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COMMONWEALTH OF PENNSYLVANIA

PUBLIC UTILITY COMMISSION

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Pennsylvania Public Utility Commission, :Docket Nos.

U.S. Department of Defense & Federal :R-00049255

Executive Agencies, PPL Industrial Customer :R-00049255C0001

Alliance, Office of Small Business Advocate, :through C0005

Office of Consumer Advocate, Eric Joseph :

Epstein v. PPL Electric Utilities :

Corporation. :

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Public Input Hearing :

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Pages 47 through 85

City Council Chambers
100 South Queen Street
Lancaster, Pennsylvania

DOCUMENT

Monday, June 28, 2004

Met, pursuant to notice, at 2:15 p.m.

BEFORE:

SUSAN D. COLWELL, Administrative Law Judge
ALLISON K. TURNER, Administrative Law Judge

APPEARANCES:

RICHARD A. KANASKIE, Esquire
P.O. Box 3265
Harrisburg, Pennsylvania 17105-3265
(For Office of Trial Staff)

PAUL E. RUSSELL, Esquire
Two North Ninth Street
Allentown, Pennsylvania 18101-1179
(For PPL Electric Utilities Corporation)

Commonwealth Reporting Company, Inc.
700 Lisburn Road
Camp Hill, Pennsylvania 17011

(717) 761-7150

J. M.
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APPEARANCES (Continued):

ARON J. BEATTY, Esquire
555 Walnut Street
Forum Place, Fifth Floor
Harrisburg, Pennsylvania 17101
(For Office of Consumer Advocate)

CAROL PENNINGTON, Esquire
Commerce Building, Suite 1102
300 North Second Street
Harrisburg, Pennsylvania 17101
(For Office of Small Business Advocate)

Commonwealth Reporting Company, Inc.

700 Lisburn Road
Camp Hill, Pennsylvania 17011

(717) 761-7150

1-800-334-1063

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FORM 2

P R O C E E D I N G S

1
2 ADMINISTRATIVE LAW JUDGE SUSAN D. COLWELL: Good
3 afternoon. I'm Susan Colwell. I'm the Administrative Law
4 Judge assigned to conduct this public input hearing. The
5 Administrative Law Judge assigned to prepare the recommended
6 decision for the Commission's review and approval is Judge
7 Allison Turner. She's seated to my left. She'll be
8 listening to your remarks today.

9 As you know, this case is PPL's proposed rate
10 increase. This is PPL's first rate case in many years,
11 because when the electric industry was restructured and
12 competition was introduced, PPL and the Commission put a
13 rate cap in place. That rate cap will expire on January
14 1st, 2005. That's the effective date of the proposed new
15 rates.

16 I'm going to tell you what has happened so far in
17 this investigation, what will happen, and how you can
18 participate. After that, counsel for PPL and whoever else
19 is present here in the front table will make one-minute
20 opening statements, about one minute. The court reporter
21 that you can see up here is going to transcribe everything
22 that is said, so please remember that you cannot talk over
23 one another. Two people can't talk at once. She can only
24 get down one at a time.

25 Also, during this hearing, I ask that you please turn

1 off all your cell phones, set them on vibrate, don't
2 interrupt any witness or counsel who is speaking. Any
3 conversations you want to have amongst yourselves I ask that
4 you conduct outside the room.

5 On March 29, 2004, PPL Electric Utilities
6 Corporation, which is what we call PPL, filed its rate
7 proposal tariff to become effective June 1st, 2004,
8 proposing to increase its retail distribution rates by
9 \$164.4 million in additional revenues. Additionally, PPL
10 informed the Commission that transmission charges reflected
11 in retail rates are expected to increase by approximately
12 \$57.2 million. These charges arise under FERC regulated PJM
13 open access transmission tariffs, and that combination will
14 produce an overall increase of \$221.6 million, representing
15 an increase in annual revenues of 8.1 percent.

16 According to a PUC press release of May 7, 2004,
17 under the combined proposal, the average monthly bill for a
18 residential customer using 900 kilowatt-hours of electricity
19 would increase approximately \$7.62 from \$77.47 to \$85.09.
20 This is the first base rate increase PPL has requested since
21 1995. The increase would affect 1.3 million customers in 29
22 counties.

23 On May 7, 2004, the Commission suspended the
24 effective date of the rate request until January 1st, 2005,
25 and directed that an investigation and hearings be held.

1 The investigation will mostly be carried out by parties and
2 persons who have intervened or filed complaints; the Office
3 of Consumer Advocate, OCA, which represents the interests of
4 residential customers as a whole; the Office of Small
5 Business Advocate, OSBA, which represents the interests of
6 small commercial and industrial customers; PP&L Industrial
7 Customer Alliance, which represents large consumption
8 customers; the Commission's Office of Trial Staff, OTS,
9 which represents the public interest as a whole; the union,
10 IBEW; and Eric Epstein, who represents himself as a
11 customer. Several other utilities have also intervened and
12 various other public interest and special interest groups,
13 including competitors; and as a group, we'll refer to these
14 as the parties.

15 Since PPL has not filed a rate case for a number of
16 years, the parties have not had a chance to scrutinize PPL's
17 operations and rates to see if its actions are prudent and
18 its expenses and revenues and rate of return fair and
19 reasonable. The parties will examine all these things to
20 find out if there are matters they want to challenge.

21 In addition, PPL has proposed some basic changes that
22 the parties may oppose; for instance, the distribution
23 system improvement charge, which would allow PPL to recover
24 costs associated with system upgrades between base rate
25 proceedings.

1 At a prehearing conference, which was held on May 19,
2 2004, a schedule was set for hearings, discovery meetings
3 and settlement meetings. The parties have already held one
4 informal discovery conference with PPL, and there has been
5 one settlement meeting, and another is scheduled for July.
6 The public input hearings are being held today here in
7 Lancaster, this evening in Harrisburg, tomorrow in Allentown
8 and Bethlehem and Wednesday in Wilkes-Barre and Scranton,
9 and July the 19th in Williamsport. The hearings to take
10 technical evidence are to be held the week of August 9th to
11 the 13th, 2004 in Harrisburg.

12 Before these hearings are held, the parties will
13 submit their testimony in writing, and at the hearings, the
14 witnesses who submitted testimony will be cross-examined.
15 The parties will file briefs on September the 2nd and
16 September 13th, 2004, and Judge Turner's recommended
17 decision is due on October 7th, 2004. The parties will be
18 able to file written exceptions if they do not agree with
19 the recommended decision, and after that, the Commission
20 will enter a Final Order.

21 The purpose of this public input hearing is to hear
22 from you regarding PPL's existing and proposed rates and
23 service. The Commission's policy regarding public input
24 hearings which appears formally at 52 Pa. Code Section
25 69.321 gives you three options to do so. The first option

1 is that you may testify formally under oath or affirmation
2 and be subject to cross-examination. The second option is
3 you may make an unsworn or unaffirmed statement. It will be
4 off the record, however, and not subject to cross-
5 examination. The court reporter will not transcribe your
6 statement. Judge Turner will not consider it in her
7 recommended decision. Third, you may provide information to
8 the OTS, to the Consumer Advocate or the Small Business
9 Advocate for their possible use at the hearings in
10 Harrisburg at their discretion. I encourage you to testify
11 under oath so that Judge Turner and the Commission can use
12 your testimony to the extent that it meets the rules of
13 evidence.

14 I don't have any time limits. It looks like there
15 isn't going to be a problem with having too many people to
16 speak here, so I'm not going to impose any time limits.

17 Does anyone want to testify who has not signed in,
18 because I need to have your names here so I can call on you?

19 (No response.)

20 JUDGE COLWELL: Okay. PPL has employees here who can
21 also discuss with you individual service problems if you
22 have any. Now, counsel for the parties, beginning with PPL,
23 then OTS will go ahead and make brief remarks.

24 Before we start, are there any Legislators or staff
25 members of Legislators present? Who are you, sir?

1 MR. SCARPATO: John Scarpato with Representative
2 Baldwin's office.

3 JUDGE TURNER: And how do you spell your name?

4 MR. SCARPATO: S-c-a-r-p-a-t-o.

5 JUDGE COLWELL: Thank you. Will you be making a
6 statement?

7 MR. SCARPATO: No.

8 JUDGE COLWELL: You're here just to observe?

9 MR. SCARPATO: Yes.

10 JUDGE COLWELL: All right. Thank you.

11 Mr. Russell.

12 MR. RUSSELL: Thank you, Your Honor. My name is Paul
13 Russell. I'm one of PPL's in-house lawyers in Allentown,
14 and I'm one of the lawyers representing PPL Electric
15 Utilities in this rate case proceeding.

16 At the outset, I'd like to thank you for appearing at
17 today's hearing. Public input hearings are an important
18 part of the Commission's ratemaking process, and they often
19 provide valuable customer perspective on a broad range of
20 issues in a rate case. Your testimony today will be
21 carefully reviewed by PPL Electric Utilities, many of the
22 other parties, the Administrative Law Judges, and ultimately
23 the Commission. So if you have any views on the case, I
24 urge you to testify.

25 The purpose of today's hearing is to listen to the

1 public, so I won't take valuable time summarizing our
2 request. However, I would like to make two points about the
3 impact of Pennsylvania's 1996 Customer Choice Act on the
4 case. The first is that the Customer Choice Act established
5 rate caps, which the Administrative Law Judge has already
6 described for you in her opening statement.

7 Second, the Act made the generation of electricity
8 competitive and required electric utilities to unbundle
9 their operations. Because of that change, the rate request
10 now before the Administrative Law Judge involves only PPL
11 Electric Utilities, the company that provides electric
12 delivery service in central eastern Pennsylvania. It has
13 nothing to do with PPL's other companies or other
14 operations, the generation of electricity, sales of
15 electricity to other utilities or international investments.

16 In conclusion, I want to mention two housekeeping
17 matters. First, as the Administrative Law Judge mentioned,
18 we do have another PPL employee with me. John Levitski --
19 if you'd put your hand up, John -- is one of our regional
20 representatives. He can answer any questions you might have
21 about your individual service or rates, so if you would see
22 him either during a break or after the hearing. Secondly,
23 if you're interested, you can review the company's entire
24 filing online at www.pplrateinfo.com.

25 Again, thank you for attending and I look forward to

1 hearing your comments. Thank you.

2 MR. BEATTY: Good afternoon. My name is Aron Beatty,
3 and I'm an attorney with the Pennsylvania Office of Consumer
4 Advocate. Our office represents the interests of utility
5 consumers, residential consumers, in particular, in matters
6 before the Public Utility Commission.

7 As the Judge has explained, we're here this afternoon
8 to receive your comments on PPL's proposed transmission and
9 distribution rate increase. The company has asked the
10 Public Utility Commission for permission to raise its
11 distribution and transmission rates by 221 million or about
12 8 percent over current rates. For the main residential
13 class, Rate RS, the company proposes a 9.7 percent increase.
14 The customer charge would increase from \$6.55 to \$12.20,
15 which would include the first 200 kilowatt-hours of usage.

16 The company's generation rates, as well as the
17 generation rates of competitive suppliers, are not affected
18 by this filing. Generation rates provided by the company
19 are capped until 2010.

20 Our office has filed a complaint against the
21 company's request for a rate increase in order to help
22 ensure that any increase that may be awarded is reasonable
23 and fully supported. We've hired expert witnesses in the
24 utility field to analyze the company's case, and these
25 experts will present testimony challenging portions of the

1 company's request.

2 The purpose of this afternoon's hearing is to hear
3 from members of the public. We want to hear your opinions
4 and your concerns. I'd also encourage you to testify under
5 oath so that your testimony becomes part of the record in
6 this case and we can refer to it when we submit our written
7 briefs to the PUC.

8 I've brought with me some brochures that describe
9 what our office does, and in that brochure there's a form if
10 you want to be on our mailing list and receive information
11 about developments involving your local utilities.

12 Thank you for coming this afternoon, and I look
13 forward to hearing your comments.

14 MS. PENNINGTON: My name is Carol Pennington. I'm
15 from the Office of Small Business Advocate. My office
16 represents the interests of small business customers in
17 proceedings before the Public Utility Commission. In this
18 proceeding, we have hired the services of an expert witness.
19 His name is Robert Knecht, and his testimony will be filed
20 tomorrow.

21 Generally speaking, what we are doing is we are
22 contesting the overall level of the increase in this
23 proceeding, but we are also contesting the rate allocation,
24 the allocation of whatever increase is granted by the PUC as
25 far as it concerns small businesses, because we believe that

1 small businesses have paid more than their share of past
2 increases. Also, we are contesting the distribution system
3 improvement charge which would allow for the automated
4 upward adjustment of rates for system upgrades between base
5 rate cases.

6 I encourage you today to testify on the record,
7 especially if you're the owner or the manager of a small
8 business, and I'd be very happy to talk with you after the
9 proceedings. But please testify on the record so we can use
10 whatever you have to say as part of the record in this case,
11 and I want to thank you all for coming.

12 MR. KANASKIE: Good afternoon. My name is Rick
13 Kanaskie. I'm with the Commission's Office of Trial Staff.
14 The Office of Trial Staff is best described as a semi-
15 independent arm of the Commission. We're under the
16 Commission's purview for administrative purposes, but we are
17 an active party in this proceeding. I don't advocate on
18 behalf of the Commission. I advocate before the Commission.
19 As such, we have technical experts, financial experts all
20 filing testimony in this proceeding.

21 Our office was formed some 18 years ago and charged
22 with protecting the public interest. One of the themes that
23 you'll hear throughout a rate case is the public interest
24 and maintaining rates that are just and reasonable. That's
25 our role in this proceeding; so that PPL's filing reflects

1 rates that are just and reasonable.

2 We've challenged many aspects of their filing from
3 the way the rates are distributed to the amount of the
4 increase of certain expenses they're claiming as legitimate.
5 That's only half of the rate case proceeding. That's the
6 physical testimony and the evidence that has been presented
7 so far.

8 What is equally as important is the input of the
9 public. Anything you have to say can be used, and I urge
10 you testify on the record so that it may be when we're
11 developing the whole picture.

12 Again, thank you for coming out, and I urge you
13 testify on the record.

14 JUDGE COLWELL: Thank you. At this time, I'm going
15 to ask the first person who signed in to come up. Before I
16 do that, you might note there is a camera in the room. If
17 you do not want to be photographed, you do not have to be,
18 but you have to tell me ahead of time.

19 Mr. Jeffrey Good, would you come up to the podium,
20 please? Would you raise your right hand?

21 Whereupon,

22 JEFFREY GOOD

23 having been duly sworn, testified as follows:

24 JUDGE COLWELL: Thank you. Will you give your name,
25 your address and tell us where you work, please?

DIRECT TESTIMONY

1
2 THE WITNESS: My name is Jeffrey Good. I work for
3 Amelia's Grocery Outlets. Our business address is 120 Orlan
4 Road, New Holland, PA. The zip code is 17557.

5 JUDGE COLWELL: Are you a PPL customer, sir?

6 THE WITNESS: Yes.

7 JUDGE COLWELL: Thank you. Are you authorized to
8 testify on behalf of Amelia's Grocery Outlets?

9 THE WITNESS: Yes, ma'am.

10 JUDGE COLWELL: All right. Please go ahead with your
11 statement.

12 THE WITNESS: First of all, I thank the court for
13 your time and consideration, and I am here on behalf of
14 Amelia's Grocery Outlets. I'm Jeffrey Good, Executive Vice
15 President and Chief Operating Officer of Amelia's Grocery
16 Outlets headquartered in New Holland, Lancaster County,
17 Pennsylvania.

18 Amelia's operates seven discount grocery outlets and
19 a corporate distribution center. Our stores are located in
20 Lancaster, Berks, Chester and Montgomery Counties in
21 Pennsylvania, and of these eight locations, five are located
22 within the PP&L territory with the potential of additional
23 stores in the near future. Amelia's employs about 180 total
24 associates, of which approximately 125 work within the PP&L
25 area.

1 Amelia's Grocery Outlets, a GS-3 rated commercial
2 class business, uses electricity for lighting,
3 refrigeration, various equipment, air-conditioning and some
4 backup heating. Our business hours run 8:00 a.m. through
5 9:00 p.m. Monday through Saturday and we are closed Sundays.
6 Although we're not in full operation 24 hours, seven days a
7 week, refrigeration, heating and air-conditioning, lighting
8 and equipment continue to use electricity. Beyond labor and
9 store lease rent, electricity is our largest operating
10 expense despite conservation efforts within our stores.

11 Amelia's combined utility expenses were 2.2 percent
12 cost of sales for the year-end 2003, and through the first
13 five months of 2004, these expenses ran 2.5 percent cost of
14 sales. In 2003, our cost of electricity from PP&L for the
15 five locations in the PP&L territory totaled \$206,114.29,
16 and through the first five months of 2004, electricity has
17 totaled \$92,303.28.

18 I took a look at the CPI Index summary for the
19 northeast region on a seasonally adjusted basis, and the
20 CPI-U rose .6 percent in May following a .2 percent increase
21 in April. Energy costs advanced sharply in May, up 4.6
22 percent, and with energy, the index for petroleum based
23 energy increased 7.7 percent and the index for energy
24 services increased 1.1 percent. I'm no expert on these
25 issues, but I'm just bringing them to be on the record.

1 The index for food costs rose .9 percent in May
2 following increases of .2 percent in each of the three
3 preceding months. It appears that energy costs are already
4 out-pacing inflation, as well as out-pacing food prices,
5 which penalizes both customers and food retailers, small
6 business.

7 The economics of the retail grocery industry with all
8 its varying formats ranging from supermarkets to super
9 centers and mass merchandisers, convenience stores, club
10 stores, specialty stores and limited assortment discount
11 stores are driven by combining high volume sales and
12 customer accounts with gross profit margins that generate
13 low net profits. Survival in this highly competitive, high
14 service oriented industry requires retailers' complete
15 attention to expense control.

16 This industry operates on approximately 1 percent net
17 profit on sales, and many independent grocers and corporate
18 chains did not produce even the 1 percent that had become a
19 standard for the industry last year. Labor, utilities,
20 health and business insurance and increased government
21 regulation are adding significant costs and retailers have
22 swallowed them by squeezing out more labor productivity from
23 their work force, inventory and expense controls, and by
24 offering additional products and services with higher gross
25 margins.

1 Raising food prices in this highly competitive
2 industry especially for small business is not an option.
3 These tactics that small business has done as well as large
4 business of squeezing out more labor productivity and so
5 forth, however, are not keeping up with the rising costs
6 that out-pace inflation. In fact, the retail food industry
7 is actually losing market share to the fast food and super-
8 sized non-food retailers, Wal-Mart, thus inhibiting growth.

9 If electric rates go up even in the PP&L territory,
10 both independent and corporate retail food management's
11 response to offset the electric cost increases would be to
12 attempt to raise labor productivity, which, in effect, could
13 lead to layoffs, declines in hiring, cuts in wage, increases
14 in benefits. These electric increases could also affect
15 growth opportunities and business expansion. Small to mid
16 size businesses already struggling with expense control will
17 continue to lose their competitive footing to larger chains
18 and super centers from outside the area where we compete.

19 We would respectfully ask for the energy industry and
20 PP&L to look for other ways to increase their efficiency and
21 profitability before they request price and rate increases.
22 We would respectfully ask that the court would not approve
23 the proposed increase for these commercial customers. We
24 would also like to thank the court, Judge Colwell, Judge
25 Turner and all present. Thank you for listening to our

1 testimony and considering our points of view. Thank you.

2 JUDGE COLWELL: Thank you. Mr. Good, can I ask you a
3 few questions?

4 THE WITNESS: Yes.

5 JUDGE COLWELL: You discussed earlier or you
6 mentioned the term CPI. Could you tell us what you mean by
7 that?

8 THE WITNESS: The Consumer Price Index.

9 JUDGE COLWELL: Thank you. Are you familiar with the
10 quality of service that Amelia's has received from PPL?

11 THE WITNESS: The quality of service?

12 JUDGE COLWELL: Yes. I wonder if you feel competent
13 to comment on that.

14 THE WITNESS: I'm not sure that I do.

15 JUDGE COLWELL: Okay. That's fine.

16 THE WITNESS: Sometimes, I guess, in some respects,
17 frankly, I guess we do take energy service for granted. We
18 have had times where we've lost energy service and we do
19 lose food products at times. There is a disruption in
20 sales, of course, and those kind of things.

21 I would like to say, though, that one of the
22 intangibles about our business is that during our course of
23 operation from 8:00 in the morning till 9:00 at night, we're
24 open for business, but when we're closed for business, we
25 don't have the opportunity -- I mean the refrigeration

1 continues to run. The lighting, certain store equipment
2 continue to run, unlike a manufacturing industry where if
3 the plant is running and they're producing, they're using
4 electricity. When the plant shuts down, the electricity
5 drops down, and so they can manage those costs.

6 With a retailer and the small business, energy costs
7 are not as much variable. They are more fixed, if you will,
8 based on the cases and the size of the store and the
9 equipment that we're using. So, you know, for instance, I
10 think of labor as an expense. If sales are up, we obviously
11 staff heavier. If sales go down, we chop back on some
12 staffing. Whereas, with energy, we really don't have that,
13 I guess, that luxury.

14 I will say, though, that we don't turn the other
15 cheek. In other respects, we do have controllers on
16 condensing units to cycle our refrigeration equipment. We
17 do try to put energy efficient ballasts on all of our strip
18 lighting. So we do make some conservation efforts as well
19 to cut costs.

20 I don't know if that answered your question. Maybe I
21 went a little further. But the service of PP&L I can't
22 really say has been poor. I will say that.

23 JUDGE COLWELL: Okay. Let me ask the attorneys here
24 if they have any questions for you. I'll just run down my
25 list.

1 Mr. Kanaskie?

2 MR. KANASKIE: No questions, Your Honor.

3 JUDGE COLWELL: Ms. Pennington?

4 MS. PENNINGTON: No, Your Honor.

5 JUDGE COLWELL: Mr. Beatty?

6 MR. BEATTY: No questions, Your Honor.

7 JUDGE COLWELL: Mr. Russell?

8 MR. RUSSELL: No questions, Your Honor.

9 JUDGE COLWELL: All right. Thank you very much, Mr.
10 Good.

11 THE WITNESS: Thank you.

12 (Witness excused.)

13 JUDGE COLWELL: I ask Frank Richards to come forward.
14 Mr. Richards, would you raise your right hand,
15 please?

16 Whereupon,

17 FRANK RICHARDS

18 having been duly sworn, testified as follows:

19 JUDGE COLWELL: Thank you. Could you please state
20 your name, spell your last name, and give us your address?

21 DIRECT TESTIMONY

22 THE WITNESS: Frank Richards, R-i-c-h-a-r-d-s. I run
23 the Richards Energy Group in Landisville, Pennsylvania, 3901
24 Nolt Road, Landisville, PA.

25 JUDGE COLWELL: Are you authorized to testify on

1 behalf of Richards Energy Group?

2 THE WITNESS: Yes.

3 JUDGE COLWELL: Are you a PPL customer, sir?

4 THE WITNESS: Yes, I am, but it might be more -- it's
5 slightly different. I run an electric users consortium of
6 about 220 industrial and commercial clients, and I do act on
7 their authority as well as far as buying electricity, which
8 is the area I want to discuss.

9 JUDGE COLWELL: All right. Please go ahead.

10 THE WITNESS: Related to that, we have been
11 purchasing electricity for clients since the middle of --
12 well, we had deals in place late in 1998 before the
13 beginning of deregulation started and we've had clients in
14 deals ever since then. We've been able to maintain quite a
15 number of them, I think, when others are thinking of
16 deregulation as not working, and my whole point for being
17 here is to hopefully be sure that when everything is done,
18 that deregulation will not be any worse off than it was
19 beforehand.

20 What I mean mostly about that is distribution, of
21 course, is not going to affect shopping, retail shopping for
22 clients, but the transmission certainly does have an affect.
23 One of the things I've been puzzling over and scratching my
24 head about is if PPL raises their transmission portion of
25 their bill, what will a supplier do? How is that

1 relationship going to be maintained?

2 I know part of what's happening is going to make it a
3 little more complex, because PPL is suggesting changing from
4 a, I believe, dollars per kW basis -- who knows that -- to a
5 cents per kilowatt-hour basis, essentially; so going from a
6 demand-based transmission rate to a usage-based transmission
7 rate, and when you take a customer and you know his demand
8 and his usage, you can figure that all out and you can tell
9 both ways, but if you just blue sky it, it's really
10 difficult to say whether this is equivalent to this or if
11 it's 20 percent higher than this. How do we really know
12 that?

13 What I'd like to have some assurance of is that when
14 I go shopping for my clients, that we're able to find deals,
15 that we're able to make electric choice continue to work in
16 Pennsylvania. We've had some measure of success in that.

17 The OCA number I like to look at. I'm sorry. The
18 last ones I have is October 1st of 2003. There have been
19 two quarters since then. But since they ended in April, the
20 numbers probably don't change too much. Most everybody, if
21 they're going to change and go on default service, is going
22 to do it in May. So these numbers are fairly accurate, I
23 guess, compared to what's out there right now.

24 With the October 1st figures, 199 megawatts of
25 industrial and commercial load within P&PL's service

1 territory was currently being supplied from another supplier
2 or making deregulation work. Of that, folks who are part of
3 our electric users consortium amounted to 90 megawatts of
4 that, which is 44 percent of the total of all of PPL, and we
5 focus primarily Lancaster, Harrisburg, over to the Allentown
6 area.

7 I say that partially because of my concern that for
8 many people, deregulation may not be working if our little
9 group is 44 percent of the total and partially because I
10 don't want anybody else to know that so we can continue to
11 do that. What we need to do is to try to -- market timing
12 is a very important part of what's going on here. Because
13 there's so little margin to work with, when the prices dip
14 down enough, we're ready, we're mobile, we can act, and we
15 can put people into deals. Whereas, when the prices go back
16 up, if someone's wondering what was happening, they're going
17 to miss that deal.

18 I want to apologize also for not having some prepared
19 remarks, because I hadn't really thought I was going to talk
20 until it looked like Jeff and I were the only ones here for
21 a long time.

22 Amelia's, by the way, is one of our commercial
23 clients that we purchase electricity for and have for the
24 past few years. Our group, when they're all purchasing
25 electricity, there's about \$65 million worth of electricity,

1 both distribution and generation, that is being purchased,
2 we are purchasing for our group. Of course, that's not all
3 PPL. I didn't divide that down into PPL versus some of the
4 other utilities, Met-Ed and PECO.

5 I think that's all I really wanted to say, because it
6 all looks like scribbles there. Thank you very much for
7 your attention and being able to talk here today.

8 JUDGE COLWELL: Thank you for coming. Do you know
9 right off the top of your head how many of your clients are
10 PPL customers?

11 THE WITNESS: Well, it's roughly -- out of the 220,
12 probably 170, 180. It's mostly PPL clients. They range in
13 size from small GS-1 customers to fairly large LP-5
14 customers, a 69 kV supply.

15 JUDGE COLWELL: You had referred to some OCA numbers.
16 Can you tell us on the record where you got those numbers?

17 THE WITNESS: The Web site. The OCA puts out four
18 sheets every month, and they have to do a little
19 extrapolating to get -- first of all, PPL will be divided
20 into residential, then commercial, then industrial. So I
21 take the industrial and commercial and add them together in
22 looking at the megawatts that are being supplied by an
23 alternative supplier, and then to correlate that, I would
24 look at all of our clients and look at who was in a deal
25 during that period of time, and that's how I got the

1 percentages from that.

2 JUDGE COLWELL: Okay. I'll just run down my list and
3 we'll see if the attorneys have any questions for you.

4 Mr. Kanaskie?

5 MR. KANASKIE: I have no questions, Your Honor.

6 JUDGE COLWELL: Ms. Pennington?

7 MS. PENNINGTON: No questions.

8 JUDGE COLWELL: Mr. Beatty?

9 MR. BEATTY: No questions, Your Honor.

10 JUDGE COLWELL: Mr. Russell?

11 MR. RUSSELL: No questions, Your Honor.

12 JUDGE COLWELL: All right. Thank you very much, sir.

13 THE WITNESS: Thank you.

14 (Witness excused.)

15 JUDGE COLWELL: The last name on my list is Walt
16 Sload. Would you raise your right hand, please?

17 Whereupon,

18 WALT SLOAD

19 having been duly sworn, testified as follows:

20 JUDGE COLWELL: Thank you. Could you state your name
21 for the record and spell it, please?

22 DIRECT TESTIMONY

23 THE WITNESS: My name is Walt Sload. It's spelled
24 W-a-l-t, S-l-o-a-d.

25 JUDGE COLWELL: Could you give us your address,

1 please?

2 THE WITNESS: I'm here representing Kemps Foods. Our
3 address is 1801 Hempstead Road, Lancaster, Pennsylvania.

4 JUDGE COLWELL: And are you authorized to testify on
5 behalf of Kemps Foods?

6 THE WITNESS: Yes, I am.

7 JUDGE COLWELL: Are you a PPL customer?

8 THE WITNESS: Kemps Foods is a PP&L customer,
9 correct.

10 JUDGE COLWELL: Thank you. Go ahead with your
11 testimony, please.

12 THE WITNESS: My name is Walt Sload. I'm here
13 representing Kemps Foods. I am the warehouse operations
14 manager there. We are a large milk and ice cream
15 manufacturer. Kind of as Amelia's is, we are operating in a
16 very highly competitive industry and one that is also highly
17 regulated by the state and the prices that we can charge for
18 milk.

19 Electricity is our largest operating expense. We
20 operate two very large storage areas at our facility that
21 have to be maintained temperature-wise 24 hours a day, seven
22 days a week. One is kept at 20 below zero constantly, and
23 the other one is kept at 40 degrees above. As you can
24 guess, they are very large draws on electrical power.

25 In an analysis that we had done actually by PP&L

1 Industrial Commercial Services Department, we anticipate
2 that this rate increase if it's approved is going to have an
3 impact of \$110,000 on our expenses, which is going to have a
4 significant impact on our bottom line, and I'm just
5 respectfully asking that you consider this impact it's going
6 to have on our business and that you can alter this rate
7 increase.

8 JUDGE COLWELL: Can you comment on PPL's quality of
9 service?

10 THE WITNESS: I didn't really come here today to
11 comment on the quality of their service, but I can't really
12 think of any major issues we've had.

13 JUDGE COLWELL: In terms of reliability, whether or
14 not their service is --

15 THE WITNESS: It's reliable.

16 JUDGE COLWELL: It's reliable?

17 THE WITNESS: Yeah.

18 JUDGE COLWELL: All right. Thank you. Let's see if
19 the attorneys have any questions for you, sir.

20 Mr. Kanaskie?

21 MR. KANASKIE: I have no questions, Your Honor.

22 JUDGE COLWELL: Ms. Pennington?

23 CROSS-EXAMINATION

24 BY MS. PENNINGTON:

25 Q. I'm just wondering, Mr. Sload, are you a GS-3

1 customer?

2 A. Excuse me?

3 Q. Do you know what customer class you belong to;
4 GS-3 or --

5 A. I have the information back there. I'll have to
6 look. I can provide that for you.

7 MR. RICHARDS: LP-4.

8 MS. PENNINGTON: LP-4; okay. Thank you.

9 JUDGE COLWELL: Mr. Beatty?

10 MR. BEATTY: No questions, Your Honor.

11 JUDGE COLWELL: And Mr. Russell?

12 MR. RUSSELL: No questions, Your Honor.

13 THE WITNESS: Thank you.

14 JUDGE COLWELL: Thank you very much.

15 (Witness excused.)

16 JUDGE COLWELL: Is there anyone else here that would
17 like to speak today on the record? Yes, sir. Please come
18 forward.

19 MR. KENDIG: My name is Jay Kendig.

20 JUDGE COLWELL: Can I ask you to raise your right
21 hand first, please? Thank you.

22 Whereupon,

23 JAY KENDIG

24 having been duly sworn, testified as follows:

25 JUDGE COLWELL: Thank you. Please state your name.

DIRECT TESTIMONY

1
2 THE WITNESS: Jay Kendig, 2033 Edistonville Road,
3 Strasburg, PA, 17579. I'm a residential customer.

4 JUDGE COLWELL: Can I ask you to spell your name?

5 THE WITNESS: K-e-n-d-i-g.

6 JUDGE COLWELL: Thank you. So you are a PPL
7 customer?

8 THE WITNESS: Yes.

9 JUDGE COLWELL: Can you tell us by whom you are
10 employed?

11 THE WITNESS: Retired.

12 JUDGE COLWELL: You're retired from where, sir?

13 THE WITNESS: Armstrong World Industries.

14 JUDGE COLWELL: Thank you. Go ahead with your
15 testimony.

16 THE WITNESS: I just happen to have a 2002 Annual
17 Report from PP&L, and I wanted to bring up a few things that
18 are listed in the Annual Report. Page 16 of the 2002
19 report, "As the financial community focuses on balance sheet
20 and liquidity issues, we are improving our equity ratio and
21 cash flows, and we expect our financial strength to continue
22 to improve in 2003 and beyond.

23 "Our confidence in our business strategy, in the
24 strength and quality of our earnings and in our improving
25 cash position allow us to make an important decision" --

1 JUDGE COLWELL: Sir, could you slow down just a
2 little bit, please?

3 JUDGE TURNER: Remember, this lady is taking it down.

4 THE WITNESS: Okay.

5 JUDGE COLWELL: Thank you.

6 THE WITNESS: Well, you guys can read it, page 16 of
7 the 2002 report. "Our confidence in our business strategy,
8 in the strength and quality of our earnings and in our
9 improving cash position allowed us to make an important
10 decision in February to increase the common stock dividend
11 by 6.9 percent...on an annualized basis."

12 Then we go back here and it shows "PPL at a Glance,"
13 "Earnings from Core Operations, Annualized Common Stock
14 Dividend."

15 JUDGE COLWELL: What page are you on now, sir?

16 THE WITNESS: Twenty. It shows the operating
17 revenues. For 2000, it's 4545, whatever, billions,
18 millions; I'm not sure. For 2001, it goes from 45 to 50,
19 and in 2002, it goes from 50 to 54, and I don't know what it
20 is in 2003, but I'm sure it's higher, and it shows the five-
21 year cumulative total return as up in the 180 billion, I
22 guess it is.

23 So it looks to me like the last four years their
24 operating revenues have increased very significantly, but
25 they come for a rate increase. I question why. If they're

1 making more money, why are they asking for the ratepayers to
2 pay more?

3 JUDGE COLWELL: Mr. Kendig, would you like to make
4 that into an exhibit and enter it into the record?

5 THE WITNESS: I don't care.

6 JUDGE COLWELL: It's your choice.

7 THE WITNESS: You can. You can. Also, on page 51,
8 the regulations are listed, and just reading through this, I
9 can't read all of it. I'm sure the man from PP&L can tell
10 us about it. "Based on the PUC Final Order, PPL Electric
11 was amortizing its competitive transition or stranded costs
12 over an 11-year transition period effective January 1, 1999.
13 In August 1999, competitive transition costs of \$2.4 billion
14 were converted to intangible transition costs when they were
15 securitized by the issuance of transition bonds. The
16 intangible transition costs are being amortized over the
17 life of the transition bonds, August 1999 through December
18 2008, in accordance with an amortization schedule filed with
19 the PUC. The assets of PPL Transition Bond Company,
20 including the intangible transition property, are not
21 available to creditors of PPL..."

22 Essentially, they have till 2009 before they can
23 raise rates, or am I missing something?

24 JUDGE TURNER: I think you're missing something.

25 THE WITNESS: I'm missing something. Okay. I just

1 assumed that they were locked in. They're after a
2 transition or stranded cost increase. Am I correct?

3 JUDGE COLWELL: Mr. Russell, would you like to
4 respond to Mr. Kendig?

5 MR. RUSSELL: Sure. We are not asking for an
6 increase in stranded cost recovery or transition bonds in
7 this case. When we came out of the restructuring case, our
8 rates were really unbundled into two major categories. One
9 would be delivery, which is distribution and transmission,
10 and those rates were capped through December 31st of 2004,
11 and the only part of that that's in this proceeding right
12 now are distribution primarily and a little bit of
13 transmission, but those are the rates that are capped till
14 2004; and as the ALJ said earlier on, this rate increase
15 wouldn't become effective until January 1, 2005, after the
16 end of the rate cap.

17 The other major category of rates coming out of
18 restructuring was our generation and stranded cost recovery,
19 both the competitive transition charge and the intangible
20 transition charge, and you're correct; those rates are
21 capped through the end of 2009, but those are not part of
22 this increase that we're requesting. That's a separate
23 thing, and we're not asking to increase those rates.

24 THE WITNESS: Your asking for a generation rate
25 increase?

1 MR. RUSSELL: No, no; distribution and transmission,
2 not generation. Generation is in that second category.

3 THE WITNESS: Okay, okay. Distribution?

4 MR. RUSSELL: Yes.

5 THE WITNESS: Okay. I better read some more.

6 JUDGE TURNER: Pardon?

7 JUDGE COLWELL: He said he wants to read it some
8 more.

9 THE WITNESS: I have to read some more in here.

10 JUDGE COLWELL: Do you have anything else you'd like
11 to add?

12 THE WITNESS: I have no more. I'm just questioning.
13 They show in their Annual Report how well they have done
14 over the last four or five years or three years -- excuse me
15 -- and I question why the rate increase is needed. Why
16 can't they be the lowest electricity supplier in the area?
17 Why must they be one of the higher priced ones?

18 JUDGE COLWELL: Okay. Thank you, Mr. Kendig. Why
19 don't I ask the attorneys if they have any questions for
20 you.

21 Mr. Kanaskie?

22 MR. KANASKIE: No questions, Your Honor.

23 JUDGE COLWELL: Ms. Pennington?

24 MS. PENNINGTON: No questions.

25 JUDGE COLWELL: Mr. Beatty?

1 MR. BEATTY: No questions, Your Honor.

2 JUDGE COLWELL: Mr. Russell?

3 MR. RUSSELL: I actually do have one question, Your
4 Honor.

5 JUDGE COLWELL: Go ahead.

6 CROSS-EXAMINATION

7 BY MR. RUSSELL:

8 Q. Could I just ask you, on the front of the Annual
9 Report, the name of the company that the Annual Report is
10 for?

11 A. PP&L Corporation.

12 MR. RUSSELL: Thank you. That's all I have, Your
13 Honor.

14 THE WITNESS: I grabbed the wrong one. I'm sorry. I
15 thought I had 2003. But it was interesting to read 2002 and
16 see how well they have done from 2000 to 2002, the last
17 three years. Now, I have the other one at home, so I can
18 project that also, but I can't testify at this time on 2003.

19 JUDGE COLWELL: Okay. Thank you, sir.

20 THE WITNESS: Thank you.

21 (Witness excused.)

22 JUDGE COLWELL: Is there anyone else present in the
23 room who would like to make a statement on the record?

24 (No response.)

25 JUDGE COLWELL: Do any of the attorneys have anything

1 to add? Mr. Kanaskie?

2 MR. KANASKIE: I have nothing to add, Your Honor.

3 JUDGE COLWELL: Ms. Pennington?

4 MS. PENNINGTON: No, Your Honor.

5 JUDGE COLWELL: Mr. Beatty?

6 MR. BEATTY: No, Your Honor.

7 JUDGE COLWELL: Mr. Russell?

8 MR. RUSSELL: Nothing to add, Your Honor.

9 JUDGE COLWELL: At this point, we're going to go off
10 the record. We're going to wait about 15 minutes to see if
11 anyone else shows up. We know that it was a little bit
12 confusing in the directions for this, so we want to make
13 sure we don't miss anyone.

14 We are going to go off the record right now, and
15 we'll come back in 15 minutes and close it up. Thank you.

16 We're off the record.

17 (Recess.)

18 JUDGE COLWELL: Let's go back on the record.

19 We've been off the record for a little over 15
20 minutes. In that time, I don't believe any additional
21 people have come forward.

22 I will just ask is there anyone else in the room who
23 would like to put testimony on the record today?

24 (No response.)

25 JUDGE COLWELL: Hearing no response, I'm going to

1 return to Mr. Kendig, who was our last speaker. He has an
2 exhibit he'd like to put into evidence for us. Please bring
3 it forward, sir.

4 Are there any objections to admission of this
5 particular exhibit?

6 MR. RUSSELL: No objection, Your Honor.

7 JUDGE COLWELL: Hearing no objection, it's admitted
8 into the record, if you'd just bring it over to the court
9 reporter, please.

10 MR. KENDIG: Do I have to give this up?

11 JUDGE COLWELL: Yes. I told you that.

12 JUDGE TURNER: It can be Kendig Exhibit 1, and it is
13 PPL Corporation Annual Report for 2002.

14 (Whereupon, the document was marked
15 as Kendig Exhibit No. 1 for
16 identification, and was received in
17 evidence.)

18 JUDGE COLWELL: At this time, if no one has anything
19 else to put on the record, we are going to close this and
20 we'll reconvene this evening in Harrisburg.

21 We're off the record.

22 (Whereupon, at 3:17 p.m., the public input hearing
23 was adjourned, to be reconvened at 7:00 p.m., in Harrisburg,
24 Pennsylvania.)

25 ***

C E R T I F I C A T E

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

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