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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>
Steven Andersen By Mr. Haynes	2240	--	--	--
George T. Jones By Mr. MacGregor	2244	--	--	--
By Ms. McCloskey	--	2256	--	--
By Mr. Epstein	--	2265	--	--
By Mr. Barak	--	2278	--	--
Dale G. Bridenbaugh By Ms. McCloskey	2294	--	--	--
By Mr. Gadsden	--	2301	--	--
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E X H I B I T S

<u>NUMBER</u>	<u>FOR IDENTIFICATION</u>	<u>IN EVIDENCE</u>
<u>CEPFOD Statement No.</u>		
✓ SR1 (Andersen - Surrebuttal) ✓	2239	2241
<u>CEPFOD Exhibit No.</u>		
✓ 17 (work papers of Mr. Kasper) ✓	2240	2241
<u>PP&L Statement No.</u>		
✓ 15-R (Jones - Rebuttal) ✓	2244	2245
✓ 9-R (Sipics - Rebuttal, with Exhibits JFS-3 through JFS-7) ✓	2304	2306
✓ 16-R (Hieronymus - Rebuttal, with Exhibits WHH-1 through WHH-4) ✓	2323	2328
<u>Epstein Statement No.</u>		
✓ 1 (Epstein - Surrebuttal) ✓	2286	2286
<u>Epstein Cross-Examination Exhibit No.</u>		
1 (previously identified)	--	2292
<u>OCA Statement</u>		
✓ 4A (Bridenbaugh - Surrebuttal, with Exhibits DGB-13 through DGB-16) ✓ <i>DGB-15 no 16 AB</i>	2294	2298
✓ 2A (Kahal - Surrebuttal) ✓ (Proprietary)	2359	2360
<u>OCA Exhibits</u>		
✓ DGB-13a (Energy Journal article) ✓	2397	2397
✓ DGB-13b (Shippingport Overall Project Progress) ✓	2397	2397

P R O C E E D I N G S

ADMINISTRATIVE LAW JUDGE ROBERT A. CHRISTIANSON:

Let's be on the record. I'm Administrative Law Judge Robert Christianson. We're here today for we hope the last day of hearings concerning this PP&L general rate increase filing.

We expect to close the record today, possibly with some minor late filed provisions, but I can't recall any significant ones, except perhaps like yesterday the references to the 95 ARPR which might come in with the main brief of the Wilkes-Barre bunch. I always forget their exact name. But provisions like that may occur. We'll have to see.

I guess we'll start off today with Mr. Andersen for the fuel oil people.

MR. HAYNES: Yes.

JUDGE CHRISTIANSON: Go ahead, counsel.

MR. HAYNES: At this time, I would ask there be marked for identification the surrebuttal testimony of Steven Andersen which is identified in the upper right hand corner as CEPFOD Statement No. SR1.

JUDGE CHRISTIANSON: So identified.

(Whereupon, the document was marked as CEPFOD Statement No. SR1 for identification.)

JUDGE CHRISTIANSON: And I remind the witness that he continues to be under oath.

1 Whereupon,

2 STEVEN ANDERSEN

3 having previously been duly sworn, testified further as
4 follows:

5 MR. HAYNES: It contains 13 pages of question and
6 answer testimony.

7 Also, at this time I'd like there to be marked for
8 identification CEPFOD Exhibit No. 17, which is the work
9 papers of Mr. Kasper in calculating the 2.3 cents per
10 kilowatt-hour differential as cited in his testimony. May
11 it be so identified?

12 JUDGE CHRISTIANSON: So identified.

13 (Whereupon, the document was marked as CEPFOD
14 Exhibit No. 17 for identification.)

15 DIRECT EXAMINATION

16 BY MR. HAYNES:

17 Q. Dr. Andersen, do you have before you what's been
18 identified as CEPFOD Statement No. SR1?

19 A. Yes, I do.

20 Q. Was that prepared by you under your direction
21 and supervision?

22 A. Yes, it was.

23 Q. Do you have any changes to the testimony?

24 A. Yes. On page 1, line 23 currently reads,
25 "shifting the burden of current the". It should read,

1 "shifting the burden of the current". That's the only
2 correction I have.

3 Q. Is the information contained in CEPFOD Statement
4 No. SR1 true and correct to the best of your information,
5 belief and knowledge?

6 A. Yes, it is.

7 MR. HAYNES: With that, I ask that it be moved into
8 evidence subject to such motions and cross-examination by
9 the parties.

10 JUDGE CHRISTIANSON: Yes. I hear no immediate
11 objections. Statement SR1 is accepted along with Exhibit
12 No. 17, which was discussed somewhat yesterday.

13 (Whereupon, the documents marked as CEPFOD
14 Statement No. SR1 and CEPFOD Exhibit No. 17
15 were received in evidence.)

16 BY MR. HAYNES:

17 Q. Dr. Andersen, do you have before you what has
18 been identified as CEPFOD Exhibit No. 17?

19 A. Yes, I do.

20 Q. Would you review the exhibit and provide your
21 understanding of what it purports to represent?

22 A. Looking at page 2 of the exhibit, as I
23 understand it, what is being presented here is an estimate
24 of the impact of transferring all current RTS customers to
25 the RS rate.

1 The first block of information that is provided are
2 the RTS billing determinants which consist of the number of
3 bills, the number of kilowatt-hours sold, the recorded
4 demand of those customers which is actual kW, and the
5 billing demand for those customers since they are demand
6 metered rather than strictly energy metered as are RS
7 customers.

8 The present revenue line, \$19,227,365, is as I
9 understand it the company's calculation of RTS revenues at
10 current rates. And the details of that calculation are
11 provided in the second block of information, present rates,
12 RTS.

13 The next line in the first block, the \$27,475,252, is
14 the company's calculation of what RTS customers or the RTS
15 class would pay if all of those customers were transferred
16 to the RS rate.

17 And that calculation or the supporting calculation
18 for the \$27 million is provided in the third block which is
19 marked as proposed rates, RS, and really should be RTS
20 revenues at RS rates. Going back to the --

21 Q. At present rates?

22 A. Excuse me?

23 Q. At present --

24 A. At present rates, yes.

25 Going back, the exhibit then calculates the

1 difference between what the RTS customers pay collectively
2 under the RTS rate, \$19 million, versus what those same
3 customers would pay at the RS rate, \$27 million, and that
4 net difference is \$8,247,887, which works out to \$48.62 per
5 RTS bill, which under CEPFOD's primary recommendation in
6 this case would be completely offset by the \$50 credit that
7 we've recommended the Commission order PP&L to offer to RTS
8 customers if the rate is discontinued, and that offset would
9 continue for a minimum of three years and a maximum of five
10 years.

11 MR. HAYNES: That's all the questions we have on this
12 exhibit.

13 JUDGE CHRISTIANSON: Fine. Then that's basically his
14 presentation, then. I'll check if there's any need for
15 cross.

16 MR. MacGREGOR: No cross, Your Honor.

17 JUDGE CHRISTIANSON: Probably nobody else does, and
18 at this point then the witness is excused.

19 (Witness excused.)

20 JUDGE CHRISTIANSON: We can be off the record
21 briefly.

22 (Discussion off the record.)

23 JUDGE CHRISTIANSON: We can go back then on the
24 record. We have Mr. Jones in the witness box, and proceed,
25 counsel.

1 MR. MacGREGOR: Yes, Your Honor. We would like to
2 call Mr. George T. Jones at this time. Mr. Jones has not
3 been previously sworn.

4 JUDGE CHRISTIANSON: Fine. Then I'll go ahead.
5 Would you stand and raise your right hand?

6 MR. JONES: I beg your pardon?

7 JUDGE CHRISTIANSON: Would you stand and raise your
8 right hand, please? I'll swear you in.

9 MR. JONES: Oh, yes. I'm having trouble hearing.
10 Whereupon,

11 GEORGE T. JONES

12 having been duly sworn, testified as follows:

13 MR. MacGREGOR: Your Honor, I am distributing to the
14 court reporter and have previously distributed to Your Honor
15 and the parties a copy of a document entitled, "Pennsylvania
16 Power & Light Company Rebuttal Testimony of George T.
17 Jones," and would ask that it be marked for purposes of
18 identification as PP&L Statement 15-R.

19 JUDGE CHRISTIANSON: So identified, your 15-R.

20 (Whereupon, the document was marked as PP&L
21 Statement No. 15-R for identification.)

22 DIRECT EXAMINATION

23 BY MR. MacGREGOR:

24 Q. Mr. Jones, do you have before you a copy of PP&L
25 Statement 15-R?

1 A. Yes.

2 Q. And is this a copy of your rebuttal testimony in
3 this proceeding?

4 A. Yes.

5 Q. Was this document prepared either by you or
6 under your direct supervision?

7 A. Yes, it was.

8 Q. Do you have any additions, changes or
9 corrections to make to this statement at this time?

10 A. No.

11 Q. Mr. Jones, if I were to ask you the same
12 questions contained in Statement 15-R again today, would
13 your answers be the same as those contained therein?

14 A. Yes.

15 Q. And would those answers be true and correct to
16 the best of your knowledge?

17 A. Yes, they would.

18 MR. MacGREGOR: Your Honor, at this time, I would
19 like to move the admission of Statement 15-R subject to
20 cross-examination and motion.

21 JUDGE CHRISTIANSON: Subject to those standard
22 conditions, 15-R is now accepted into the record.

23 (Whereupon, the document marked as PP&L
24 Statement No. 15-R was received in evidence.)

25 MR. MacGREGOR: Your Honor, I do have some brief

1 rejoinder testimony from Mr. Jones. I could go ahead and
2 present that at this time.

3 JUDGE CHRISTIANSON: You might as well proceed.

4 BY MR. MacGREGOR:

5 Q. Mr. Jones, at page 3 of your rebuttal testimony,
6 you state that the NRC's SALP process is used to determine
7 the level of management attention that the NRC must devote
8 to a licensee.

9 In his surrebuttal testimony at pages 1 and 2, Mr.
10 Epstein describes this statement as, quote, "disingenuous
11 and misleading." Do you have any support for the reference
12 in your testimony?

13 A. Yes, I do. My characterization of the use of
14 SALP came from NRC SALP Directive 8.6. It states that the
15 purpose of SALP is to determine the allocation of NRC
16 resources for use by -- the use of the licensee based on the
17 licensee's performance, establishes a dialogue between the
18 NRC and the licensee relative to safety issues.

19 Q. Mr. Jones, by way of clarification, at page 4 of
20 your rebuttal testimony, you state that most of the
21 violations of NRC regulations at Susquehanna, particularly
22 in the later years of its operation, have been Severity
23 Level IV or V, which are the lowest categories.

24 At page 3 of his surrebuttal testimony, Mr. Epstein
25 interprets your statement to mean that most violations of

1 the plant in earlier years were Severity Levels I through
2 III. Is this an accurate interpretation of your testimony?

3 A. No, it's not. There are five levels of
4 violation, Level I being the most severe and Level V being
5 the least severe.

6 PP&L has never received a Level I or II violation.
7 In the first seven years of operation, PP&L did receive six
8 Level III violations, and in the last six years of operation
9 we have received three Level III violations, and that's the
10 basis for my statement.

11 Q. At page 4 of his surrebuttal testimony, Mr.
12 Epstein asserts that the number of licensee event reports or
13 LERs increased by 30 percent at the plant in 1994. Is this
14 accurate?

15 A. I don't think so. The data we provided under
16 Interrogatory I guess it was OCA Set I, Question 9, I think,
17 I'm not sure, but that LERs from 1993 increased only by one.

18 Unit 1's LERs increased by one, and Unit 2's LERs did
19 not increase. They stayed the same.

20 Q. Could you briefly explain for the record the
21 nature of a licensee event report and what it constitutes?

22 A. I'm sorry for the acronym, but LER stands for
23 "licensee event report." A licensee event report is a
24 reporting mechanism set in the Code of Federal Regulations
25 for communication of issues between the licensee and NRC.

1 There are set rules, regulations on how to report.
2 Not all LERs carry the same significance. Some LERs can be
3 significant. Some LERs can be relatively insignificant.

4 Some of them may be calculational errors that need to
5 be reported to the NRC. There can be other areas or issues
6 that are generic that need to be relayed to the rest of the
7 industry for information.

8 Q. Mr. Jones, at page 4 of the surrebuttal
9 testimony, Mr. Epstein states that PP&L tested Thermo Lag
10 insulation in 1981 prior to its installation in the
11 Susquehanna plant, that Thermo Lag failed certain tests and
12 yet it was still installed at the plant.

13 Is this a fair characterization of the events
14 regarding this issue?

15 A. No. Thermo Lag is a fire barrier of material
16 that you wrap cable trays and conduits in, and it's used to
17 slow down the effects of a fire. It's one element of a fire
18 protection program.

19 We tested Thermo Lag for specific application in
20 three specific areas. The initial test, it did not meet by
21 itself the requirement, so we subsequently added an armor or
22 a covering, fiberglass additional barrier.

23 It was the two barriers acting in conjunction that
24 was used to meet the requirements.

25 Q. Was the NRC aware of this issue at the time of

1 the testing and installation?

2 A. NRC was aware of the issue at the time of the
3 installation. They were involved and we received approval
4 for those three specific areas.

5 Q. Now, at page 5 of his testimony, Mr. Epstein
6 raises a concern that the Susquehanna plant will serve as a
7 de facto radioactive waste site even though the facility was
8 not licensed, constructed or designed to house such waste
9 indefinitely.

10 Do you have any comments on that testimony?

11 A. Yes. All the material handled at the
12 Susquehanna plant is handled in accordance with the NRC
13 rules and regulations and appropriate policies.

14 Susquehanna is licensed, it is constructed and it is
15 designed to temporarily store radioactive waste. It's not a
16 permanent repository. It's not meant to be, and we don't
17 store it there permanently.

18 Q. And finally, with respect to Mr. Epstein's
19 testimony, he raises an allegation that PP&L is double
20 billing its customers for high level radioactive waste
21 storage, once for maintaining the material on-site in spent
22 fuel pools and again for contributions to the nuclear waste
23 trust fund. Do you have any comments on that testimony?

24 A. Yes. The disposal of spent fuel or high level
25 waste is a multi-step process. The first step is, when the

1 fuel is used up, you remove it from the reactor. You store
2 it in the fuel pools under water.

3 It remains in the fuel pools for some period of time,
4 about five years is what the nominal is, until the heat
5 generation is low enough that you want to take it out of its
6 cooling medium and put it in a cast for final disposal.

7 So it's a multi-step process. This multi-step
8 process, the use of spent fuel pools, was in the original
9 conceptual design and it was always in the design the plant.

10 Q. Turning briefly to Mr. Kahal's surrebuttal
11 testimony, at page 36, he states that he is somewhat
12 surprised by your dismissive attitude toward the Strategy
13 2000 report. Is this a fair characterization of your views
14 concerning this document?

15 A. No. This report -- the short form is "Strategy
16 2000;" I think the title is really, "Positioning Susquehanna
17 for a Competitive Environment" -- is a good study. But it
18 is what it is, and it isn't anything else.

19 It's a study. It's a strategic plan that suggests
20 some initiatives that we would want to pursue in order to
21 position ourselves for full competition.

22 It's not an operating plan. It's not a detailed
23 analysis. It is not a formal cost/benefit study. It's
24 valuable, but it continues on with our basic strategic
25 planning process.

1 Q. Now, in his testimony, Mr. Kahal quotes certain
2 portions of Strategy 2000. Do you have any comments on
3 those specific items?

4 A. Yes. Those I've looked at I'm somewhat familiar
5 with. The study is meant to motivate. It says within the
6 study that if the effort is going to be successful, there
7 must be buy-in from the top to the bottom through the
8 department.

9 So at times, the report becomes somewhat I guess I'd
10 call it evangelical. We need to energize the people as we
11 move into the competitive market, provide some challenging
12 goals.

13 The motivational tone of the study should not be
14 confused with a feasibility study or a rigorous cost/benefit
15 analysis, which have yet to be performed.

16 Q. Mr. Kahal also quotes a section from the
17 Strategy 2000 document that seems to indicate that all 15 of
18 the initiatives identified in that document can be achieved.

19 Do you have any comments on that portion of his
20 testimony?

21 A. Yes. There's a couple of points to be made
22 here. No one has simultaneously achieved all of those
23 goals. Some of those goals have never been achieved by
24 anybody.

25 For example, the extended power uprate is under study

1 both by us and by the original equipment supplier as to
2 whether it's even possible to do that.

3 And certainly, since we're just studying the
4 feasibility, we don't have a real good cost/benefit analysis
5 as to what it would actually cost to uprate that unit.

6 There's a couple of other specific goals. There's
7 one in there to achieve a sustained 28 day refueling outage.
8 No one has been able to do that, to sustain a 28-day
9 refueling outage.

10 Susquehanna and other plants have made progress in
11 most of the areas, but nobody has been able to sustain
12 simultaneous reaching of all those goals.

13 There are some goals in there, like significant
14 reduction to O&M and capital expenditures, that are in
15 direct competition with some of the other goals, such as
16 achieve a 24-month operating cycle and reduce your outage
17 days, and uprate the unit.

18 The full feasibility studies and cost/benefit
19 analysis need to be done on that before we proceed.

20 Q. Could you just explain for the record, Mr.
21 Jones, what the current status of the Strategy 2000 document
22 is?

23 A. The document was developed by a group of
24 employees and reviewed by the department management. We've
25 assigned each one of the goals out to individual managers to

1 develop the feasibility studies and cost/benefit analysis.
2 That's where it is. It's basically in the planning stages,
3 and it is not any further.

4 Q. Finally, Mr. Jones, just so the record is clear
5 on this point, is Strategy 2000 the company's first efforts
6 at strategic planning and cost controls at the Susquehanna
7 plant?

8 A. No, definitely not. We've been doing strategic
9 planning since the eighties. We've seen significant
10 improvements I guess over the last few years in the three
11 what I call overview or more significant performance
12 indicators: Safe plant operation, increased capacity factor
13 and cost control.

14 We've seen a steady improvement in all three areas.
15 Particularly in the area of cost control, since 1990, you
16 see a flat O&M or operating and maintenance budget when you
17 take out the outage, normal cyclic outage expenditures.

18 And we've been able to do that while absorbing the
19 normal rate of inflation, plus some areas that have been
20 rising significantly faster than the rate of inflation that
21 we don't have a lot of control over such as federal fees and
22 other fees that are imposed on us in the rad waste burial
23 costs.

24 The report is a logical continuation, the
25 "Positioning Susquehanna for a Competitive Environment" is a

1 logical continuation of our present strategic plan.

2 MR. MacGREGOR: Thank you, Mr. Jones.

3 That's all I have, Your Honor. The witness is
4 available for cross-examination.

5 JUDGE CHRISTIANSON: Fine. We can go ahead with it,
6 I guess, for a start, and if people want to take a moment to
7 pause, we can pause.

8 I guess we can start with the traditional first
9 party, which would be Trial Staff.

10 MR. MICKENS: No questions, Your Honor.

11 JUDGE CHRISTIANSON: I'll go around the table.
12 Anything from Small Business?

13 MS. MOURY: No, Your Honor.

14 JUDGE CHRISTIANSON: From the industrials?

15 MR. WILLIAMSON: No, Your Honor.

16 JUDGE CHRISTIANSON: You have some?

17 MS. McCLOSKEY: I have some, but if I could have --

18 JUDGE CHRISTIANSON: Yes, you want a moment. Let's
19 be off the record, briefly.

20 (Discussion off the record.)

21 JUDGE CHRISTIANSON: Let's be on the record briefly.

22 MR. BARAK: Your Honor, Alan Barak for Sierra Club.

23 Just two matters: I want to inform the Bench that
24 with respect to a ruling you made recently with respect to
25 the record at least regarding the striking of or excluding

1 of certain testimony of Mr. Biewald, the Sierra Club
2 witness, we will be filing for interlocutory review from the
3 Commission because we believe that if that ruling were
4 reversed, it would affect schedule in this very tightly
5 scheduled case.

6 We'd like you to consider certifying that as a
7 material question.

8 JUDGE CHRISTIANSON: No.

9 MR. BARAK: Thank you, Your Honor.

10 Secondly, Your Honor, I'd like to distribute today a
11 copy of a letter that we provided to the Secretary's office
12 yesterday regarding the provision of transcripts in this
13 case.

14 Our judgment is that probably it's more of a generic
15 matter with respect to all Commission proceedings, but it
16 might affect this proceeding, depending on what happens.

17 It effectively seeks copies of transcripts at a
18 reasonable cost of reproduction, rather than the court
19 reporter's standard rates.

20 I'm not asking to argue that or asking for a ruling
21 from you at this time. Thank you.

22 JUDGE CHRISTIANSON: Thank you. I'm not ruling at
23 this time.

24 Are you ready, Consumer Advocate?

25 MS. McCLOSKEY: Yes.

1 JUDGE CHRISTIANSON: Go ahead.

2 MS. McCLOSKEY: Thank you, Your Honor.

3 CROSS-EXAMINATION

4 BY MS. McCLOSKEY:

5 Q. Good morning, Mr. Jones. My name is Tanya
6 McCloskey. I'm with the Office of Consumer Advocate.

7 A. Good morning.

8 Q. I'd like to start with a question about your
9 rejoinder testimony, and I believe you stated that the
10 Strategy 2000 report identified cost savings that would be
11 important to achieve under a competitive environment.

12 And the question I'd like to ask you is, under a
13 regulated environment, isn't it equally important to try to
14 achieve these costs savings at the Susquehanna plant?

15 A. The answer is yes. We have all along been --
16 our strategic plan addresses and our efforts, our goals and
17 objectives efforts have been addressing cost control, cost
18 reduction. That's part of doing power business.

19 Just because we're moving into a competitive
20 environment doesn't mean we haven't been working on that.
21 If you look at the record, you pretty well see that since
22 1990 to I guess '95, the O&M budget has been flat at about
23 \$176 million or so.

24 And we've been able to absorb all the increases of
25 these and inflation which amounts to about \$98 million that

1 we've already absorbed.

2 So it's always important to work on all of those
3 goals, but exactly whether or not these would be cost
4 beneficial is just another question. We don't have an
5 answer to that, yet.

6 Q. And I believe you said in your rejoinder that
7 each of the goals has now been assigned out to a manager for
8 a cost/benefit or a feasibility analysis; is that correct?

9 A. That and planning, yes.

10 Q. And when do you expect those analyses to be
11 completed?

12 A. I couldn't give you an answer. Some of them I
13 know will take a long time, okay. If you just look at the
14 one on the increased uprate, I don't know exactly how long
15 it will take to do that.

16 It could take years to get topical reports approved
17 by the NRC, so I really can't give you a good answer on it.

18 Q. And has the company taken a position on
19 implementing any of the recommendations in the report at
20 this time?

21 A. Has it --

22 Q. Have you chosen to implement any of the
23 recommendations in the report at this time?

24 A. We are working on all of them. And until we get
25 to the point that says, yes, this is cost beneficial, yes,

1 this feasibility study is done and we look at what it's
2 really going to pay back, then we'll make the decision.

3 But we've made the decision to work on them, okay.
4 We haven't made the decision to actually complete them.

5 Q. Now, can you describe for us your role in the
6 Strategy 2000 report?

7 A. My personal role?

8 Q. Yes.

9 A. I reviewed it along with the other senior
10 managers in the nuclear department. That was my role.

11 Q. And did you supply information for the report,
12 or were you a reviewer of the report?

13 A. I was a reviewer. I did not supply information.
14 This was done by a whole cadre of basically working level
15 employees led by a manager.

16 Q. And when did you first see the report?

17 A. Shoot, I can't remember. It was soon after it
18 was published, but I can't remember.

19 Q. The report was completed in September of 1994;
20 was it about that time?

21 A. It was about that time.

22 Q. I believe you characterize some of the language
23 in the report as motivational. In fact, I think you even
24 called it evangelical.

25 MS. McCLOSKEY: Your Honor, I don't have copies at

1 this moment. I had not intended to put the Strategy 2000
2 report in as an exhibit.

3 But given the characterization of the report by the
4 company and its use by the OCA, I think it would be more
5 appropriate to have the report in as a confidential exhibit
6 -- it has been marked confidential by the company -- as an
7 exhibit, so the report can speak for itself. We can make
8 copies for this afternoon.

9 JUDGE CHRISTIANSON: Let me check with the witness.
10 When you said "evangelical," was that within the words of
11 the report, or the meaning and intent behind the report?

12 THE WITNESS: There are quotes -- let me see if I can
13 explain it -- there are some quotes in the report about
14 really trying to energize the people and get them to take a
15 different approach, and they are sort of preaching.

16 And we sort of want that. But if you just take the
17 comments out by themselves, you get a different flavor than
18 if you just sit down and look at the report in its entirety
19 and say, this is a positioning report, a planning report.
20 It's not a detailed cost/benefit analysis or a plan.

21 JUDGE CHRISTIANSON: I just wanted to clarify that.

22 MS. McCLOSKEY: Sure. And I guess my point is, I
23 think that was the image he was trying to convey of Mr.
24 Kahal's use of certain quotes in the surrebuttal, and I
25 think if those quotes are read in context by the Commission

1 in the full report, the report can speak for itself.

2 JUDGE CHRISTIANSON: I'll let counsel respond.

3 MR. MacGREGOR: Frankly, I think that's probably not
4 a bad idea. I thought about it myself at one point, because
5 we were going back and forth with sort of dueling quotes
6 here, and maybe the best thing would be to get it in that
7 way.

8 We do continue to have concern regarding the
9 confidentiality of the document, given its discussions re:
10 the competitive positioning of the plant and those types of
11 things.

12 JUDGE CHRISTIANSON: Well, you can keep it
13 confidential. I don't know if there is an agreement as such
14 in this proceeding, but we've got certainly plenty of
15 practice and knowledge about keeping things protected.

16 MS. McCLOSKEY: Given that it's confidential, let me
17 pose this question to the company.

18 Do you have bound copies that you would provide for
19 the record, or would you like us to make a copy of the one
20 that we have? I don't want to needlessly copy something
21 that's confidential.

22 JUDGE CHRISTIANSON: We can decide later. You're not
23 going to put copies in right at the moment, anyway.

24 MR. MacGREGOR: Why don't we work out the production,
25 but either we'll provide it or the OCA can provide it.

1 JUDGE CHRISTIANSON: I believe it was identified as
2 your No. 21?

3 MS. McCLOSKEY: That would be OCA Cross Exhibit No.
4 21. And I'll move for its admission later this afternoon
5 with the rest of our exhibits.

6 JUDGE CHRISTIANSON: We'll now identify it. This
7 2000 report, whatever the exact title is, is identified as
8 OCA Cross-Examination Exhibit No. 21, with copies to be
9 provided.

10 (Whereupon, the document was marked as OCA
11 Cross-Examination Exhibit No. 21 for
12 identification.)

13 JUDGE CHRISTIANSON: And we might check when we
14 actually admit it if we do later in the day with the court
15 reporter about getting a late copy, because if it's not in
16 fairly promptly, it's just a mechanical problem of getting
17 it down there, especially if it's confidential. We want to
18 be careful about it.

19 MS. McCLOSKEY: Yes, that's correct, Your Honor.

20 JUDGE CHRISTIANSON: And about copies to the parties,
21 I'm not sure if we have to worry about them signing off and
22 such like in the telephone cases.

23 MS. McCLOSKEY: I think at this point, the PPLICA and
24 OTS are the only other signatories, so they would be the
25 only other parties receiving a copy.

1 JUDGE CHRISTIANSON: We'll leave it at that unless
2 other people want it, and they can sign up.

3 Mr. Barak?

4 MR. BARAK: Thank you, Your Honor.

5 There's something pending. I think we asked the
6 company a long time ago to provide us with a copy of the
7 outstanding confidentiality agreement.

8 I'd like to stipulate on the record right now to that
9 agreement, so I can obviate any problems, and we would like
10 to be put on the distribution list for the confidential
11 documents and be able to review them. I assume counsel will
12 transmit a copy of the agreement to me at some point.

13 MR. MacGREGOR: Well, I wouldn't assume that. Your
14 Honor, this is a highly confidential document. It relates
15 to certain strategic planning regarding the Susquehanna
16 plant.

17 Where parties in the case have not addressed any
18 issues regarding that report and their testimony has nothing
19 to do with that issue, I really don't see what purpose is
20 served by supplying copies of confidential reports on issues
21 in which they are not involved.

22 We have provided it to the parties who have had an
23 interest in the nuclear issues, and would continue to do so,
24 but we are really trying to limit the distribution of the
25 document to the maximum extent possible.

1 And I really don't want to provide it on a wholesale
2 basis unless it's truly necessary for a party's presentation
3 of his or her issues in the case.

4 MR. BARAK: We addressed those issues in our
5 intervention, Your Honor. Merely because we haven't been
6 able to afford a witness or this or haven't offered a
7 witness, it's not that we're not interested.

8 JUDGE CHRISTIANSON: But the record closes today.

9 MR. BARAK: I'm anticipating briefs, Your Honor.
10 Counsel has already referred to the Commission's reviewing a
11 document and parties making arguments that rest on their
12 knowledge of the document.

13 MR. MacGREGOR: The Sierra Club has put in its
14 testimony in this case on DSM issues only, some of which are
15 still in the case and some of which have been stricken from
16 the record.

17 Nothing in this report is relevant in any way to the
18 issues of DSM. I'd be happy to show Mr. Barak a copy of the
19 report and let him look at it to verify that.

20 Otherwise, I don't see why copies of it need to be
21 broadly distributed to all the parties.

22 JUDGE CHRISTIANSON: Are you suggesting you might
23 brief other issues?

24 MR. BARAK: Oh, yes, Your Honor, absolutely. If you
25 take a look at our intervention, we address the nuclear

1 waste storage and decommissioning issues, and we take
2 positions that are at variance with various parties'
3 positions, including the company's and including OCA.

4 JUDGE CHRISTIANSON: Maybe I'll worry about this when
5 the thing is actually moved. It has only been identified at
6 this point. Maybe counsel will have some time to talk.

7 One thing, more or less on the subject, dealing with
8 this party, I'll just mention that 5.302 on interlocutory
9 review mentions that a participant may submit a timely
10 petition to the Secretary.

11 My ruling was some days ago, and I think probably you
12 are not timely as to interlocutory review. You've waited
13 until the last day of hearing on this, rather than doing it
14 promptly.

15 But that's just my own observation. It's not for my
16 decision at all. It's for the Commission to decide that.
17 I just point out 5.302(a).

18 We'll deal with this later, when we actually have the
19 thing moved. I've reviewed your letter as well on getting
20 the transcript. I'll probably have this taken up with my
21 staff to some degree. I realize it's addressed to John
22 Alford, but we're certainly very strongly affected.

23 Let's proceed. Do you have more questions of the
24 witness?

25 MS. McCLOSKEY: No, Your Honor. That concludes my

1 cross.

2 JUDGE CHRISTIANSON: Then we can check. Anything
3 from the federal?

4 MR. McCORMICK: No, sir.

5 JUDGE CHRISTIANSON: And Mr. Williamson?

6 MR. WILLIAMSON: No, Your Honor.

7 JUDGE CHRISTIANSON: Then Mr. Epstein, I guess.

8 MR. EPSTEIN: Yes.

9 JUDGE CHRISTIANSON: Go ahead.

10 CROSS-EXAMINATION

11 BY MR. EPSTEIN:

12 Q. Mr. Jones, I'm Eric Epstein, representing
13 myself. How are you doing today?

14 A. Just fine. How are you?

15 Q. I would be doing a little better if Indianapolis
16 won last night, but you can't have everything.

17 I just wanted to follow up on some of your rejoinder
18 concerning the SALP. You had mentioned that one of the
19 functions of the SALP was an allocation for personnel.

20 It has been my understanding at Three Mile Island and
21 Peach Bottom, working with the Nuclear Regulatory
22 Commission, that the SALP is also used as a report card for
23 licensee performance; is that not correct?

24 A. It's not stated so in the NRC directives.

25 Q. It may not be stated in the NRC directives, but

1 it has been referred to me over the last 15 years as a
2 report card, and it's been represented as such by GPU
3 Nuclear.

4 Do you interpret it as a report card on your
5 performance?

6 A. I interpret it the way NRC writes it. They
7 wrote it. The SALP gives you some interesting insights and
8 you should read, you know, we read those carefully.

9 More importantly is the dialogue that comes with the
10 SALP between the NRC and the licensee's management.

11 Q. Are you aware that in PP&L corporate reports,
12 they never refer to the SALP in relation to allocation for
13 personnel, but they refer to the SALP as an evaluation of
14 Susquehanna's performance?

15 A. Never -- I don't understand the question. Could
16 you repeat it?

17 Q. The question is, in PP&L documents sent out to
18 shareholders, the company refers to the SALP as a way of
19 evaluating their performance. Are you aware of that?

20 MR. MacGREGOR: Objection, Your Honor. If you have a
21 copy of a report you want to show him, that's fine. I'm not
22 going to accept it without seeing --

23 MR. EPSTEIN: I can bring it in. That's not a
24 problem. I can bring it in this afternoon.

25 MR. MacGREGOR: He's up for cross-examination now,

1 and if you have a question about it, I'd like to do it now
2 so we don't have to wait around all day.

3 JUDGE CHRISTIANSON: Maybe repeat the question. We
4 might be able to work without the report.

5 MR. EPSTEIN: Perhaps we can just stipulate, after
6 you have a chance to look at the document.

7 BY MR. EPSTEIN:

8 Q. Are you aware that the company has in their
9 reports to shareholders identified the SALP as a grading
10 mechanism?

11 A. No. I'm not aware of it.

12 Q. Concerning the licensee event reports provided
13 by the NRC, I believe you said the LERs -- let me make sure
14 I'm quoting you correctly -- can sometimes be significant;
15 is that correct?

16 A. Yeah.

17 Q. Okay. It's been my experience -- perhaps yours
18 is different, and I would appreciate your response to this
19 -- that if a licensee files an LER or is prompt in
20 identifying a problem at a nuclear power plant, they are
21 less likely to receive a notice of violation.

22 A. That's one of the criteria for receiving what
23 they call a self-identified violation. But it is not the
24 only criteria.

25 The nuclear industry has within it an approach that

1 says, it is much better if I identify my problems and I fix
2 them than if my problems identify me.

3 And that's part of the basis for licensee identified
4 issues. LERs are not violations. The two are separate.

5 Q. I would agree to the extent that industry
6 prefers the licensee to handle problems rather than come in
7 and handle those issues.

8 I'm wondering if I'm properly characterizing the
9 NRC's charge for regulating the power plant as you see it;
10 would you agree?

11 A. I don't understand that.

12 Q. There's a preference that the industry identify
13 and correct problems rather than the NRC intercede in
14 problems at the nuclear power plant.

15 A. I'm not trying to be argumentative, but I
16 wouldn't characterize it that way. The NRC has the trust of
17 the public in order to protect the health and safety of the
18 public. That's by law.

19 We support that. We support a strong regulator. It
20 is also incumbent on the utility owner to protect the health
21 and safety of the public. That is our primary
22 responsibility. Whether the NRC is there or not, we still
23 do that.

24 Q. Concerning the LERs, I believe you took issue
25 with the number of LERs I had mentioned in my surrebuttal

1 concerning the final year.

2 Did you take issue with any of the other number of
3 LERs that I had mentioned in my surrebuttal?

4 A. I looked at them, and I believe that the numbers
5 were according to the previously submitted interrogatories.
6 I believe they were wrong, but I didn't go back and say,
7 okay, make a direct comparison of which ones I thought,
8 trying to figure out where it was disconnected, which is not
9 important.

10 It was mainly looking at the trend in '93 and '94,
11 which I thought was an issue.

12 Q. I would just like to point out that the
13 information that I used concerning LERs was provided by the
14 Nuclear Regulatory Commission.

15 And as a point of clarification, you had mentioned
16 that there were six Level III violations at Susquehanna, and
17 I didn't catch, if you could just clarify, what that time
18 frame was for --

19 A. First seven years of operation.

20 Q. And then three after that; is that correct?

21 A. That's correct.

22 Q. The low level radioactive waste facility that
23 you have at Susquehanna I believe is a temporary facility at
24 this point; is it not?

25 A. It is designed, constructed and operated for

1 storing radioactive waste for the licensed life of the
2 plant. Beyond the licensed life, I can't say anything about
3 the plant. I only have a license for the life.

4 It's basically what we call a permanent facility,
5 which means it has a licensed life.

6 Q. However, the facility you have at Susquehanna,
7 in other words, would not fit the criteria of what the
8 Appalachian Compact is looking for in terms of a long-term
9 permanent disposal site?

10 A. Oh, no. There's no intent to store permanently
11 rad. waste at the site.

12 Q. I believe you also took issue with my claim that
13 there was double billing concerning storage spent nuclear
14 fuel at Susquehanna.

15 What I'd like to do -- I'm not entering this as an
16 exhibit; just to let the Court know where I got this
17 information from -- I'll provide a copy to counsel and also
18 to you so you can look at it.

19 (Documents distributed by Mr. Epstein.)

20 MR. EPSTEIN: In addition, I'll make a copy available
21 to Your Honor of this.

22 BY MR. EPSTEIN:

23 Q. I would just ask you to look at the highlighted
24 portion of both articles, and you'll note that GPU has
25 admitted that they're double-billing their customers for

1 contributions to the nuclear waste trust fund and to storing
2 spent fuel at the site.

3 Maybe you'd like to take a moment to look at those
4 quotes and respond.

5 A. I don't know that I can say anything about GPU.
6 I do know what we're going at Susquehanna, and that's not
7 the case.

8 JUDGE CHRISTIANSON: You can only speak for PP&L,
9 really?

10 THE WITNESS: Absolutely.

11 BY MR. EPSTEIN:

12 Q. At PP&L, though, you are making contributions to
13 the nuclear waste trust fund; isn't that correct?

14 A. That is correct. We make contributions as
15 required by federal statute.

16 Q. And you also get revenues from the ratepayer to
17 maintain spent fuel pools onsite; is that not correct?

18 A. To maintain spent fuel pools?

19 Q. Storage.

20 A. Absolutely. As I explained before, that is part
21 of the process. The nuclear waste trust fund is for the
22 final disposal of the fuel.

23 The fuel must be stored in pools underwater for a
24 period of time until thermal activity has dropped off enough
25 that you can pull it out of its cooling medium. That was

1 the original concept. It hasn't changed.

2 Q. I just have a couple other questions, Mr. Jones,
3 if you can give me a moment to go through my notes here.

4 In your opinion, how long do you expect PP&L to
5 operate Susquehanna?

6 A. Expect to operate it for the 40 year license of
7 its life.

8 Q. In your experience, which is rather extensive at
9 TVA, Entergy and CE, can you at least let me know what is
10 the longest life of a plant you've been associated with?

11 A. I've never been associated with one that -- none
12 of them have reached the end of their licensed life. I
13 couldn't answer the question.

14 There has been a lot of work done and continues to be
15 done on life extension, not by us but by the industry. I
16 don't know.

17 There are some elements that say it could go to 60
18 years, but the answer to the question is, I don't know.

19 Q. But in your experience with these companies, you
20 have never had one that has operated for 40 years?

21 A. No. They are not that old.

22 Q. Okay. I just have a couple final questions.
23 I presume you're familiar with Robert Bryan?

24 A. Who?

25 Q. Robert G. Bryan, senior vice president, nuclear,

1 PP&L?

2 A. Oh, Byron?

3 Q. Byron.

4 A. Yes, sir, I am.

5 JUDGE CHRISTIANSON: I got worried there for a
6 minute.

7 THE WITNESS: He's my boss. I ought to be familiar
8 with him, somewhat.

9 (Laughter.)

10 BY MR. EPSTEIN:

11 Q. I got worried a little, too.

12 Are you aware of a letter he wrote to the NRC,
13 December 22, 1994 entitled, and I quote, "Susquehanna Steam
14 Electric Station Response to the Follow-Up Request for
15 Additional Information Regarding Generic Letter 92/08,
16 Issued Pursuant to 10 C.F.R. 505.4"? I have a copy of that
17 if you don't recall.

18 Just a second. I apologize, because I had to scrap
19 this off microfiche. Here you go.

20 (Document handed to the witness.)

21 MR. EPSTEIN: Do you want to come up?

22 MR. MacGREGOR: I'll come up.

23 JUDGE CHRISTIANSON: Counsel can go up.

24 MR. EPSTEIN: I didn't want to copy it at the Giant
25 last night. It was 10 cents apiece. In that --

1 MR. MacGREGOR: Why don't you give us a chance to
2 look at it first, okay?

3 JUDGE CHRISTIANSON: Just pause for a minute.

4 MR. EPSTEIN: Sure.

5 (Pause.)

6 THE WITNESS: Yes.

7 BY MR. EPSTEIN:

8 Q. You are familiar?

9 A. Yes.

10 MR. EPSTEIN: Dave, are you ready?

11 MR. MacGREGOR: Yes. Please go ahead. Yes.

12 BY MR. EPSTEIN:

13 Q. He stated in that -- I put a little blue sticky
14 thing so you can find it; I don't know if that will help you
15 -- difficulties associated with an NRC request for
16 additional information pertaining to assessing and modifying
17 current installations of Thermo Lag, quote, he said, "has
18 led us to the conclusion that Thermo Lag elimination through
19 reanalysis is the only realistic approach to resolving this
20 issue," end quote.

21 Has PP&L replaced Thermo Lag at the facility?

22 A. No.

23 Q. Did you request an extension?

24 A. Extension to what?

25 Q. To comply with the regulations concerning Thermo

1 Lag?

2 A. No. We're complying with all the regulations
3 and orders that are in effect at the time.

4 Q. All right. Are you familiar with a document
5 sent by Ken Walker, Chairman of OIG Thermal Sciences, Inc.
6 Task Force to Frank J. Maraglia, NRC Office of NNR -- NRR,
7 rather, entitled, quote, "Referral of Potential Health and
8 Safety Issues at NRR?" I have a copy of that, also, if that
9 would be helpful.

10 MR. MacGREGOR: He can look at it and tell you if
11 he's familiar with it.

12 MR. EPSTEIN: Okay, well, that's what we're doing.
13 I'm trying to cooperate here, Dave, be a team player.

14 (Witness perusing document.)

15 THE WITNESS: No, I'm not familiar with it. I'm
16 familiar with the issue, but not with this.

17 MR. EPSTEIN: Okay. Let me proceed, and if he's not,
18 you can object.

19 MR. MacGREGOR: That's fine.

20 BY MR. EPSTEIN:

21 Q. I think you might have stated this before. Let
22 me just clarify. I believe PP&L failed to pass one-hour
23 fire endurance test for Thermo Lag 333-1 -- 3330-1 in '82;
24 is that correct?

25 A. I'm sorry, would you repeat the question?

1 Q. I believe PP&L failed to pass one-hour fire
2 endurance test for its Thermo Lag 3330-1 in '82; is that
3 correct?

4 A. That's correct. As I said before earlier this
5 morning, those tests were some specific areas, and the test
6 for Thermo Lag by itself didn't meet the acceptance
7 criteria.

8 Q. I think that was for three specific areas; was
9 it not?

10 A. Yes.

11 Q. Did PP&L get an exemption for the entire Thermo
12 Lag application?

13 A. One wasn't required at the time.

14 Q. Does PP&L, though, have an exemption?

15 A. No. One is not required.

16 JUDGE CHRISTIANSON: Let me interject. I think on
17 the direct statement, you said that they used fiberglass to
18 supplement.

19 THE WITNESS: Yes, sir.

20 JUDGE CHRISTIANSON: Did this allow you to pass
21 something you wouldn't have passed otherwise?

22 THE WITNESS: Putting in the extra barrier was
23 reviewed and approved by the NRC and we received approval to
24 do so.

25 JUDGE CHRISTIANSON: Okay. I just wanted to make

1 sure I was remembering the direct.

2 BY MR. EPSTEIN:

3 Q. So in your opinion, then, you're not out of
4 compliance with 10 C.F.R. 50 and the Appendix R requirements
5 related to Thermo Lag?

6 A. Out of --

7 Q. Out of compliance.

8 A. That's an awful broad statement. I mean, I
9 don't think so. There's a lot of subsequent correspondence
10 and bulletins that go along with that.

11 JUDGE CHRISTIANSON: You view PP&L as in compliance
12 with whatever you're complying with?

13 THE WITNESS: View --

14 MR. MacGREGOR: I don't think he heard you.

15 THE WITNESS: I'm sorry, sir.

16 JUDGE CHRISTIANSON: Go ahead and talk with Mr.
17 Epstein.

18 MR. EPSTEIN: No, I'm done. Did you guys need a copy
19 of this, or is it not necessary?

20 JUDGE CHRISTIANSON: I'll ask the question in a
21 minute.

22 MR. MacGREGOR: No, I don't so.

23 JUDGE CHRISTIANSON: You fundamentally feel you're in
24 compliance about this insulation business?

25 THE WITNESS: Yes, absolutely.

1 JUDGE CHRISTIANSON: That's all I wanted.

2 MR. EPSTEIN: I'm sorry, what was your response to
3 that?

4 THE WITNESS: Absolutely.

5 JUDGE CHRISTIANSON: He said absolutely.

6 THE WITNESS: We've been inspected and passed
7 inspections. And that doesn't mean the end of the issue,
8 but we're in compliance, yes.

9 JUDGE CHRISTIANSON: There are some pending concerns,
10 I guess?

11 THE WITNESS: Yes, sir.

12 JUDGE CHRISTIANSON: Then are you done?

13 MR. EPSTEIN: Yes, that concludes it, sir.

14 JUDGE CHRISTIANSON: Then I assume we're done with
15 cross of the witness. Yes, sir?

16 MR. BARAK: Just a couple minutes, Your Honor.

17 JUDGE CHRISTIANSON: Go ahead.

18 CROSS-EXAMINATION

19 BY MR. BARAK:

20 Q. I'm Alan Barak, sir. I represent Sierra Club.
21 Do you recall addressing in your oral rejoinder issues of
22 temporary storage of nuclear waste and your role in
23 developing a strategic plan for competition for Susquehanna?

24 A. Yes.

25 Q. When you use the term "competition" with respect

1 to Susquehanna, does that include the concepts of price and
2 reliability?

3 A. The competition is the statement for the
4 competitive pricing of power in a competitive market. The
5 reliability is the reliability. I mean, no matter what it
6 is, you try to get the most reliable plant you have. That's
7 also one of the safer plants.

8 JUDGE CHRISTIANSON: Well, I guess people have been
9 thinking more explicitly about the quality of service.

10 THE WITNESS: I don't understand.

11 JUDGE CHRISTIANSON: You think mainly about price, I
12 guess. You're talking mainly price.

13 THE WITNESS: Right.

14 JUDGE CHRISTIANSON: Go ahead, counsel.

15 BY MR. BARAK:

16 Q. That was a yes? I'm sorry.

17 JUDGE CHRISTIANSON: He answered yes to my question.

18 MR. BARAK: Thank you.

19 JUDGE CHRISTIANSON: He thinks mainly about price,
20 but I acknowledge there's a quality of service question in
21 the industry, for dirty power, you might say, thinks like
22 that, and also outages.

23 BY MR. BARAK:

24 Q. With respect to price, then, two of the factors
25 affecting price would be the cost, the ultimate cost of

1 nuclear waste storage and disposal, number one; and number
2 two, the cost of decommissioning a facility, correct?

3 A. That's correct.

4 Q. Is it your opinion that the rates presently
5 reflect fully the anticipated cost of both of those factors?

6 A. I can't answer the question.

7 Q. You don't have an opinion?

8 A. I'm not a rate structure expert.

9 Q. Do you have an opinion as to the life of a
10 facility?

11 A. I think I answered that.

12 Q. That's 40 years, in your opinion?

13 A. Well, that's the licensed life.

14 Q. Is it your opinion that the plant will run for
15 the entirety of its licensed life?

16 A. I see no reason why not.

17 Q. So that's your opinion, that it will?

18 A. Yes.

19 Q. Now, do you also have an opinion as to the
20 extent to which the operating life of the plant will affect
21 the collections for nuclear waste storage and disposal on
22 the one hand and decommissioning on the other?

23 JUDGE CHRISTIANSON: Collections of money, are you
24 saying?

25 MR. BARAK: Yes, Your Honor.

1 THE WITNESS: I can't answer that question. I mean,
2 I don't have an opinion on it.

3 BY MR. BARAK:

4 Q. Do you understand how the reserves for paying
5 for nuclear waste storage and disposal on the one hand and
6 decommissioning on the other are collected?

7 A. I understand about the nuclear waste trust fund,
8 how it's collected.

9 JUDGE CHRISTIANSON: He knows the nuclear waste trust
10 fund. Perhaps you could --

11 THE WITNESS: I understand how it's collected. It's
12 collected as a surcharge, I believe, basically so much a
13 kilowatt.

14 BY MR. BARAK:

15 Q. It's attached to the kilowatt-hour sales related
16 to --

17 A. Right, which seems fairly reasonable, because
18 you burn the fuel, you make the kilowatts; if you don't make
19 the kilowatts, you don't burn the fuel. So it seems
20 reasonable.

21 Q. So would you agree with me that if the facility
22 doesn't run its full operating life, all other things being
23 equal, there won't be, if you will, the pile of money in the
24 reserves at the end of the plant's life for fully covering
25 the costs of nuclear waste disposal and storage on the one

1 hand and decommissioning on the other?

2 A. I can't answer about decommissioning, but I do
3 know that if it doesn't operate, it doesn't generate the
4 waste.

5 JUDGE CHRISTIANSON: You're thinking about used cores
6 mainly, now?

7 THE WITNESS: Right.

8 BY MR. BARAK:

9 Q. So with respect then to the decommissioning
10 issue, would you agree with me that to the extent you don't
11 meet your 40 year projected life of the plant, we haven't
12 fully recovered the cost of decommissioning the facility,
13 all other things being equal?

14 MR. MacGREGOR: Objection, Your Honor. This witness
15 is vice president for the nuclear department. He has no
16 expertise and is not presented as a witness on ratemaking
17 issues or how dollars are collected in rates, and whether
18 what's collected in rates will be adequate or not for
19 decommissioning or any other purpose.

20 JUDGE CHRISTIANSON: I understand he's basically an
21 engineer, not an accountant?

22 MR. MacGREGOR: That is correct.

23 THE WITNESS: Yes, sir.

24 JUDGE CHRISTIANSON: He's agreeing with me.

25 We can almost acknowledge, the company might be able

1 to even agree that if the plant shut down next year, then
2 there'd be a problem about decommissioning.

3 MR. MacGREGOR: There wouldn't be adequate monies in
4 the decommissioning trust fund at that point to pay for the
5 complete cost of decommissioning the plant.

6 JUDGE CHRISTIANSON: Right. I think that's what
7 counsel was looking for. This witness can't give you that,
8 but counsel is essentially agreeing with you.

9 MR. BARAK: Thank you, Your Honor.

10 BY MR. BARAK:

11 Q. Next question, then: Do you have a concern
12 within the scope of your employment, your job description
13 that with respect to the competition that Strategy 2000
14 report addresses, the facility will be uncompetitive if it
15 has to fully collect the cost of nuclear waste storage and
16 disposal on the one hand and decommissioning on the other?

17 A. No.

18 MR. BARAK: Thank you. That's all I have.

19 JUDGE CHRISTIANSON: Thank you.

20 Then we probably are now done with cross, unless
21 somebody has some additional follow-up.

22 Let's be off at least briefly for the company.

23 (Discussion off the record.)

24 JUDGE CHRISTIANSON: Let's be back on.

25 I understand there is no redirect for the witness, in

1 which case maybe we'll transact some business before we
2 break. But at this point, the witness is excused.

3 (Witness excused.)

4 JUDGE CHRISTIANSON: I suppose we have Mr. Epstein to
5 get with soon, but we probably won't go to his cross. There
6 are some related --

7 MR. MacGREGOR: Your Honor, we have no questions for
8 Mr. Epstein. I don't know if anybody else does.

9 JUDGE CHRISTIANSON: Okay.

10 MR. MacGREGOR: And we do not object to the admission
11 of his surrebuttal testimony.

12 JUDGE CHRISTIANSON: Let me check. Do you want to
13 put yourself on the stand, anyway? You may want to raise
14 other issues, I guess. Other than that --

15 MR. EPSTEIN: No. I mean, I don't think that's
16 necessary. Actually, I need to get back to my class, who
17 are monitoring themselves.

18 I'm a little worried, because it's a Friday before
19 Memorial Day, and --

20 JUDGE CHRISTIANSON: They may be a little zany.

21 MR. EPSTEIN: Well, they might not be there.

22 (Laughter.)

23 MR. EPSTEIN: Neither may my hubcaps. But --

24 JUDGE CHRISTIANSON: Then let's go to your
25 surrebuttal response to PP&L Witness Jones. Any objection

1 to accepting the surrebuttal response into the record?

2 MR. MacGREGOR: No, Your Honor.

3 JUDGE CHRISTIANSON: Then I hear none, and it's
4 accepted in. Had you submitted earlier testimony?

5 MR. EPSTEIN: I think the only unfinished business --
6 the company may correct me if I'm wrong -- is the
7 introduction of Exhibit 1, which I don't want to argue
8 again. I'm mindful of the time. I don't think you've ruled
9 whether it can be accepted as an exhibit in the evidentiary
10 hearing. I think it has been accepted in the public hearing
11 as an exhibit, and I didn't know logistically how you wanted
12 to handle that.

13 JUDGE CHRISTIANSON: Well, it was handed in at the
14 public hearing. I don't recall accepting it into the record
15 at the public hearing.

16 MR. MacGREGOR: It was specifically not accepted.

17 JUDGE CHRISTIANSON: Let me mention a few other
18 things first, just to make sure we've got it all. So we've
19 got the surrebuttal testimony. We'll call it Epstein
20 Statement 1.

21 MR. EPSTEIN: I like to be No. 1. That's fine.

22 JUDGE CHRISTIANSON: Your Statement No. 1 is now
23 accepted into the record.

24

25

1 (Whereupon, the document was marked as Epstein
2 Statement No. 1 for identification and received
3 in evidence.)

4 JUDGE CHRISTIANSON: Did you give two copies to the
5 court reporter?

6 MR. EPSTEIN: I had two, but I had to lend one out.
7 But I do have at least a single copy.

8 JUDGE CHRISTIANSON: If necessary, I have a copy date
9 stamped into my office. We'll worry about that in just a
10 couple of minutes. I get a copy myself later.

11 You had two other matters. Maybe the company took
12 care of the one. You had that one page question, set of ten
13 questions for that one witness, John Chappellear. Is that
14 taken care of?

15 MR. MacGREGOR: It's in process. We have agreed to
16 prepare responses to those, and are doing so. And I
17 anticipate that they would be done sometime early next week,
18 and we would have to submit it as a late filed exhibit.

19 JUDGE CHRISTIANSON: So you're agreeing to make it
20 part of the record?

21 MR. MacGREGOR: If Mr. Epstein wishes to do so.

22 JUDGE CHRISTIANSON: Okay, that's fine. Then that's
23 one more example of the follow-up we'll have to do.

24 Then you wanted to mention, Mr. Epstein, this matter
25 of capacity out of Yucca Mountain, I guess it is?

1 MR. EPSTEIN: Right. Yes, Your Honor.

2 JUDGE CHRISTIANSON: This is not necessarily for the
3 record, but I have this three-page handout here.

4 MR. EPSTEIN: Yes. I think Mr. LaGuardia took issue
5 with my statement that Yucca Mountain would not be able to
6 deal with all the nuclear waste generated at nuclear power
7 plants at the end of their useful life.

8 I contacted the State of Nevada. I have a technical
9 report there. I asked a staff scientist at NIRS to explain
10 the report, and I just wanted to buttress my argument that
11 Yucca Mountain will not be able to hold all the nuclear
12 waste generated at all the 109 nuclear power plants, and
13 therefore it's my opinion that Susquehanna will not be able
14 to be put in a decon mode but will have to be placed in safe
15 store until there's another facility built.

16 And I simply wanted to provide documentation to
17 reinforce that contention.

18 JUDGE CHRISTIANSON: That statement is not made as a
19 witness. It's just made as the equivalent of counsel.

20 (Pause.)

21 JUDGE CHRISTIANSON: I think he handed out copies at
22 the beginning of the day. I don't know if everybody got
23 one. This again is people's opinion about heating and
24 certain matters, but I'd rather not dwell on it because it's
25 not really coming out on a record basis.

1 Go ahead, if you want to speak up. Do you have
2 anything to say?

3 MR. MacGREGOR: I apologize, Your Honor. I think I
4 may have missed exactly how we're treating this.

5 JUDGE CHRISTIANSON: He just mentioned that he handed
6 it out. That's all he's done, and he has paraphrased a
7 little bit about what it says, and I've said it seems to
8 deal with heating and certain matters like that, and I'm not
9 going into more detail than I have to, just mentioning that
10 he's handed it out at this point.

11 Then on your Exhibit 1, Cross-Examination 1, we've
12 dealt with it before and we've discussed it at fair length
13 when it was originally offered.

14 You are offering it again now, and I don't know if
15 the company wants a chance to respond or not.

16 MR. MacGREGOR: Just briefly, Your Honor. Mr.
17 Epstein is correct, as is Your Honor, that this matter was
18 addressed at some length at an earlier hearing, and I don't
19 want to repeat those arguments here today.

20 As Mr. Gadsden explained at that time, we had
21 reviewed Exhibit 1 presented by Mr. Epstein at that time,
22 and found it to contain a number of errors and
23 inconsistencies and problems, and a number of items we could
24 not track down, a number of references that were wrong, a
25 number of references to UPI articles and periodicals and

1 other magazine articles rather than direct source materials.

2 The most important problem was that there were 208
3 separate items listed in there, many of which we felt were
4 not relevant to the proceeding, and those that were relevant
5 would have taken great time and effort on our part to try to
6 respond to each of those separate items in rebuttal
7 testimony.

8 We now stand on the last day of hearings. This
9 document is not in evidence and we have not presented a
10 response to it.

11 I just don't see any way that it can be admitted into
12 the record at this time without giving the company an
13 opportunity to respond, which obviously we cannot do before
14 the record closes.

15 So for the reasons stated by Mr. Gadsden previously
16 plus the passage of time since the matter was previously
17 argued, we would object to the inclusion of that exhibit in
18 the record.

19 JUDGE CHRISTIANSON: Let me just mention -- I'll hear
20 from you in a moment.

21 MR. EPSTEIN: Okay.

22 JUDGE CHRISTIANSON: When I dealt with it before, it
23 was physically accepted. It was marked. There was sort of
24 an offer of proof, and physically it's in the record.

25 I'm tempted to allow it in a little bit like Mr.

1 Haynes yesterday, on a hearsay basis, that is it's a
2 statement Mr. Epstein is making, but we're not using it for
3 the underlying truth of the various references he mentions
4 in the exhibit.

5 I'm not doing that yet. Let's hear briefly from Mr.
6 Epstein.

7 MR. EPSTEIN: Yes. I don't want to belabor the
8 point. I just need a point of clarification here. At the
9 public hearing, when I offered it as a document, is it part
10 of the official public hearing record?

11 JUDGE CHRISTIANSON: No, it's not. You handed it to
12 me. I did not mark it as an exhibit.

13 MR. EPSTEIN: Okay, it's part of the public hearing,
14 so actually right now, it's not in evidence?

15 JUDGE CHRISTIANSON: That's right, not in evidence in
16 the sense of the Commission relying on it.

17 MR. EPSTEIN: Okay. My response to the company would
18 be that apparently, they spent some time looking at it and
19 they found some discrepancies.

20 Those discrepancies have never been provided to me to
21 let me rectify any potential problems, which I would have
22 been more than willing to do.

23 As I said earlier, we're talking about dozens of NRC
24 documents which I condensed. I'm willing to strike from
25 that the material that came from the wire service, but I

1 feel it's essential to my case to demonstrate that the plant
2 has some difficulties and is not likely to operate for 40
3 years.

4 Again, I'm just going to be brief because I gave my
5 justification of having it admitted before. And I would
6 like to have it admitted as Epstein Exhibit 1.

7 MR. MacGREGOR: Your Honor, I don't see how it can be
8 admitted on the last day of hearing. We did not respond to
9 it previously because it was not part of the record, and
10 we're certainly in no position to respond to it now.

11 The record closes today. We have to immediately
12 start writing briefs over the next three weeks, and even if
13 we were given additional time, we don't have the resources
14 and time to be responding to these 200 items in this exhibit
15 while we're trying to prepare a brief in this case.

16 JUDGE CHRISTIANSON: I appreciate the practical
17 problems involved, and the company was aware of the
18 existence of the items very early on.

19 You offered it when you crossed LaGuardia?

20 MR. MacGREGOR: I think that's right.

21 MR. EPSTEIN: Yes.

22 JUDGE CHRISTIANSON: That's what I seem to recall.
23 It's not really important. That was like the last day of
24 the first series. You offered it when the company presented
25 its witnesses.

1 MR. EPSTEIN: Yes, that's correct.

2 JUDGE CHRISTIANSON: I'll go ahead and do what I said
3 I was going to do. I'll accept it into the record, very
4 limited nature, similar to Mr. Haynes yesterday with his
5 letters, only for what Mr. Epstein is saying and not
6 necessarily for the truth associated with the underlying
7 document.

8 So it's accepted for that limited use, again like
9 those letters we had yesterday that we discussed at some
10 length.

11 So I'm not expecting the company to point by point
12 rebut all these individual items in the newspapers and some
13 PP&L documents and things like that, but it's accepted, so
14 Mr. Epstein can use it in that limited sense for what he's
15 saying, and understanding that he has not been crossed in
16 detail or really at all about it.

17 So that's a rather peculiar status for it, but I'm
18 leaving it that way.

19 (Whereupon, the document marked as Epstein
20 Cross-Examination Exhibit No. 1 was received
21 in evidence.)

22 JUDGE CHRISTIANSON: Anything more from Mr. Epstein?

23 MR. EPSTEIN: No. I would just like to say I need to
24 be excused to go to class, if that's all right.

25 JUDGE CHRISTIANSON: Yes, that's fine. We'll take a

1 break at this point. Let's be off the record for about ten
2 minutes.

3 (Recess.)

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

5 After all that we transacted off the record, I think
6 we have a pretty good feeling of where we are going today.
7 We discussed briefly the Report 2000 business or whatever
8 the title of it is and dissemination, but we'll worry about
9 that as we get closer to the problem. If I have to deal
10 with the problem, I will. If not, I will not.

11 We have Mr. Bridenbaugh on the stand. I believe he's
12 been sworn already.

13 MR. BRIDENBAUGH: Yes, sir, I have.

14 JUDGE CHRISTIANSON: I remind the witness he
15 continues to be under oath.

16 Whereupon,

17 DALE G. BRIDENBAUGH

18 having previously been duly sworn, testified further as
19 follows:

20 JUDGE CHRISTIANSON: And counsel may proceed.

21 MS. McCLOSKEY: Thank you, Your Honor.

22 I'd like to have marked for identification OCA
23 Statement 4A, which is the surrebuttal testimony of Dale G.
24 Bridenbaugh.

25 JUDGE CHRISTIANSON: Yes, 4A, so identified.

1 (Whereupon, the document was marked as OCA
2 Statement No. 4A for identification.)

3 MS. McCLOSKEY: Thank you.

4 DIRECT EXAMINATION

5 BY MS. McCLOSKEY:

6 Q. Mr. Bridenbaugh, do you have before you a copy
7 of OCA Statement No. 4A, consisting of 15 pages of questions
8 and answers and Exhibits DGB-13 to 16?

9 A. Yes, I do.

10 Q. And was this testimony and were these exhibits
11 prepared by you or under your direct supervision?

12 A. Yes, they were.

13 Q. And do you have any additions, corrections or
14 modifications to make to your testimony or schedules and
15 exhibits at this time?

16 A. Yes. I have just a couple of minor corrections
17 to be made.

18 The first correction is on page 8 at line 12, and
19 just to make a small correction to the numbers contained
20 there, the first number on line 12, \$91 million should
21 actually be \$91.3 million. The point three got lopped off.

22 JUDGE CHRISTIANSON: To be consistent with your
23 round-up?

24 THE WITNESS: Yes, sir, that's correct.

25 And then the \$4.3 million that follows the 91 should

1 be \$4.6 million. And on line 13, the 5 percent contingency,
2 just to make it more accurate, it is actually 5.3. I had
3 rounded those off, but I find that one of the exhibits does
4 give the \$91.3 million, so I thought it would be best to
5 just make those all correct and relate properly with each
6 other.

7 At page 10, the first line, there is a typographical
8 error on the date there. The public information meeting was
9 held in December of 1994, not 1995.

10 BY MS. McCLOSKEY:

11 Q. And subject to these corrections, are the
12 testimony and the exhibits true and correct to the best of
13 your knowledge, information and belief?

14 A. Yes, they are.

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

17 A. Yes.

18 Q. Mr. Bridenbaugh, I'd like to again direct your
19 attention to page 8, lines 9 through 15. There was concern
20 expressed yesterday by Mr. LaGuardia regarding the
21 derivation of the numbers that appear in that.

22 Could you please provide an explanation of the
23 derivation of the numbers and the sources of those numbers?

24 A. Yes. Unfortunately, I was on the airplane
25 yesterday, and so I didn't have an opportunity to hear Mr.

1 LaGuardia's comments, but my understanding is that he took
2 issue with my statement of the Shippingport cost estimate
3 contingency figure of \$11.6 million.

4 It's my understanding his recollection or belief was
5 that the contingency in the Shippingport estimate was
6 \$18.6 million.

7 I have back in the office a document which is the
8 source that I used for the \$11.6 million that I am
9 attempting to -- I will call my secretary in an hour or so
10 and try to direct her to where that document is and get it
11 faxed to me.

12 But I also have with me another document which I
13 would like to use to explain the sources of these numbers.
14 I have a copy of Volume 12, a partial copy of Volume 12 of
15 the Energy Journal, which has in it a discussion or some
16 reporting on the Shippingport decommissioning project.

17 And it explains the origin or sort of the evolution
18 of the cost estimate over a number of years, and I'd like to
19 just go through that very briefly.

20 The first total cost estimate for the Shippingport
21 decommissioning project was released in 1979, and the total
22 estimated cost at that time was expected to be \$96 million,
23 and that had a four-year completion schedule.

24 However, it didn't begin immediately, and in 1982, a
25 revision to the cost estimate was issued. And at that time,

1 they reduced the \$96 million to a \$66 million figure.

2 The reason for the reduction was a change that they
3 envisioned in the schedule, and they had figured out by that
4 time that it would probably be possible to remove the
5 reactor pressure vessel and the internals as a single unit
6 as opposed to taking everything apart and shipping it
7 separately.

8 So that was a fairly significant cost reduction.
9 Then in 1983, they issued an update to the cost estimate,
10 and at that time they increased the \$66 million up to
11 \$79.7 million, total estimated cost.

12 The reasons for these changes was another change in
13 the schedule, and they had done some other engineering
14 studies and so on.

15 And so that was the, at that time they came up with
16 the \$79.7 million total estimated cost. That same year,
17 they then added another \$18.6 million to the \$79.7 to reach
18 the total expected cost of \$98.3 million.

19 That \$18.6 million addition in 1983 was to
20 incorporate the need to prepare and perform an environmental
21 study. It was also an increase because of the rapid or the
22 higher interest rates that were accruing at that time, so
23 there were a number of changes to the finance charges. And
24 they also added some work.

25 That evolution is contained in this Energy Journal

1 which I have, which I will be happy to provide copies of
2 today.

3 It may be -- I'm not certain; I didn't hear Mr.
4 LaGuardia's testimony yesterday -- but it sounds
5 suspiciously to me like the \$18.6 million he was talking
6 about yesterday, which he attributed to contingency, might
7 be confused with the \$18.6 million that was added in 1983
8 for the financing and other charges.

9 And so what I can do is provide this copy of this
10 Energy Journal document which explains the origin of the
11 \$98.3 million cost estimate, and I will obtain the document
12 that I have which is a report or a paper by the General
13 Electric decommissioning contractor, one of the principals
14 there, which authenticates or which was the source of the
15 \$11.6 million contingency that I cite at page 8 of my
16 testimony. And I will get a copy of that and provide it.

17 MS. McCLOSKEY: With that, Your Honor, we would ask
18 that Mr. Bridenbaugh's testimony marked for identification
19 as OCA Statement 4A be admitted into evidence subject to
20 cross-examination and timely motions by opposing counsel.

21 JUDGE CHRISTIANSON: Yes, under the standard
22 conditions, 4A is accepted now into the record.

23 (Whereupon, the document marked as OCA

24 Statement No. 4A was received in evidence.)

25 MS. McCLOSKEY: And Mr. Bridenbaugh is available for

1 any cross-examination.

2 JUDGE CHRISTIANSON: Okay. Let's pause for a minute.

3 Let me just ask the witness, just to make sure my
4 recollection is correct, Shippingport is out by Pittsburgh?

5 THE WITNESS: Yes, sir, right.

6 JUDGE CHRISTIANSON: An earlier reactor, I guess?

7 THE WITNESS: Right. The reactor itself was
8 constructed or paid for by at that time ERDA I guess it was
9 rather than DOE, but it was operated by Duquesne Light.

10 And it is at, as I recall, I think it is at the same
11 site as the Beaver Valley Power Plant is.

12 JUDGE CHRISTIANSON: Yes. That's my recollection. I
13 just wanted to check it, because now and then things get a
14 little confused.

15 We can worry about these documents and the
16 differences in numbers. Again, I don't encourage counsel to
17 try to dump a lot into the record late. These documents are
18 not lengthy, I gather.

19 MS. McCLOSKEY: He has one there, and it looks like a
20 couple of pages.

21 THE WITNESS: The one that I have is just a portion
22 of a chapter from the Energy Journal and is three pages in
23 length.

24 JUDGE CHRISTIANSON: Maybe counsel can review it and
25 decide after lunch -- whether there's no need to put them in

1 the record. It's just a question of numbers and is sort of
2 collateral to the main issue which was raised.

3 MS. McCLOSKEY: There was a question about the source
4 and the footnote was placed that the source was a little
5 confusing, so I'm just trying to clarify the source.

6 JUDGE CHRISTIANSON: And you need the fax machine,
7 because you have one, too, in your office.

8 MS. McCLOSKEY: Yes. We'll be having the other
9 document with the 11.6 faxed to us after business opens in
10 California.

11 JUDGE CHRISTIANSON: Oh, that's a thought, yes, like
12 the O.J. Simpson trial. They're out there in that strange
13 state out at the other end of the country.

14 I paused, too, for your Exhibits 19 and 20. Do you
15 want to move them now?

16 MS. McCLOSKEY: I was going to take care of 19 and 20
17 and 21 and any remaining exhibits at the end of my cross of
18 the other witnesses.

19 JUDGE CHRISTIANSON: Then Bridenbaugh is ready for
20 any cross. Have the company people --

21 MR. GADSDEN: Just one or two.

22 JUDGE CHRISTIANSON: We've got these documents, but I
23 think you understand what is going on, basically.

24 MR. GADSDEN: Well, we would like to get a copy of
25 the Energy Journal, and obviously we would like the

1 opportunity to review whatever document is being faxed later
2 this morning before it is considered for admission.

3 JUDGE CHRISTIANSON: Obviously, yes.

4 CROSS-EXAMINATION

5 BY MR. GADSDEN:

6 Q. I guess my only question for Mr. Bridenbaugh is,
7 with respect to the Energy Journal article, does it speak at
8 any place as to the amount of contingency included in any of
9 the numbers that you have just read to us?

10 A. No, it does not. It just gives the total
11 estimated cost, which include the contingency.

12 MR. GADSDEN: That's all we have, Your Honor, pending
13 further review of the article and the fax.

14 JUDGE CHRISTIANSON: Yes, we'll worry about it, if
15 there's trouble then, we'll worry about it then. Probably
16 there won't be any trouble about it, but we'll reserve the
17 right to further proceed.

18 Then with that, I gather we're done with the witness,
19 unless somebody speaks very promptly. I've spoken up too
20 quickly and gotten rid of business, but I think we're done.

21 MS. McCLOSKEY: I think we are.

22 JUDGE CHRISTIANSON: I think I had rejoinder that I
23 almost stepped on a PP&L lawyer about, or I did really step
24 on him.

25 Well, then, with that, I think we're done with the

1 witness and the witness is excused, with the possibilities
2 discussed about these documents.

3 (Witness excused.)

4 JUDGE CHRISTIANSON: Then one minor -- well, not a
5 minor problem, I shouldn't call it that. We have Metro.
6 Again, speak now or forever hold your piece. Does anybody
7 have cross for Metro on Staff ratemaking, basically?

8 MR. GADSDEN: We have no cross-examination, Your
9 Honor.

10 JUDGE CHRISTIANSON: Then, I've heard from the
11 company, and I assume nobody else has anything further.
12 Does Staff want to go through it formally, or do want to
13 just bless it?

14 MR. SIMMS: I was just going to have it, since no one
15 has any cross-examination for Mr. Metro, just have it marked
16 for identification and admitted into the record.

17 JUDGE CHRISTIANSON: Yes.

18 MR. SIMMS: I would ask that the surrebuttal
19 testimony of Paul J. Metro be marked for identification as
20 OTS Statement No. SR5. May it be so identified?

21 JUDGE CHRISTIANSON: So identified.

22 (Whereupon, the document was marked as OTS
23 Statement No. SR5 for identification.)

24 MR. SIMMS: I would ask that the record reflect a
25 minor correction on the title page, that it be changed to

1 May 18, 1995 as opposed to April 19, 1995.

2 JUDGE CHRISTIANSON: That is his old date, I guess.

3 MR. SIMMS: That's correct.

4 JUDGE CHRISTIANSON: And I was wrong. It's excess
5 capacity, not ratemaking.

6 MR. SIMMS: I ask that it be admitted into the
7 record, Your Honor.

8 JUDGE CHRISTIANSON: Yes. Mr. Metro is physically
9 present here if we need him, but no sense in bringing him up
10 to the witness stand just to bless his testimony. At this
11 point, SR5 is admitted into the record.

12 (Whereupon, the document marked as OTS

13 Statement No. SR5 was received in evidence.)

14 JUDGE CHRISTIANSON: Then I guess we can best go with
15 the company witnesses now. Kahal is going to sit here
16 awhile. He's very patient.

17 MR. KAHAL: He's used to that.

18 (Laughter.)

19 MR. DeCUSATIS: Your Honor, we would call Mr. John
20 Sipics as our witness for this morning.

21 JUDGE CHRISTIANSON: Okay, fine.

22 MR. DeCUSATIS: Your Honor, Mr. Sipics has appeared
23 previously and was previously sworn.

24 JUDGE CHRISTIANSON: Then I remind the witness he
25 continues to be under oath.

1 Whereupon,

2 JOHN F. SIPICS

3 having previously been duly sworn, testified further as
4 follows:

5 JUDGE CHRISTIANSON: Be seated.

6 THE WITNESS: Thank you, Your Honor.

7 MR. DeCUSATIS: Your Honor, we have previously
8 provided to the parties in this case and to the reporter
9 copies of Mr. Sipics' rebuttal testimony as well as
10 accompanying exhibits.

11 Mr. Sipics' rebuttal testimony consists of some 25
12 pages typewritten in question and answer form and has been
13 marked as Statement 9-R, and we ask that it be so identified
14 for the record.

15 JUDGE CHRISTIANSON: So identified, 9-R.

16 (Whereupon, the document was marked as PP&L
17 Statement No. 9-R for identification.)

18 MR. DeCUSATIS: And in addition, the accompanying
19 exhibits consist of those documents which have been marked
20 as JFS-3 through JFS-7. Each of those is a one-page exhibit
21 with the exception of JFS-7, which consists of three pages.

22 We would ask that each of those be identified for the
23 record as marked.

24 JUDGE CHRISTIANSON: Yes, so identified. They're
25 physically stapled together with the statement.

1 (Whereupon, the documents were marked as
2 PP&L Exhibits Nos. JFS-3 through JFS-7 for
3 identification.)

4 DIRECT EXAMINATION

5 BY MR. DeCUSATIS:

6 Q. Mr. Sipics, would you please state your full
7 name and spell your last name for the record?

8 A. John Sipics, S-I-P-I-C-S.

9 Q. And would you tell us what position you have
10 with PP&L?

11 A. I'm general manager of power systems support.

12 Q. And Mr. Sipics, do you have before you copies of
13 the documents which have just been identified for the
14 record?

15 A. Yes, I do.

16 Q. With respect to any of that series of documents,
17 do you have any corrections?

18 A. No, I don't.

19 Q. Focusing on Statement 9-R, Mr. Sipics, if I were
20 to ask you the questions that are contained in that
21 document, would your answers today be the same as are set
22 forth therein?

23 A. Yes, they would.

24 Q. And with respect to the Exhibits JFS-3 through
25 JFS-7, were those prepared by you or under your direction

1 and supervision?

2 A. They were prepared under my supervision.

3 Q. And is the information contained in those
4 documents true and correct to the best of your knowledge,
5 information and belief?

6 A. Yes, it is.

7 MR. DeCUSATIS: Your Honor, at this time, we would
8 move the admission of Statement 9-R and accompanying
9 Exhibits JFS-3 through 7 subject to the standard conditions.

10 JUDGE CHRISTIANSON: Yes. Under the standard
11 conditions of motions, the statement and associated exhibits
12 are now accepted into the record.

13 (Whereupon, the documents marked as PP&L
14 Statement No. 9-R and PP&L Exhibits Nos.
15 JFS-3 through JFS-7 were received in
16 evidence.)

17 MR. DeCUSATIS: Thank you, Your Honor. Mr. Sipics is
18 available for cross-examination.

19 JUDGE CHRISTIANSON: Fine. I have just a background
20 question, if it doesn't cause grief. You don't have to turn
21 to it, but at page 19, you mention that one day in 10 year
22 loss of load standard.

23 THE WITNESS: Yes, sir.

24 JUDGE CHRISTIANSON: What is meant by "loss of load,"
25 a minute out or half the day out, or when do you lose load

1 for purposes of that?

2 THE WITNESS: Any event where generation is
3 insufficient to supply the load before you have a voltage
4 reduction.

5 JUDGE CHRISTIANSON: That is generation as opposed to
6 distribution or transmission?

7 THE WITNESS: That's right. We do not try to
8 calculate what interruptions people would have because of a
9 distribution line coming out or lightning or something like
10 that.

11 JUDGE CHRISTIANSON: Trees coming down on the line.

12 THE WITNESS: This is strictly related to generation
13 shortfalls.

14 JUDGE CHRISTIANSON: But would it be like a momentary
15 outage would qualify?

16 THE WITNESS: It doesn't calculate the time, so any
17 time where generation was insufficient to supply the load
18 and you had to resort to, in PJM's definition, it would be
19 a voltage reduction, that would be considered a loss of load
20 event.

21 So if you either had to take a 5 percent voltage
22 reduction or, one of the next steps is manual reduction,
23 manual dropping of load, that would be a loss of load event.

24 The rotating blackouts we had on January 19th, that's
25 a loss of load event.

1 JUDGE CHRISTIANSON: I don't know that much about the
2 system, but if a plant had trouble and you tripped something
3 and a small part of the PJM system was without power for an
4 hour --

5 THE WITNESS: If a plant tripped, we have so-called
6 spinning reserve available that would make up that
7 deficiency and even beyond that, other generators respond
8 immediately.

9 The only time you wind up with a shortfall is when,
10 after all that resource has been used up, you don't have
11 enough.

12 JUDGE CHRISTIANSON: Then you do it on purpose?

13 THE WITNESS: Frequency starts dropping and we take
14 explicit action to restore that frequency.

15 JUDGE CHRISTIANSON: So the system is either good or
16 not, it's one entity, really?

17 THE WITNESS: For purposes of this calculation.
18 There can be localized events.

19 JUDGE CHRISTIANSON: Yes, I realize that.

20 THE WITNESS: Because of transmission regulations.

21 JUDGE CHRISTIANSON: Okay, that's enough for me. I
22 guess I worked with this years ago, and it's still the same.
23 It's been the standard for quite a while, I think.

24 THE WITNESS: One day in 10 years standard?

25 JUDGE CHRISTIANSON: Yes.

1 THE WITNESS: I believe so. And I think some people
2 apply it a little bit differently. But that's a general
3 standard, empirical standard, yes.

4 JUDGE CHRISTIANSON: That's enough for me. I hope I
5 didn't cause anybody need to cross-examine.

6 Let's check. Anything from Staff?

7 MR. SIMMS: No, Your Honor.

8 JUDGE CHRISTIANSON: I might as well just go around.
9 Small Business?

10 MS. MOURY: No, Your Honor.

11 MR. WILLIAMSON: No, Your Honor.

12 JUDGE CHRISTIANSON: Consumer Advocate?

13 MS. McCLOSKEY: Yes, Your Honor.

14 CROSS-EXAMINATION

15 BY MS. McCLOSKEY:

16 Q. Good morning, Mr. Sipics.

17 A. Good morning, Ms. McCloskey.

18 Q. In your rebuttal testimony, you're essentially
19 discussing physical excess capacity for purposes of this
20 rate case.

21 What time period should we be focusing on to measure
22 physical excess capacity for the purposes of this rate case?

23 A. I think as we discussed in response to an
24 interrogatory in Set XVI that you proposed, typically you
25 would look at the test year, the historic test year and this

1 test year, and maybe because of lumpiness you look out a
2 little bit beyond that.

3 Q. And is it your testimony that as a factual
4 matter, PP&L does not presently have any physical excess
5 capacity?

6 A. As I understand excess capacity, yes, I would
7 suggest we do not have excess capacity.

8 Q. Now, are you familiar with the company's 1995
9 Annual Resource Planning Report?

10 A. Yes.

11 Q. And according to the 1995 ARPR, PP&L has
12 concluded a 300 megawatt capacity transaction with
13 JCP&L. Are you familiar with that transaction?

14 A. Yes.

15 Q. And actually you did answer an interrogatory on
16 that.

17 A. No. 22, I believe.

18 Q. Yes, it was Set XVI, No. 22, and it has been
19 marked confidential.

20 A. Yes.

21 Q. I'm going to attempt to stay away from the
22 confidential material, but what is the time frame or time
23 period of that capacity sale?

24 A. It begins with the 1997 planning year on PJM
25 which would be June 1, 1997, starts at 150 megawatts, and it

1 increases to -- the highest it gets is 300 megawatts,
2 starting in 1999 to June 1, again, 1999, and continues
3 through May 31st of 2004.

4 Q. And is that sale based on a slice of the system?

5 A. I'm not sure exactly if you mean, is it the same
6 as the sales we have to Jersey Central now which are slice
7 of the system?

8 Q. Is it the same general premise as the sales you
9 have to Jersey Central now, where you identified specific
10 units?

11 A. No, it's not the same as Jersey Central, nor
12 have we identified specific units. We specified a fixed
13 price and we specified energy prices tied to our actual
14 energy costs, but it's not the same as the existing sale.

15 Q. Would you describe that sale as a market based
16 price?

17 A. I guess if "market" means that we were a willing
18 seller and they were a willing buyer and it's a price that
19 we agreed upon, I guess I would.

20 I'm not sure if that's the FERC definition of it, if
21 that meets the FERC definition of market price.

22 Q. Okay. I'm just trying to make a distinction.
23 It's not a cost of service based price?

24 A. No.

25 Q. Tied particularly to --

1 A. No, we didn't tie it back to any specific units
2 or pieces of units, no.

3 Q. That's the distinction I'm trying to make.

4 JUDGE CHRISTIANSON: Yes, I see your distinction. It
5 is market in that sense.

6 BY MS. McCLOSKEY:

7 Q. Now, is PP&L presently attempting to market
8 additional capacity off-system to other utilities?

9 A. Yes.

10 Q. And how much capacity is PP&L presently
11 attempting to market?

12 A. That depends on the time frame that you're
13 talking about. We look at the specific situation. Somebody
14 for example approaches us for sale for capacity needs for
15 the 1995 summer, and we take a look at what our obligation
16 is to PJM, what kind of variations we might have on that
17 obligation for some of the reasons I mentioned in my
18 rebuttal testimony, like what will our after-the-fact
19 obligation be compared to what we had it set at two years
20 ago, and then have some reasonable margin, recognizing that
21 we won't really know that after-the-fact obligation until
22 the planning year closes on May 31st of 1996, and we'll sell
23 down to that level.

24 So it's hard to give you a very specific answer. I
25 can't tell you we're trying to sell 200 megawatts this year

1 and X hundred in another year.

2 Q. But on a short-term basis versus a long-term
3 basis, do you have a range of what you're trying to market
4 on a short-term basis and then what you're trying to market
5 on a long-term basis?

6 A. I could --

7 (Pause.)

8 JUDGE CHRISTIANSON: Do you have goals, you might
9 say?

10 THE WITNESS: Well, we have goals to maximize revenue
11 from our resources.

12 JUDGE CHRISTIANSON: The goal is as much as you can
13 get.

14 THE WITNESS: To maximize the revenues from our
15 resources, sure. I can't speak to the specific numbers
16 we're trying to sell this year. Our bulk power marketing
17 group has some guidance, and every time we have a potential
18 sale, we come back and look at, how do we stand against our
19 own requirements.

20 I can probably get them for you, if you want.

21 JUDGE CHRISTIANSON: I guess at some point, what's
22 left to sell would be too small for anybody to want to buy.

23 THE WITNESS: I suspect, for example, for the summer,
24 we're pretty tight right now. We're probably not really
25 looking to sell very much.

1 That's my own recollection, but I don't have any
2 quantifiable numbers I can put in front of you to say, "Here
3 it is."

4 BY MS. McCLOSKEY:

5 Q. When you say "very much," what are you thinking,
6 less than 200, more than 200? Your "very much" and my "very
7 much" may differ.

8 A. Good point.

9 JUDGE CHRISTIANSON: Bigger than a breadbox?

10 MS. McCLOSKEY: Yes.

11 THE WITNESS: Let me see. Maybe if I can get back to
12 -- I'm trying to think, maybe I'd have to go back to our
13 original statement, probably, and see what our resources
14 versus obligations plus margin are.

15 We might be trying to sell a hundred megawatts or two
16 hundred. I don't think too much more than that this year.
17 But again, I'm going now based on having seen some things
18 floating through the office on what people say, "Hey, here's
19 a solicitation, what do we do here." I'm not really close
20 to it.

21 JUDGE CHRISTIANSON: That's an order of magnitude,
22 anyway.

23 BY MS. McCLOSKEY:

24 Q. But your bulk power marketing division does have
25 a market plan or a strategic plan of some sort to market

1 capacity?

2 A. What we have of a bulk power marketing division
3 now. We've had a little bit of a turnover in personnel
4 there recently.

5 Since everybody is getting into the bulk power
6 marketing game and we have some people who are somewhat
7 experienced, some of them have been hired away by Coastal
8 Energy and other people who are trying to establish a
9 presence in the marketplace.

10 So we're just trying to rebuild our market team right
11 now.

12 JUDGE CHRISTIANSON: There's a marketplace in
13 personnel in this area?

14 THE WITNESS: There certainly is, and the value of it
15 is a lot greater than the utilities are willing to pay these
16 people, apparently.

17 BY MS. McCLOSKEY:

18 Q. Let me ask you this, then: With respect to the
19 JCP&L contract that has recently been concluded, do you know
20 whether PP&L attempted to sell more than the 100 megawatts
21 to JCP&L?

22 A. My recollection of it is, what was ultimately
23 consummated was what our was, that it was 150 stepping up to
24 300.

25 Q. Now, Mr. Sipics, on Tuesday I had identified OCA

1 Cross-Examination Exhibit No. 19, which is the summary of
2 screening results for the 1995 ARPR.

3 I identified it with Mr. Krall, and the questions on
4 this were referred to you to see if you could respond to
5 them. Mr. Krall is here, if you cannot.

6 Do you have a copy of that?

7 MR. KRALL: I can get that.

8 JUDGE CHRISTIANSON: I remember now why we held 19,
9 yes.

10 BY MS. McCLOSKEY:

11 Q. I believe Mr. Krall had indicated that he was
12 involved in preparation of the 1995 ARPR, and were you
13 involved in the preparation of the 1995 ARPR?

14 A. Most of it's done in our department, yes. And I
15 also reviewed it.

16 Q. And are you generally then familiar with the
17 analyses that are described in the reports?

18 A. Generally.

19 Q. Now, looking at what has been marked as OCA
20 Cross-Examination Exhibit 19, the summary of screening
21 results for the 1995 ARPR, are you familiar with this table?

22 A. Yes, I am.

23 Q. I'd like to refer you to the lowest row on that
24 table, the pulverized coal unit - 300 megawatts.

25 A. Is that the second lowest row?

1 Q. Next to lowest, yes, second from the bottom.

2 A. Okay.

3 Q. And does this show a benefit/cost ratio of 0.3?

4 A. Yes, it does.

5 Q. And does that mean that the full revenue
6 requirements cost of the coal unit exceeds the avoided cost
7 by a factor of about three?

8 A. The full revenue requirements cost of that unit
9 would be greater than present value of fixed charges and O&M
10 and variable and fuel costs, yes.

11 Q. And do you know over what time period the
12 cost/benefit analysis was performed?

13 A. Twenty years.

14 Q. This table shows an eight-year lead time for
15 full implementation, and was that time frame factored into
16 the study?

17 A. It's one of the factors we take into account in
18 looking at our resource plans for how flexible it is. If
19 you have a shorter lead time, obviously that's desirable
20 compared to something you have to commit to eight years
21 ahead of time, given some uncertainty.

22 Q. So this cost/benefit calculation assumed that
23 the coal unit entered service this year, or eight years from
24 this year?

25 A. Actually, these are screening analyses, and they

1 are doing a 20-year calculation as if the plant were in
2 service in 1995, so you would really had to have made this
3 decision back eight years ago, if there's an eight-year lead
4 time.

5 Q. And this table shows approximately 20 demand and
6 supply side capacity options. Would you agree with me that
7 the coal plant is shown as one of the least cost effective
8 on the basis of the benefit/cost ratio?

9 A. Sure, on the basis of the assumptions that we've
10 made in here on the system as it exists today, yes.

11 Q. And does this show a \$600 million net economic
12 cost for the coal plant?

13 A. Yes.

14 Q. And that would be over the 20-year time frame?

15 A. Yes, the present value over 20 years.

16 Q. Is it safe then to conclude that at the present
17 time, a new coal plant is not an attractive economic option
18 for PP&L?

19 A. Yes, I'd say it's safe to conclude that. Part
20 of it is that the capacity value is minimal to PP&L right
21 now, because we have sufficient installed capacity.

22 So when you evaluate a capacity addition, it's valued
23 at what you can get on PJM for installed capacity credits.

24 Q. And you would agree that PP&L's base case
25 resource plan in its 1995 ARPR includes no new coal-fired

1 generating units through the year 2014?

2 A. That's right.

3 Q. Now, I'd like you to assume a hypothetical for
4 me based on the information we've gone over in the 1995
5 ARPR.

6 Suppose that PP&L lost Susquehanna Unit 2 for retail
7 service, for example they sold the entire output to another
8 utility under a long-term contract.

9 Has PP&L determined what type of capacity resources
10 would be most cost effective under that scenario?

11 MR. DeCUSATIS: Excuse me, I apologize. Did you say
12 the whole plant, or was it unit specific?

13 JUDGE CHRISTIANSON: Unit 2, I think.

14 MR. DeCUSATIS: Unit 2, I'm sorry.

15 MS. McCLOSKEY: Unit 2, I'm sorry.

16 JUDGE CHRISTIANSON: So they sold Unit 2?

17 MS. McCLOSKEY: They sold the output of Unit 2.

18 JUDGE CHRISTIANSON: And what do they replace it
19 with, basically, if you do replace it.

20 THE WITNESS: We haven't specifically looked at that,
21 and I wouldn't just use the screening here, since the value
22 of capacity and energy here at least reflects the fact that
23 Susquehanna Unit 2 is owned by PP&L and available to PP&L.

24 So you couldn't just use this, so I'm not sure what
25 response, what specific answer you're looking for.

1 JUDGE CHRISTIANSON: You don't want to just say off
2 the top of your head.

3 THE WITNESS: That we wouldn't build a coal plant?

4 JUDGE CHRISTIANSON: Well, can you respond at all?

5 THE WITNESS: We haven't done that analysis. I mean,
6 if somebody's asking for my opinion, that's something
7 different, I guess.

8 JUDGE CHRISTIANSON: Well, she can ask. I won't.

9 THE WITNESS: Thank you, Your Honor.

10 (Laughter.)

11 BY MS. McCLOSKEY:

12 Q. I guess you're saying you would offer an
13 opinion, but it wouldn't be an analysis?

14 A. We haven't done an analysis of PP&L's resource
15 plan without Susquehanna 2.

16 Q. What opinion, then, would you offer, if you
17 wanted to offer an opinion?

18 A. If we were making a decision today what to do if
19 Susquehanna were going away?

20 Q. Yes.

21 A. I guess it wouldn't be -- I guess I'd suggest
22 some sort of -- gas seems to be popular. You might go with
23 a gas combined cycle or CTs.

24 MS. McCLOSKEY: If I can have just a moment, Your
25 Honor?

1 JUDGE CHRISTIANSON: We can pause. As a matter of
2 fact, let me transact a minor piece of business, which you
3 don't have to pay attention to.

4 I know of only one request for corrections. Mr.
5 Russell did one dated April 24th. Any request for
6 corrections to which there's been no objection filed timely
7 is granted.

8 I'll mention it again in my order, but I just do that
9 now. If anything comes in, I always go on that supposition,
10 that if nobody speaks up about it, the corrections probably
11 are intended to make the transcript correct and accurate, so
12 they're all granted.

13 I think that's the only one I know of. The company
14 might be coming in with one for this week, but assume
15 they're granted, unless I speak up otherwise, and that goes
16 true for anybody.

17 Any more?

18 MS. McCLOSKEY: No, I have no further cross, Your
19 Honor.

20 JUDGE CHRISTIANSON: Then we can check. Anything
21 from the federal people?

22 MR. McCORMICK: No questions, Your Honor.

23 JUDGE CHRISTIANSON: Mr. Melia?

24 Mr. MELIA: No questions.

25 MR. HAYNES:

1 JUDGE CHRISTIANSON: Then I guess that's the end of
2 it. Mr. Epstein is gone.

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

5 (Discussion off the record.)

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

7 I understand there's no redirect?

8 MR. DeCUSATIS: There is no redirect.

9 JUDGE CHRISTIANSON: The witness is excused.

10 (Witness excused.)

11 JUDGE CHRISTIANSON: We've gone less than an hour.
12 We might as well go ahead with another witness.

13 MR. DeCUSATIS: The next witness will be Dr.
14 Hieronymus, and he is going to be presented by Mr. Gadsden.

15 JUDGE CHRISTIANSON: Okay.

16 Have you appeared before? I think you did.

17 DR. HIERONYMUS: No, I haven't, Your Honor.

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

20 THE REPORTER: Did you say you weren't, or were?

21 DR. HIERONYMUS: That's correct.

22 THE REPORTER: You were not?

23 DR. HIERONYMUS: I was not.

24 JUDGE CHRISTIANSON: Oh, he was not, okay. Sometimes
25 I see faces and I don't recall how I've seen them. Let's go

1 ahead then and we'll swear in the witness and counsel can
2 proceed in a moment.

3 Whereupon,

4 WILLIAM H. HIERONYMUS

5 having been duly sworn, testified as follows:

6 JUDGE CHRISTIANSON: Then we'll go ahead, and thank
7 you to the court reporter for straightening me out.

8 MR. GADSDEN: Your Honor, the company has called to
9 the stand as its next witness Dr. William Hieronymus. Dr.
10 Hieronymus will be sponsoring this morning a statement of
11 rebuttal testimony consisting of 60 pages of questions and
12 answers, which I would ask be marked as PP&L Statement 16-R.

13 In addition, and appended to Dr. Hieronymus' rebuttal
14 testimony, are four single-sheet exhibits which I would ask
15 be marked as Exhibits WHH-1 through 4, respectively.

16 JUDGE CHRISTIANSON: They are all identified as
17 indicated. Again, they're stapled together as one document.

18 (Whereupon, the documents were marked as PP&L
19 Statement No. 16-R and PP&L Exhibits Nos.
20 WHH-1 through WHH-4 for identification.)

21 DIRECT EXAMINATION

22 BY MR. GADSDEN:

23 Q. Dr. Hieronymus, would you spell your last name
24 for the record and provide us your business address as well?

25 A. Yes. My last name is H-I-E-R-O-N-Y-M-U-S. My

FORM 2

1 business address is Putnam, Hayes & Bartlett, Incorporated,
2 One Memorial Drive, Cambridge, Massachusetts 02142.

3 Q. Dr. Hieronymus, at the company's request, did
4 you review the direct testimony submitted in this proceeding
5 by Office of Trial Staff Witness Metro and Office of
6 Consumer Advocate Witness Kahal with respect to the issue of
7 excess capacity?

8 A. Yes, I did.

9 Q. Do you have before you a copy of what has been
10 marked as Statement 16-R?

11 A. Yes, I do.

12 Q. Was that statement of rebuttal testimony
13 prepared by you or under your direct supervision?

14 A. Yes.

15 Q. Are there any corrections or revisions to
16 Statement 16-R that need to be brought to our attention?

17 A. Yes, there are.

18 Q. Would you go through them, please?

19 A. Yes. I won't burden the record with
20 typographical issues. On page 21, line 7, the number
21 1992/93 should read 1991/92.

22 On page 34, line 9, at the beginning of that line,
23 the word "ten" appears. It's the first of two such usages.
24 That first "ten" should be "twenty".

25 On page 56, line 12, the sentence beginning, "It

1 also," which carries over through lines 13 through 14,
2 should be deleted in its entirety.

3 On page 58, line 16, the word "exceptions" should
4 read "exception," singular; "are" should be changed to "is";
5 and the words "and 1998" should be deleted.

6 These last two changes relate to relatively minor
7 errors that I found in my analysis of the coal plant when I
8 was preparing for cross-examination and testimony in this
9 case.

10 Fundamentally, they arise from three sources. I
11 inadvertently included switch gear and site related
12 transmission costs for the coal plant.

13 It is inadvertent only in the sense that I discovered
14 subsequently that no such costs were included in the
15 Susquehanna book cost, and so for purposes of equivalency I
16 have deleted those costs.

17 There is a calculation error having to do with the
18 nominal cost of the directs for the coal plant.

19 And third, in the numbers, we relied on the EPRI
20 technical assistance guide for the base cost of the coal
21 plant. There appears an item of \$70 per kilowatt for what
22 it calls owner's costs, which principally are start-up fuel
23 inventory, start-up burn costs, training, spare parts
24 inventories, which I had not included in the coal plant cost
25 estimate and should have.

1 The net total of those should be reflected on Exhibit
2 WHH-4, which I have not revised because it turns out that
3 the net effect is de minimis.

4 In each case, the net benefit to PP&L ratepayers
5 should be revised upward by amounts which range from
6 \$198,000 in 1995 in each of the three analyses down to
7 \$116,000 in 2004 and generally trending downward between
8 those two values. So against the sort of numbers we're
9 talking about, these numbers are very small.

10 For completeness, I would note that the corrections
11 that underlie the changes to Exhibit WHH-4 would also affect
12 some of the numbers on WHH-3, and if anyone is interested,
13 I'm prepared to indicate what those changes would be.

14 JUDGE CHRISTIANSON: They would all be small changes?

15 THE WITNESS: That's correct, Your Honor. The net
16 effect of them is small. The numbers range between I
17 believe a negative about \$35 million in the base cost of the
18 coal plant to a positive about 60-odd million.

19 So there are three offsetting numbers. All of
20 them relate to the capital costs of the unit, the net effect
21 of which is, as I recall, less than a million dollars.

22 JUDGE CHRISTIANSON: I remember ten years ago, I
23 think there was an issue that was worth \$10,000, about
24 nuclear advertising or something. We weren't sure if we
25 could show that correction in the final analysis because of

1 the round-up error. I can't remember if we ever did or not,
2 frankly. But go ahead.

3 BY MR. GADSDEN:

4 Q. Just so the record is clear on this point, the
5 net effect of the three revisions is to increase the net
6 benefits associated with Susquehanna Unit No. 2 relative to
7 the coal plant by anywhere from \$116,000 to \$198,000; is
8 that correct?

9 A. Yes, sir, that's correct.

10 Q. Dr. Hieronymus, with those revisions, if I were
11 to ask you the questions set forth in Statement 16-R today,
12 would your answers be as contained therein?

13 A. Yes, they would.

14 Q. And would they be true and correct to the best
15 of your knowledge?

16 A. Yes.

17 Q. And similarly, taking into account the figures
18 that you've just provided us, is the data set forth in
19 Exhibits WHH-1 through WHH-4 true and correct to the best of
20 your knowledge?

21 A. Yes, subject to the comments I've already made.

22 MR. GADSDEN: Your Honor, at this time, I would move
23 the admission of Statement 16-R and Exhibits WHH-1 through 4
24 subject to the standard conditions.

25 JUDGE CHRISTIANSON: Yes. Under the standard

1 conditions, the statement and the accompany exhibits, all
2 labeled collectively Statement 16-R, are now accepted into
3 the record.

4 (Whereupon, the documents marked as PP&L
5 Statement No. 16-R and PP&L Exhibits Nos.

6 WHH-1 through WHH-4 were received in evidence.)

7 MR. GADSDEN: Dr. Hieronymus is available for cross.

8 JUDGE CHRISTIANSON: Again, we can start with Staff.

9 MR. SIMMS: No questions, Your Honor.

10 JUDGE CHRISTIANSON: Small Business?

11 MS. MOURY: No questions, Your Honor.

12 MR. WILLIAMSON: No questions, Your Honor.

13 JUDGE CHRISTIANSON: And you have questions?

14 MS. McCLOSKEY: Yes, I do, Your Honor.

15 JUDGE CHRISTIANSON: Go ahead.

16 THE WITNESS: Three out of four isn't bad.

17 (Laughter.)

18 CROSS-EXAMINATION

19 BY MS. McCLOSKEY:

20 Q. Good morning, Dr. Hieronymus. My name is Tanya
21 McCloskey. I represent the Office of Consumer Advocate.

22 Could you please tell us when you were retained by
23 PP&L to perform the analysis that you have presented in this
24 case?

25 A. Not precisely, but approximately two months

1 prior to the filing of this testimony, is my best
2 recollection.

3 Q. And that would be in April, or in --

4 A. I think actually it was in March.

5 Q. You were retained in March?

6 A. That's to the best of my recollection.

7 Q. And your firm, Putnam, Hayes & Bartlett, the
8 company has included in its case a claim in its rate case
9 expense for fees being paid to Putnam, Hayes & Bartlett.

10 Has your firm been retained to perform any other
11 services in this rate proceeding?

12 A. I believe so, yes.

13 Q. And what would those services be?

14 A. I'm not entirely privy to the nature of them.
15 We've been working with the attorneys and the company
16 generally.

17 JUDGE CHRISTIANSON: If you need to explore it, we
18 can go off the record and counsel might know.

19 MS. McCLOSKEY: I don't think we need to.

20 JUDGE CHRISTIANSON: Okay.

21 BY MS. McCLOSKEY:

22 Q. Now, when did you begin work on the study for
23 the testimony that you have provided in this case?

24 A. Shortly after I was retained.

25 Q. And am I correct that some of the computer runs

1 that you provided to the OCA in discovery have run dates of
2 March 14, 1995?

3 A. I wouldn't know. That's possible.

4 MS. McCLOSKEY: Now, I'd like to have marked for
5 identification OCA Cross-Examination Exhibit No. 22, which
6 is a series of interrogatory responses that Dr. Hieronymus
7 provided for the OCA.

8 JUDGE CHRISTIANSON: So identified, your Cross No.
9 22.

10 (Whereupon, the document was marked as OCA
11 Cross-Examination Exhibit No. 22 for
12 identification.)

13 BY MS. McCLOSKEY:

14 Q. Dr. Hieronymus, contained in this Cross-
15 Examination Exhibit No. 22 are your responses to OCA
16 Interrogatories Set No. XVI, Questions 11, 12, 13, 14, 15,
17 17 and 19. Take a moment to just review those, and let me
18 know when you have.

19 (Witness perusing documents.)

20 A. Yes, I have reviewed them.

21 Q. I don't want to waste record time going through
22 and asking each and every question again, which is why I put
23 them in the exhibit, but generally, however, am I correct
24 that you did not conduct an independent analysis of PP&L's
25 capacity needs for reliability purposes?

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A. In the sense of a quantitative analysis, no.

Q. And am I also correct that you did not conduct an independent analysis of an appropriate least cost resource plan for PP&L?

A. I took the questions to be asking me, as of this date.

Q. Yes.

A. The answer is no, I did not.

Q. And again, as of this date, you have not made any independent assessment of whether the addition of a new coal plant for PP&L would be consistent with a least cost plan for PP&L?

A. Again, from the time frame of today?

Q. Yes.

A. No, I have not.

Q. Now, am I also correct that in preparing your testimony, you did not review PP&L's 1994 or 1995 Annual Resource Planning Reports?

A. That is correct.

Q. And finally, am I also correct that you did not conduct a specific analysis of wholesale electric market prices in the PJM region in preparing your testimony?

A. That also is correct.

Q. Now, you also responded to Interrogatory OCA Set XVI, No. 18, and you indicated that your analysis assumes

1 that the time required to construct a coal plant would be
2 approximately eight to ten years. Do you recall that?

3 A. Yes.

4 Q. And that's correct, your analysis assumes that?

5 A. Yes, that is correct.

6 Q. So, under your analysis, PP&L would have had to
7 begin the construction of a coal plant between 1985 and 1987
8 for the plant to be entering service in 1995?

9 A. Just to be a bit careful about it, when we talk
10 about the time to construct, we're talking about the entire
11 cycle including permitting and contracting and so forth.

12 But subject to that revision or that caveat, yes. As
13 of the time that I'm presuming Susquehanna magically
14 disappeared, which is the time of the 1985 rate case, the
15 planning horizon for a new coal plant was approximately nine
16 years, so eight to ten years is the range that I indicated.

17 Q. I had been using "constructed." Essentially,
18 you're saying it's the lead time, it's the entire planning
19 horizon through construction --

20 A. That's correct.

21 Q. -- that is encompassed in the eight to ten
22 years. And applying that then on a going-forward basis, if
23 PP&L began the planning and construction of a coal plant
24 today, it would be entering service between 2003 and 2005
25 under your assumptions; is that correct?

1 A. In general, I think, subject to the very
2 important caveat of siting permission and related
3 environmental issues, the expectation is that the total
4 planning cycle time has reduced somewhat.

5 I think the latest EPRI technical assessment guide is
6 now six or seven years, something like that, so it would be
7 a bit shorter time, but in the same general range.

8 Q. Now, Dr. Hieronymus, if you could turn to page
9 25 of your testimony, I'd like to talk with you a little bit
10 about lumpiness as we've referred to it in this proceeding.
11 And on this page, you discuss what we've been calling the
12 lumpiness problem.

13 Is it your position that the appropriate reserve
14 standard for ratemaking purposes in this case would be the
15 minimum planning reserve margin plus the Susquehanna Unit 2
16 capacity?

17 A. Not necessarily, no. My position is that in
18 determining what that standard ought to be, it is important
19 to take into account the size of the unit that is at issue.

20 And you cannot set a lumpiness allowance for a large
21 base load unit on the same basis that you would for a 50
22 megawatt CT.

23 That is not the same statement as saying that the
24 reserve margin is the minimum plus the size of the unit.

25 Q. Let me ask you a hypothetical so I can get this

1 clear. Let's assume that Susquehanna was built as a 500
2 megawatt unit rather than a 1,000 megawatt unit.

3 Would the determination then of the reasonable
4 reserve margin be the minimum planning reserve margin plus
5 the 500 megawatts of the unit?

6 A. You remind me of something I left out of my
7 previous answer, if I now understand the question to be a
8 parallel one, which is I am restricting my responses to your
9 question about a reasonable reserve margin to be that which
10 deals solely with the lumpiness problem.

11 So setting aside all other considerations, my answer
12 would be in essence the same, that it would not necessarily
13 be minimum reserve or whatever it otherwise would be based
14 on other circumstances plus 500, any more than it would
15 necessarily be what it otherwise would be plus 1,000.

16 But nevertheless, it would be the 500 megawatt size
17 that I would be thinking about when I thought about what the
18 appropriate margin for lumpiness would be.

19 Q. And so that we've got all the scenarios, if
20 hypothetically Susquehanna Unit 2 was built as a 1,500
21 megawatt unit, your consideration would be the reasonable
22 reserve margin plus consideration of the 1,500 megawatt size
23 of the unit?

24 A. No, I don't think necessarily. That might raise
25 some other issues. Susquehanna as a 1,000 megawatt class

1 unit was typical.

2 Now, if somebody were doing something atypical,
3 building a 1,500 megawatt nuclear unit -- I'm not aware of
4 any, parenthetically, anywhere in the world -- then I might
5 not apply that same consideration.

6 The point here is not that Susquehanna is 1,000
7 megawatts per se. It's that the kinds of units being added
8 as base load units in that period of time were very large
9 coal and nuclear units.

10 JUDGE CHRISTIANSON: Let me try one question which
11 might help.

12 MS. McCLOSKEY: Sure.

13 JUDGE CHRISTIANSON: Are you saying in part that, say
14 you've got a smaller generating unit; would that cause less
15 of a lumpiness problem because it could be integrated more
16 in your planning, so that say a 100 megawatt unit would not
17 cause a lumpiness problem at all, perhaps?

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

19 JUDGE CHRISTIANSON: Okay, thank you. Go ahead.

20 BY MS. McCLOSKEY:

21 Q. And let me just follow up, asking this, then.
22 Given the size of the Susquehanna unit, are you saying that
23 the reasonable reserve margin is the planning reserve margin
24 of 12 percent, and is it less than, greater than or equal to
25 the 1,000 megawatts addition of Susquehanna?

1 A. Well, now you bring in all these other
2 considerations that I've been setting aside. And the
3 problem is that I haven't done an optimum analysis, which
4 would be a very complicated analysis to do, not only of
5 Susquehanna's instantaneous reliability, but in essence it
6 would have to take into account issues about optimality of
7 plant sizes.

8 So I don't have a specific number in mind, I'm
9 afraid.

10 Q. And just to be sure you didn't jump beyond my
11 question, I was actually asking strictly about the lumpiness
12 factor.

13 JUDGE CHRISTIANSON: Well, I'm not sure he can
14 isolate that out.

15 BY MS. McCLOSKEY:

16 Q. Yes, and you stated in your answer that you
17 really can't isolate that out.

18 A. Not if you're asking for a range. If you would
19 like me to answer a hypothetical that assumed a whole bunch
20 of other things away, I could try to answer that
21 hypothetical.

22 JUDGE CHRISTIANSON: I think we're dealing not with
23 just a used and useful thing, but more discretion than
24 reasonableness. We're not just doing a simple used and
25 useful analysis.

1 He's thinking more in the sense of reasonableness and
2 management discretion and decision making. If you've got a
3 plant, 1,000 megawatts that's real cheap, he might accept
4 the lump, but if it's expensive, he might not. I think
5 that's what his problem lies with.

6 Take a little time, if you want to think about it.

7 MS. McCLOSKEY: And I think what my question was
8 going to was his testimony regarding the reasonable reserve
9 margin for ratemaking purposes which would have what we've
10 referred to as the lumpiness factor included within it.

11 BY MS. McCLOSKEY:

12 Q. Is that how you understood my questions, Dr.
13 Hieronymus?

14 A. Yes.

15 Q. I believe your answer to the last question,
16 then, is you don't have a specific recommendation concerning
17 the reserve margin percentage which the Commission should
18 use to determine whether there is physical excess capacity
19 in this case?

20 A. I think I've agreed that 12 percent should be a
21 lower bound which I think is everyone's lower bound, so that
22 end of the spectrum is easy.

23 I think your question was whether the adder to that
24 for lumpiness should be greater, less than or equal to the
25 size of Susquehanna Unit 2, and if I can now offer the

1 hypothetical you didn't ask me, setting aside all other
2 considerations, my inclination is it probably would be
3 somewhat less.

4 But in respect of those other considerations, I
5 haven't done the necessary calculation to come up with a
6 firm number.

7 MS. McCLOSKEY: Now, I'd like to have marked for
8 identification OCA Cross-Examination Exhibit No. 23.

9 JUDGE CHRISTIANSON: While you're passing it out,
10 it's identified, your No. 23.

11 (Whereupon, the document was marked as OCA
12 Cross-Examination Exhibit No. 23 for
13 identification.)

14 JUDGE CHRISTIANSON: Maybe we'll run a little past
15 noon and then take a break.

16 MS. McCLOSKEY: Yes, I really don't have that much
17 more.

18 JUDGE CHRISTIANSON: We'll keep going. So 23 is
19 identified. It's one page plus the cover sheet.

20 BY MS. McCLOSKEY:

21 Q. And in this response, Dr. Hieronymus, you've
22 provided us a calculation of the base and fuel revenue
23 requirements for Susquehanna 2, and I have a few clarifying
24 questions on this.

25 Am I correct that these figures do not reflect all

1 990 megawatts of Susquehanna, but just the portion that's
2 serving native load, or about 809 megawatts?

3 A. That certainly was our intent, yes. It varies
4 year by year.

5 Q. And would you agree that that's about 82 percent
6 of PP&L's ownership in that unit?

7 A. I think it starts out at 78.5 and changes.

8 Q. And do the costs shown here increase over time
9 to include the full 990 megawatts of PP&L's ownership share?

10 A. At 2013, I believe that they do, subject to
11 check. It's a question of whether any pieces are still in
12 the off-system sales. I'm sorry, I said by 2013; I meant by
13 2004.

14 JUDGE CHRISTIANSON: The bottom of your list.

15 BY MS. McCLOSKEY:

16 Q. Right. If you look at 2001 when the BG&E sale
17 would end, is that the point where you've reflected then the
18 full 990 megawatts?

19 A. I'm trying to remember whether any of the other
20 sales are still ongoing in a way that would cause this to
21 have been pulled out. I simply don't remember.

22 Q. And that's what you'll check for us?

23 A. Yes. I'll be happy to check.

24 Q. And am I also correct that this represents your
25 base case analysis of Susquehanna 2 as described in your

1 testimony?

2 A. Yes.

3 Q. Now, can you explain for us why the base revenue
4 requirements declined from \$273.3 million in 1998 to
5 \$217.6 million in 1999?

6 A. Well, there would be a variety of things, but by
7 far the largest is the ending of the excess depreciation
8 amortization that's in the revenue requirement claim of the
9 company.

10 Q. And is the increase in base revenues between
11 1995 and 1998 due to the changing percentage of the unit
12 which is devoted to PP&L's native load in that time frame?

13 A. It would be in substantial part, yes.

14 Q. So in actuality, the cost per megawatt of
15 Susquehanna Unit 2 actually declines over time; is that
16 correct?

17 A. Yes, at least considering this component of it
18 alone.

19 Q. I'm sorry?

20 A. At least considering this component of it alone.

21 Q. Now, with regard to the 1995 base revenue figure
22 of \$259.6 million, does this figure include non-fuel O&M?

23 A. On its face, it says it's the capital charge
24 revenue requirement, so I'd say it does not.

25 Q. And does it include property taxes?

1 A. I'd have to check whether we would have included
2 that in this interrogatory response or not. Certainly the
3 calculation does, but whether it's in this number, I can't
4 say.

5 Q. And do you know whether this number includes
6 insurance?

7 A. It would be the same answer.

8 Q. And do you know whether it includes
9 decommissioning costs?

10 A. Same answer. My anticipation, at least in
11 respect to the latter, is it does not.

12 Q. In this interrogatory response?

13 A. Yes.

14 Q. And would the items that I have just mentioned
15 be included in the base revenues that ratepayers that are
16 asked to pay?

17 A. Yes, and they were included in my analysis.

18 Q. And actually, that was my next question. Do you
19 know where in your analysis those additional costs were
20 included?

21 A. Well, they're in the underlying spread sheets
22 that generate the numbers that result in WHH-4.

23 Q. And can you tell us what the total non-fuel cost
24 for Susquehanna Unit 2 would be in 1995 for your study?

25 A. I could, but not as I sit here. I don't have

1 the necessary materials.

2 MS. McCLOSKEY: Your Honor, we ask that the company
3 provide that number for the record. If it's not available
4 during the break, it may have to come in as a late-filed
5 exhibit, but we would like to have the total non-fuel costs
6 for Susquehanna 2 that was used in the study provided for
7 the record.

8 JUDGE CHRISTIANSON: Okay, we can check on that. Any
9 immediate problem?

10 THE WITNESS: No. We can provide it at the break,
11 Your Honor.

12 JUDGE CHRISTIANSON: That will solve it, then. We
13 can just get it at the break.

14 BY MS. McCLOSKEY:

15 Q. Do you know what the total revenue requirements
16 for Susquehanna 2 were that you used in your study?

17 A. For 1995?

18 Q. For 1995.

19 A. No, not without looking them up.

20 Q. And will you be able to provide that for the
21 record --

22 A. Yes.

23 Q. -- after the break.

24 And did you assume a normalized level of generation
25 in your study?

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A. No.

Q. What generation did you assume, then?

A. Well, it depended on the outage scheduling for the unit, so it varied year by year, depending on whether there's a refueling outage. In general, they were the company's planning assumptions as underlie their, as I understand it, as underlie their 1995 AR -- whatever it is.

Q. The 1995 ARPR. So you utilized the level of generation contained in the 1995 ARPR for those two years?

A. I used the availability and maintenance outage assumptions as inputs to the AEGAS model that produced the assumption.

THE REPORTER: What model?

THE WITNESS: A-E-G-A-S.

MS. McCLOSKEY: I think it might be E-G-E-A-S.

JUDGE CHRISTIANSON: We can work that out at the break, too.

THE WITNESS: That's correct, it is A-G-E-A-S. I stand corrected.

JUDGE CHRISTIANSON: We'll just blame it on Kelly if it gets wrong.

(Laughter.)

JUDGE CHRISTIANSON: You can say it. Maybe you don't know how to spell it.

MS. McCLOSKEY: Thank you, Dr. Hieronymus.

1 Your Honor, I have no further questions, but we do
2 want to try and get that information on the record at a
3 break. Perhaps we can discuss it with the company. We may
4 have a follow-up question once it's on the record.

5 JUDGE CHRISTIANSON: Let me check. I wasn't sure if
6 I recalled correctly. Does anybody else have cross for the
7 witness?

8 (No response.)

9 JUDGE CHRISTIANSON: No volunteers. Well, then,
10 instead of going to lunch now, we can take a 15-minute
11 break, and we'll then come back and iron out these details
12 and do redirect, if you need more time.

13 MS. McCLOSKEY: Before we do that, could I move OCA
14 Cross-Examination Exhibits Nos. 19, 20 -- which was
15 distributed on Tuesday -- 21, 22 and 23 into the record.

16 JUDGE CHRISTIANSON: Let me check. No. 21 is the
17 2000 study?

18 MS. McCLOSKEY: Yes, 21 is the year 2000 study. 19
19 is the page from the ARPR. 20 had been used in the cross of
20 Mr. Berish, OCA Set IV, No. 6, his response -- 46, I'm
21 sorry.

22 JUDGE CHRISTIANSON: Yes. I don't have any trouble
23 accepting them. The only thing is, there's some question
24 about the 2000 study in that it's confidential and there's a
25 request for dissemination on it.

1 I'm prepared to accept them into the record if the
2 company doesn't have any trouble with the 2000 study.

3 MR. GADSDEN: Just a minute.

4 JUDGE CHRISTIANSON: Mr. MacGregor was the main one
5 on that. Let's be off the record briefly.

6 (Discussion off the record.)

7 JUDGE CHRISTIANSON: Let's be back on the record just
8 briefly. There's been copies of this 2000 report I guess it
9 is, study, disseminated.

10 I understand Trial Staff got a copy and the
11 industrials got a copy, the court reporter got two copies
12 and I got a copy, because the company already has a copy.

13 That's the dissemination at the moment. Just in an
14 abundance of caution, I'll hold off on that particularly.
15 The other three are accepted, or the four: 19, 20, 22 and
16 23. You moved all of those?

17 MS. McCLOSKEY: Yes.

18 JUDGE CHRISTIANSON: Those are all accepted.

19 (Whereupon, the documents marked as OCA

20 Cross-Examination Exhibits Nos. 19, 20, 22 and
21 23 were received in evidence.)

22 JUDGE CHRISTIANSON: I think we've identified 20. We
23 might just hold up on it slightly, but I'll hold it out and
24 we won't miss it because it's fairly thick.

25 MS. McCLOSKEY: 21, Your Honor.

1 JUDGE CHRISTIANSON: 21, yes. I might have misspoke.
2 So the four others are accepted at this point.

3 Now, we should be probably done with cross, but we
4 want to check on a couple things. I suggest we take about
5 15 minutes, and then we might break for lunch fairly soon.
6 We'll see where we go when we come back. We need a break
7 about now, anyway.

8 Let's be off, and be back around quarter after 12.

9 (Recess.)

10 JUDGE CHRISTIANSON: Let's go ahead and be back on
11 the record.

12 Is there any redirect of the witness?

13 MR. GADSDEN: Very brief, Your Honor.

14 JUDGE CHRISTIANSON: Go ahead.

15 REDIRECT EXAMINATION

16 BY MR. GADSDEN:

17 Q. Dr. Hieronymus, during your cross-examination by
18 counsel for the Office of Consumer Advocate, you were asked
19 various questions with respect to your answer to OCA Set
20 XVI, Question 24, which has been marked as OCA Cross-
21 Examination Exhibit No. 23. Do you recall those questions
22 and your answers?

23 A. Yes.

24 Q. And amongst other questions that were posed for
25 further review during the break were whether and/or to what

1 extent the figures which you show for 1995 as capital charge
2 revenue requirement for Susquehanna Unit 2 included fixed
3 O&M, property taxes, decommissioning insurance and the like.

4 Have you had an opportunity to consult with your
5 staff?

6 A. Yes, I have.

7 Q. And could you provide the information for us?

8 A. Yes. As indicated on the face of it, this
9 includes only the capital charge revenue requirements, i.e.
10 return, associated taxes and depreciation. It does not
11 include those other items.

12 Q. Have you been able to quantify the extent to
13 which dollars were not reflected in this or, stated
14 differently, what total revenue requirement you assume for
15 1995 for the Susquehanna Unit 2?

16 A. Yes, I have.

17 Q. Could you provide those for the record, please?

18 A. Yes. The missing element, which is fixed and
19 variable O&M and the miscellaneous bits that you spoke to,
20 comes to \$84,917,000.

21 I think the two numbers I specifically asked for was
22 the total non-fuel, which is \$344,503,000, and the total
23 cost, which by adding the fuel as it appears on this
24 interrogatory response totals \$367,351,000.

25 Q. Secondly, Dr. Hieronymus, if I could refer you

1 to the packet of interrogatory responses which has been
2 introduced as OCA Cross-Examination Exhibit No. 22, do you
3 still have that?

4 A. Yes, I do.

5 Q. And with respect to those responses, it was
6 pointed out that in conducting your analysis in this case,
7 you did not examine or analyze for example when PP&L should
8 be adding new capacity, you did not make any analysis of
9 whether adding a coal unit would be consistent with a least
10 cost plan and the like.

11 Could you briefly explain to us why in your view it
12 was not necessary to conduct those kinds of analyses for
13 purposes of this proceeding?

14 A. Yes. Let me just sample through the questions.
15 Beginning with the first one, which is Question 11, it asks
16 my opinion as to when I believe PP&L should be adding new
17 capacity to meet reliability needs.

18 Quite simply, my testimony was concerned essentially
19 with the question of what reliability standards should be
20 used in the test year and the year thereafter, and whether,
21 for purposes of this case, PP&L has excess capacity against
22 that reliability standard. So what it might need in the
23 future simply wasn't pertinent.

24 It asked what my opinion was as to the optimum, or it
25 asked what the planning reserve margin target should be for

1 the future, consistent with a least cost resource plan.

2 Again, that was not necessary for me to do, for the
3 reasons I've indicated. And I would note also that a least
4 cost resource plan could be consistent with a wide variety
5 of planning reserve margins, which indeed would in many
6 cases be unrelated to the issue of reliability.

7 I was asked a series of questions, all of which had
8 at the core whether I believed adding a coal unit to the
9 PP&L system within the next ten years would be consistent
10 with a least cost plan, whether or not that least cost plan
11 assumed as a hypothetical that Susquehanna 2 had ceased to
12 exist in 1995.

13 Again, those weren't pertinent to the purposes of my
14 study, which were to examine whether, had Susquehanna 2
15 disappeared at the time of the 1985 rate case, what PP&L
16 would have done and how Susquehanna stacked up against what
17 was the optimum capacity addition from that point in time.

18 So what would be optimum today simply is not
19 pertinent, today or in the future. So that basically is the
20 reasons.

21 There was also one that asked about market prices for
22 base load power in the region, and for reasons discussed at
23 length in my testimony, I believe that issue to be wholly
24 irrelevant.

25 Q. Ms. McCloskey also questioned you with respect

1 to whether you had reviewed PP&L's 1995 Annual Resource
2 Planning Report or the 1994 Annual Resource Planning Report
3 with reference to your answer to Set XVI, No. 17.

4 Do you have a copy of your response to OCA Set XVI,
5 No. 16, which was not included in the Consumer Advocate's
6 cross-examination exhibit?

7 A. Yes, I do.

8 Q. And am I correct that what your response to No.
9 16 indicates is that the input assumptions that you utilized
10 for purposes of your analysis were the same as those
11 employed in the 1995 Annual Resource Planning Report?

12 A. With at least one exception, that is the case.
13 What the answers calls out is that I used -- that my staff
14 confirmed with PP&L that the PP&L planning assumptions that
15 we used in my study in respect of fuel prices, plant
16 capacity factors, heat rates, load forecasts and capacity
17 forecasts were the same as PP&L's planning assumptions.

18 The one which to my recollection is not entirely
19 consistent is the coal plant capital cost itself, where we
20 used as I indicated an EPRI-based number which is somewhat
21 lower than the company's planning assumption.

22 Q. So while you did not personally review the 1995
23 Annual Resource Planning Report, it's your understanding
24 that with the one exception you noted, the exceptions
25 employed in your analysis are fully consistent with that

1 report?

2 A. Yes, and we specifically confirmed that.

3 MR. GADSDEN: We have nothing further for Dr.
4 Hieronymus.

5 JUDGE CHRISTIANSON: Then we can pause briefly.

6 MS. McCLOSKEY: Yes, can we have just a minute?

7 JUDGE CHRISTIANSON: Yes. Show us as off the record.

8 (Discussion off the record.)

9 JUDGE CHRISTIANSON: Let's be back on the record,
10 then. We've had a few moments, and there might be further
11 questions.

12 RE-CROSS-EXAMINATION

13 BY MS. McCLOSKEY:

14 Q. Dr. Hieronymus, I have a few questions for you.
15 First, you referred to your response to OCA Set XVI,
16 Question No. 16, where we asked you to identify any
17 differences between your coal plant assumptions and the 1995
18 ARPR.

19 And I believe you've just identified for us the
20 difference in the capital cost. And am I correct that you
21 did not identify that difference in response to Question 16?

22 A. Only by its absence. I enumerated those which
23 were consistent, but I certainly didn't mean to not disclose
24 it.

25 Q. We had asked you to identify those which differ

1 from those used by PP&L, and you're now saying that the cost
2 per kilowatt of your coal unit is based on the EPRI tag
3 which differs from the PP&L 1995 ARPR?

4 A. Relatively modestly, but yes, it does. It's
5 somewhat higher, and it was so identified in Exhibit 3, that
6 that was based on EPRI, Exhibit WHH-3.

7 Q. Now, you were able during the break to provide
8 for us that your total revenue requirement number in 1995
9 for Susquehanna was -- Susquehanna 2, I'm sorry -- was
10 \$367,351,000. Am I correct that that is based on the 809
11 megawatts?

12 A. That is correct, yes.

13 Q. And could you reduce that to a cents per
14 kilowatt-hour figure that you would have assumed for 1995?
15 And I believe you could do that by dividing by your assumed
16 gigawatt-hours of output for the year.

17 A. 6.7 cents. I anticipated that question.

18 Q. Now, I believe you also stated that you had
19 conducted your analysis from a 1985 perspective as if
20 Susquehanna had disappeared at that time.

21 Could you please tell us, what analysis did you
22 conduct to determine what was an optimum resource plan for
23 PP&L in 1985?

24 A. I looked at what they were then anticipating in
25 terms of the remaining life of their existing units, their

1 load forecast.

2 Beyond that, I fundamentally relied on my general
3 knowledge of what people were building as base load capacity
4 in that period of time. Those were the principal
5 ingredients.

6 Q. Did you analyze the non-utility generation
7 development in the company's service territory at that time?

8 A. I'm generally aware that subsequently there was
9 a consent decree established that created some, but no, not
10 in any substantial way.

11 MS. McCLOSKEY: Thank you, Your Honor. I have no
12 further recross.

13 JUDGE CHRISTIANSON: Then I think we're probably done
14 with the witness, but we can check with the company. I
15 assume there's no further recross. Do you have any further
16 questions?

17 MR. GADSDEN: No.

18 JUDGE CHRISTIANSON: Then the witness is excused.

19 (Witness excused.)

20 JUDGE CHRISTIANSON: Then we have the one question
21 about OCA Cross No. 21, the Strategy 2000 document. You're
22 moving that?

23 MS. McCLOSKEY: Yes, Your Honor. We would move for
24 the admission of the confidential exhibit, OCA Cross-
25 Examination Exhibit No. 21.

1 JUDGE CHRISTIANSON: Then we've talked about it
2 somewhat already. Any objection from the company?

3 MR. GADSDEN: We have no objection to its admission,
4 but again, simply to reiterate, we have very, very serious
5 concerns with respect to its dissemination, and as to those
6 matters, I would like to get Mr. MacGregor involved.

7 JUDGE CHRISTIANSON: Yes. We talked about it some,
8 and I've read our Rule of Practice 5.423. This rule is
9 designed mainly for competitive problems as we frequently
10 get in the telephone industry.

11 Now, I'm not sure exactly why PP&L is seeking to
12 limit distribution, but I think it's more -- embarrassment
13 is not quite the right word; it's not competitive.

14 MR. GADSDEN: Oh, no, that's not correct. It's not a
15 question of embarrassment. It is a question of competitive
16 concerns.

17 JUDGE CHRISTIANSON: Because you're talking about
18 costs and matters like that.

19 MR. GADSDEN: Yes. As has been pointed out by Mr.
20 Kahal and I believe other witnesses in this case, we have a
21 rapidly emerging and very competitive wholesale generation
22 market. For those reasons, these kind of numbers are very,
23 very sensitive.

24 JUDGE CHRISTIANSON: Then if it is disseminated, it
25 would be to counsel, and there's restrictions in the Rule of

1 Practice that are fairly clear.

2 At this point, essentially, on the company's
3 instigation or request, I'm limiting dissemination as
4 indicated earlier.

5 If somebody has a request to lift that restriction to
6 some degree, we can worry about it when the request is made.
7 There was some discussion of it this morning, and Sierra
8 Club indicated an interest in the material.

9 I'm not sure Sierra Club is going to deal with that
10 issue in depth. If they do seek the dissemination and
11 indicate that they will deal with it in depth, I may be
12 constrained to allow a copy to them.

13 But again, the request was made, and counsel is not
14 present anymore, so I'd rather not discuss it. Sierra Club
15 counsel is not present -- oh, you're back. Do you want to
16 talk about it?

17 MR. BARAK: Yes, Your Honor. I just heard what you
18 said. I'm always concerned when I'm asked if we're going to
19 address something in depth, because that has different
20 meaning to different people.

21 But as I stated earlier, Your Honor, when we filed
22 for intervention in this case, we very deliberately
23 addressed nuclear issues.

24 And we are in, if you will, the rate and the policy
25 debate on that, on the question of this company's nuclear

1 plants, for the long haul.

2 So we take that very seriously, and I do not idly ask
3 to be part of the receipt, of the group receiving that
4 document.

5 We fully intend to brief the issue. We have intended
6 to brief the issue. And I haven't heard any reason why
7 Sierra Club shouldn't receive the document.

8 It's not as though we're somehow representing a gen.
9 co. that wants to do battle in some as-yet uncreated market
10 against some as-yet uncreated nuclear generating company
11 that Susquehanna may or may not represent.

12 JUDGE CHRISTIANSON: Yes. I'm very reluctant to not
13 allow counsel access to the document. Does PP&L have a
14 concern about allowing counsel for Sierra Club to have
15 access?

16 MR. GADSDEN: I'm somewhat at a disadvantage, since I
17 wasn't here earlier this morning.

18 JUDGE CHRISTIANSON: Once it's in the record, it's in
19 the record.

20 MR. GADSDEN: We can agree to provide a copy of it to
21 Mr. Barak with the understanding that it will go no further
22 than his office, that no one other than he will have access
23 to it, and that he will execute a confidentiality agreement
24 in advance.

25 JUDGE CHRISTIANSON: We can take care of that rather

1 readily. If you want to have further dissemination, we can
2 worry about it when you request it.

3 So basically, you'll sign the agreement that they've
4 prepared, I think some other parties have signed it, and
5 you'll get a copy at that point.

6 MR. BARAK: As just stated and as adumbrated by Your
7 Honor, yes, Your Honor.

8 JUDGE CHRISTIANSON: Yes, okay. Then you'll probably
9 get it later today. How many copies does the Consumer
10 Advocate have left?

11 MS. McCLOSKEY: I don't think we have any.

12 JUDGE CHRISTIANSON: Well, the company might have a
13 copy. Anyway, you can get a copy fairly promptly. So once
14 you sign on the dotted line or whatever line it is, you'll
15 get a copy of it.

16 MR. BARAK: Thank you, Your Honor.

17 JUDGE CHRISTIANSON: Thank you.

18 Then we have one witness left, I think.

19 MR. GADSDEN: We will have some rejoinder following
20 Mr. Kahal.

21 JUDGE CHRISTIANSON: Then let's pause a minute. Do
22 we want to go for lunch or not? It's 20 to one at this
23 point. Let's be off the record.

24 (Whereupon, at 12:40 p.m., the hearing was adjourned,
25 to be reconvened at 1:30 p.m., this same day.)

AFTERNOON SESSION

(1:32 p.m.)

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

We're back after a brief lunch. I'm not sure that I got No. 21 in the record. We had a discussion about it and arranged to get a copy to the Sierra Club counsel, but I don't think I ever actually acted on the motion.

So at this point, OCA Cross-Examination Exhibit No. 21, the 2000 document, is now accepted into the record.

(Whereupon, the document marked as OCA Cross-Examination Exhibit No. 21 was received in evidence.)

JUDGE CHRISTIANSON: And we can proceed with the witness.

MS. McCLOSKEY: Your Honor, the Office of Consumer Advocate calls Matthew I. Kahal.

JUDGE CHRISTIANSON: I remind the witness he continues to be under oath. I've seen him before. Whereupon,

MATTHEW I. KAHAL

having previously been duly sworn, testified further as follows:

MS. McCLOSKEY: And I'd like to have marked for identification OCA Statement No. 2A, the surrebuttal testimony of Matthew I. Kahal concerning capacity issues.

1 I would note for the record there is a proprietary
2 and a non-proprietary version of that.

3 JUDGE CHRISTIANSON: 2A is so identified.

4 (Whereupon, the document was marked as OCA
5 Statement No. 2A for identification.)

6 DIRECT EXAMINATION

7 BY MS. McCLOSKEY:

8 Q. Mr. Kahal, do you have before you a copy of your
9 surrebuttal testimony marked as OCA Statement No. 2A,
10 consisting of 38 pages of questions and answers and one
11 schedule?

12 A. Yes, I do.

13 Q. And was this testimony and were these schedules
14 prepared by you or under your direct supervision?

15 A. They were.

16 Q. And do you have any additions, corrections or
17 modifications to make to your testimony and your schedules
18 at this time?

19 A. I do not.

20 Q. And is the testimony and the schedule true and
21 correct to the best of your knowledge, information and
22 belief?

23 A. Yes.

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

1 A. They would.

2 MS. McCLOSKEY: Your Honor, we would ask that OCA
3 Statement No. 2A be admitted into evidence subject to any
4 cross-examination and timely motions by opposing counsel.

5 JUDGE CHRISTIANSON: Yes. Under the standard
6 conditions, 2A is now accepted into the record.

7 (Whereupon, the document marked as OCA Statement
8 No. 2A was received in evidence.)

9 MS. McCLOSKEY: And Mr. Kahal is available for cross-
10 examination on Statement 2A, and I believe he will stand
11 cross at this time on Statement No. 1B, which was admitted
12 into the record on Tuesday.

13 JUDGE CHRISTIANSON: Oh, it was. I wasn't quite sure
14 about that. I remember now. So then he's ready for the two
15 statements. The one just got admitted now, and the other
16 was already of record, and the company might as well
17 proceed.

18 MR. GADSDEN: Thank you, Your Honor.

19 Upon further review of Mr. Kahal's Statement 1B, we
20 will not have any cross with respect to it, so we will be
21 focusing exclusively on Statement No. 2A.

22 JUDGE CHRISTIANSON: Fine.

23 CROSS-EXAMINATION

24 BY MR. GADSDEN:

25 Q. Mr. Kahal, just a few questions with respect to

1 Statement 2A. First, if I could direct your attention to
2 page 7, the paragraph which appears at lines 6 through 15,
3 and there you provide us some information with respect to
4 how the company has fared financially since its last base
5 rate case, and conclude at lines 14 and 15 that PP&L's past
6 business performance is meaningful to the Commission's
7 evaluation of your recommendations in this case. Do you see
8 that?

9 A. I see that, but that's really not the intent of
10 that passage. The intent of that passage was really to
11 explain my belief that the Commission's excess capacity
12 policy does not violate the regulatory compact, but rather
13 is part of the regulatory compact.

14 And my citing of PP&L's financial condition during
15 the period in which the excess capacity disallowance was in
16 effect is simply an illustration of that.

17 Q. Well, you indicate that the totality of PP&L's
18 business performance is clearly meaningful, and I guess my
19 question for you is, if PP&L had been unable to sell power
20 off-system over the last ten years or had not been able to
21 increase its dividend or had not been able to maintain an
22 "A" bond rating, how would that affect your analysis in this
23 case?

24 A. That's difficult to say, because if those
25 conditions which you just cited were to have taken place,

1 then I strongly believe that what would have happened is
2 that PP&L would have come back in for rate cases during the
3 intervening ten year period, and then the whole issue would
4 have been reassessed at some time during that intervening
5 period.

6 Therefore, we would probably have a completely
7 different set of facts before us.

8 Q. Let's just assume hypothetically that everything
9 I said took place and we're sitting here today, and as I
10 indicated, the company had not been able to prosper as you
11 suggest. How would that affect your analysis, your
12 recommendations in this case?

13 A. I think that the analysis of excess capacity has
14 to be broken down into two parts. The first part is simply
15 the factual assessment, the analytical or factual
16 assessment, that being, is there physical excess capacity or
17 isn't there, or is the unit economic excess capacity or is
18 it not.

19 So you have to start with that factual foundation.
20 Then from the factual foundation, you then move on to, if
21 there's a factual predicate for there being excess capacity,
22 physical or economic, then the question is, what's the
23 appropriate remedy.

24 And I think that the appropriate remedy would
25 probably have to take things such as financial condition

1 into account.

2 I firmly believe that that was part of the
3 Commission's determination of that back in 1985.

4 Q. Now, further down that page at lines 18 through
5 20, you state that investors in PP&L debt and equity
6 securities understand the Commission's policy on excess
7 capacity and hold those securities subject to that
8 understanding. Do you see that?

9 A. Yes.

10 Q. And on what would investors base their
11 understanding of the Commission's policy on excess capacity?
12 Would that include prior orders on the subject?

13 A. It would include prior orders. I believe that
14 the Commission -- excuse me, investors would look at both
15 the precedents for excess capacity, for Pennsylvania
16 electric utilities in general, and also with respect to PP&L
17 specifically.

18 And they may give more weight, in fact, to PP&L's
19 experience in its last rate case than, say, the weight that
20 they might give to the decision in the Duquesne case.

21 But I think that in either event, regardless of the
22 weight they give to the various ratemaking decisions, there
23 would be a general cognizance of the existence of an excess
24 capacity policy in Pennsylvania and the existence of an
25 excess capacity statute.

1 Q. Would they also consider any prior statements of
2 policy expressed by the Commission with respect to excess
3 capacity that may have been made outside of the context of
4 base rate proceedings?

5 A. I'm certainly not saying that they would ignore
6 that, but I believe that investors tend to give more weight
7 to what a Commission does rather than what it says.

8 Q. Do you accept the one day loss of load
9 probability in ten years standard for purposes of
10 establishing a reliability criterion?

11 A. I don't dispute it. I can't sit here and say
12 that I accept it in the sense that anyone has proven that
13 one day in ten years standard to be optimal. But it is a
14 standard that has been used by PJM for a very, very long
15 time, and consequently I'm not here to challenge it.

16 Q. You're not challenging it in this case?

17 A. I'm not challenging it. I simply can't verify
18 that it's necessarily an optimal policy.

19 Q. Okay. If I could ask you to turn to page 16 and
20 the question and answer which begins at line 10, there you
21 seem to suggest that it would be impractical to require the
22 Commission to review capacity resource additions to
23 determine whether those particular additions are cost
24 effective. Do you see that?

25 A. Yes. And here I wasn't specifically merely

1 referring to let's say the latest capacity addition, but
2 what might be at issue in this approach might be the cost
3 effectiveness of every single capacity on the PP&L system.

4 Obviously, if you were going to say, well, let's just
5 restrict it to the latest addition, then that becomes a lot
6 more feasible and perhaps meaningful.

7 But if you are going to say that we have to examine
8 the cost effectiveness of every single capacity resource
9 that the company has, then that exercise would probably be
10 overwhelming.

11 Q. You would agree, would you not, if you know,
12 that the Public Utility Code does in fact require the
13 Commission to, in certain instances, evaluate the cost
14 effectiveness of proposed capacity additions in advance?
15 Are you aware of those provisions?

16 A. Generating capacity additions?

17 Q. Yes.

18 A. No, not really. Let me put it this way. I
19 think that when a company has a rate base addition and
20 attempts to bring that rate base addition into rates, let's
21 say a new generating unit, the very fact that it's being
22 added to rates means that the question of its cost
23 effectiveness is probably at issue in a rate case.

24 It's not my understanding that if the company was not
25 filing a rate case and was not seeking rate recovery, that

1 there would necessarily have to be a Commission finding of
2 cost effectiveness merely because the generating asset
3 entered service.

4 Q. Is the cost effectiveness of alternative
5 capacity additions considered in the context of QF or NUG
6 proceedings?

7 A. I'm not sure which ones you're referring to.
8 Are you referring to new capacity additions or old capacity
9 additions, old units of capacity, that is units that may
10 have been added let's say 20 years ago?

11 Q. No. When a cogenerator files a petition with
12 the Commission seeking a contract with a utility, is the
13 economics of that purchase contract considered and/or
14 compared to possible alternatives?

15 A. You mean, by the company or by the Commission?

16 Q. By the Commission, by the company, by the Office
17 of Consumer Advocate, by the cogenerator.

18 A. I have had some experience in that area.
19 Generally, my understanding has been that if a contract is
20 voluntarily entered into by the utility and a QF and if no
21 party such as the OCA steps forward to oppose it, and as
22 long as the company certifies in its filing that it's
23 consistent with its projections of avoided cost, it's
24 approved.

25 In an uncontested case, I don't think anything more

1 than that happens, except that there's a routine subjecting
2 of that to the avoided cost test as part of the paper filing
3 that's made.

4 Now, I think that in a case where it's contested,
5 that's a whole other matter, and I can get into that.

6 Q. In a contested case, the cost proposed by the
7 cogenerator is compared, is it not, to possible
8 alternatives?

9 A. By "the cost," you mean the contract terms?

10 Q. That's right.

11 A. Yes. The contract itself is subject to the
12 avoided cost test, and if it's challenged, there's likely to
13 be an assessment of the factual accuracy of that avoided
14 cost test.

15 And that means everything that underlies the
16 company's estimates of its avoided costs, and that would
17 include a whole range of things, including the load
18 forecast, the costs associated or estimated costs associated
19 with the generating units, the manner in which the company
20 identifies what its least cost plan is, and so forth. It's
21 a very involved undertaking.

22 Q. On page 17, you discuss lumpiness. Can we agree
23 that if PP&L had never been required to purchase QF power,
24 that it would have absorbed the lump provided by Susquehanna
25 Unit No. 2 by now?

1 A. Let me approach this a little bit differently,
2 but I hope I can give you answer to your question.

3 Q. I'd like a yes or no, and then you can explain
4 your answer.

5 A. I do not have any specific information that PP&L
6 was required to buy the NUG capacity. It's my understanding
7 that these were agreements that were voluntarily entered
8 into by PP&L.

9 Q. It's your understanding that PP&L could have
10 avoided those purchases had it chosen?

11 A. No. I simply object to the use of the word
12 "required." If I can set that aside, I think I can answer
13 your question. If we can not debate whether they were
14 required or not but perhaps just assume away the NUG
15 capacity, maybe we can get to where you want to go.

16 Q. Okay, let's assume away the NUG capacity.

17 A. If we assume away the NUG capacity, at the
18 present time, I believe that PP&L, absent all 504 megawatts
19 and assuming nothing else happened, then PP&L would be much,
20 much closer to its planning reserve margin.

21 I would say they would be reasonably close to its
22 desired planning range of reserve margins.

23 Q. Would they be below the 15 percent reserve
24 margin that you've proposed in this case?

25 A. I don't know if they'd be exactly below

1 it. They'd be very, very close to it.

2 Q. Now, Mr. Kahal, if I could direct you to page 18
3 of your testimony, at lines 10 through 12 you state that,
4 for example, under full deregulation, the traditional
5 utility obligation to serve might be relaxed.

6 Is it your position that under full deregulation, the
7 traditional obligation to serve should be relaxed?

8 A. No, I'm not saying that.

9 Q. Do you have an opinion on the subject?

10 A. I think it's a debatable point.

11 Q. You have no opinion on it one way or the other?

12 A. I hate to quarrel with the question, but it
13 depends exactly what one means by "full deregulation." For
14 example, it's my understanding, under the California
15 proposal, which some might perceive of as being full
16 deregulation, an obligation to serve remains.

17 There's also perhaps another view of full
18 deregulation in which the utilities like PP&L which are now
19 integrated utilities might be restructured so that they spin
20 off their generation function, and I guess they would rename
21 it or something.

22 In that case, Pennsylvania Power & Light might be a
23 utility that provides to its customers distribution and
24 transmission functions only but not generation, much like a
25 local gas distribution company does.

1 And in that case, I would think that certainly one
2 scenario would be for that distribution utility to retain
3 its obligation to serve, so that customers then would have a
4 choice. Either they could go out and procure their own
5 power supplies, or remain as a requirements customer, if I
6 might use that term, of the distribution electric utility.

7 It's a complex issue, and I could see many forms that
8 full deregulation could take, some with the obligation to
9 serve being eliminated and some having the obligation to
10 serve remaining, much like we have with gas companies.

11 Q. And when you use the phrase "full deregulation"
12 in your testimony, you intended to encompass all
13 possibilities?

14 A. Yes, and more than that. By the term "full
15 deregulation," what I was really trying to convey is that
16 right now, effectively we have deregulation in the wholesale
17 market. Full deregulation implies extending that from the
18 wholesale market to the retail market.

19 Q. Turning to page 22 at lines 14 through 18, here
20 you offer your views regarding Section 1323(c) of the Code,
21 and offer that utilities should be given a reasonable
22 opportunity or a utility should be provided a reasonable
23 opportunity to adapt its capacity resource profile to the
24 NUG capacity additions. Do you see that?

25 A. Yes.

1 Q. And you cite potential off-system capacity sales
2 as an option. What if utilities are unable to market
3 capacity off-system as you have suggested here? What other
4 options would be available for them to adapt their capacity
5 profiles?

6 A. I think to some extent being able to market your
7 capacity off-system depends on a couple of things. It
8 depends on the specific marketing efforts that are made, and
9 it depends upon the price you're willing to charge.

10 Q. I'm not asking you about marketing capacity off-
11 system. My question assumed that the utilities were unable
12 to market capacity off-system, and I simply asked you what
13 other options would be available to them to adapt their
14 capacity profiles.

15 A. I think that there are a couple of things. One
16 is, the company can undertake marketing at the retail level
17 to expand its retail load. That's one thing it can do.

18 The company could shut down uneconomic capacity. I
19 mean, these are all hypothetical answers I'm giving you,
20 because I think this is a hypothetical question.

21 Another thing a utility can do is to, with respect to
22 uneconomic NUG contracts, is to engage in buy-outs or buy-
23 downs of such capacity the way many utilities around the
24 country, particularly in the northeast -- I'm not
25 recommending any specific answers to the question.

1 I'm merely saying that these are hypothetical options
2 that come to mind that a utility has, without regard to what
3 PP&L should or shouldn't do.

4 In point of fact, though, there is a very active off-
5 system market that utilities with surplus capacity can make
6 use of.

7 Q. And over the last ten years, PP&L has in fact
8 been quite active in that market; has it not?

9 A. To some extent. I think that PP&L has also
10 missed some opportunities out there. I might have mentioned
11 a couple of these.

12 One of the most important was the opportunity that I
13 think it had to sell capacity to the Old Dominion Electric
14 Co-op, which was seeking ten year requirements power.

15 Q. If we could turn to page 23 at lines 10 through
16 12, you indicate that reserve margin targets not only differ
17 from one utility to another, but can change over time.

18 Can we agree that PP&L's installed capacity
19 obligation to the PJM has changed over time?

20 A. It has changed a little bit. That's my
21 understanding.

22 Q. Can we agree that it has changed since its last
23 base rate proceeding?

24 A. Well, I wasn't in the last base rate proceeding.
25 I understand from some other testimony that the reserve

1 margin percentage -- and I assume that's what you're
2 referring to, is the percentage -- was 11 percent at the
3 time of the '85 rate case. Now it's about 12 percent.

4 Q. Do utilities have to plan in advance to meet
5 their capacity requirements?

6 A. They do.

7 Q. And in doing so, should they rely on the best
8 information available to them at the time?

9 A. They should. I think there's a lot more to the
10 planning process than just that. I think that they should
11 also recognize that there's a high degree of uncertainty
12 associated with this quote-unquote "best information", which
13 means that a prudent planning process would incorporate a
14 very high degree of flexibility to insure that undesired
15 outcomes are avoided.

16 Q. Mr. Kahal, if I could turn you now to page 26,
17 you acknowledge some uncertainty regarding projected costs,
18 and I assume you would agree, would you not, that market
19 prices can change over time?

20 A. Yes, they can.

21 Q. And to confirm the reasonableness of the
22 estimates provided by PP&L and relied upon by you, you
23 reviewed a number of factors, did you not?

24 A. Yes.

25 Q. And if we turn to page 30 of your testimony, am

1 I correct that one of the things that you looked at was the
2 bus bar cost of power from a new gas-fired combined cycle
3 unit?

4 A. Yes.

5 Q. Do you recall what that figure was,
6 approximately?

7 A. Yes, approximately -- it depends when, but at
8 the present time, it would be about 3.5 cents a kilowatt-
9 hour, would be that bus bar cost, using PP&L's own planning
10 data, which is based upon an installed cost of \$550 a
11 kilowatt.

12 Obviously, the fixed portion would not increase over
13 time, the fixed portion of that cost. The variable portion,
14 which would be fuel plus non-fuel O&M, presumably would go
15 up with inflation, so it would be a little bit higher in
16 future years.

17 I think I verify that during the ten-year period,
18 we'd probably be looking at bus bar costs of about 3.5 to 5
19 cents or so.

20 The thing that you have to understand about such a
21 unit, however, is that it probably would not be operating
22 very much if at all during the on-peak hours.

23 It would probably be operating primarily during peak
24 and shoulder hours, and there would probably be surplus coal
25 generation that could be relied upon during the off-peak.

1 This type of generating unit would not be expected to
2 have as high a capacity factor as would a coal unit or a
3 nuclear unit, which means that in that sense, the kind of
4 cost figures that I was talking about may be a little bit
5 high if you want to compare it to a base load resource.

6 Q. Do you recall testifying in a 1992 case at
7 Docket No. P-870235, styled, "Petition of Bethlehem Steel
8 Corporation and Hadson Development Corporation"?

9 A. Yes.

10 Q. And am I correct that in that case, you
11 calculated an avoided cost figure for Penelec on a levelized
12 basis of 8.5 cents per kwh?

13 A. Yes, and -- well, I don't remember the exact
14 number. It was something like that. My recollection was
15 that that was referring to, it was either a 25- or a 30-year
16 analysis, something like that, beginning I think it was in
17 1998 or 1999.

18 So we were talking about a very different time frame
19 from the time frame that I referred to in my answer to your
20 previous question.

21 And it's also true that those costs, both for the
22 equipment, the efficiency of the equipment and the fuel,
23 natural gas, have come down substantially since 1991 or
24 1992.

25 Q. There's been a dramatic decline, in other words,

1 in that cost in even two or three years; is that what you're
2 saying?

3 A. There has been. I think it's more like four
4 years. But there has been. Not only have gas prices come
5 down a lot, the cost of generating equipment has come down
6 and the efficiency of such equipment has improved.

7 MR. GADSDEN: That's all we have for Mr. Kahal, Your
8 Honor.

9 JUDGE CHRISTIANSON: Fine. Then I'll check, anybody
10 else have cross for the witness?

11 MR. SIMMS: No, Your Honor.

12 JUDGE CHRISTIANSON: No volunteers. Do you want to
13 have a moment with the witness?

14 MS. McCLOSKEY: Yes, just a moment, please.

15 JUDGE CHRISTIANSON: Let's be off the record briefly.

16 (Discussion off the record.)

17 JUDGE CHRISTIANSON: Let's be back on.

18 MS. McCLOSKEY: Thank you, Your Honor. We just have
19 one question.

20 REDIRECT EXAMINATION

21 BY MS. McCLOSKEY:

22 Q. Mr. Gadsden had referred at the end of your
23 cross-examination to a case involving Pennsylvania Electric
24 Company at Docket 870235.

25 Do you recall which years annual resource planning

1 data of Penelec the determination of avoided cost was based
2 on that Mr. Gadsden referred to?

3 A. Yes. Time passes quickly. It was based upon
4 the 1991 Annual Resource Planning Report of Pennsylvania
5 Electric Company, and it was also my recollection that the
6 primary source of generation data that was used in that
7 report was the Electric Power Research Institute 1989
8 technical assessment guide.

9 So we're dealing with some fairly old planning data,
10 and I even indicated at that time that I thought that the
11 costs were on the high side.

12 MS. McCLOSKEY: Thank you. We have no other
13 questions.

14 RE-CROSS-EXAMINATION

15 BY MS. GADSDEN:

16 Q. Notwithstanding your misgivings, Mr. Kahal, is
17 it not correct that in that case, it was the OCA's position
18 that Penelec's avoided cost was 8.5 cents?

19 A. It was the OCA's position and my testimony that
20 it was certainly no higher than 8.5 cents, and I think that
21 my testimony was that the 8.5 cents was the highest figure
22 at that time that I could justify.

23 And as a matter of clarification, that was for a
24 period beginning around 1998, and it was an average
25 extending over a 30-year time period, so it was a cost that

1 reflected expectations very far into the future.

2 Q. Do you recall what the first year cost was?

3 A. I really don't, no.

4 MR. GADSDEN: I guess since everybody else has been
5 asking on-the-record data requests, I will ask mine, and ask
6 that that information be provided to us.

7 THE WITNESS: Mr. Gadsden, I thought that it already
8 was. I thought that we had previously provided that
9 testimony.

10 BY MR. GADSDEN:

11 Q. I don't believe so. I know you provided a lot
12 of testimony to us.

13 A. I thought that was one of the items we did send
14 you.

15 Q. I will check my records, and if that was not one
16 that was provided, I will --

17 MS. McCLOSKEY: Yes, I believe that was, but if it's
18 not, we'll provide it.

19 MR. GADSDEN: That's fine.

20 JUDGE CHRISTIANSON: Okay, counsel will take care of
21 it one way or the other.

22 MR. GADSDEN: Yes.

23 MS. McCLOSKEY: Okay.

24 JUDGE CHRISTIANSON: And it's of record at the
25 Commission in any event, but you don't want to go down to

1 the File Room and find it.

2 MR. GADSDEN: No, I don't.

3 JUDGE CHRISTIANSON: As a matter of fact, yesterday I
4 think it was remanded back, the whole proceeding.

5 MS. McCLOSKEY: Did the Supreme Court rule?

6 JUDGE CHRISTIANSON: No. The Commission remanded it
7 on a very brief calculation. They acted on it yesterday. I
8 think I know about where they were going on it.

9 But any more for this witness?

10 MR. GADSDEN: We have none, Your Honor.

11 JUDGE CHRISTIANSON: Then the witness is excused.

12 (Witness excused.)

13 JUDGE CHRISTIANSON: Let's be off the record very
14 briefly.

15 (Discussion off the record.)

16 JUDGE CHRISTIANSON: Let's be back on the record,
17 then. We can proceed with the rejoinder phase.

18 MR. DeCUSATIS: Thank you, Your Honor.

19 The company has recalled Mr. Sipics for some brief
20 rejoinder with respect to Office of Consumer Advocate
21 Statement 2A.

22 Whereupon,

23 JOHN F. SIPICS

24 having previously been duly sworn, testified further as
25 follows:

DIRECT EXAMINATION

1
2 BY MR. DeCUSATIS:

3 Q. Mr. Sipics, initially directing your attention
4 to OCA Statement 2A at page 13, line 26 and continuing
5 through page 14, line 5?

6 A. Yes.

7 Q. Mr. Kahal has discussed at that point in his
8 testimony Schedule MIK-1 which reproduces information from
9 the company's 1995 Annual Resource Planning Report.

10 Can you explain for us, does the use of a 12 percent
11 trigger point for adding a resource implicit in the '95 ARPR
12 screening analysis mean that PP&L is in fact planning to a
13 12 percent reserve margin as a desirable level for
14 reliability purposes for the future?

15 A. I would suggest that that's not necessarily the
16 case. The Annual Resource Plan as designed by the
17 Commission I think recognizes that we need to look out at a
18 long period of time, and the longer you look out, the more
19 uncertainty there is.

20 So there is some rationale to have a threshold there
21 that represents a minimum level of reliability when you
22 wouldn't need to make a decision.

23 The real reason for looking at the longer period of
24 time is to actually see whether there's a decision point in
25 the near term.

1 And I think Mr. Kahal actually touched on that
2 earlier, that a wise resource plan is going to preserve
3 flexibility.

4 And so what we need to look at is, do we face a
5 decision in the two-year implementation period where we
6 actually put out plans out for the least cost way to meet
7 our customer needs.

8 And to the extent that we would drop below the
9 minimum level of reserve required to maintain reliability,
10 we could face a decision point, depending on the lead time
11 of the resources we could add to meet that need.

12 In the shorter term, I think we've discussed in many
13 other places that there are a lot of things you take into
14 account in a resource plan.

15 It's an economic analysis, not a reliability
16 analysis. Reliability is important because we do have a
17 minimum level to meet, and that's both a, there's an actual
18 economic penalty if we go below that level, and we'd also be
19 remiss in meeting our obligation as a signatory to the PJM
20 agreement to provide our share of the reliability level that
21 PJM deems appropriate.

22 Q. Thank you, Mr. Sipics.

23 Moving on, I direct your attention to OCA Statement
24 2A, page 9, lines 3 through 7. Mr. Kahal refers to your
25 rebuttal testimony and indicates that certain factors which

1 you have discussed as bearing on the appropriate reliability
2 based reserve margin are already taken into account in the
3 PJM allocation of the installed capacity obligation.

4 With reference to the factors which you have
5 discussed, is it correct that such factors are in fact taken
6 into account and reflected in the PP&L allocated portion of
7 the PJM installed capacity obligation?

8 A. I believe we should take the factors one at a
9 time. The first factor I guess is at page 5 of PP&L
10 Statement 9-R, and the first factor discussed is the after-
11 the-fact installed capacity obligation.

12 As we discussed earlier, the planned obligation that
13 PP&L has is actually set two years beforehand, so the one
14 for 1995 that will go into effect in a couple of days on
15 June 1st was set back in June or May of 1993.

16 There's a separate check after the fact to check on
17 the validity of the assumptions that you put in there as far
18 as loads, as far as, if your capacity materialized, what the
19 actual performance of the capacity was.

20 And as demonstrated in JFS-3 which was attached to
21 that statement, if you look back over the last several
22 years, for example pick the 1994-95 planning period, the
23 obligation beforehand was 7,361 megawatts and the actual
24 requirement looks like it will be about 7,614, or 253
25 megawatts more.

1 So that's clearly not recognized beforehand. And
2 that was something that I referred to earlier when I talked
3 about, when you're looking for bulk power sales, one of the
4 factors you need to take into account to make sure that you
5 wouldn't be short after you made these sales.

6 As a matter of fact, in 1994 summer, we actually had
7 to purchase capacity credits from, it turned out, PECO
8 Energy because we would have been short in the after-the-
9 fact account by our estimation. So that factor I think is
10 clearly not in the before-the-fact account.

11 The second factor is the independence or lack of
12 independence of forced outage rates on generating units and
13 high loads, and also even forced outage rates on generating
14 units from each other.

15 The way the reliability calculation is done, these
16 are assumed to be unconnected, random events. There's a
17 distribution of loads. There's a distribution of available
18 capacity, and it's a mere comparison or convolution of those
19 two items that determines whether we have sufficient
20 resources to meet the load or not.

21 In the real world, there is, at least there was
22 demonstrated last January 19th that there's a significant
23 connection between the unavailability of generation and high
24 loads in the wintertime.

25 Cold weather certainly brought higher loads,

1 increased demand. Cold weather also made it difficult for
2 some of our generating units to perform -- frozen coal
3 piles, fuel lines.

4 And I think in fact Commissioner Hanger has written
5 an article in the Public Utilities Fortnightly that
6 acknowledges that connection.

7 And the last item is whether or not PJM has been
8 performing at the one day in ten year level. And the
9 reserve requirement is set by judgment of the PJM Management
10 Committee.

11 Our actual experience in the last few years is that
12 we've experienced more loss of load events than you would
13 expect to experience if we were actually meeting the one day
14 in ten year standard.

15 That's partly being addressed by the improved
16 performance of generating units that has resulted in a lower
17 calculated reserve requirement to maintain one day in ten
18 years, and we are not taking full advantage of that in
19 lowering the reserve requirement.

20 Mr. Sipics, with respect to this issue of factors
21 that may or may not be considered in the installed capacity
22 obligation allocation, what basis if any do you have for
23 your knowledge as to what PJM may or may not take into
24 account in such matters?

25 A. Well, I think today is my 25-year anniversary

1 with PP&L, and most of those years I've been involved in one
2 PJM activity or another, as a member of the PJM Operating
3 Committee; as a member of the PJM System Reliability Task
4 Force. I ran a number of other reliability analyses for the
5 Planning and Engineering Committee back in the mid-
6 seventies, and right now I'm on the PJM Management
7 Committee.

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

9 JUDGE CHRISTIANSON: We can pause for a moment.
10 Let's be off the record, briefly.

11 (Discussion off the record.)

12 JUDGE CHRISTIANSON: Let's be back on the record,
13 then. I gather you have some cross?

14 MS. McCLOSKEY: Yes, Your Honor.

15 JUDGE CHRISTIANSON: Go ahead.

16 CROSS-EXAMINATION

17 BY MS. McCLOSKEY:

18 Q. Mr. Sipics, you had referred to your rebuttal
19 testimony on page 5 and the three factors there.

20 A. Yes.

21 Q. Was PP&L aware of these three factors when it
22 conducted its 1995 Annual Resource Planning Report and its
23 studies contained therein?

24 A. Yes.

25 Q. And you also referred to the PJM reserve

1 margin. In light of these three factors regarding the
2 installed capacity obligation as you have discussed, is PJM
3 acting to increase the 22 percent reserve margin and PP&L's
4 allocation of that reserve margin?

5 A. As a result of the lessons learned from what we
6 call Operation Deep Freeze last year, the manual load dumps
7 we had in January, there is an effort underway to look at
8 our reliability program and whether that's appropriately
9 reflecting reality.

10 That study is not out yet. There is no reflection of
11 the potential outcome of that study in current reserve
12 requirements.

13 As a matter of fact, PJMR has gone a half a percent
14 or will go down a half a percent on June 1st of this year
15 from 22 percent to 21.5 percent, mostly in recognition of
16 the improved forced outage performance of some of the larger
17 generating units on PJM.

18 Q. And I believe you also noted in your rejoinder
19 that some of that is partly being addressed by improved
20 generating performance.

21 A. Well, improved generating performance is a
22 factor in the calculated level of reserve requirements. We
23 simulate the forced outage rate in there, and every 1
24 percent improvement in forced outage rate results in about a
25 1.4 percent reduction in the required reserve.

1 MS. McCLOSKEY: I have no further cross, Your Honor.

2 JUDGE CHRISTIANSON: Okay. Then anything further of
3 the witness?

4 MR. DeCUSATIS: No, Your Honor.

5 JUDGE CHRISTIANSON: The witness is excused.

6 (Witness excused.)

7 JUDGE CHRISTIANSON: I guess you have one more
8 witness?

9 MR. GADSDEN: Yes, Your Honor. The company would
10 like to recall Dr. Hieronymus.

11 JUDGE CHRISTIANSON: Fine.

12 (Pause.)

13 JUDGE CHRISTIANSON: Proceed. The witness obviously
14 is still under oath.

15 MR. GADSDEN: Thank you, Your Honor.

16 Whereupon,

17 WILLIAM H. HIERONYMUS

18 having previously been duly sworn, testified further as
19 follows:

20 DIRECT EXAMINATION

21 BY MR. GADSDEN:

22 Q. Just a couple of questions, Dr. Hieronymus.

23 Before we get to them, you have had an opportunity,
24 have you not, to review the surrebuttal testimony submitted
25 by Mr. Kahal?

1 A. Yes, I have.

2 Q. Now, at page 31 of his surrebuttal testimony in
3 a question and answer which begin on line 15, Mr. Kahal
4 takes issue with your claim that he is in effect employing a
5 market pricing test for Susquehanna 2.

6 He cites in response that he is not in fact
7 recommending that any PP&L asset be priced at market, and
8 that even with his adjustment, PP&L's cost of generation
9 remains above market. Do you have any response?

10 A. Yes. I had not contended that he was pricing
11 Susquehanna 2 at market. In fact, in my testimony, I said
12 quite explicitly that wasn't what he was doing, but that he
13 was rather using a market price in order to define a
14 stranded cost which he was then splitting between the
15 company and the ratepayers as he defined what that stranded
16 cost was.

17 In that context, I find his answer a bit surprising.
18 He had said in his original testimony that the basis for
19 applying an excess capacity penalty to the entire unit was
20 that it was economic excess capacity, having conceded that
21 by his own standards, it was not all physical excess
22 capacity.

23 So as a threshold matter, we're clearly talking about
24 economic. And on page 6 of that testimony, he said, "This
25 means" -- the recommended disallowance -- "that continuation

1 of the equity disallowance effects roughly a 50/50 sharing
2 between ratepayers and shareholders of the surplus of cost
3 over market."

4 Now, the surplus of cost over market is stranded
5 cost. That is the definition of stranded cost. So what he
6 is saying is that his proposal in this proceeding is a 50/50
7 sharing of stranded cost between ratepayers and
8 shareholders, limited to Susquehanna 2, imposed at this
9 time, and all the other criticisms I made of it. So, I find
10 the answer frankly disingenuous.

11 Q. Dr. Hieronymus, if I could ask you to turn to
12 page 32 of Mr. Kahal's surrebuttal testimony, again he is
13 responding to an argument you presented in your rebuttal
14 testimony to the effect that there are adverse efficiency
15 implications from an excess capacity adjustment.

16 Mr. Kahal expresses his disagreement with your
17 position. Would you care to comment on that?

18 A. Yes. My recollection is that in my testimony, I
19 talked about the notion of some simplistic megawatt-for-
20 megawatt accounting as leading the company to have clear
21 incentives to minimize the possible exposure to a very
22 expensive excess capacity penalty.

23 The examples that I used were interruptible load
24 uprates and NUGs. When you consider for example the
25 Susquehanna uprate, his calculation explicitly charges

1 Susquehanna 2 for both the Susquehanna 1 and Susquehanna 2
2 uprates, because they go into excess capacity as he defines
3 it.

4 Mr. Sipics has testified that the cost of those
5 uprates is 1.5 cents a kilowatt-hour. Because of the
6 companies' actions that create that 1.5 cent a kilowatt-hour
7 output, Mr. Sipics' remedy would penalize the company 1.2
8 cents per kilowatt-hour.

9 Q. You mean Mr. Kahal?

10 A. I'm sorry, I do mean Mr. Kahal. I apologize.

11 JUDGE CHRISTIANSON: I missed that.

12 THE WITNESS: So that by virtue of having delivered
13 to the customers 1.5 cent of power through voluntary actions
14 undertaken by the company, they're in turn going to be
15 penalized 1.2 cents for having done so, which is Mr. Kahal's
16 own calculation of the effect of his excess capacity
17 adjustment.

18 The other example that comes readily to mind was the
19 interruptibles, and the company during the stay-out period
20 created this interruptible rate.

21 We've had no rate relief as a result of that, so none
22 of the costs of that were borne by other shareholders. It
23 did so presumably principally for public policy reasons, and
24 the consequence of that is that they have 300-odd megawatts
25 of interruptible load which this methodology would count

1 against the company, which results in it costing the company
2 approximately \$25 million per year for having voluntarily
3 undertaken this economic development program for which it
4 was never compensated.

5 It just strikes me that this is exactly the kind of
6 thing that we do not want to disincentivize the company from
7 doing.

8 But this kind of mechanistic test that's being
9 proposed here does, and so that's what I meant by the
10 efficiency implications of it. I simply disagree with his
11 conclusion in his surrebuttal testimony.

12 MR. GADSDEN: Thank you, Dr. Hieronymus.

13 Your Honor, that's all we have.

14 JUDGE CHRISTIANSON: Maybe we can be off the record
15 just briefly.

16 (Discussion off the record.)

17 JUDGE CHRISTIANSON: Let's go ahead and be back on
18 the record. I gather we have some cross, and counsel may
19 proceed.

20 MS. McCLOSKEY: Yes. Thank you, Your Honor.

21 CROSS-EXAMINATION

22 BY MS. McCLOSKEY:

23 Q. Dr. Hieronymus, in your rejoinder, I believe you
24 referred to Mr. Kahal's disallowance as a disallowance of
25 stranded costs.

1 In the computation of Mr. Kahal's disallowance
2 amount, did he depart from the methodology that was used by
3 the Pennsylvania Commission in its 1985 rate order regarding
4 Susquehanna 2?

5 A. I'm not certain. I know he notes that the
6 number is very different, but that may be for underlying
7 reasons rather than a difference in methodology.excess
8 capacity

9 Q. So you're not sure if his methodology was the
10 same methodology --

11 A. I know that he contends that in both cases, that
12 it's a disallowance of an equity return.

13 Q. Now, you also reference the Susquehanna upgrade
14 and the interruptible load. And do the megawatts of the
15 Susquehanna 2 upgrade and the 345 megawatts of interruptible
16 load affect the economic excess capacity adjustment?

17 A. To some degree, yes.

18 Q. In what way?

19 A. Well, I assume that had the company done the
20 studies that Mr. McCloskey -- excuse me, Ms. McCloskey; I'm
21 having trouble with names this afternoon -- Mr. Kahal
22 relies on without the NUGs and without the Susquehanna
23 uprate, it would have come up with at least somewhat
24 different market costs of power and/or capacity, which go
25 into those studies.

1 I doubt that the effect would have been enormous, and
2 in that context I don't think the effect would have been
3 significant, but there would have been some effect.

4 Q. I had referred to the interruptible load.

5 A. Yes, I understand that, but the amount of
6 interruptible load affects the amount of capacity, of real
7 capacity the firms in PJM need, and therefore affects the
8 market value of capacity.

9 Q. You had just referred to NUGs in your answer,
10 and I think --

11 A. I'm sorry, it also is true of the interruptible
12 load, what I just said.

13 Q. Right. But you're saying it would only have a
14 slight effect?

15 A. Yes. That would be my expectation, not having
16 done the analysis.

17 Q. And also as to the interruptible load, are you
18 aware that the company's position in this case is that it
19 offers interruptible rates to retain that load?

20 A. That's not the way the -- the way it has been
21 characterized to me is that there were some customers for
22 whom retention was an issue, and then a lot of other people
23 for whom retention was not an issue piled in.

24 I don't know whether that's been their testimony in
25 that case. That's the way it's been characterized to me.

1 Q. And are you also aware that the company is now
2 asking for recovery of those costs associated on a
3 going-forward basis with the revenue deficiencies from the
4 interruptible load from its ratepayers?

5 A. Not specifically, but I would assume that it's
6 rate case includes all of its rates, including this proposed
7 interruptible rate.

8 Q. You're not specifically aware of that claim?

9 A. I would assume it was the case that they're
10 asking for a match between allowed revenues and the rate
11 structures on a going-forward basis.

12 Q. Now, with respect again to the Susquehanna Unit
13 2 upgrading, all else being held equal, wouldn't an economic
14 upgrade help the Susquehanna unit pass an economic excess
15 capacity test?

16 A. Other things being equal, I would expect it
17 would -- well, it clearly would hurt them on physical
18 excess. I would assume that it would marginally improve
19 their performance on an economic excess capacity test, yes.

20 MS. McCLOSKEY: Thank you, Dr. Hieronymus.

21 I have nothing further.

22 JUDGE CHRISTIANSON: Thank you. I assume there's no
23 other cross. Anything more from the company?

24 MR. GADSDEN: Nothing more, Your Honor.

25 JUDGE CHRISTIANSON: Then this witness, too, is

1 excused.

2 (Witness excused.)

3 JUDGE CHRISTIANSON: That being the last witness,
4 we're about done for the day, I guess. We have a couple
5 late filings possible, but I don't think I have to go into
6 them. There's some minor things that may be coming in.

7 MS. McCLOSKEY: I haven't had a chance to talk with
8 Mr. Gadsden. We did provide the Energy Journal and the
9 overall project progress for Shippingport that were the
10 source documents for Mr. Bridenbaugh's testimony at page 8,
11 I believe it's lines 8 through 11 of his testimony.

12 We think, since there was some confusion about the
13 source documents, it may help if we admit these to the
14 record as Exhibit DBG-13A and Exhibit DGB-13B.

15 He did discuss the Energy Journal and reference this
16 on the stand.

17 MR. GADSDEN: We have no problem with the admission
18 of the Energy Journal article, with the understanding that
19 we would like an opportunity to review the article in its
20 entirety and, to the extent we believe it appropriate to
21 substitute the entire article, to do so.

22 MS. McCLOSKEY: That's fine.

23 MR. GADSDEN: With respect to the document styled,
24 "Shippingport Overall Project Progress," my understanding of
25 the purpose of submitting this document is that one finds on

1 fax page number 11 a reproduction of an overhead in which
2 there's a line item designated, "Contingency,
3 \$11.6 million."

4 The contingency itself is not discussed in the text,
5 in addition to which at page 5 of the fax transmittal, it's
6 noted that this document is in turn based on four other
7 reference materials.

8 We obviously don't know when this document was
9 prepared, to what extent it relied on other materials. We
10 obviously have no way to test the accuracy of the numbers.

11 Now, having said all that, I have no problem with
12 this document being admitted on the same basis that Mr.
13 Epstein's exhibit was admitted, namely that this was the
14 document that Mr. Bridenbaugh relied upon in his surrebuttal
15 testimony, but that it should not be necessarily relied upon
16 as having probative force.

17 JUDGE CHRISTIANSON: We obviously did not test its
18 underpinnings as an article, the derivation of it. Well,
19 then, with that caveat, the same as the caveat I gave about
20 the Epstein material, we can go ahead and accept it. I hear
21 no other objection to it.

22 MS. McCLOSKEY: That should be fine, Your Honor.
23 Just so the record is clear, I'll mark the Energy Journal
24 Exhibit DGB-13A, and the Shippingport Overall Project
25 Progress Exhibit DGB-13B.

1 (Whereupon, the documents were marked as
2 OCA Exhibits Nos. 13-A and 13-B for
3 identification and received in evidence.)

4 MS. McCLOSKEY: That will keep them in sequence to
5 the surrebuttal testimony where the footnote is in Mr.
6 Bridenbaugh's testimony.

7 JUDGE CHRISTIANSON: Do you have two copies for the
8 court reporter at this point?

9 MS. McCLOSKEY: Yes.

10 JUDGE CHRISTIANSON: Do you have a copy for me at
11 this point?

12 MS. McCLOSKEY: Yes, I do.

13 JUDGE CHRISTIANSON: The rest of you can get them
14 later.

15 One thing I wanted to do on that, I'll mention just
16 very briefly, I mentioned the reply brief date of Tuesday,
17 the 27th instead of the 26th.

18 Looking at the regs, it looks like you can use the
19 mailbox rule for that. 1.11 allows the filing to be done by
20 overnight delivery or the post office form.

21 So if somebody is out of town, I won't insist on
22 getting it physically to the office that day. The main
23 briefs should be gotten in to the parties and presumably the
24 Secretary the day it's due, but the 27th can work
25 essentially as a mailbox rule, if you so desire. Of course,

1 if you want to get it in physically, that's up to you
2 people. That will relax it a little bit. I can get it the
3 next day, myself. Go ahead.

4 MS. KENNEY: On the main brief, I have two dates in
5 my records as to a date due. One in the 15th and one is the
6 16th.

7 Am I correct that it's in hand on the 16th, or is it
8 in hand -- the in-hand date is the confusing date.

9 JUDGE CHRISTIANSON: I'm going from his prehearing
10 order which says the 15th. If anybody has an understanding
11 you have it in hand the 16th, that's acceptable to me.

12 MR. MacGREGOR: That's my understanding, Your Honor,
13 the 16th.

14 JUDGE CHRISTIANSON: Because I wasn't here when it
15 was done originally, so I'll go with prevailing counsel, so
16 in hand on the 16th for main briefs. That gives you a
17 little more leeway, and that corresponds with the one day
18 delay in reply briefs as well. So if that was arranged --
19 it probably was -- I'll now bless it. It's in hand on the
20 16th.

21 There's nothing much more for the record. I thank
22 you all. It has been an unusual proceeding, changing judges
23 not quite in midstream but early in the stream, and having
24 Judge Turner in for a little bit.

25 But it's been interesting. It was more interesting

1 perhaps than the last case I had ten years ago.

2 Thank you all for your cooperation. I think counsel
3 have been very helpful in this case, and very professional
4 about the whole matter.

5 With that, with the provisions made for late-filed
6 possibilities, we'll close the record at this point, and
7 we're off the record.

8 (Whereupon, at 2:50 p.m., the proceedings were
9 concluded.)

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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: John A. Kelly

John A. Kelly,
Certified Verbatim Reporter

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FORM 2