 JUDGE CHRISTIANSON: Then let's check with perhaps
13 Consumer Advocate.

14 MS. McCLOSKEY: Nothing, Your Honor.

15 JUDGE CHRISTIANSON: Mr. Kleppinger?

16 CROSS-EXAMINATION

17 BY MR. KLEPPINGER:

18 Q. Just one question, Mr. Brady. My name is David
19 Kleppinger. I represent the PPL Industrial Customer
20 Alliance.

21 At page 1 of your testimony where you reach the
22 conclusion that the proposed increase falls
23 disproportionately on the residential ratepayers in general
24 and low income ratepayers in particular, did you examine the
25 proposed rate increase effects on other customer classes and

1 types in reaching that conclusion?

2 A. The extent of that examination was to just see
3 that the percentage was lower, so I don't know if that's --

4 Q. Did you conduct that analysis on a rate schedule
5 basis or on a customer type basis such as firm versus
6 interruptible service?

7 A. We did not do any analysis as far as
8 interruptible service because that's not a category under
9 the residential rate. We, as I stated, simply based on the
10 fact that the percentage is significantly higher --

11 Q. So you looked at the reported percentage
12 increases on a rate schedule basis as presented by the
13 company in its original filing?

14 A. Yes.

15 Q. Is that the extent of your knowledge?

16 A. Yes.

17 MR. KLEPPINGER: Thank you.

18 That's all I have, Your Honor.

19 JUDGE CHRISTIANSON: Small Business?

20 MS. MOURY: Nothing, Your Honor.

21 JUDGE CHRISTIANSON: Then we seem to be at the end of
22 cross, unless the company has follow-up.

23 MR. MacGREGOR: No, Your Honor.

24 JUDGE CHRISTIANSON: This is the point then for what
25 would be called redirect examination. Do you have anything

1 to follow up on in view of the cross you've gone through,
2 any final statements?

3 Your lawyer would ask the question, trying to get
4 responses.

5 THE WITNESS: Well, we didn't bring a lawyer, and I
6 would just say that I think what we've presented speaks for
7 itself. If there's further questions that people have, if
8 they could contact us, and I appreciate the opportunity to
9 be here today.

10 JUDGE CHRISTIANSON: Fine, thank you. Then you are
11 excused as a witness.

12 (Witness excused.)

13 JUDGE CHRISTIANSON: We might as well go ahead with
14 Craig Kuennen. I recall an old story about whale boats.
15 People went from one end to the other as far as when they
16 harpooned the whale and went off.

17 I guess you have not really appeared as a witness
18 yet?

19 MR. KUENNEN: No.

20 JUDGE CHRISTIANSON: I recall you being here. Could
21 you stand and raise your right hand?

22 Whereupon,

23 CRAIG R. KUENNEN

24 having been duly sworn, testified as follows:
25

DIRECT TESTIMONY

1
2 JUDGE CHRISTIANSON: Then again, I'll just take you
3 through the quick preliminaries. Could you give your name
4 and your business address?

5 THE WITNESS: Craig Kuennen. My business address is
6 211 South Main Street, Wilkes-Barre, Pennsylvania.

7 JUDGE CHRISTIANSON: You have prepared a statement
8 which I'll go ahead and identify as your Statement No. 2, or
9 rather the Commission on Economic Opportunity Statement No.
10 2 as indicated in your cover letter.

11 (Whereupon, the document was marked as CEO
12 Statement No. 2 for identification.)

13 JUDGE CHRISTIANSON: Are you familiar with this
14 statement?

15 THE WITNESS: Yes, I am.

16 JUDGE CHRISTIANSON: Was it prepared by you or under
17 your direction?

18 THE WITNESS: Yes, it was.

19 JUDGE CHRISTIANSON: Is this statement true to the
20 best of your knowledge, information and belief?

21 THE WITNESS: Yes, it is. I would like to make a
22 couple corrections to it that I did in response to
23 interrogatories, I believe it was No. 4.

24 If you look on page 11, lines 3 through 9, the
25 percentages I put in there were for DSM in terms of peak

1 demand. It should have been energy savings in terms of
2 energy sales.

3 JUDGE CHRISTIANSON: Do you have substitute numbers?

4 THE WITNESS: Yes, I do.

5 JUDGE CHRISTIANSON: Go ahead.

6 THE WITNESS: Line 4, it should be .06 percent.

7 JUDGE CHRISTIANSON: Point zero six?

8 THE WITNESS: Point zero six; line 5, .09; and then
9 1.6.

10 JUDGE CHRISTIANSON: On line 6, 7.2 changed to --

11 THE WITNESS: Let's see, 7.2 changes to 1.9; line 8,
12 1.6 substitutes for the 6.5; line 9, 0.6 and 0.1.

13 I believe there was one other change.

14 JUDGE CHRISTIANSON: Let me go through that
15 information so people have gotten it correct. I have at
16 line 4, the .5 becomes .06; line 5, the 6.0 becomes .09;
17 line 6, the 7.2 becomes 1.9; line 8, the 6.5 becomes 1.6;
18 line 9, the 8.9 becomes -- I'm not sure of my writing --
19 0.1, is that?

20 THE WITNESS: Which line are we at?

21 JUDGE CHRISTIANSON: Line 9, the 8.9.

22 THE WITNESS: Becomes 0.6.

23 JUDGE CHRISTIANSON: Okay, and the 6.0 becomes 0.1?

24 THE WITNESS: Right. And then on page 10, line 12,
25 it should say, "construction in 1991." There was two dates

1 on the chart that I took the data from.

2 JUDGE CHRISTIANSON: It's not '93, it's '91?

3 THE WITNESS: It's '91. I don't know if -- I put the
4 data in a chart that's easy to read and lists where I got
5 the data. I don't know if I can enter that in, or --

6 JUDGE CHRISTIANSON: Give it to Mr. MacGregor, and he
7 can look at it. If he wants to have it an exhibit, he can
8 make it so, otherwise we can just use it as background for
9 the help of the lawyers here.

10 THE WITNESS: I have copies for everyone.

11 JUDGE CHRISTIANSON: Let's be off the record.

12 (Discussion off the record.)

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

14 We've been off the record for some background, and
15 I'll finish my introduction in a moment. We've also got,
16 though, something which has been labeled Exhibit CRK-2, and
17 I'll leave it that way, calling it Exhibit 2 -- let's call
18 it CRK-2, the way it's been labeled there, the second line,
19 but it's obviously sponsored by the Commission on Economic
20 Opportunity.

21 We'll designate it the way it's been designated here.
22 It's used as backup to the testimony, and I'll now identify
23 it as Exhibit CRK-2, again sponsored by the Commission on
24 Economic Opportunity.

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(Whereupon, the document was marked as CEO
Exhibit No. CRK-2 for identification.)

JUDGE CHRISTIANSON: I can't remember exactly where I
left off, but I think you had agreed it's all true and
you've made your corrections.

At this point, I'll go ahead and take the step, and
at this point what I've identified as Commission on Economic
Opportunity Statement No. 2 is now accepted into the record.

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

JUDGE CHRISTIANSON: In addition, what's been
designated Exhibit No. CRK-2 is now also accepted into the
record, supplementing what's been stated in the statement.

(Whereupon, the document marked as CEO
Exhibit No. CRK-2 was received in evidence.)

JUDGE CHRISTIANSON: I think it basically clarifies
some of the numbers and gives some sources. So those two
documents are now accepted into the record.

Any further statement you want to make at this point?

THE WITNESS: Not at this time.

JUDGE CHRISTIANSON: Then we can go ahead with cross
from the company.

MR. MacGREGOR: Thank you, Your Honor.

CROSS-EXAMINATION

1
2 BY MR. MacGREGOR:

3 Q. Good morning, Mr. Kuennen.

4 A. Good morning.

5 Q. Would it be fair to say that the general concern
6 expressed in your testimony is over the relatively low level
7 of DSM spending in Pennsylvania versus other states and also
8 by PP&L as compared to utilities in other states?

9 A. Well, we have three issues.

10 Q. Would that be one of your concerns?

11 A. That would be one of the concerns.

12 Q. And couldn't it be that one reason for a current
13 relatively low level of DSM spending in Pennsylvania would
14 be a legal uncertainty regarding cost recovery mechanisms?

15 A. Yes, that could be.

16 Q. Are you aware of the proceedings in Commonwealth
17 Court and the Supreme Court regarding the legality of
18 certain cost recovery mechanisms for DSM programs?

19 A. I'm aware that there is a challenge to the cost
20 recovery mechanisms.

21 JUDGE CHRISTIANSON: If you had been in the hearing
22 last week, you'd be more aware of them. We went through
23 that to some degree with the Sierra Club.

24
25

1 BY MR. MacGREGOR:

2 Q. Could you agree with me as a general proposition
3 that a utility should focus its DSM spending in areas which
4 are projected to produce the most benefits in terms of
5 energy and demand savings?

6 A. I can't agree in that specific. I think the
7 portfolio itself should seek the most demand and energy
8 savings, but I think it needs to be diversified enough to
9 where there's participation from all the ratepayers.

10 You can't have one group of ratepayers paying the
11 whole bill and then they don't have a means to participate
12 in the DSM programs.

13 Q. So you do not agree with my question, my
14 proposition?

15 JUDGE CHRISTIANSON: I guess that would be a leading
16 factor but not the only factor, is what he's saying.

17 THE WITNESS: That would be a factor, but it wouldn't
18 be the only factor.

19 BY MR. MacGREGOR:

20 Q. Would one factor that a utility should take into
21 account in determining the level of DSM spending be the
22 current capacity levels on its system compared to its peak
23 demand?

24 A. I would think that, yes, that should be taken
25 into consideration, but I don't think it should be the only

1 consideration.

2 In the past, supply side capacity has been favored
3 over demand side, and it puts demand side programs at a
4 disadvantage, especially when new capacity decisions might
5 come up. You don't have the experience in DSM to then have
6 that compete equally with the supply side.

7 Q. Well, is it your opinion that a utility with
8 substantial surplus capacity should spend the same amount on
9 DSM programs as a utility with a substantial capacity
10 deficiency?

11 A. I would not make that recommendation. There's
12 many things that go into determining levels of DSM spending.

13 Q. Could we look at your Exhibit CRK-2 for a
14 moment?

15 A. Yes.

16 Q. And you compare PP&L's spending with the general
17 industry number, and then also for four other utilities.
18 Are you aware as a general matter that each of the four
19 utilities listed there -- PEPCO, BG&E, JCP&L and PSE&G --
20 are currently or in the recent past have been in the
21 capacity market seeking to purchase additional capacity?

22 A. No, I am not aware of that.

23 Q. Are you aware as to whether PP&L has been in the
24 market recently to purchase additional capacity?

25 A. I believe that PP&L is selling, not purchasing,

1 a net seller.

2 Q. Can you refer to page 13 of your testimony? Is
3 it your recommendation in this proceeding on page 13 that
4 the company spend, over the next five years, \$233 million to
5 \$300 million on DSM programs?

6 A. These were targets, suggested targets to show
7 what the spending would be if PP&L were spending at the
8 industry average.

9 Q. Is it your recommendation in this case that the
10 company be required to expend those amounts?

11 A. I'm not saying they should be required to spend
12 these amounts. I'm saying that this is like, this should be
13 like a goal for the company, as a measure to see the
14 progress in spending, not necessarily that you should be
15 required to spend these amounts, no.

16 Q. Should spending on DSM programs generally be
17 recovered in rates, in your opinion?

18 A. I would think that that's one of the things
19 that, yes, they should be recovered in rates, but not all
20 programs, I would think, should be eligible.

21 We can't do DSM for DSM's sake. It has to be part of
22 an integrated resource plan, and it should minimize rate
23 impacts.

24 JUDGE CHRISTIANSON: You're just saying there would
25 be some review for reasonableness?

1 THE WITNESS: There has to be some review, and it
2 shouldn't be used for marketing programs, let's say, that
3 you're just going out and looking to build load.

4 JUDGE CHRISTIANSON: Of course it's true for any
5 expenses, there's some review by the Commission to see if
6 it's a reasonable expense, but I understand where you're
7 coming from.

8 THE WITNESS: In here, when I talk of ratios, it's
9 just a way, a measurement to see how much energy the
10 programs are actually saving, how much demand they're
11 actually supplying and that kind of a thing.

12 JUDGE CHRISTIANSON: I gather you'd be happier with
13 an increase in spending on this program?

14 THE WITNESS: Yes, I would be happy with a -- because
15 at least for the past three or four years, it looks like
16 they're spending in one particular area for one group of
17 ratepayers, primarily new ratepayers and electric heat, and
18 the base load customers and existing electric heat customers
19 are pretty much footing the bill for what I think is a
20 marketing program. Commission

21 JUDGE CHRISTIANSON: Fine.

22 BY MR. MacGREGOR:

23 Q. Now, on page 14 of your testimony, the question
24 asks whether it's realistic for the company to increase its
25 spending to the levels indicated in your testimony, and I

1 take it your answer is that such spending is realistic in
2 part because PP&L would not have to develop its own
3 portfolio; is that correct?

4 A. Yes. I would think they would be able to go --
5 there's enough utilities out there that have programs in
6 existence that have been tested that could be copied.

7 Q. And in addition, you point out that PP&L has an
8 experienced network of energy conservation providers in
9 place in each of its five regions; is that correct?

10 A. Yes, it does.

11 Q. And it is your testimony that those
12 organizations such as CEO would be able to spend that money?

13 A. Low income weatherization providers, and CEO is
14 one of them, yes.

15 Q. How much money does CEO think that it might get
16 out of this \$300 million that you're recommending?

17 A. That is not our position. We're not here to get
18 funds for CEO. We're not in the business of promoting CEO
19 per se. We're in the business of helping low income,
20 elderly meet their household energy needs, and this is one
21 of the ways that happens. It's the vehicle for helping our
22 constituencies. It's not --

23 Q. I don't think I understand. You don't want any
24 additional funding?

25 A. No, no. Don't say that we wouldn't be happy to

1 run the programs. I'm saying that it's not -- we're in the
2 business of helping low income and elderly and that kind of
3 thing.

4 JUDGE CHRISTIANSON: You think that you and PP&L may
5 have something in common. They want to worry about power
6 production and you want to worry about people, but you think
7 an alliance is appropriate?

8 THE WITNESS: Yes. And I think that agencies like
9 CEO have the experience to implement DSM programs, to design
10 and implement.

11 JUDGE CHRISTIANSON: And in achieving your goals, you
12 help achieve some goals for PP&L as well?

13 THE WITNESS: Well, I mean, you can't help that.
14 That's the way the world operates.

15 JUDGE CHRISTIANSON: Fine.

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

17 JUDGE CHRISTIANSON: Then anything from Trial Staff?

18 MR. SIMMS: No questions, Your Honor.

19 JUDGE CHRISTIANSON: Mr. Kleppinger?

20 MR. KLEPPINGER: No questions, Your Honor.

21 MS. McCLOSKEY: Nothing, Your Honor.

22 JUDGE CHRISTIANSON: Small Business?

23 MS. MOURY: Nothing, Your Honor.

24 JUDGE CHRISTIANSON: Then again, you can make a final
25 statement. Your lawyer would ask you if you have anything

1 to add in response to anything that was said on cross.

2 THE WITNESS: I have nothing more to add.

3 JUDGE CHRISTIANSON: Fine. Then you're excused as a
4 witness.

5 (Witness excused.)

6 JUDGE CHRISTIANSON: We can be off the record
7 briefly.

8 (Discussion off the record.)

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

10 MR. MICKENS: Your Honor, the Office of Trial Staff
11 calls Joseph J. Sivulich.

12 JUDGE CHRISTIANSON: We have Mr. Sivulich in the
13 equivalent of the witness stand.

14 Whereupon,

15 JOSEPH J. SIVULICH

16 having been duly sworn, testified as follows:

17 JUDGE CHRISTIANSON: Proceed, counselor.

18 MR. MICKENS: Thank you, Your Honor.

19 DIRECT EXAMINATION

20 BY MR. MICKENS:

21 Q. Mr. Sivulich, I have before me a copy of OTS
22 Statement No. 2 and attached thereto is a copy of OTS
23 Exhibit No. 2.

24 Was this document prepared by you or under your
25 direction and control?

1 A. It was.

2 Q. Now, are there any additions or corrections that
3 you would like to make to this document at this time?

4 A. I have four corrections.

5 Q. Would you please make them slowly for the
6 record?

7 A. The first one is on page 22, line 17. I should
8 add the word "cross" in front of "examination," so that it
9 would read, "in OTS Cross-Examination Exhibit No. 17."

10 The next change would be on page 25, line 19. At the
11 beginning on line 19, just strike the word "no" and the
12 period. The sentence would start with, "I agree."

13 Page 29, line 1, in the question, change "is" to
14 "are," so it would read, "What are your recommendations?".

15 The final change is on page 30, line 9. Insert the
16 word "million" after \$19.7 so it would read,
17 "\$19.7 million." That's all the changes I have at this
18 time.

19 Q. Now, Mr. Sivulich, with those changes that you
20 just made, if I were to ask you the questions that are
21 indicated herein today, would your answers be the same?

22 A. They would.

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

25 A. They are.

1 MR. MICKENS: Your Honor, I've given two copies of
2 OTS Statement No. 2, which includes OTS Exhibit No. 2, to
3 the court reporter, and I would ask that this document be
4 admitted at this time, subject to cross-examination.

5 JUDGE CHRISTIANSON: Yes. Under the standard
6 conditions, your Statement No. 2 is accepted into the record
7 now.

8 (Whereupon, the documents marked as OTS
9 Statement No. 2 and OTS Exhibit No. 2 were
10 marked for identification and received in
11 evidence.)

12 MR. MICKENS: Thank you, Your Honor.

13 With that, Mr. Sivulich is available for cross-
14 examination.

15 JUDGE CHRISTIANSON: Fine. Thank you. Again, we
16 might as well start with the company.

17 CROSS-EXAMINATION

18 BY MR. GADSDEN:

19 Q. Good morning, Mr. Sivulich.

20 A. Good morning.

21 Q. Mr. Sivulich, preliminarily, a point of
22 clarification. On the first page of OTS Statement No. 2,
23 you provide a summary of adjustments.

24 And am I correct that the figures which you have
25 provided are stated on a total company and not a

1 Pennsylvania jurisdictional basis?

2 A. That's true.

3 JUDGE CHRISTIANSON: Let me follow up. It's just a
4 standard factor to bring that down to jurisdictional?

5 THE WITNESS: You've got to bring it to
6 jurisdictional and then to a revenue requirement basis, but
7 our revenue and expense witness usually takes care of that
8 for us.

9 MR. MICKENS: And that will be done in our briefs as
10 well, Your Honor.

11 BY MR. GADSDEN:

12 Q. Mr. Sivulich, if I could direct your attention
13 to page 5 of your testimony, in the answer which begins on
14 line 15, you discuss the accounting of net salvage for
15 ratemaking purposes and you refer at lines 18 through 20 to
16 the Uniform System of Accounts. Do you see that?

17 A. Yes, I do.

18 Q. Can we agree that the Uniform System of Accounts
19 has not been interpreted by this Commission as necessarily
20 binding for rate purposes?

21 A. I'll agree with that.

22 Q. Does the Uniform System of Accounts specifically
23 discuss the costs of decommissioning electric generating
24 units?

25 A. Not that I'm aware of.

1 Q. Turning now to page 6 of your testimony, in the
2 answer which begins on line 8, you discuss the Commission's
3 rationale or policy as it relates to the recovery of nuclear
4 power plant decommissioning expense. Do you see that?

5 A. Yes.

6 Q. And in the sentence which begins on line 9, you
7 specifically refer to prior orders. And when we asked you
8 to identify and provide relevant excerpts from prior
9 Commission orders on which you were relying, you referred us
10 in your response to Set IV, No. 1 to the Commission's order
11 in a Metropolitan Edison rate case at RID-434; is that
12 correct?

13 A. Yes, I did.

14 Q. And can we agree that in that order, and indeed
15 in the excerpt which you provided to us, that the Commission
16 not only cited the issue of health and safety but also
17 indicated that in its view the accrual of decommissioning
18 expense during the life of a generating unit would also
19 serve to promote intergenerational equity?

20 A. For nuclear power, because of the safety reason
21 and having the customers pay for it before time so the money
22 is ready and available for the decommissioning.

23 Q. So there were two factors which the Commission
24 cited in that case; is that correct?

25 A. Yes.

1 Q. If we could turn now to page 13 of your
2 testimony, here and on the prior page you list four reasons
3 why you believe the Commission should reject the company's
4 claim for fossil decommissioning expense, and the third
5 reason that you give on page 13 is that the calculations and
6 assumptions underlying the company's claim are speculative.

7 In your view, were the calculations and assumptions
8 underlying Mr. LaGuardia's fossil decommissioning study more
9 speculative or less speculative than the calculations and
10 assumptions he used in his nuclear decommissioning study?

11 A. One has 23 assumptions. The other has 49
12 assumptions, so there's more room for speculation in the
13 fossil fuel. They both have the same degree of speculation.
14 He makes estimates about how to decommission the different
15 parts of the power plant. He makes estimates on how long
16 it's going to take, what type of labor and stuff.

17 I think they're both speculative. Whether one is
18 more speculative than another is in the eyes of the
19 beholder.

20 Q. But you don't draw any distinction in terms of
21 the relative speculative nature of the two claims; you just
22 think they're both speculative?

23 A. Yes. I do think they're both speculative, but
24 the Commission is making an exception on nuclear that it
25 hasn't made on the fossil fuel.

1 Q. I assume that you did review Mr. LaGuardia's
2 study and the various assumptions that he listed in it.

3 A. Yes, I have read his study.

4 Q. And am I correct that when we asked you in our
5 Interrogatory Set IV, No. 2 to identify specific assumptions
6 utilized by Mr. LaGuardia with which you disagreed, that you
7 responded that you neither agreed nor disagreed with various
8 assumptions he had made?

9 A. Yes. For the purposes of my recommendation of
10 totally disallowing the fossil fuel, it wasn't necessary to
11 disagree with each of the 49 assumptions individually.

12 Q. At page 14 at lines 2 and 3, you state that a
13 change in any one of these major assumptions could result in
14 a significantly lower cost estimate. Do you see that?

15 A. Yes.

16 Q. And is it not possible that a change in these
17 assumptions could also result in a significantly higher cost
18 estimate?

19 A. Yes. Mr. LaGuardia said that one of the reasons
20 he included contingencies was because of the possibility his
21 assumptions might be wrong.

22 Q. And you address the issue of contingencies on
23 that same page at lines 10 through 12 where you indicate
24 that the Commission has recognized that contingencies are
25 speculative and has rejected them in nuclear production

1 plant decommissioning allowances.

2 A. Yes, I have said that.

3 Q. And am I correct that when we asked you to
4 identify those cases in which the Commission had disallowed
5 the contingency portion of a nuclear decommissioning claim,
6 you referred us to the two prior PP&L cases involving
7 Susquehanna Units 1 and 2? And here I'm referring to your
8 response to our Interrogatory Set IV, No. 3.

9 A. Yes, I did. There were explicit disallowances
10 of the contingency factor in both your '82 and '84 rate
11 cases.

12 Q. Can we agree that the Commission has addressed
13 nuclear decommissioning expense claims in a number of rate
14 proceedings subsequent to the Susquehanna Unit 1 and Unit 2
15 cases?

16 A. Yes. There have been other claims for nuclear
17 decommissioning by other utilities.

18 Q. And are you aware of any adjustments that were
19 made in those subsequent cases to remove contingencies?

20 A. I'm not aware of them claiming contingencies
21 where they have to be removed.

22 Q. You don't know whether they did or did not?

23 A. I presume the Commission, since they disallowed
24 contingencies if they were there, they would continuously
25 disallow the contingencies. So when I reviewed those

1 orders, I assumed that they weren't claimed.

2 Q. You just assumed that they were not claimed, but
3 you don't know for a fact that they weren't; is that
4 correct?

5 A. Reading the order, you can't tell that there was
6 contingencies in those allowances.

7 JUDGE CHRISTIANSON: The lack of discussion meant to
8 you that it wasn't there?

9 THE WITNESS: That's what I concluded from the order.

10 BY MR. GADSDEN:

11 Q. Can we agree that in the Unit 1 and Unit 2
12 cases, Susquehanna Unit 1 and Unit 2 cases, that the nuclear
13 decommissioning expense claims were based on a generic
14 decommissioning study and not site specific studies?

15 A. Yes. That was explained in the orders of the
16 Commission in those cases.

17 Q. And do you know how the contingency factor was
18 developed in the Susquehanna Unit 1 and Unit 2 cases?

19 A. In the '82 and '84 case?

20 Q. Yes.

21 A. From my review, I think it was just an estimate.

22 Q. Do you know whether it was just simply a flat
23 percentage figure that was applied to the total
24 decommissioning cost estimate?

25 A. Reviewing the orders, they discuss a 25 percent

1 contingency factor that was disallowed.

2 Q. And can we agree here that Mr. LaGuardia has
3 developed specific contingency factors for various phases of
4 the project?

5 A. Yes, he has, based on his estimate of what
6 contingencies he wanted to provide for as an extra cost
7 item, and they varied by account or by type of activity
8 upwards to 15, 16 percent.

9 Q. Mr. Sivulich, on page 15, towards the bottom,
10 you discuss the characteristics of the company's claim and
11 note that none of the projects can be construed to be
12 significant, relevant and substantial when compared to
13 normal levels of net negative salvage; is that correct?

14 A. Yes, I did.

15 Q. And we asked you an interrogatory with respect
16 to that statement, that being our Set IV, No. 5. And in
17 your response, you cited, did you not, a \$1 million average
18 monthly cost per unit for the Sunbury station?

19 A. Yes. In my response, I estimated that if you
20 took the total decommissioning cost estimate of Mr.
21 LaGuardia, divided it by four for four units and then
22 divided by his estimated number of months to decommission,
23 you would come up with approximately \$1 million per month,
24 which in my response was not significant, substantial enough
25 to depart from the normal treatment of net negative salvage.

1 Q. And the \$1 million figure that you calculated
2 was after stripping out Mr. LaGuardia's contingency factor;
3 is that correct?

4 A. Yes, I did.

5 Q. Is it your understanding that the company plans
6 to dismantle the Sunbury plant sequentially by unit?

7 A. Mr. LaGuardia's estimate assumed it would be all
8 retired at the same time sequentially by unit or
9 simultaneously.

10 My testimony is that the retirements will happen over
11 time, and the possibility that the retirement would take
12 place at different points in time is greater than the
13 sequential assumption.

14 Q. Regardless of the timing of the retirement of
15 the units, is it your understanding that the decommissioning
16 process will proceed unit by unit, or is it your
17 understanding that once all four units have been retired and
18 the decommissioning process is initiated, that the company
19 will be decommissioning multiple units at the same time?

20 A. It's in the future, and it could happen either
21 way. I don't have a way to forecast that.

22 Q. Did you review Mr. LaGuardia's study to
23 determine what he assumed with respect to that process?

24 A. He assumed that they would all be retired at the
25 same time at the same location, although some of the units

1 are much younger than other units at a location.

2 Q. Did you review his study to determine what
3 assumptions he made with respect to how the decommissioning
4 process itself would proceed?

5 A. I reviewed his study but I did not disagree with
6 every specific assumption that he made.

7 Q. Now, the \$1 million per month per unit figure
8 you do not regard as significant, relevant and substantial I
9 gather in comparison to the historic levels of negative net
10 salvage for a steam production plant; is that correct?

11 A. Yes.

12 Q. And is the support for that position set forth
13 on your Schedule 7, pages 2 and 3?

14 A. That's an illustration of my point that this is
15 an ongoing thing. It has been going on for many more years
16 than just 1990 through '94.

17 It's been going on for 50 or 60 years, where you have
18 additions of property and retirements of property, and the
19 retirement of the property since 1970 is being handled on a
20 current basis.

21 Q. Can we agree based on the information you've
22 provided in Schedule 7 that in only two of the 60 months
23 shown did net negative salvage exceed \$2 million?

24 A. Looking at Schedule 7, I'll agree with that, but
25 this is illustrative of the point that this can be

1 accommodated in a normal level of treating negative salvage
2 on a current basis for fossil fuel power plants.

3 Q. And can we agree also or would you accept
4 subject to check that in 51 of the 60 months for which
5 you've provided this data, that negative net salvage for a
6 steam production plant was less than \$1 million?

7 A. It's just illustrative of the fact that activity
8 doesn't take place on a continuous basis.

9 Q. You would accept my statement subject to check?

10 A. Yes.

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1 Q. Mr. Sivulich, sticking with page 15, you
2 indicated, lines 19 and 20, that "The actual retirement of
3 the fossil fueled generating units will occur over many
4 years." Do you see that?

5 A. What page are you on again?

6 Q. Fifteen.

7 JUDGE CHRISTIANSON: Right at the bottom of page 15.

8 THE WITNESS: Okay. I have it.

9 BY MR. GADSDEN:

10 Q. When we asked in our Interrogatory Set VI,
11 No. 2, for you to explain in detail the basis for your
12 conclusion, you cited us to, amongst other things, a
13 Master's paper which you had prepared entitled "Statistical
14 Analysis of Life Spans of Electric Generating Power
15 Production Units in Pennsylvania; is that correct?

16 A. That's correct.

17 Q. Can you tell me when that paper was prepared?

18 A. It was September of 1979.

19 Q. On page 16, at lines 19 and 20, you note that
20 "The removal of power plants and their associated equipment
21 is an ongoing activity." Can you tell me, if you know, when
22 was the last time PP&L retired a coal-fired generating unit?

23 A. I cannot tell you the last time they retired
24 one, but there's Holtwood 15 and 16 sitting there waiting
25 for dismantling.

1 Q. If we could refer now to your testimony on
2 page 17, lines 11 and 12, you note that in your view
3 conventional generating plants do not present any compelling
4 safety-related issues.

5 A. That's true.

6 Q. In our Interrogatory Set VI, No. 4, we asked you
7 to identify all safety-related issues that you believed
8 might be presented, and your response indicated that based
9 on observations you've made and discussions with PP&L
10 representatives as well as a review of Mr. LaGuardia's
11 cross-examination, that it was your opinion that the fossil
12 fuel plants at issue in this proceeding do not have any
13 extraordinary safety problems; is that correct?

14 A. Yes.

15 Q. How do you define extraordinary?

16 A. Extraordinary would be a safety problem that
17 would require the retirement of the unit before its normal
18 life span.

19 Q. Are there safety-related problems which you
20 believe are presented at the point in time when a fossil
21 generating unit is retired from service?

22 A. Mr. LaGuardia has testified that he believes
23 that it has to be totally dismantled to eliminate all safety
24 requirements, but that testimony does not say that a power
25 plant that is currently operating safely must be retired

1 early.

2 Q. Let's put aside the timing of the retirement.
3 When a coal-fired unit is retired, does its presence involve
4 safety-related issues, or in your view can the company just
5 simply walk away from the unit and do nothing with it?

6 A. My view is that the company can take a plant out
7 of service, put it into cold reserve, bring it back into
8 service several years later, use it again for several years
9 and then retire it again. But that is not -- the purpose of
10 this testimony that we're referring to here is that your
11 power plants are operating safely. There is no reason to
12 retire them early for safety-related problems. That's my
13 testimony.

14 Q. Mr. Sivulich, you do discuss the company's claim
15 for depreciation of coal-fired plants at a later point in
16 your testimony. This section is dealing exclusively, as I
17 understand it, with decommissioning expense. So I would
18 like to ask my question again, which is -- and I understand
19 that you do not necessarily agree with the company's claim
20 for depreciation expense, but is it your position that when
21 these units are retired for the last time, they're not put
22 in cold storage but they're retired, that at that point
23 there are no safety-related problems which the company needs
24 to be concerned with and that it can simply walk away from
25 the plant?

1 A. I'm not saying that you don't have to dismantle
2 the plant. I'm saying that you don't have to provide for
3 the dismantling before the actual retirement takes place.

4 Q. Just a few more questions, Mr. Sivulich. First,
5 with respect to your testimony regarding the company's
6 nuclear decommissioning expense claim, I would refer you to
7 page 23 of your testimony, specifically the discussion at
8 lines 4 through 11.

9 A. Yes. I have it.

10 Q. As I understand your testimony and related
11 adjustment, it's your position that the company's nuclear
12 decommissioning expense claim should be adjusted first to
13 eliminate the contingency factor which Mr. LaGuardia built
14 into it, and then to restate it without recognition of the
15 additional steps that Mr. Bernini took to one, inflate those
16 dollars, and then annuitize them. Is that a fair summary?

17 A. Yes. What I did was return to the methodology
18 that PP&L employed in the '82 and '84 rate cases.

19 Q. Can we agree that Mr. LaGuardia's estimate of
20 nuclear decommissioning costs is stated in 1993 dollars?

21 A. That's what his testimony is.

22 Q. If the Commission were to adopt your approach,
23 do you not believe that it would be appropriate, at a
24 minimum, to restate his estimate in 1995 dollars?

25 A. If Mr. LaGuardia would restate his entire

1 estimate in 1995 dollars and made the claim on that basis. I
2 would allow it, excluding contingencies. But that's not the
3 case here.

4 Q. I understand.

5 Mr. Sivulich, beginning on page 24 you discuss fossil
6 fuel production plant depreciation expense, and on page 26,
7 there at the top, at lines 2 through 3, you refer to an
8 industry trend of maintaining, upgrading, and extending the
9 life spans of fossil plants. Do you see that?

10 A. Yes, I do.

11 Q. Can we agree that certain other Pennsylvania
12 electric utilities have in fact retired or placed in cold
13 storage coal-fired units in the last five to seven years?

14 A. I would agree that there were units put into
15 cold storage and/or retired, but that doesn't change the
16 industry trend that I'm referring to here.

17 Q. Now, on page 27, beginning on line 4, you cite
18 as a reason supporting your proposal that "The company is
19 adding sizeable capital additions to each of these units to
20 continue their existence as long as economically possible."
21 and you refer us to Schedule 4 of your Exhibit No. 2; is
22 that correct?

23 A. Yes, I did. That's illustrative of the
24 pollution control related additions, but there are other
25 additions, new turbo generator parts, new boiler parts, that

1 are ongoing that were not reflected on this schedule. These
2 are not the only additions that are being made.

3 Q. Do you know whether the pollution control
4 projects which you have identified in Schedule No. 4 were
5 designed to enable these units to comply with Phase II of
6 the Clean Air Act Amendments?

7 A. I'm not sure whether it was Phase I or Phase II,
8 but I know that they had to put these additions in to comply
9 with some phase of the Clean Air Act to continue the
10 existence of the power plants.

11 Q. Can we agree that as currently configured, there
12 is a possibility that these plants would not comply with
13 Phase II of the Clean Air Act Amendments absent some
14 additional investment or modification?

15 A. It's not my testimony that they're in
16 compliance. My testimony is that the company is doing
17 what's necessary to keep them in compliance.

18 Q. Well, that wasn't my question. My question
19 was -- or maybe I should restate it. Do you know whether
20 PP&L will have to make additional investments in these
21 facilities in order for them to continue to operate and
22 comply with Phase II of the Clean Air Act Amendments?

23 A. Based on discussions with PP&L's operating
24 people and Mr. Krall, they indicated they would have to make
25 decisions on which way to go in the compliance; whether or

1 not it's additional equipment or transferring credits from
2 another unit, they haven't reached that point yet.

3 JUDGE CHRISTIANSON: But something has to be done.

4 THE WITNESS: Something has to be done. It could be
5 transferring credits to cover these units or putting
6 additional equipment on.

7 BY MR. GADSDEN:

8 Q. Mr. Sivulich, in addition to disagreeing with
9 the company's proposal to shorten for depreciation purposes
10 the lives of these particular units, you suggest and propose
11 in your testimony that the company consider lengthening the
12 life spans of these plants in future studies; is that
13 correct?

14 A. That's correct.

15 Q. Do you happen to recall what retirement dates
16 would be indicated if the company's proposal is not adopted
17 in this case?

18 A. You would have to look at Exhibit DAK-4. Mr.
19 Krall's exhibit shows the current dates of deactivation for
20 depreciation estimate and the revised dates for
21 deactivation. My proposal was to use the current dates
22 before the change.

23 Q. Let's start with Sunbury. What is the current
24 indicated retirement date according to Mr. Krall's schedule?

25 A. 2010, which was shortened to 2003 for

1 depreciation purposes, but the company's testimony and their
2 exhibits is that there's not going to be any retirements
3 before the year 2015.

4 Q. Do you know how old the Sunbury station will be
5 in the year 2010?

6 A. From the beginning of the first addition to the
7 end of the last retirement, no, but on a rejuvenated basis
8 they're putting in additional boilers and turbo generator
9 parts to make it operate for another 15 to 20 years.

10 Q. Would you accept subject to check that the
11 Sunbury station in the year 2010 would be 61 years old?

12 A. Subject to check, I would accept that.

13 Q. What is the indicated current retirement date
14 for the Holtwood station?

15 A. Well, it says Holtwood 17 is 2009. The revised
16 date was 2003.

17 Q. Do you know how old the Holtwood station will be
18 in the year 2009?

19 A. No, I don't.

20 Q. Would you accept subject to check it will be 55
21 years old?

22 A. Again, if the --

23 Q. Would you accept that subject to check?

24 A. Subject to check, it's reasonable that that
25 plant could run another 15 to 20 years based on

1 representations by PP&L operating people.

2 Q. What is the current indicated retirement date
3 for Martins Creek 1 and 2?

4 A. DAK-4 indicates it's 2010, and there was no --
5 excuse me; I'm looking at the wrong line. It's 2017.

6 Q. Do you know how old Martins Creek Units 1 and 2
7 will be in the year 2017?

8 A. Excuse me; I've got to go back. Martins Creek 1
9 and 2 is 2015. I was on the wrong line.

10 Q. Do you know how old Martins Creek 1 and 2 will
11 be, approximately, in the year 2015?

12 A. Again, I don't know the age, but it's going to
13 be 20 years older than it is today.

14 Q. Would you accept subject to check that Martins
15 Creek 1 and 2 will be approximately 62 and 63 years,
16 respectively?

17 A. The chronological age from the oldest addition
18 to that date is 62, but the average dollar age of the
19 operating equipment will be significantly less than 62
20 years.

21 Q. Let's turn to page 31 of your testimony. Here
22 you discuss the company's proposal to, in effect, levelize
23 its modified sinking fund recovery of pre-1989 Susquehanna
24 station investment; is that correct?

25 A. Yes.

1 Q. And you indicate at lines 1 through 4 that the
2 modified sinking fund method was initially proposed by the
3 company as a means of deferring some of the large revenue
4 requirement increases that came about as a result of the
5 Susquehanna Unit 1 and Unit 2 cases.

6 A. Yes. That's my testimony.

7 Q. Do you recall what the size of the increase the
8 company requested in the Unit 2 case was?

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

10 Q. Would you accept subject to check \$330 million?

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

12 JUDGE CHRISTIANSON: You don't have to check it.
13 That's what it was. I was there.

14 THE WITNESS: Thank you, Your Honor.

15 JUDGE CHRISTIANSON: I always remember that because
16 the Consumer Advocate brief length was 330 pages.

17 BY MR. GADSDEN:

18 Q. Can either you or Judge Christianson accept
19 subject to check that the company was granted a rate
20 increase in that case of \$121 million?

21 JUDGE CHRISTIANSON: I can say that sounds about
22 right.

23 THE WITNESS: I'll accept that subject to check.

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

25 JUDGE CHRISTIANSON: Well, then, let's be off the

1 record for just a moment.

2 (Discussion off the record.)

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

4 Evidently we're done with cross for the witness, and
5 counsel seems to be prepared to go ahead.

6 Do you want a couple moments with your witness?

7 MR. MICKENS: No. We can go right now to redirect.

8 JUDGE CHRISTIANSON: Fine.

9 REDIRECT EXAMINATION

10 BY MR. MICKENS:

11 Q. Mr. Sivulich, would you refer to your exhibit,
12 Schedule 4?

13 A. Yes. I have it.

14 Q. Do you recall that counsel for PP&L asked you a
15 question concerning the chronology of actions taken by PP&L
16 to comply with the Clean Air Act which is indicated here?

17 A. Yes, I do.

18 Q. Do you recall that he asked you whether or not
19 these actions that are taken here are intended to indicate
20 compliance with both Phases I and II of the Clean Air Act?

21 A. Yes.

22 Q. Would you acknowledge that the answer indicated
23 near the top of the page provides that "The following is a
24 chronology of actions taken by PP&L to comply with both
25 Title IV (Phases I and II) and Title I," et cetera, "of the

1 1990 Clean Air Act Amendments"?

2 A. That's what it says.

3 Q. Do you also recall cross-examination by counsel
4 for the company with regard to fossil fuel fired units at
5 Sunbury, Holtwood and Martins Creek?

6 A. Yes, I do.

7 Q. Do you recall questions concerning the age, the
8 chronological age, of the Sunbury unit at the year 2010
9 being 61 years; the Holtwood unit, the year 2009 at 55
10 years; and the Martins Creek units at 2015 being 62 years?

11 A. Yes, I do.

12 Q. Does the chronological age that these units
13 would be at those indicated times impact at all your
14 testimony concerning the ability to extend the lives of
15 those units?

16 A. No, it does not.

17 Q. Why is that the case?

18 A. Because it's the average dollar age of the
19 investment that is used for depreciation. In addition, the
20 company has represented on numerous occasions that they are
21 putting investment into the turbines and the boilers and
22 accessory electric equipment to keep them currently
23 operating at top efficiency, and that should last 15 to 20
24 years.

25 MR. MICKENS: That's all I have, Your Honor.

1 JUDGE CHRISTIANSON: You're essentially saying there
2 is not much plant left that was put in service back in 1950
3 or so.

4 THE WITNESS: It would be basically the building and
5 some accessory electric equipment, but most of the major
6 equipment is refurbished and retired and rebuilt or
7 replaced.

8 JUDGE CHRISTIANSON: And that's a big part of the
9 basis for your position.

10 THE WITNESS: Yes.

11 JUDGE CHRISTIANSON: Let me just check one thing just
12 because it's nagging on me. In Pennsylvania we have the net
13 negative salvage five-year average tradition as opposed to
14 taking the depreciation line down below zero. What is the
15 name of that Superior Court case, do you know?

16 THE WITNESS: Penn Sheraton. I have it referenced in
17 my testimony.

18 JUDGE CHRISTIANSON: Thank you. It just nagged on
19 me. As I sat here I couldn't remember.

20 THE WITNESS: The 1962 Penn Sheraton case.

21 JUDGE CHRISTIANSON: Thank you.

22 We seem to be then done with this witness, unless
23 there's some follow-up.

24 MR. GADSDEN: Just a brief question or two.

25 JUDGE CHRISTIANSON: Go ahead.

1 RE CROSS-EXAMINATION

2 BY MR. GADSDEN:

3 Q. Mr. Sivulich, are there quite a few coal-fired
4 generating plants currently in operation in Pennsylvania
5 that are 60 to 65 years old?6 A. I haven't studied the age of all of the coal-
7 fired power plants as far as duration between when it's
8 first started and the current age of the dollars.

9 Q. Sitting here today, are you aware of any?

10 A. There might be several out there, but I have no
11 knowledge firsthand that I can point you to, which units are
12 60 years of age.

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

14 JUDGE CHRISTIANSON: Any follow-up?

15 MR. MICKENS: Nothing further, Your Honor.

16 JUDGE CHRISTIANSON: Then the witness is excused, and
17 we might as well take a break for a few minutes. Try to be
18 back about ten of or so; that will give us 15 minutes -- or
19 a ten minute break, I guess, depending on which clock you
20 look at.

21 (Witness excused.)

22 (Recess.)

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

24 MR. SIMMS: Your Honor, the Office of Trial Staff
25 calls to the witness stand Charles T. Weakley, III. He has

1 not been previously sworn.

2 JUDGE CHRISTIANSON: Thank you.

3 Will you stand and raise your right hand?

4 Whereupon,

5 CHARLES T. WEAKLEY, III

6 having been duly sworn, testified as follows:

7 JUDGE CHRISTIANSON: Fine. Proceed, counsel.

8 DIRECT EXAMINATION

9 BY MR. SIMMS:

10 Q. Mr. Weakley, please state for the record by whom
11 are you employed and in what capacity?

12 A. I am employed by the Pennsylvania Public Utility
13 Commission as a Fixed Utility Financial Analyst.

14 MR. SIMMS: Your Honor, at this time I ask that a
15 multi-paged document entitled "Direct Testimony of Charles
16 T. Weakley, III" be marked for identification as OTS
17 Statement No. 4. May it be so identified?

18 JUDGE CHRISTIANSON: So identified.

19 (Whereupon, the document was marked
20 as OTS Statement No. 4 for
21 identification.)

22 MR. SIMMS: Attached to that, Your Honor, I ask that
23 a multi-paged document containing several schedules be
24 marked for identification as OTS Exhibit No. 4. May it be
25 so identified?

1 JUDGE CHRISTIANSON: Yes, so identified.

2 (Whereupon, the document was marked
3 as OTS Exhibit No. 4 for
4 identification.)

5 BY MR. SIMMS:

6 Q. Mr. Weakley, I show you what have been marked
7 for identification as OTS Statement No. 4 and OTS Exhibit
8 No. 4. Were the statement and exhibit prepared by you or
9 under your supervision and control?

10 A. Yes, they were.

11 Q. Do you have any corrections, modifications or
12 additions make either to OTS Statement No. 4 or to OTS
13 Exhibit No. 4?

14 A. Yes, I do.

15 Q. Could you please make those corrections on the
16 record? Please identify the page and the line number.

17 A. Beginning with page 13, line 1, after the word
18 "so" put a period and delete the remainder of the sentence.

19 Q. Just so the record is clarified, we'll put a
20 period after "so." and the second sentence will still be
21 "This has been the case with PP&L"?

22 A. That's correct.

23 Q. Thank you. Please continue.

24 A. Page 26, line 16, the transcript reference
25 should be "470". The line numbers are correct.

1 Page 32, line 19, the OTS Cross-Examination Exhibit
2 should be 16.

3 Page 49, line 16, the total company claim should be
4 \$13,013,000.

5 JUDGE CHRISTIANSON: That's 1-3-0-1-3-0-0-0.

6 THE WITNESS: That's correct.

7 And finally, on the blue sheet preceding the
8 exhibits, at the top of the page it should be "OTS Exhibit
9 No. 4."

10 That's all the corrections I have.

11 BY MR. SIMMS:

12 Q. Mr. Weakley, if I were to ask you the questions
13 set forth in OTS Statement No. 4 orally today, would your
14 answers be the same as contained therein?

15 A. Yes, they would.

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

18 A. Yes, they are.

19 MR. SIMMS: Your Honor, at this time I ask for the
20 admission into the record of OTS Statement No. 4 and OTS
21 Exhibit No. 4, subject to cross-examination and timely
22 motions made by the parties.

23 JUDGE CHRISTIANSON: Yes, under the standard
24 conditions it's now accepted into the record, both the
25 statement and the exhibit.

1 (Whereupon, the documents marked as
2 OTS Statement No. 4 and OTS Exhibit
3 No. 4 were received in evidence.)

4 MR. SIMMS: Mr. Weakley is available for cross-
5 examination.

6 JUDGE CHRISTIANSON: Then we can proceed again with
7 the company.

8 MR. MacGREGOR: Thank you, Your Honor.

9 CROSS-EXAMINATION

10 BY MR. MacGREGOR:

11 Q. Good afternoon, Mr. Weakley.

12 A. Good afternoon.

13 Q. Could I refer you first to your discussion of
14 the FAS 106 issue that begins on page 2 of your testimony?

15 A. Yes.

16 Q. Am I correct that the Financial Accounting
17 Standards Board is the entity responsible for establishing
18 generally accepted accounting principles?

19 A. Yes, they are.

20 Q. Is it further correct that as a general matter,
21 utilities and other companies must follow GAAP in order to
22 have their books certified by their outside auditors?

23 A. Yes.

24 Q. Does the Securities & Exchange Commission also
25 require public companies, including utilities, to follow

1 GAAP accounting measures in general?

2 A. Yes, they do.

3 Q. Now, you have a rather lengthy discussion of the
4 FAS 106 issue in your testimony, which concludes on page 10.
5 Am I correct that the sole basis for your proposed
6 disallowance here is advice by your counsel that the
7 company's claim violates the prohibition against retroactive
8 ratemaking as referenced in a May 1994 Commonwealth Court
9 decision involving the company?

10 A. Yes; that's correct.

11 Q. Do you offer any other independent basis for the
12 disallowance of these costs in this proceeding?

13 A. No.

14 Q. Are you aware as to whether or not the case
15 cited at page 10 of your testimony was a base rate case?

16 A. No, it was not.

17 Q. Are you familiar with the doctrine of single
18 issue or line item ratemaking and the prohibition against
19 line item ratemaking?

20 A. No, I'm not.

21 Q. Now, beginning on the bottom of page 10 of your
22 testimony and continuing thereafter you discuss the
23 company's pension expense claim. Am I correct, referring to
24 page 11 of your testimony, that SFAS 87 requires that a
25 specific calculation be used in determining pension expense?

1 A. Yes; that's correct.

2 Q. And that amount must be recorded on the
3 company's books in order for it to comply with generally
4 accepted accounting principles?

5 A. Yes.

6 Q. Am I further correct that SFAS 87 does not
7 address funding requirements for pension plans?

8 A. That's correct.

9 Q. And, therefore, comparison of pension accruals
10 to SFAS 87 amounts cannot be used to determine if a pension
11 plan is over-funded or under-funded; is that correct?

12 A. That's correct.

13 Q. In preparing your testimony on pension expense,
14 did you review a recent West Penn rate order in which the
15 Commission used SFAS 87 to establish pension expense for
16 ratemaking purposes?

17 A. I reviewed the West Penn order. The Commission
18 did not exactly use SFAS 87 to establish the ratemaking
19 amount.

20 Q. What is your understanding of what they did?

21 A. In that order the company's actuary came back
22 with a revised study indicating that a contribution was
23 required during the test year, and the company indicated to
24 the Commission that since the cash contribution exceeded the
25 FASB 87 amount, the company would incorporate the lower

1 amount into rates as an acceptable figure.

2 Q. So is it your testimony that the appropriate
3 ratemaking treatment of the pension expense is to use the
4 lower FAS 87 or actual contribution?

5 A. No. My testimony is that only the cash
6 contribution should be allowed in rates.

7 Q. Now, for the other post-employment benefits
8 dealt with under FAS 106, this Commission now employs the
9 SFAS 106 amount in establishing rates; is that correct?

10 A. That's correct.

11 Q. When we say other post-employment benefits, does
12 the "other" refer to benefits other than pension benefits?

13 A. Yes, it does.

14 Q. So under your testimony we would use SFAS 106
15 for ratemaking purposes to establish other post-employment
16 benefits, but we would not use FAS 87 for pension expense;
17 is that correct?

18 A. That's correct.

19 Q. Can I refer you to page 15 of your testimony and
20 your discussion of the early window deferrals? Am I correct
21 that on this issue, as was the case with respect to the FAS
22 106 issue, that you are relying solely on the advice of your
23 counsel concerning the legality of this allowance and do not
24 present any additional basis for the disallowance of these
25 costs?

1 A. Yes; that's correct.

2 Q. On page 17 of your testimony you reference that
3 these costs should be disallowed because the company did not
4 make the claim to recover these expenses at its first
5 opportunity; is that correct?

6 A. That's correct.

7 Q. And you reference the fact that for the Unit 1
8 costs, the company did not claim those costs in its Unit 2
9 case, and with respect to the Unit 2 costs, the company
10 could have filed at an earlier date and not have waited for
11 ten years to seek recovery of these costs; is that correct?

12 A. That's correct.

13 Q. In preparing your testimony did you have the
14 opportunity to review the Commission's early window orders
15 allowing the deferral of these costs for Susquehanna Unit 1
16 and 2?

17 A. I reviewed them generally.

18 Q. Is there anything in those orders, to your
19 recollection -- and I can provide you with copies of them if
20 you want -- that indicates there was any time limit on the
21 company's ability to claim those costs?

22 (Witness perusing documents.)

23 Q. I think the interrogatory reference is
24 OTS-RE-78. The company's response to that provided copies
25 of those orders.

1 (Pause.)

2 A. No. The Commission did not set a time limit on
3 the recovery of costs. They merely stated "in a subsequent
4 proceeding."

5 Q. Further down on page 17 of your testimony where
6 you discuss the environmental remediation expense, --

7 A. Yes.

8 Q. -- you state that "The environmental remediation
9 program is intended to proactively reduce the environmental
10 liabilities that result from standard past practices at
11 operating facilities." I take it your adjustment in this
12 case is to the level of the expenditure; you have no
13 concerns or problems or criticisms at this point of the
14 company's decision to adopt this program?

15 A. That's correct.

16 Q. Referring now to page 22 of your testimony
17 dealing with uncollectible accounts expense, am I correct
18 that you propose an expense allowance in this case of
19 approximately \$15.6 million?

20 A. That's correct. That's the amount the company
21 projects to write off.

22 Q. Did you undertake any analysis in preparing your
23 testimony to determine if this level of write-off reflected
24 the normal level of actual write-offs?

25 A. Yes. If you refer to page 27 of my testimony --

1 Q. Yes. I have that.

2 A. -- there is a table in the middle of the page
3 that shows a decreasing trend in actual write-offs.

4 Q. Now, if we could look at that table for a
5 moment, would you agree with me that the write-off level
6 decreased in '93 versus '92, but then increased slightly in
7 '94 versus '93?

8 A. Yes.

9 Q. Would you agree with me that the three-year
10 average for the periods '92, '93 and '94 of the actual
11 numbers is approximately \$17.1 million? Or subject to
12 check.

13 A. Yes, subject to check.

14 Q. Would you agree with me that the \$15.56 million
15 figure for fiscal year 9/30/95 shown on that table is lower
16 than any other figure in that table?

17 A. Yes, it is. But the table shows the decreasing
18 trend, and the \$15 million which I propose as an allowance
19 is the estimate provided by the company.

20 Q. That's the estimate developed for the company's
21 budget purposes; is that correct?

22 A. That's correct.

23 Q. Did you make any analysis to determine whether
24 or not the write-off experienced during that particular 12-
25 month period is representative of the normal level of write-

1 offs either in the past or in the future?

2 A. No, I have not. I accepted the company's
3 number.

4 Q. Now with respect to the social programs which
5 you begin discussing on page 31 of your testimony. The
6 programs referenced on page 32 in the table, am I correct,
7 the company is not seeking to recover all of the costs
8 associated with these programs from ratepayers? Is that
9 correct?

10 A. That's correct. The company is proposing to
11 recover approximately half of the costs.

12 Q. Now, on page 36 of your testimony you cite four
13 reasons why you believe the company's claim should be
14 disallowed; isn't that correct?

15 A. That's correct.

16 Q. And one of those reasons is that these programs
17 are not driven by specific Commission-approved regulatory
18 goals, and another is that there is no discernable benefit
19 to ratepayers; is that correct?

20 A. That's correct.

21 Q. In preparing your testimony, did you review the
22 table that was attached to Mr. Stathos' testimony? I guess
23 it was originally Mr. Bujnowski's testimony, later adopted
24 as Mr. Stathos' testimony. I think you have it at this
25 point.

1 A. Yes.

2 Q. Is it your understanding that this table, which
3 divides each of the programs into two parts, that the
4 dollars in the left-hand column are the dollars that the
5 company seeks to recover from ratepayers, and the dollars in
6 the right-hand column are the dollars that the company
7 proposes to fund with shareholder dollars?

8 A. Yes. I think it's the middle column.

9 Q. Yes.

10 A. Yes, I agree.

11 Q. Would you agree with me that in the column
12 entitled "Conservation, Efficiency, Load Management and Rate
13 Incentive Cost," that at least a portion of the expenditures
14 referenced in there are for conservation and weatherization
15 expenditures?

16 A. Yes.

17 Q. Is it your testimony that it is against
18 Commission policy to allow recovery from ratepayers of the
19 costs associated with conservation and weatherization?

20 A. No, it's not. My testimony indicates that there
21 is no specific benefits accruing to the ratepayers through
22 these programs.

23 Q. Is it your testimony then that ratepayers don't
24 benefit from conservation and weatherization programs?

25 A. From these specific programs they do not.

1 Q. If the company funds weatherization and
2 conservation measures and those reduce consumption, does
3 that not produce any benefit to ratepayers?

4 A. In general, yes.

5 Q. Finally, the last part of your testimony
6 discusses cash working capital. I don't want to go through
7 all the individual adjustments, but am I correct, at page
8 42, your recommendation in this case is for a negative
9 working capital allowance of roughly \$12.3 million?

10 A. Yes; that's correct.

11 Q. And essentially, the company's claim in this
12 proceeding was roughly for a zero cash working capital
13 allowance?

14 A. It was a negative \$530,000.

15 Q. A slightly negative claim; is that right?

16 A. Yes.

17 Q. And did the company include as part of its cash
18 working capital calculation a reduction for the purported
19 lag in the payment of interest on long-term debt?

20 A. Yes, they did.

21 Q. And your adjustment includes that as well?

22 A. Yes.

23 MR. MacGREGOR: Thank you, Mr. Weakley.

24 That's all I have, Your Honor.

25 JUDGE CHRISTIANSON: Then we can check around.

1 Anything from Mr. Kleppinger?

2 MR. KLEPPINGER: No questions, Your Honor.

3 JUDGE CHRISTIANSON: Consumer Advocate?

4 MS. McCLOSKEY: No questions, Your Honor.

5 MS. MOURY: No questions, Your Honor.

6 JUDGE CHRISTIANSON: Do you want some time with your
7 witness?

8 MR. SIMMS: Just a brief moment, Your Honor.

9 JUDGE CHRISTIANSON: Let's be off the record.

10 (Discussion off the record.)

11 JUDGE CHRISTIANSON: We can be back on the record.

12 Some redirect?

13 MR. SIMMS: Just a couple questions, Your Honor.

14 JUDGE CHRISTIANSON: Go ahead.

15 REDIRECT EXAMINATION

16 BY MR. SIMMS:

17 Q. Mr. Weakley, do you recall cross-examination by
18 Mr. MacGregor in which he referenced the table that was
19 attached to the testimony of Mr. Stathos?

20 A. Yes, I do.

21 Q. In this proceeding has the company provided a
22 cost/benefit analysis for those programs?

23 A. No, they have not. These programs have just
24 come off the drawing board and there has been no
25 cost/benefit analysis conducted by PP&L.

1 MR. SIMMS: That concludes my redirect, Your Honor.

2 JUDGE CHRISTIANSON: I guess that didn't give rise to
3 very much in follow-up.

4 MR. MacGREGOR: No, Your Honor.

5 JUDGE CHRISTIANSON: Then the witness is excused.

6 (Witness excused.)

7 JUDGE CHRISTIANSON: We might as well go ahead with
8 Mr. Kleppinger's witness.

9 MR. KLEPPINGER: Thank you, Your Honor. PP&L
10 Industrial Customer Alliance calls Lane Kollen to the stand.

11 JUDGE CHRISTIANSON: We can pause for a moment. I
12 don't want to rush you people.

13 (Pause.)

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1 JUDGE CHRISTIANSON: Could you stand and raise your
2 right hand?

3 Whereupon,

4 LANE KOLLEN

5 having been duly sworn, testified as follows:

6 JUDGE CHRISTIANSON: Be seated.

7 DIRECT EXAMINATION

8 BY MR. KLEPPINGER:

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

11 A. My name is Lane Kollen. My business address is
12 J. Kennedy and Associates, Inc., 35 Glenlake Parkway, Suite
13 475, Atlanta, Georgia, 30328.

14 Q. On whose behalf are you appearing here today,
15 Mr. Kollen?

16 A. I am appearing here on behalf of the PP&L
17 Industrial Customer Alliance, a group of large industrials
18 on the PP&L system.

19 Q. Do you have before you a document consisting of
20 some 32 pages of text and five exhibits labeled LK-1 through
21 LK-5?

22 A. Yes.

23 MR. KLEPPINGER: Your Honor, I'd like to have marked
24 for identification purposes as PPLICA Statement No. 9 the
25 direct testimony and exhibits of Lane Kollen.

1 JUDGE CHRISTIANSON: So identified.

2 (Whereupon, the document was marked
3 as PPLICA Statement No. 9 for
4 identification.)

5 BY MR. KLEPPINGER:

6 Q. Mr. Kollen, was PPLICA Statement No. 9 prepared
7 by you or under your supervision?

8 A. Yes.

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

11 A. I have one change on page 20, line 4. The 15
12 percent should be 10 percent.

13 Q. With that correction, Mr. Kollen, if I were to
14 ask you the questions contained in PPLICA Statement No. 9
15 today, would your answers be the same as set forth therein?

16 A. Yes.

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

19 A. Yes.

20 MR. KLEPPINGER: Your Honor, I'd like to move for the
21 admission of PPLICA Statement No. 9 at this time pending any
22 appropriate motions.

23 JUDGE CHRISTIANSON: Yes. Under the standard
24 conditions, No. 9 is now accepted into the record.

25

1 (Whereupon, the document marked as
2 PPLICA Statement No. 9 was received
3 in evidence.)

4 MR. KLEPPINGER: The witness is available for cross-
5 examination.

6 JUDGE CHRISTIANSON: Once again, we might as well
7 start with the company.

8 MR. MacGREGOR: Thank you, Your Honor.

9 CROSS-EXAMINATION

10 BY MR. MacGREGOR:

11 Q. Good afternoon, Mr. Kollen.

12 A. Good afternoon.

13 Q. Could I refer you first to page 30 of your
14 testimony where you discuss the SFAS-106 issue? You
15 reference a May, 1994 Order of the Pennsylvania Commonwealth
16 Court. Do you see that reference?

17 A. Yes, I do.

18 Q. Did you read that case before you filed your
19 testimony?

20 A. No, I did not read that case.

21 Q. Do you know whether it was a base rate case or a
22 single issue case?

23 A. I don't know.

24 Q. Are you familiar with the concept of single
25 issue ratemaking?

1 A. Yes, I am.

2 Q. Could you explain your understanding of that
3 concept?

4 A. Yes. Generally, there is a prohibition against
5 taking a base rate item such as a revenue or an expense or a
6 rate base type of item and obtaining recovery or flow-back
7 on the one hand from ratepayers or to ratepayers absent a
8 base rate proceeding.

9 Q. In connection with this case, did you review a
10 companion case to the PP&L case involving Pennsylvania-
11 American Water Company?

12 A. No.

13 Q. At page 26 of your testimony, you discuss the
14 company's voluntary early retirement program, and you note
15 specifically on page 28 of your testimony, line 16 that the
16 total cost of the VERP at December 31, 1994 is not a cash
17 cost; is that correct?

18 A. That's correct. It is not a cash cost.

19 Q. And what do you propose to do as a result of
20 that fact?

21 A. I propose to do two things. First, I propose
22 that the gross cost of the VERP, which is an accrual cost
23 representing not only the lump sum payment but the future
24 costs that the company anticipates incurring, that that
25 gross cost be reduced for the savings that the company

1 obtained in calendar year 1995 prior to the implementation
2 of the rates from this proceeding. That's the first thing.

3 Then the second thing is the net costs that remain be
4 amortized and allowed recovery over a ten-year period.

5 Q. Is it your general understanding that rates in
6 this jurisdiction are set on an accrual basis or a cash
7 basis?

8 A. My understanding is that they are generally set
9 on an accrual basis.

10 Q. Now, on your nuclear decommissioning, page 19,
11 where you begin your discussion, as I understand it, you
12 make two proposals here; one that the earnings on the
13 decommissioning fund be imputed using the company's allowed
14 rate of return; and secondly, as I understand it, that the
15 company be required to meet that level as an incentive rate
16 mechanism. Is that a fair summary?

17 A. That's correct. Essentially what I've
18 recommended is that not only the Commission utilize the
19 allowed return that it grants in this proceeding, but also
20 to establish that as an earnings performance standard below
21 which the company would not be allowed to recover and above
22 which it would retain that benefit; and my perspective is
23 that that is comparable to the company's treatment that is
24 allowed by the Commission for rate base types of
25 investments.

1 Q. Now, would you agree with me that the return on
2 an investment, particularly an equity investment, is not
3 certain and can vary over time for a variety of reasons?

4 A. Yes.

5 Q. Would you agree with me that PP&L has little or
6 no direct control over the performance of the stock market?

7 A. I would agree with that as a premise. However,
8 I would not agree with the premise that said that PP&L does
9 not have control over where they place investments; and my
10 point and my perspective is that the company has the
11 opportunity to earn what it can on its rate base investment
12 through rate increases, through whatever means. Likewise,
13 that standard should be applied to the ratepayers' money.

14 Q. Is it your belief that the company has any
15 direct control over the level of interest rates?

16 A. As opposed to what it pays for that interest?

17 Q. No, the general level of interest rates and the
18 economy.

19 A. The general level of interest rates, the company
20 would not have a significant degree of control with respect
21 to that.

22 Q. How about tax rates?

23 A. No.

24 Q. How about the general rate of inflation?

25 A. As it applies to the company, I would think a

1 significant degree of control; but as it applies to the
2 general economy, not much.

3 Q. With respect to Susquehanna depreciation, which
4 you discuss at page 16 of your testimony, beginning there,
5 am I correct that the company's rates presently reflect a
6 modified sinking fund methodology for the Susquehanna plant?

7 A. That's correct.

8 Q. And the company's current base rates were
9 established in roughly 1985; is that correct?

10 A. I believe that is correct.

11 Q. And do you know or would you accept subject to
12 check that the Susquehanna depreciation expense established
13 in rates at that time was approximately \$35 million?

14 A. I don't know what that amount was. Of course,
15 things change over a ten-year period; and as we know, under
16 the modified sinking fund depreciation, that cost went up.
17 But as we also know, revenues increase and other costs
18 change and those things all net out.

19 Q. Would you also know or would you accept subject
20 to check that the company's depreciation claim for
21 Susquehanna based on the modified sinking fund method in
22 this case is approximately \$140 million?

23 A. That's correct.

24 Q. And under the modified sinking fund methodology,
25 am I correct that the book depreciation on Susquehanna will

1 continue to increase until roughly 1999?

2 A. It will increase through 1998 and then drop down
3 in 1999.

4 Q. Now, if you could refer to Exhibit LK-2. This
5 is a of list retirement dates, I take it, of PP&L facilities
6 going back in time; is that correct?

7 A. Well, it is a little bit more than that. The
8 question asked for each fossil fuel generating facility
9 which PP&L has retired, the capacity of that facility, the
10 date retired, the decommissioning cost, and the amount of
11 any salvage realized.

12 Q. Would you agree with me as a general matter that
13 the bulk of the retirements shown here took place in the
14 1950 to 1972 time frame?

15 A. Well, the dates are on page 2 of my exhibit,
16 which is a replication of the company's response to the data
17 request, and all of the retirements took place prior to 1972
18 that are on this list except for one.

19 Q. And would you agree with me that the size of
20 these units in terms of megawatts of capacity is relatively
21 small compared to the company's current coal units?

22 A. The largest unit was 70 megawatts.

23 Q. And what are the general size of the company's
24 coal units that are included in its fossil decommissioning
25 claim in this case, if you know?

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A. I don't recall.

Q. Would you agree with me as a general matter that the level of government regulation in general and environmental regulation in particular has increased over the past 20 years?

A. Yes.

MR. MacGREGOR: I think that's all I have, Your Honor. Thank you.

JUDGE CHRISTIANSON: We can check. Anything from Staff?

MS. SIMMS: No, Your Honor.

JUDGE CHRISTIANSON: Does anybody have anything?

MS. McCLOSKEY: No, Your Honor.

MS. MOURY: No, Your Honor.

JUDGE CHRISTIANSON: We're letting the company carry the weight of cross-examination today.

Well, then we seem to be done with cross, and we'll be off the record briefly.

(Discussion off the record.)

JUDGE CHRISTIANSON: Let's be back on.

MR. KLEPPINGER: Your Honor, I have no redirect.

JUDGE CHRISTIANSON: Which brings us to the end of the session today. The witness is excused.

(Witness excused.)

JUDGE CHRISTIANSON: And we'll just adjourn and come

FORM 2

1 back at 10:00 tomorrow morning. Thank you, all. We'll be
2 off the record.

3 (Whereupon, at 12:30 p.m., the hearing was adjourned,
4 to be reconvened at 10:00 a.m., Wednesday, May 3, 1995, in
5 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.

COMMONWEALTH REPORTING COMPANY, INC.

By: Sandra Milus-Brown

Sandra Milus-Brown

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