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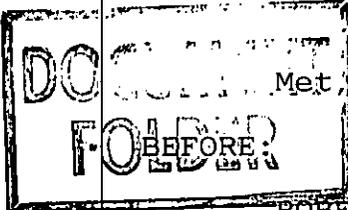
PUBLIC UTILITY COMMISSION

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Pennsylvania Public Utility Commission : Docket Nos.
versus Pennsylvania Power & Light Company : R-943271
 Investigation into a proposed \$261,000,000 : R-943271C0001
 annual rate increase. : through
 : R-943271C0130
 Further Hearing :
 :
 ----- x

Pages 1730 through 1778

Hearing Room No. 1
North Office Building
Harrisburg, Pennsylvania

Wednesday, May 3, 1995



pursuant to adjournment, at 10:03 a.m.

ROBERT A. CHRISTIANSON, Administrative Law Judge

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C O N T E N T S

<u>WITNESSES</u>	<u>DIRECT</u>	<u>CROSS</u>	<u>REDIRECT</u>	<u>RE CROSS</u>
Thomas S. Catlin				
By Ms. Kenney	1732	--	--	--
By Mr. MacGregor	--	1734	--	--
Charles E. Johnson				
By Ms. McCloskey	1741	--	1754	--
By Mr. Gadsden	--	1743	--	1756
Dale G. Bridenbaugh				
By Ms. McCloskey	1760	--	--	--
By Mr. Gadsden	--	1762	--	--

E X H I B I T S

<u>NUMBER</u>	<u>FOR IDENTIFICATION</u>	<u>IN EVIDENCE</u>
<u>Office of Consumer Advocate</u>		
<u>Statements</u>		
4 (Bridenbaugh-Direct)	1759	1762
5 (Johnson-Further Direct)	1741	1743
6 (Catlin-Direct)	1732	1734

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1 20904.

2 Q. Mr. Catlin, do you have before you a copy of
3 your prepared, prefiled direct testimony in this case
4 consisting of 39 pages of questions and answers and 27
5 schedules?

6 A. I do.

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

9 A. They were.

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

13 A. I do not.

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

16 A. They are.

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

19 A. They would.

20 MS. KENNEY: Your Honor, we ask that Mr. Catlin's
21 testimony and schedules marked for identification as OCA
22 Statement 6 be admitted into evidence subject to any cross-
23 examination and timely motions by opposing counsel. All
24 parties and Your Honor were previously served with copies of
25 Mr. Catlin's direct testimony, and I have provided two

1 copies to the court reporter.

2 JUDGE CHRISTIANSON: Yes. Under the standard
3 conditions, the package is accepted. Statement 6 is
4 packaged as one physically along with the schedules, and all
5 of the materials are now accepted into the record.

6 (Whereupon, the document marked as
7 OCA Statement No. 6 was received in
8 evidence.)

9 MS. KENNEY: Mr. Catlin is now available for cross-
10 examination.

11 JUDGE CHRISTIANSON: And once again, we might as well
12 start with the company.

13 MR. MacGREGOR: Thank you, Your Honor.

14 CROSS-EXAMINATION

15 BY MR. MacGREGOR:

16 Q. Good morning, Mr. Catlin.

17 A. Good morning.

18 Q. Mr. Catlin, am I correct that the OCA's overall
19 proposal in this case is for a rate decrease for PP&L of
20 roughly \$73 million?

21 A. Yes.

22 Q. As part of your testimony in this proceeding,
23 have you presented any analysis as to the likely financial
24 impact on the company if this proposal were to be adopted?

25 A. No, I have not.

1 Q. Could you refer to page 5 of your testimony,
2 please, where you begin your discussion of a rate base
3 deduction for accrued pension liability? Is that correct?

4 A. I have that.

5 Q. And on lines 15 through 19 on page 5, you state
6 that, "Since 1987, the pension costs recorded on the
7 company's books have either already been recovered from
8 ratepayers as an expense in the year in which they were
9 recorded or are being recovered as a component of the
10 capitalized overheads included in the cost of plant in
11 service." Do you see that reference?

12 A. I do.

13 Q. And you state earlier on that page of your
14 testimony the company adopted SFAS-87 in 1987; is that
15 correct?

16 A. Yes.

17 Q. Are you aware that the company's last rate
18 proceeding concluded in 1985?

19 A. I am.

20 Q. Focusing on the capitalized overheads included
21 in the cost of plant in service reference at lines 18
22 through 19 of the testimony, am I correct that the company's
23 plant in service for ratemaking purposes was last
24 established by this Commission for a future test year ended
25 March 31, 1985?

1 A. That was the last litigated rate proceeding,
2 yes.

3 Q. Can I refer you to page 6 of your testimony,
4 please, where you begin your discussion of deferred taxes
5 associated with the cost of reacquiring debt? Is that
6 correct?

7 A. Yes.

8 Q. Would you agree as a general proposition that in
9 order to have a tax deduction, there must generally be an
10 underlying expense to give rise to the deduction?

11 A. Yes.

12 Q. And the expense at issue here was the cost to
13 reacquire certain long-term debt or premiums paid to call
14 that debt?

15 A. Yes.

16 Q. And when were those costs incurred, if you know?

17 A. I do not know the exact date. I know that they
18 were incurred in the late 1980s and perhaps early 1990s.

19 Q. And on page 7 of your testimony, beginning at
20 line 12, you state, "For ratemaking purposes, the weighted
21 cost of debt has been calculated to fully account for the
22 loss on reacquired debt. This has been accomplished by both
23 including the amortization of the loss as an interest cost
24 and deducting the unamortized balance of the loss from the
25 balance of outstanding debt used to calculate the weighted

1 cost."

2 Do you see that reference?

3 A. Yes, I see that.

4 Q. Do you believe that is the appropriate
5 ratemaking treatment in this proceeding?

6 A. Those two components of it, yes.

7 Q. Thank you. Can I refer you to page 28 of your
8 testimony?

9 JUDGE CHRISTIANSON: I'll just mention for the people
10 back in the seats, if it gets bad, you might want to close
11 that door if the talking out in the hall bothers you, but
12 it's your choice.

13 THE WITNESS: I have that page.

14 MR. MacGREGOR: Thank you.

15 BY MR. MacGREGOR:

16 Q. Now, the adjustment you make here as shown on
17 TSC-17 is approximately \$1.2 million; is that correct?

18 A. Yes, it is.

19 Q. Would you agree with me that if the company's
20 claim is not approved, that in addition to this reduction in
21 its rate claim, the company will be required to write off
22 approximately \$40 million in costs?

23 (Witness perusing document.)

24 A. My understanding based on the company's
25 schedules is that the net balance of the costs is \$11.99

1 million.

2 Q. And that is your understanding of what the
3 write-off would be if the company's claim is disallowed?

4 A. Yes.

5 Q. On page 30 of your testimony at the top, you
6 note as an alternative that if the Commission were to allow
7 recovery of the early window costs, the amortization should
8 be treated as tax deductible for ratemaking purposes; is
9 that correct?

10 A. Yes.

11 Q. And you state that PP&L received a tax deduction
12 for the deferred costs at the time they were incurred.

13 A. Yes.

14 Q. Did you conduct any analysis as to whether there
15 was a tax deduction that occurred at that time or whether
16 there was taxable income associated with the events of the
17 incurrence of those costs?

18 A. Other than reviewing the documents that were
19 supplied to me by the company, I did not conduct any other
20 analysis or study.

21 Q. At various places in your testimony you discuss
22 depreciation expense and the EDI/IDI credits. I guess
23 specifically at page 32. Am I correct that you there rely
24 on Dr. Johnson's testimony and are not presenting any
25 independent basis for the adjustments?

1 A. That's correct.

2 Q. At page 38 of your testimony, you discuss
3 consolidated tax savings. I guess beginning on page 37.
4 That adjustment is shown on your Schedule TSC-25; is that
5 correct?

6 A. Yes.

7 Q. Could I refer you to that schedule for just a
8 moment, please?

9 A. Yes.

10 Q. Would it be fair to say that the tax losses
11 shown on that schedule are primarily for the companies
12 listed at the top of the page, specifically Lady Jane,
13 Realty Company of Pennsylvania, Pennsylvania Mines
14 Corporation, and Rushton Mining?

15 A. Yes.

16 Q. Are you aware as to whether or not Rushton
17 Mining Company is currently conducting active mining
18 operations?

19 A. I believe that they are not.

20 Q. Do you know whether Pennsylvania Mines
21 Corporation is currently conducting any active mining or
22 cleaning operations?

23 A. My understanding is that they are not.

24 MR. MacGREGOR: Thank you. That's all the questions
25 I have, Your Honor.

1 JUDGE CHRISTIANSON: Then we can check. Any other
2 questions on cross?

3 (No response.)

4 JUDGE CHRISTIANSON: I gather not.

5 Do you want a moment with your witness?

6 MS. KENNEY: Yes, if we could have a moment.

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

8 (Discussion off the record.)

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

10 I understand there is no redirect for the witness,
11 and Mr. Catlin is excused at this point in the proceeding.
12 There was not much cross, so no need for redirect. I think
13 the parties understand the issues rather thoroughly in this
14 proceeding.

15 (Witness excused.)

16 JUDGE CHRISTIANSON: We have the next witness on the
17 stand. I'll go ahead and swear him in and we can proceed.

18 Could you stand and raise your right hand?
19
20
21
22
23
24
25

1 Whereupon,

2 CHARLES E. JOHNSON

3 having been duly sworn, testified as follows:

4 JUDGE CHRISTIANSON: Proceed.

5 MS. McCLOSKEY: Your Honor, I'd like to have marked
6 as OCA Statement No. 5 the further direct testimony of Dr.
7 Charles Johnson on depreciation and other revenue issues.

8 JUDGE CHRISTIANSON: That's right. I thought I
9 didn't have to swear you in again. I wasn't sure. Twice is
10 better than none at all. Go ahead.

11 (Whereupon, the document was marked as OCA
12 Statement No. 5 for identification.)

13 DIRECT EXAMINATION

14 BY MS. McCLOSKEY:

15 Q. Dr. Johnson, do you have before you a copy of
16 your prepared pre-filed further direct testimony in this
17 case consisting of 17 pages of questions and answers and
18 three schedules?

19 A. Yes, I have.

20 Q. And was this testimony prepared by you and under
21 your direct supervision?

22 A. It was.

23 Q. And were these schedules prepared by you and
24 under your direct supervision?

25 A. They were.

1 Q. And do you have any additions, corrections or
2 modifications to make to your testimony or schedules at this
3 time?

4 A. Yes. I have one correction on Schedule 2. In
5 the final column of that page, for Account No. 394.8, garage
6 equipment, the number appearing on the schedule is 35, and
7 it should be 25. That's the only correction I have.

8 Q. And does that correction affect your
9 recommendation?

10 A. It does not affect the value of the
11 recommendations I made. It would affect the recommendation
12 insofar as the number of years over which that equipment in
13 that account would be amortized.

14 Q. Now, subject to that correction, are the
15 testimony and schedules true and correct to the best of your
16 knowledge, information and belief?

17 A. Yes, they are.

18 Q. And subject to the correction, if I were to ask
19 you these questions today under oath, would your answers be
20 the same?

21 A. Yes, they would.

22 MS. McCLOSKEY: Your Honor, we ask that Dr. Johnson's
23 further direct testimony and schedules marked for
24 identification as OCA Statement No. 5 be admitted into
25 evidence subject to any cross-examination or timely motions

1 by opposing counsel.

2 JUDGE CHRISTIANSON: Yes, under the standard
3 conditions, the materials are now part of the record.

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

6 MS. McCLOSKEY: And Dr. Johnson is available for
7 cross-examination.

8 JUDGE CHRISTIANSON: Once again, proceed.

9 MR. GADSDEN: Thank you, Your Honor.

10 CROSS-EXAMINATION

11 BY MR. GADSDEN:

12 Q. Dr. Johnson, let's start with the revision that
13 you just offered, and make sure that we all understand
14 what's going on.

15 On Schedule 2, page 1 of 1, you changed the proposed
16 amortization period as listed from 35 to 25, and indicated
17 that that would have no impact on the dollar value of your
18 adjustment.

19 Is that because this is simply a typographical error?

20 A. That's part of the reason. It's simply a
21 typographical error. The other part of the reason is that
22 these accounts were charged to clearing accounts by the
23 company in their proposal, and I did not address those
24 accounts separately nor change the amortization level for
25 ratemaking purposes.

1 Q. The first issue that you address in your
2 testimony beginning on page 3 concerns the company's claim
3 to in effect levelize modified sinking fund depreciation for
4 the Susquehanna plant for the next four years; is that
5 correct?

6 A. Yes.

7 Q. And at lines 21 through 23, you note that
8 capital recovery under the modified sinking fund method was
9 accelerated in response to Statement of Financial Accounting
10 Standards No. 92; do you see that?

11 A. Yes.

12 Q. Now, it's still true, is it not, that to date
13 the company, notwithstanding that acceleration, has
14 recovered less of its original investment in the Susquehanna
15 plant than it would have if it had adopted the straight line
16 method from the outset?

17 A. That's correct.

18 Q. Turning now to page 4 at line 16, you state that
19 net plant is declining each year. Can we agree that in
20 response to one of our interrogatories, you indicated that
21 this statement was in fact restricted to pre-1989
22 Susquehanna investment and did not apply to the company's
23 aggregate investment in utility plant?

24 A. Yes.

25 Q. If we could turn now briefly to Schedule 1,

1 which consists of two tables, one reflecting recovery of
2 capital under the modified sinking fund method as it
3 currently exists and one reflecting recovery of capital
4 investment under the company's proposed levelized approach,
5 do each of these tables assume annual rate filings?

6 A. Yes, and they also do not represent the full
7 period through which the modified sinking fund would take
8 place.

9 For ease in calculation and making the presentation,
10 I ignored that three-month period at the end of the year, so
11 these numbers are not the exact numbers that would be used
12 if there were a rate filing each year, because you would
13 have to account for that three-month period in addition.

14 But yes, they do make the assumption that there would
15 be annual rate filings.

16 Q. And am I correct that what these tables show is
17 that PP&L's level of capital recovery would be roughly
18 equivalent over the period shown under the two alternatives?

19 A. That's correct.

20 Q. Do either of these tables reflect the return of
21 Susquehanna investment which is currently allocated to an
22 off-system capacity sale to Jersey Central Power & Light?

23 A. No. These represent the full investment in
24 Susquehanna.

25 Q. At page 6 of your testimony at lines 3 and 4,

1 you state that rates to customers would decline -- or more
2 properly, page 2 of Schedule 1 indicates that rates to
3 customers would decline by over \$50 million during the
4 period that we've been discussing. Do you see that?

5 A. Yes.

6 Q. Can we agree that the figures which are shown on
7 Schedule 1 do not in fact reflect revenue requirement or
8 resulting rate streams, but rather capital recovery?

9 A. Sure.

10 Q. The second area which you address in your
11 testimony beginning on page 7 relates to the deactivation
12 dates that PP&L has proposed for purposes of depreciating
13 its investment in Holtwood 17, Martins Creek 1 and 2 and the
14 Sunbury station; is that correct?

15 A. Yes.

16 Q. Is it your understanding of Mr. Krall's
17 testimony that he ruled out the possibility that these units
18 might be retired as early as the year 2003, or did he simply
19 say that while that was not a certainty, it was a
20 possibility and would depend upon environmental regulations
21 that might be in place at that time?

22 A. My recollection of his testimony was that he
23 testified that the company had no plans to retire the units
24 in the year 2003.

25 Q. Did he rule that possibility out, to the best of

1 your recollection?

2 A. I don't recall that he ruled out the
3 possibility.

4 Q. At page 9, at lines 13 through 15, you note that
5 Mr. Krall had indicated that the May, 1994 five year coal
6 upgrade plan was the starting point for the company's
7 proposed deactivation dates.

8 Did Mr. Krall not also indicate subsequently that
9 certain factors had not been fully considered in the five
10 year plan?

11 A. There were certain factors related to
12 environmental issues that were not completely accounted for
13 in the plan because the regulations had not yet been set.

14 They had not been set as of the time of the company's
15 filing, so that no new information was made available in
16 that period.

17 Q. Further down on that same page, you state that
18 the company has budgeted certain capital additions to these
19 plants based on an assumption of continued operation beyond
20 the year 2003; is that correct?

21 A. Yes, that was the statement from the plan
22 itself.

23 Q. To the best of your knowledge, have any of these
24 dollars been spent?

25 A. Well, there have been dollars budgeted to be

1 spent on these capital improvements. I don't know
2 specifically that any of those have been spent at this time.
3 I would assume they have.

4 I also would note that those capital expenditures had
5 been based on the assumption that these plants would last
6 through their then-current retirement dates, which were
7 later than 2003.

8 Q. To the best of your knowledge, has the company
9 claimed any of these expenditures in this case?

10 A. There are dollars in the budget that are related
11 to these stations.

12 (Pause.)

13 Q. Is that the extent of your answer?

14 A. Well, I'm not sure which -- when you say "these
15 expenditures," there were a number of capital items listed
16 in that plan, and there are dollars in the budget for
17 expenditures for those stations.

18 And as I say, I don't know specifically which of the
19 list of items in the plan were in this year's budget.

20 Q. Do you recall Mr. Krall testifying that PP&L had
21 rescoped its proposed capital additions as they would relate
22 to investments designed to insure continued operation beyond
23 the year 2003 and had explicitly excluded those dollars from
24 its CWIP claim in this case? Do you recall that testimony?

25 A. I don't recall that testimony.

1 Q. Dr. Johnson, if we could turn now to page 10 of
2 your testimony, at lines 18 through 21, you restate the four
3 reasons given by Mr. Krall for advancing the deactivation
4 dates.

5 Do you dispute that the units themselves are old and
6 have in-service dates from 1949 to 1954?

7 A. No, I don't dispute those. But my point was
8 simply that those facts have not changed.

9 Q. You don't dispute any one of these four reasons
10 given by Mr. Krall. The purpose of your discussion of them
11 is simply to point out that nothing had changed since the
12 filing of the company's five year coal upgrade plan in May;
13 is that correct?

14 A. That's right. I don't dispute these at all.

15 Q. On page 11 at line 10, you refer to -- actually,
16 it's lines 9 and 10 -- you refer to the company's response
17 to an Office of Consumer Advocate interrogatory and refer to
18 the original deactivation dates for these generating units.
19 Do you see that?

20 A. Yes.

21 Q. Do you know what retirement dates were assumed
22 for these particular units when the company's rates were
23 established in its last base rate proceeding in 1985?

24 A. No, I don't know the dates that were established
25 in 1985. The basis for my recommendation was for the dates

1 that have been previously set.

2 Q. Would you accept subject to check that when the
3 company's rates were established in 1985, the retirement
4 dates for these units were assumed to be, in the case of
5 Holtwood 17, 1994; in the case of Martins Creek 1 and 2,
6 1995; and in the case of Sunbury, the year 2000?

7 MS. McCLOSKEY: Your Honor, I would object. The
8 company would be in possession of that information. That
9 information has not been provided to the OCA nor to Dr.
10 Johnson, so he would have no means of checking that
11 information. If the company wants to produce that
12 information in its rebuttal, they could do so.

13 MR. GADSDEN: Well, we can certainly move on, Your
14 Honor. I would only point out that that information
15 obviously was presented to the Consumer Advocate in the
16 company's 1984 and 1985 base rate proceeding.

17 JUDGE CHRISTIANSON: They probably physically have
18 the papers somewhere still in their --

19 MR. GADSDEN: But we can move on.

20 JUDGE CHRISTIANSON: Again, I don't recall if that
21 was actively litigated in the case, but I could have a
22 failing memory as well. Presumably it is in the filing
23 somehow or other. But he has sort of withdrawn the request
24 to check.

25 MR. GADSDEN: That's fine.

1 BY MR. GADSDEN:

2 Q. Dr. Johnson, the third area which you address in
3 your testimony relates to PP&L's proposal to amortize
4 certain plant amounts of relatively small value; is that
5 correct?

6 A. Yes.

7 Q. And as I understand your testimony, you don't
8 object to the company's proposal in principle but rather
9 take issue with the specific amortization periods that it
10 has recommended; is that a fair summary?

11 A. Well, that and the level of amortizations to be
12 included in the test year for ratemaking purposes.

13 Q. You have proposed, have you not, longer
14 amortization periods than recommended by Mr. Hoch for
15 various account balances?

16 A. Yes, I have.

17 Q. And if we refer to your Schedule 2, one of those
18 accounts would be Account 391.4; is that correct?

19 A. Yes.

20 Q. Do you know what is included in Account 391.4?

21 A. It's office equipment. I don't have the full
22 list.

23 Q. How about Account 395, laboratory equipment?
24 What's your understanding of the types of items that might
25 be included in that account?

1 A. Well, the types of equipment included there --
2 I'm grasping for a description of laboratory equipment
3 that's not simply a repetition of the title.

4 JUDGE CHRISTIANSON: You're talking about equipment
5 for like testing of the water or things like that?

6 THE WITNESS: Well, anything used in a laboratory,
7 starting with test tubes through spectrophotometers and
8 things of that sort.

9 BY MR. GADSDEN:

10 Q. Okay. With respect to your Schedule 2, could
11 you tell me what the source was for the figures set forth in
12 the column entitled, "current life"?

13 A. Yes. That was the source listed at the bottom,
14 Attachment V-B-2, which contained the current life, the
15 current Iowa curve, and the average service life presented
16 in this table was taken from that Iowa curve in the filing.

17 Q. Do what you have characterized as current lives
18 reflect the lives which form the basis for the depreciation
19 rates embedded in current rate levels?

20 A. Yes. It's the average service life. It's not
21 the remaining life that would be used to calculate the
22 depreciation rates, though.

23 Q. And those lives were established in the
24 company's last base rate proceeding 10 years ago; is that
25 correct?

1 A. That's right.

2 Q. And can we agree or would you accept subject to
3 check, anticipating a possible objection from your counsel,
4 that the study on which those current lives were based was
5 conducted in 1980?

6 MS. McCLOSKEY: Again, I would object to "subject to
7 check." If he knows, if he obtained that information in
8 discovery, he can state that.

9 JUDGE CHRISTIANSON: Do you have a source for that?

10 THE WITNESS: My recollection was that the year of
11 the study was 1983.

12 JUDGE CHRISTIANSON: Well, that puts it before the
13 last rate case.

14 BY MR. GADSDEN:

15 Q. Is it your understanding that PP&L is currently
16 using a 20-year life for general computers, Account 391.6?

17 A. That was the information that was provided --
18 actually, that one was provided in response to OCA-XI,
19 Question 6.

20 Q. Do you have a copy of that response here?

21 A. I don't think I have.

22 (Witness perusing document.)

23 A. No, I don't.

24 Q. Unfortunately, neither do I, so we'll have to
25 leave it at that.

1 MR. GADSDEN: That's all the cross I have, Your
2 Honor.

3 JUDGE CHRISTIANSON: Okay. My interest was just
4 focused on -- Set XI, did you say? Could you give me the
5 reference again?

6 MR. GADSDEN: I'm sorry?

7 JUDGE CHRISTIANSON: What was the set?

8 MR. GADSDEN: The source given, and I believe Dr.
9 Johnson would confirm it, for that particular item was
10 OCA Set XI, Question 6.

11 JUDGE CHRISTIANSON: Okay, Set XI. Then we can be
12 done. Again, we can always find the reference and develop
13 it later.

14 Let's be off the record briefly.

15 (Discussion off the record.)

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

17 I understand there is some limited redirect, and we
18 can proceed.

19 MS. McCLOSKEY: Yes.

20 REDIRECT EXAMINATION

21 BY MS. McCLOSKEY:

22 Q. Dr. Johnson, you were asked some questions
23 regarding Schedule 1 in your testimony, pages 1 and 2, and
24 whether that schedule reflected annual rate filings, and I
25 believe you indicated that it did reflect annual rate

1 filings; is that correct?

2 A. Yes, that's right.

3 Q. If the company's proposal was accepted in this
4 case and there were no further annual rate filings, which
5 number on your Schedules 1 and 2 would be in effect for the
6 period of time shown on Schedule 1?

7 A. If the company's proposal to use the levelized
8 approach were adopted, then we would need to look at page 2
9 of Schedule 1.

10 And the year ending September 30, 1995, the total
11 capital recovery would be the \$499 million. If there were
12 no succeeding rate cases in the following years, rather than
13 decline as this schedule shows, that \$499 million would be
14 the amount that would be recovered from ratepayers even
15 though the depreciation accrual and the return, if you
16 assumed an annual rate filing, would decline.

17 Q. Now, also, Mr. Gadsden had asked you if Schedule
18 1 reflected the return of JCP&L, and I believe you indicated
19 that these numbers are full investment, and I think there
20 might be some confusion regarding that. Could you please
21 explain what you mean by "full investment"?

22 A. Yes. The plant in service list is the full
23 amount of Susquehanna pre-1989, and so the return is on the
24 full investment.

25 And the total capital recovered would be the total

1 amount that the company would recover at that return and at
2 that depreciation accrual.

3 It does not exclude or account for any sales to any
4 other entities.

5 MS. McCLOSKEY: Those are our two questions. We have
6 nothing further, Your Honor.

7 JUDGE CHRISTIANSON: Then we can check if there's any
8 follow-up by the company.

9 MR. GADSDEN: Just some brief follow-up, Your Honor.

10 RE-CROSS-EXAMINATION

11 BY MR. GADSDEN:

12 Q. Dr. Johnson, the first point that you made on
13 redirect as I understand it was that while your Schedule 1
14 tables assume annual rate filings, that if in fact the
15 company did not file for rates during this four year period,
16 that it would in effect recover capital associated with this
17 investment in the amount of \$499 million annually even
18 though the net plant balance would be declining during that
19 period; is that a fair summary of your testimony?

20 A. Yes, it is. The total capital recovered would
21 be at the higher level, and even though the capital recovery
22 would be declining in those periods, that is the necessary
23 capital recovery, rates would have been set on the higher
24 level.

25 Q. And if those rates remained in effect for four

1 years, the company would also not earn a return of or a
2 return on any capital additions that it made during that
3 four year period, either; isn't that correct?

4 A. Well, not necessarily. If there are capital
5 additions made to accommodate growth in sales, then those
6 are rolled into the sales level growth.

7 If you're talking about capital additions to
8 Susquehanna, then you would be correct.

9 Q. Or capital additions to other generating
10 facilities?

11 A. Well, not necessarily, again, because the
12 regulatory process is such that when you have growth and you
13 add facilities to meet that growth, then presumably the
14 rates set in the test year for that level of sales are
15 sufficient to reimburse the company for the growth in sales
16 that occurs over subsequent years until the next rate case.

17 Q. Do you know whether the company anticipates
18 making any significant capital investments to its existing
19 generating facilities to accommodate future growth in the
20 next four years?

21 A. I think they do not.

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

23 MS. McCLOSKEY: I have nothing further, Your Honor.

24 JUDGE CHRISTIANSON: The witness is excused.

25 (Witness excused.)

1 JUDGE CHRISTIANSON: Let's stay on the record for a
2 little bit. I'll go through my reminder speech before we
3 take the last witness. I guess the company's first filing
4 date is Friday.

5 MR. GADSDEN: That's correct.

6 JUDGE CHRISTIANSON: And then it rolls through the
7 next week according to the second prehearing order of Judge
8 Schnierle.

9 Not much else has to be said. I guess we have the
10 week of rebuttal. That's the last full week, I guess it is,
11 in May, the 22nd through the 26th.

12 And this case so far has gone fairly well, and with
13 learned counsel all around, it will probably continue to do
14 so. There's a couple of possibilities left open about
15 discovery and such.

16 I'll mention for the record, I guess, I mentioned off
17 the record, yesterday I understand our staff had a so-called
18 mega-NOPR presentation from the federal division of the Law
19 Bureau. Did you folks happen to go there, for Trial Staff?

20 MR. SIMMS: Could have been somebody from our office.

21 JUDGE CHRISTIANSON: I was just wondering. One of my
22 people, Ed Rohrbach went, but I forgot to ask him about it
23 at the end of the day yesterday, but they had a
24 presentation. I thought about going, but I had other things
25 to do at the time. But this relates somewhat to this case,

1 obviously, and the whole industry.

2 We seem about ready for the last witness. Let's go
3 off the record for a bit.

4 (Recess.)

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

6 We have the third witness for Consumer Advocate
7 available by telephone. The connection seems good and the
8 tone is pretty good as long as people speak up. Then there
9 is no need for anything further. I've already gone over the
10 schedule from hereon in. It calls for the company to be
11 filing their rebuttal testimony.

12 Go ahead and introduce your witness.

13 MS. McCLOSKEY: Thank you, Your Honor.

14 Your Honor, I'd like to have marked for
15 identification OCA Statement 4, the direct testimony of Dale
16 Bridenbaugh.

17 JUDGE CHRISTIANSON: Yes. Statement 4 is so
18 identified with I guess he has schedules back there, too.

19 MS. McCLOSKEY: Yes, and accompanying schedules.

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

23 JUDGE CHRISTIANSON: Could you out there in
24 California stand and raise your right hand?

25 MR. BRIDENBAUGH: Okay.

1 Whereupon,

2 DALE G. BRIDENBAUGH

3 having been duly sworn, testified as follows:

4 JUDGE CHRISTIANSON: Fine. Be seated.

5 Again, I used to worry about administering the oath
6 beyond state lines, but I think it takes just as well in
7 California as here in Pennsylvania.

8 Go ahead.

9 DIRECT EXAMINATION

10 BY MS. McCLOSKEY:

11 Q. Mr. Bridenbaugh, do you have before you a copy
12 of your prepared, prefiled direct testimony in this case
13 consisting of 32 pages of questions and answers and 12
14 exhibits?

15 A. Yes, I do.

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

18 A. Yes, they were.

19 Q. Do you have any additions, corrections or
20 modifications to make to your testimony or exhibits at this
21 time?

22 A. Yes. I have three very minor corrections which
23 I would like to make. The first one is on page 4 of the
24 direct testimony, line 15. There is an unnecessary "and"
25 and a comma at the end of that sentence. So I would insert

1 a period after the parenthetical expression "(LLRW)" and
2 remove the word "and" and the comma.

3 JUDGE CHRISTIANSON: So that just ends the whole
4 sentence.

5 THE WITNESS: On page 19, the footnote at the bottom
6 of the page, the last few words in the date, "July 27,
7 1988," that is a typographical error. It should be "June
8 27, 1988."

9 On page 25, line 3, the sentence there as filed
10 reads: "Waste burial accounts for almost 27 percent of the
11 total cost." I would like to strike "almost 27" and in its
12 place insert "about 25 percent." The real number is 25.1,
13 and the 27 was a bit higher than it should have been.

14 That's all the corrections that I have.

15 BY MS. McCLOSKEY:

16 Q. Now, subject to those corrections, are the
17 testimony and exhibits true and correct to the best of your
18 knowledge, information and belief?

19 A. Yes, they are.

20 Q. And subject to the corrections, if I were to ask
21 you these questions today under oath, would your answers be
22 the same?

23 A. Yes, they would.

24 MS. McCLOSKEY: Your Honor, we ask that Mr.
25 Bridenbaugh's testimony and exhibits marked for

1 identification as OCA Statement No. 4 be admitted into
2 evidence subject to cross-examination and any timely motions
3 by opposing counsel.

4 JUDGE CHRISTIANSON: Yes. Under the standard
5 conditions, Statement No. 4, the whole package, is now
6 accepted into the record.

7 (Whereupon, the document marked as
8 OCA Statement No. 4 was received in
9 evidence.)

10 MS. McCLOSKEY: And Mr. Bridenbaugh is available for
11 cross-examination.

12 JUDGE CHRISTIANSON: Once again, the other two
13 witnesses didn't take too much and it was all from the
14 company; and go ahead.

15 MR. GADSDEN: Thank you, Your Honor.

16 CROSS-EXAMINATION

17 BY MR. GADSDEN:

18 Q. Mr. Bridenbaugh, this is Tom Gadsden. I'm going
19 to be cross-examining you this morning; and if at any point
20 you can't hear or have trouble picking up the questions,
21 just please let us know.

22 A. You're coming through very clear right now, Mr.
23 Gadsden.

24 Q. Thank you.

25 JUDGE CHRISTIANSON: This is going to be a good test.

1 I'll have to speak to my schedulers about it.

2 BY MR. GADSDEN:

3 Q. Mr. Bridenbaugh, by way of overview, as I
4 understand your testimony, you have essentially proposed two
5 adjustments to Mr. LaGuardia's estimate of the cost of
6 decommissioning the Susquehanna station, one to remove those
7 costs associated with the removal of non-radiological
8 facilities, and another to remove the contingency factors
9 associated with the remaining radiological piece. Is that a
10 fair summary of your position?

11 A. Yes, it is.

12 Q. In your testimony, you used the terms
13 "radioactive" and "radiological." Are those terms to be
14 used interchangeably or is there a distinction that we
15 should be aware of?

16 A. I think they can be used fairly interchangeably.
17 There are, of course, some differences. I think when I have
18 used the term "radiological," specifically as I discuss the
19 costs of the radiological portion of the plant, that would
20 mean all of the materials, all of the costs that would be
21 associated with removing the radioactive components and
22 materials with the understanding that not all of that
23 material is radioactive. There is some material that would
24 be non-radioactive that would have to be removed in order to
25 remove the radioactive components. But with that somewhat

1 subtle distinction, I think the two can be used more or less
2 interchangeably.

3 If there is a specific citation, I could clarify
4 that, if you have a question on it.

5 Q. Okay. Did you calculate the effect of your
6 recommendations on PP&L's claim in this proceeding or did
7 you just turn over your findings to Mr. Catlin?

8 A. I did not calculate the adjustments to the
9 claim. I turned my adjustments over to Mr. Catlin in the
10 form of adjustments by year, and he then took those
11 adjustments and calculated the effect on the claim.

12 Q. Beginning on page 8 of your testimony, you
13 provide some background on decommissioning. At the bottom
14 of page 9 and top of page 10, you discuss three
15 decommissioning options considered acceptable by the NRC.

16 Are you recommending use of a specific method in this
17 case?

18 A. I am not recommending a specific method. I have
19 focused my testimony and the studies specifically on the
20 DECON option, because that is the option that PP&L used in
21 making the claim or the request for additional funding. So
22 I assume that DECON is the one that would be used, but that
23 was not a recommendation by me, at any rate.

24 Q. At the top of page 11, you note that some
25 decommissioning experience has been obtained at the

1 Shoreham, Trojan, Fort Saint Vrain, Yankee Rowe, and Rancho
2 Seco plants. Do you see that?

3 A. Yes.

4 Q. Can you tell us what decommissioning methods are
5 being utilized at those facilities, if you know?

6 A. Well, I'm not sure whether that has been
7 completely decided. I know that at Shoreham, there have
8 been essentially removal of key components to assure that
9 the plant can no longer be used in the nuclear option.

10 As far as Trojan is concerned, it is my understanding
11 that they have or are intending to remove some DECON
12 components in the very near future, specifically the steam
13 generators.

14 Fort Saint Vrain is being converted to a non-nuclear
15 facility, which would involve the removal of certain
16 components and the fuel.

17 With respect to Yankee Rowe, I'm not sure exactly
18 what has been done there at this point in time.

19 And Rancho Seco, my understanding is that a plan has
20 been submitted, but I'm not sure how far along they've
21 gotten on it.

22 Q. How about the Shippingport facility? Do you
23 know what decommissioning method was utilized there?

24 A. Well, it was described as essentially DECON,
25 that is a complete decommissioning; but as I think my

1 testimony indicates a little later, there were certain
2 facilities that were not removed, and in fact, the site was
3 not taken back to a "greenfield" condition.

4 Q. If we could back up just a little bit to page 9,
5 at lines 9 and 10, you cite various dollar estimates
6 developed by Battelle Pacific Northwest Laboratory, the
7 acronym which you use being PNL.

8 What decommissioning option do those figures assume?

9 A. They assume DECON.

10 Q. Mr. Bridenbaugh, if we could now turn to the
11 bottom of page 12 of your testimony and the sentence which
12 begins on line 23 and runs over to the top of the next page.
13 You there express concern that if utilities accumulate more
14 funds than are necessary for the least-cost method, they'll
15 have little incentive to choose that method because they
16 would not benefit financially from the savings. Do you see
17 that?

18 A. Yes, I do.

19 Q. And why is that?

20 A. Well, the reason that I believe that to be the
21 case is that the funding that is collected by utilities for
22 decommissioning is put into an escrow account and it is
23 intended to be used only for decommissioning, and it is my
24 understanding and interpretation that if excess funds are
25 collected, that it would not accrue to the benefit of the

1 utility.

2 Q. Is it your concern that a utility having
3 accumulated those funds would proceed with what was not the
4 least-cost option at the time?

5 A. The concern is that that might happen, yes. A
6 parallel example, I suppose, would be funding at the federal
7 government level where if certain dollars are accrued for a
8 particular task, the tendency is for the department or
9 bureau that is involved in spending that money tends to
10 spend it all, because there is no benefit to them to spend
11 less I guess is the problem.

12 Q. Well, could we agree that this Commission could
13 require a showing that the utility was pursuing the least-
14 cost option and make appropriate rate adjustments if it
15 determined that the utility had failed to do so?

16 A. I'm sure that the Commission could do that. I
17 imagine there would be a question of certainly some
18 adjustment that would have to be made because of the tax
19 effect that that might have, but certainly, there would seem
20 to be nothing that would prevent a commission from doing
21 that.

22 Q. Okay. Can we turn to page 18 of your testimony?

23 A. Okay. I'm there.

24 Q. In the question and answer at the top of the
25 page, you offer the opinion that the Building Official and

1 Code Administrators National Building Code does not apply to
2 the Susquehanna site.

3 Is it your testimony that the BOCA Code would not
4 apply or that, alternatively, that PP&L would, of necessity,
5 take the appropriate steps to comply with that code to
6 ensure that the site was safe and secure?

7 A. Could you restate that question, Mr. Gadsden?
8 I'm not sure I caught it all.

9 Q. Are you testifying that the BOCA Code would not
10 apply to the site or are you instead saying that PP&L would
11 necessarily take the appropriate measures to ensure that the
12 site was safe and secure and therefore would in effect
13 comply with the BOCA Code?

14 A. I think perhaps both of those points are
15 correct. As I read the BOCA Code, its intent is to ensure
16 the health and safety of the public, and as such, I believe
17 that it is primarily for the benefit of the public with
18 respect to buildings that are accessible to the public.
19 This particular site is fast guarded, is the property of
20 PP&L, and I think that there is at the present time and in
21 the foreseeable future there would be no access available to
22 the public to the site; and therefore, the Code itself has
23 no meaning in this particular event.

24 Q. If non-radiological facilities were not removed
25 from the site, what other steps, if any, would PP&L have to

1 take to ensure the safety and security of the facility other
2 than simply fencing it and ensuring that it was guarded?

3 A. I think that PP&L would certainly do that. It
4 is my opinion that this site will probably in all likelihood
5 continue to be a generating station facility of some kind,
6 so it will continue to be utilized as a guarded facility.
7 But I think that if in the unlikely event PP&L decided to
8 completely terminate all activities at the site, that if
9 there were any danger of structures or holes or anything
10 like that, I assume they would probably take care of that,
11 but I don't think that is likely.

12 Q. Assuming that the site is used for an
13 alternative form of generation in the future, would not PP&L
14 have to maintain those non-radiological structures which
15 would become part of that facility?

16 A. Yes, they would; and of course, PP&L -- you
17 know, there is another set of regulations I suppose that
18 could apply, which would be Occupational Safety and Health
19 concerns. So certainly, there is some minimum level of care
20 that the utility would have to take, but I don't think it
21 would extend to requiring that structures that are still
22 sound would have to be knocked down, as was implied, as I
23 read it, right in Mr. LaGuardia's testimony.

24 Q. Have you developed any estimate of what it might
25 cost PP&L to maintain the site in a safe and secure

1 condition?

2 A. No, I have not.

3 Q. Mr. Bridenbaugh, staying on page 18, at lines 16
4 through 17, you state that the NRC limits its concerns to
5 issues regarding the use of radioactive materials. And then
6 further, on page 19, at lines 10 and 11, you state that
7 regulators have not expressed any interest in the removal of
8 non-radioactive structures.

9 Do you see that reference?

10 A. Yes, I do.

11 Q. Are you aware of any instances in which the NRC
12 has required the demolition and removal of non-radiological
13 facilities at a nuclear generating site?

14 A. I'm sorry; I heard some noise in the background.
15 Was that an objection or --

16 JUDGE CHRISTIANSON: They're putting in carpeting in
17 the other hearing room.

18 MR. GADSDEN: No. The objection hasn't come yet. I
19 think that was simply some noise in the hall, so let me
20 repeat --

21 JUDGE CHRISTIANSON: Is the witness coaching counsel?

22 (Laughter.)

23 BY MR. GADSDEN:

24 Q. Let me repeat the question. Are you aware of
25 any instances in which the NRC has required the demolition

1 and removal of non-radiological facilities at a nuclear
2 generating site?

3 A. I think the answer is yes. I can recall, I
4 believe, at least one site which started out to be a dual
5 unit site, which was subsequently -- the second unit was
6 canceled by the utility. There had been some construction
7 activities, although they were minimal. And it's my
8 recollection, I think it was at Clinton, and I think the NRC
9 required the utility to fill up the hole, so to speak.

10 That's the only one I can think of at the moment.

11 Q. Have you reviewed any prior orders of the
12 Pennsylvania Commission to determine its views regarding the
13 removal of non-radiological components?

14 A. I have in the past, but I don't recall at the
15 moment which ones those were.

16 Q. Mr. Bridenbaugh, jumping ahead a few pages to
17 page 21.

18 A. Yes.

19 Q. There you discuss the conversion of nuclear
20 stations to other power generation and the possible use of
21 non-contaminated components in the resulting facility. We
22 touched on this a little earlier. But you site us as an
23 example the Pathfinder research reactor, which was owned and
24 operated by Northern States Power. Can we agree that the
25 Pathfinder plant was designed originally with a back-up

1 source of fossil-fired steam generation?

2 A. Yes; that's correct.

3 Q. You also cite the Fort Saint Vrain plant. Are
4 you aware of any special features of the Fort Saint Vrain
5 plant which might not be present at Susquehanna that made it
6 an appropriate candidate for conversion to fossil-fired
7 generation?

8 A. I would say that it would be more conducive to
9 conversion because of the nuclear cycle that was used there.
10 Fort Saint Vrain is a gas cooled reactor and as such the
11 power generation or the conversion portion of the plant used
12 a more or less conventional steam turbine operated on super-
13 heated steam, so it's a little bit easier to make that
14 conversion there.

15 Q. You also cite the Midland and the Zimmer plants.
16 Were either of those plants ever operated as a nuclear
17 facility?

18 A. No, they were not.

19 Q. Mr. Bridenbaugh, beginning on page 23 you have a
20 section entitled "Reasonableness of a Contingency," and I
21 would ask you to turn there and focus specifically at lines
22 19 through 21.

23 A. About the definition of contingency; is that
24 where we are?

25 Q. That's correct.

1 A. Okay.

2 Q. Do you have a copy of the publication from which
3 you extracted this quote?

4 A. Not in front of me, no.

5 Q. Would you agree or would you accept subject to
6 check that the definition is a little longer than what you
7 have quoted in your testimony and goes on to include the
8 phrase, and I quote, "particularly important where previous
9 experience relating estimates and actual costs has shown
10 that unforeseeable events which will increase costs are
11 likely to occur"?

12 A. I will take that subject to check. As I said, I
13 don't have a copy of it in front of me.

14 Q. If I could refer you now to page 24 of your
15 testimony and the sentence which appears at lines 23 through
16 25, is it your testimony that Mr. LaGuardia blindly
17 incorporated the costs of uncertainties?

18 A. No, I wouldn't say blindly. I'm sure Mr.
19 LaGuardia considered it and decided that that was what he
20 thought should be done.

21 Q. In your view would it be appropriate or sound
22 engineering practice, to use your phrase, to recognize
23 problems or uncertainties that may have already been
24 experienced in the field?

25 A. Yes, I think that would be appropriate.

1 However, I think it would also be appropriate to evaluate
2 which way you would expect those uncertainties to drive the
3 ultimate cost.

4 Q. At page 27 you discuss the disposal of greater-
5 than-class-C wastes.

6 A. Yes.

7 Q. Specifically, you observe that the federal
8 government will likely assume responsibility for these
9 wastes; is that correct?

10 A. Well, that is the belief at the present time,
11 although I don't believe the federal government has agreed
12 to that yet.

13 Q. Is it your belief that the federal government
14 will pick up the tab for these wastes, or would you expect
15 it to levy some charge?

16 A. I think that the federal government may levy
17 some charge, although I noticed in a recent publication,
18 specifically just a couple of weeks ago, that a number of
19 the utilities have been meeting with the Department of
20 Energy, and the position was expressed by the utilities to
21 DOE that they shouldn't have to pay any additional funds
22 beyond the one mill per kilowatt-hour that DOE is currently
23 collecting for spent fuel disposal. I don't think there has
24 been any agreement reached on that issue yet, but certainly
25 it is the subject of discussion and is being negotiated at

1 this time. So there may or may not be additional funds
2 required for the greater-than-class-C.

3 Q. Finally, Mr. Bridenbaugh, if I could direct you
4 to page 32 of your testimony where you offer some concluding
5 recommendations.

6 A. Yes.

7 Q. Specifically, item number 3, you propose close
8 monitoring of PP&L's stated plan to review and adjust the
9 decommissioning cost estimate at two-year intervals should
10 be performed. I would just ask you to elaborate a little
11 bit more in terms of what you're looking for.

12 A. Well, as I think I stated earlier in the
13 testimony, it is my understanding, and PP&L replied in
14 response to an interrogatory, that they planned to review
15 the cost estimates on a two-year interval. What I am
16 recommending here, although I haven't specifically spelled
17 out how it should be done, I think the Commission should
18 require in some way that those reviews are in fact done
19 every two years, and that the results of the reviews should
20 be submitted to the Commission for review and made available
21 to the public and/or interested parties so that if there
22 appears to be a need for adjustments either upward or
23 downward, that those can and should be made.

24 Q. So it is your proposal that even if the company
25 did not file for a base rate increase but that these interim

1 reports indicated that the cost estimates were either
2 overstated or understated, that some rate adjustment be
3 made?

4 A. Well, I wouldn't go that far. I would just say
5 that there should be some mechanism made to ensure that
6 those reviews are conducted, and that the results of the
7 reviews be made available so that if the Commission or the
8 parties to this proceeding become aware of the results and
9 feel that they are significantly off the mark enough, they
10 can request that formal action be taken.

11 MR. GADSDEN: That's all I have, Mr. Bridenbaugh.
12 Thank you very much.

13 THE WITNESS: Sure. Thank you.

14 JUDGE CHRISTIANSON: That's probably the end of
15 cross.

16 Any follow-up? Anything from Staff?

17 MR. MICKENS: No, Your Honor.

18 JUDGE CHRISTIANSON: Presumably not. Then at this
19 point let's be off the record briefly, and you can check on
20 redirect.

21 (Discussion off the record.)

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

23 After a quick review of her notes, counsel indicates
24 there is no need for redirect, so that at this point we seem
25 to be done with the proceeding, and at this point you're

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excused as a witness, with the possibility, I guess, of surrebuttal or whatever. But you're excused at this point.

(Witness excused.)

JUDGE CHRISTIANSON: That brings us to the end of our witnesses for this stage of the proceeding and to the end of the hearing today, so at this point we're off the record for today's hearing.

(Whereupon, at 11:40 a.m., the hearing was adjourned, to be reconvened at 10:00 a.m. on Monday, May 22, 1995, in Harrisburg, Pennsylvania.)

C E R T I F I C A T E

I hereby certify, as the stenographic reporter, that the foregoing proceedings were taken stenographically by me, and thereafter reduced to typewriting by me or under my direction; and that this transcript is a true and accurate record to the best of my ability.

COMMONWEALTH REPORTING COMPANY, INC.

By: Judith A. Valencik
Judith A. Valencik

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