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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 : R-00049255C0001  
Customer Alliance, Office of Small : through C0016  
Business Advocate, Office of Consumer :  
Advocate, Eric Joseph Epstein, Victoria :  
K. Mackin, Cheryl and Jeremy Ebert, :  
Martha Wells, Margaret M. Stuski, :  
Esquire, Wal-Mart Stores East, LP, :  
Pennsylvania Energy Consortium, Donald :  
E. McGarrigle, Curvin L. Snyder, :  
William J. Junkin, III, v. PPL Electric :  
Utilities Corporation. Proposed :  
general rate increase. :  
 :  
 Further Hearing :  
 :  
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Pages 705 through 946

Hearing Room No. 1 -  
Commonwealth Keystone Building  
Harrisburg, Pennsylvania

Wednesday, August 11, 2004

Met, pursuant to adjournment, at 10:00 a.m.

BEFORE:

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

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P R O C E E D I N G S

1  
2 ADMINISTRATIVE LAW JUDGE ALLISON K. TURNER: Now is  
3 the time and place for a further hearing in the matter of  
4 PP&L's proposed rate increase, Docket No. R-00049255.

5 We have, if I'm correct, on the witness list today  
6 Mr. Tuffey, Mr. Colton, Mr. Hanger, Mr. Brady, Mr. Howat,  
7 Mr. Schwarz. Is that correct?

8 MR. MacGREGOR: And Mr. Dahl.

9 JUDGE TURNER: Mr.?

10 MR. MacGREGOR: Dahl. We're actually starting with  
11 him, I believe.

12 JUDGE TURNER: For some reason, that's marked with a  
13 big "X" on this sheet. I'll just have to white that out.

14 So we're starting with Mr. Dahl?

15 MR. MacGREGOR: Yes, we are. He's the company's  
16 witness on universal service, and then the remaining  
17 witnesses are the opposing parties' witnesses on that issue.

18 JUDGE TURNER: Yes. Are there any preliminary  
19 issues?

20 (No response.)

21 JUDGE TURNER: Okay. Why don't you call Mr. Dahl  
22 then?

23 MR. MacGREGOR: Yes, Your Honor. We would like to  
24 call as our next witness Mr. Timothy Dahl, D-a-h-l.

25 JUDGE TURNER: Good morning, Mr. Dahl.

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Whereupon,

TIMOTHY R. DAHL

having been duly sworn, testified as follows:

JUDGE TURNER: And does that also apply to your prepared testimony and exhibits?

THE WITNESS: Yes, it does.

JUDGE TURNER: Thank you. Please be seated.

MR. MacGREGOR: Your Honor, Mr. Dahl is responsible for PPL Statement 7, which is his direct testimony; Statement 7-R, which is his rebuttal testimony, and various exhibits which are identified on the materials that were handed out the first day of hearing. All of those have been previously moved into the record subject to cross-examination and timely motions to strike.

I have one brief area of rejoinder testimony for Mr. Dahl, and then he would be available for cross-examination.

JUDGE TURNER: Fine.

DIRECT EXAMINATION

BY MR. MacGREGOR:

Q. Mr. Dahl, looking at the proposal presented by OCA Witness Colton in which he proposes that the company place low income customers with substantial arrearages automatically or unilaterally onto a budget billing plan in May, am I correct that May, in general, is one of the lowest usage months for residential customers?

FORM 2

1           A.    Yes, that is correct.  Typically, there is no  
2 heating load, no cooling load, and those are generally some  
3 of the lower bills of the year.

4           Q.    And under the company's budget billing program,  
5 if you were to calculate the amount of payment for May, in  
6 simple terms, you would take the customer's estimated usage  
7 for the entire year, divide it by 12, and that amount would  
8 be the amount billed for May?

9           A.    That's correct.

10          Q.    And all else equal, one could expect that if you  
11 place a residential customer, particularly a residential  
12 heating customer, on a budget billing in May, that that  
13 budget bill would be significantly higher than the bill  
14 based on actual usage?

15          A.    That is correct.

16          Q.    And have you made any estimate of what that  
17 differential might be for an average residential customer?

18          A.    Well, typically, for an electric heat customer,  
19 their May bill might run \$45.00 to \$50.00.  If they went on  
20 a budget bill, it would typically run \$160.00, \$165.00,  
21 perhaps.

22                Under Mr. Colton's suggestion, you'd also want to pay  
23 for arrears.  So if they were, for example, a level two  
24 customer, typically, that would be up to \$40.00 payments.  
25 So that \$160.00, \$165.00 bill would actually be a \$200.00 or

1 \$205.00 bill under budget billing plus.

2 Q. Mr. Dahl, have you made any estimate of the  
3 number of customers who might be affected by this proposal?

4 A. I think we estimated somewhere between 20,000 to  
5 30,000 customer could potentially be affected.

6 Q. Mr. Colton further indicates that one potential  
7 benefit from implementing this type of program is that the  
8 customer would, in essence, prepay some of his arrearages by  
9 paying the larger monthly bill based on budget billing in  
10 May; is that correct?

11 A. That is his assertion. We don't agree with  
12 that. Typically what would happen for these level one and  
13 two customers, we have been trying to get them to pay, to  
14 contact us. They haven't done anything. They haven't paid.  
15 Our expectation would be unilaterally putting them on a  
16 budget billing plan wouldn't really do anything differently  
17 than our experience had been before of them not paying.

18 MR. MacGREGOR: Thank you. Your Honor. That  
19 completes my rejoinder with Mr. Dahl. He's available for  
20 cross-examination by the parties.

21 JUDGE TURNER: Thank you. Are we beginning with OTS  
22 today?

23 MR. KANASKIE: We may, Your Honor.

24 JUDGE TURNER: Okay. Please proceed, Mr. Kanaskie.

25 MR. KANASKIE: We have no cross, Your Honor.

1 JUDGE TURNER: Office of Consumer Advocate.

2 MS. McCLOSKEY: Thank you, Your Honor.

3 CROSS-EXAMINATION

4 BY MS. McCLOSKEY:

5 Q. Good morning, Mr. Dahl.

6 A. Good morning.

7 Q. My name is Tanya McCloskey. I represent the  
8 Office of Consumer Advocate. I'd like to just ask you a few  
9 questions on your oral rejoinder.

10 You would agree with me that -- you cited a figure of  
11 \$160.00 to \$165.00 for a budget bill, for a monthly budget  
12 bill; is that correct?

13 A. That would be for an electric heat customer.

14 Q. For an electric heat customer.

15 A. That's correct.

16 Q. And you would agree with me that that \$160.00 to  
17 \$165.00 budget bill would be a lower bill than that customer  
18 would have experienced in January and February during the  
19 heating season?

20 A. If they were just paying a straight bill, the  
21 budget billing amount would typically be lower.

22 Q. And, in fact, that would probably be a lower  
23 bill than they would pay in March during the heating season  
24 if, in fact, there was heating usage in March; is that  
25 correct?

1 A. It would depend on the type of March we had and  
2 the number of degree days, but, typically, it would be close  
3 or maybe a little bit more.

4 Q. And you would agree with me that by May, the  
5 customer would be coming out of a time of paying much higher  
6 bills than the \$160.00 to \$165.00 range; is that correct?

7 A. Typically in May, bills do drop, yes.

8 Q. And by beginning the budget billing cycle then  
9 in May, the customer would be put on a levelized bill for  
10 the upcoming year so that in no month for the upcoming year  
11 would they pay more than their budget bill amount?

12 A. For people who participate in budget billing,  
13 that's how the program works, that's correct.

14 Q. And is it your testimony that you see no benefit  
15 to providing customers with a levelized budget bill?

16 A. We offer budget billing, but this, in effect,  
17 would be unilaterally imposing this plan upon these  
18 customers. In talking with our credit and collection  
19 professionals, we said, "Well, is it really a benefit?  
20 Would this really help us, because we typically have a  
21 number of people that are overdue at any one time that cycle  
22 in and out? Would this be a help for us?"

23 I think our reaction is it really wouldn't be a help,  
24 because if they didn't contact you on all the other times --  
25 Mr. Colton sort of preproposes that we don't touch base with

1 these customers. We're contacting them. We're sending them  
2 letters, sometimes even termination notices. They don't  
3 take action.

4 So just putting someone on a budget bill  
5 unilaterally, just say, "Here it is," we're not convinced  
6 that it does anything, that it makes it affordable for them,  
7 because they're going to look at us -- this is a hard sell.  
8 My actual bill is going to be \$50.00 in May, but now you  
9 want me to pay \$200.00. That's a difficult thing to get  
10 people to agree to.

11 Q. And are your customers who are in arrearages  
12 taking advantage now of the low bills in May to make extra  
13 payments on their arrearages?

14 A. I don't know about all customers. We have  
15 payment plans set up, and we hope that customers abide by  
16 those payment plans.

17 Q. But you still at this time don't know whether or  
18 not those customers are taking advantage of the lower bill  
19 in May to begin to make payments towards their arrearages?

20 A. I don't think this group of customers, low  
21 income, typically they have many situations where they're  
22 trying to get by, they're probably not thinking of the  
23 future and prepaying bills or worrying about those kinds of  
24 things has typically been our example.

25 MS. McCLOSKEY: Thank you, Mr. Dahl. I have nothing

1 further, Your Honor.

2 JUDGE TURNER: Thank you. Mr. Gray?

3 MR. GRAY: No questions, Your Honor. Thank you.

4 JUDGE TURNER: Is CAC represented here today?

5 MR. FIORENTINO: Yes, Your Honor.

6 JUDGE TURNER: Do you have cross-examination of this  
7 witness?

8 MR. FIORENTINO: No, Your Honor.

9 JUDGE TURNER: Mr. Vullo, do you have cross-  
10 examination?

11 **CROSS-EXAMINATION**

12 BY MR. VULLO:

13 Q. Mr. Dahl, my name is Joe Vullo, and I represent  
14 the Commission on Economic Opportunity. I'm going to show  
15 you what I have marked as CEO Cross-Examination Exhibit No.  
16 1.

17 MR. VULLO: May I approach the witness, Your Honor?

18 JUDGE TURNER: Yes. Does PPL want to see this? I  
19 think you should show it to his attorney before you cross-  
20 examine him on it.

21 BY MR. VULLO:

22 Q. Mr. Dahl, are you familiar with that document?

23 A. Yes, I am.

24 Q. That's a June 12, 2003 order from the PUC which  
25 addresses PP&L's universal service program?

1           A.    Yes.  It addresses our three-year plan for 2004  
2 to 2006 for our universal service plan, which Commission  
3 regulations require each utility to submit every three years  
4 for approval.

5           JUDGE TURNER:  Let's identify it by docket number  
6 here.  It's Docket No. M-00031698.  Thank you.

7           MR. VULLO:  Thank you.

8                                 (Whereupon, the document was marked  
9                                 as CEO Cross-Examination Exhibit No.  
10                                1 for identification.)

11          BY MR. VULLO:

12          Q.    Mr. Dahl, is it correct that the PUC concluded  
13 in that order that the company's universal service programs  
14 were not appropriately funded and not available?

15          A.    They do have that statement in there, that is  
16 correct.

17          Q.    Were you the manager of regulatory programs and  
18 business services at the time?

19          A.    Yes, I was.

20          Q.    And you were the manager at the time the  
21 universal service plan was submitted to the PUC by the  
22 company?

23          A.    That is correct.

24          Q.    Do you agree with that conclusion?

25          A.    No, we do not.

1 Q. And can you tell me why?

2 A. Under the settlement, PPL's 1998 settlement  
3 agreement, the parties came to an agreement on how much  
4 money should be expended for the OnTrack program, and  
5 basically what PPL has done is we have managed the program  
6 over the past five years to meet that expenditure level.

7 In fact, the requirement over the past five years was  
8 for PPL to have expended \$47.3 million under our settlement  
9 agreement. We expended \$47.6 million, so just a little over  
10 100 percent of that. Basically, we were cognizant of the  
11 fact that we had a mandatory rate cap, and we wanted to stay  
12 within the budget that was approved in the settlement and  
13 attempted to enroll as many customers as we could in the  
14 program with that budget amount.

15 Q. Is it your belief that the restructuring  
16 agreement would render meaningless that statutory  
17 requirement that your universal service program be  
18 appropriately funded and available?

19 MR. MacGREGOR: Objection, Your Honor. The question  
20 calls for a conclusion of law.

21 MR. VULLO: We set forth his views on why he  
22 disagrees with it, one of which is that the settlement  
23 agreement provides a certain level of funding. I think it's  
24 a fair area for cross-examination.

25 JUDGE TURNER: I'm not sure it's a fair area of

1 cross-examination, but I'll let him answer this question.

2 THE WITNESS: Would you ask the question again,  
3 please?

4 MR. VULLO: Sure.

5 THE WITNESS: Thank you.

6 BY MR. VULLO:

7 Q. Is it your belief that the terms of the  
8 restructuring agreement would render meaningless the  
9 statutory requirement that the company's universal service  
10 programs be appropriately funded and available?

11 A. My understanding of that requirement is that  
12 there are no parameters around it. It says it should be  
13 appropriately funded and available. That was determined in  
14 my belief through the settlement agreement. What is the  
15 appropriate amount of funding? That was determined by all  
16 the appropriate parties and signed off, and that's how we've  
17 been operating under that frame.

18 Q. You're familiar with the restructuring agreement  
19 then?

20 A. I have some basic knowledge, yes.

21 Q. As it relates to universal service?

22 A. Yes, I do.

23 Q. And are you aware that the restructuring  
24 agreement as it relates to universal service allows the  
25 company to exceed the amount budgeted and defer those costs

1 and recover those in a later proceeding?

2 A. I'm aware that there is that provision. I'm not  
3 intimately familiar with it.

4 Q. Okay. Now, the June 12, '03 order on page 4, if  
5 you can turn to page 4, about a third of the way down  
6 indicates that the participation rate for PP&L customers in  
7 OnTrack is 8 percent; is that correct?

8 A. That's what it states.

9 Q. And the order states that that is the lowest  
10 participation rate for a cap of all electric distribution  
11 companies in the Commonwealth?

12 A. Based on information from the PUC's Bureau of  
13 Consumer Services, I believe that is true.

14 Q. And also based upon the study that is part of  
15 your universal service plan submission that was performed by  
16 RETEC; correct?

17 A. I have to look at the specifics, but I believe  
18 that is probably true.

19 JUDGE TURNER: Okay. Let's spell RETEC for the court  
20 reporter.

21 MR. VULLO: R-E-T-E-C.

22 JUDGE TURNER: They're all capital letters?

23 MR. VULLO: Yes.

24 JUDGE TURNER: Is there a hyphen in there?

25 MR. VULLO: No. It's all caps, and don't ask me to

1 say what it is.

2 THE WITNESS: It's the RETEC Group, Inc., is the  
3 official name.

4 JUDGE TURNER: RETEC Group, Inc.?

5 THE WITNESS: Group, Inc., yes.

6 JUDGE TURNER: Okay.

7 BY MR. VULLO:

8 Q. How is participation rate defined?

9 A. I guess participation rate is how many eligible  
10 low income customers are out there and how many would be in  
11 your CAP program.

12 Q. Is that what the order provides?

13 A. I don't know. I haven't read the order.

14 Q. If you look right above where they talk about 8  
15 percent, it states the "CAP participation rate is calculated  
16 by dividing the number of participants enrolled as of  
17 December 31 of a program year by the number of confirmed low  
18 income customers."

19 A. I see that, yes.

20 Q. Do you agree with that definition then of  
21 participation rate?

22 A. That seems a reasonable, yes, definition to me.

23 Q. And in your responses to discovery in this case,  
24 you've indicated that the number of low income customers in  
25 PP&L's service territory is just over 200,000?

1 A. Based on the 2000 U.S. Census, that would be  
2 correct.

3 Q. And you are proposing in this proceeding to  
4 increase OnTrack enrollment to 17,000 -- I'm sorry -- 15,000  
5 to 17,000?

6 A. That is correct.

7 Q. So that would be your participation rate out in  
8 the year 2007?

9 A. That would be correct.

10 Q. 15,000 to 17,000 customers divided by the number  
11 of low income, which would be 200,000?

12 A. That would be correct, but those 200,000 you  
13 have to understand don't all necessarily have overdue  
14 balances or payment trouble and so forth. So, in a gross  
15 sense, that would be the whole number, but it doesn't tell  
16 the whole story.

17 Q. Now, in your submission in this case, you intend  
18 to enroll in OnTrack between 15,000 and 17,000 people;  
19 correct?

20 A. That is correct.

21 Q. And that is based upon a funding level of 14.7  
22 million?

23 A. That's right.

24 Q. And that funding level will not be reached until  
25 the year 2007?

1           A.    We had recommended an increase in funding of  
2 1 million each year till three years so it would be, in  
3 effect, wrapped up, similar to what we did in the settlement  
4 agreement in 1998.

5           Q.    But in answer to my question, the goal of 15,000  
6 to 17,000 customers in OnTrack is based upon \$14.7 million  
7 in funding?

8           A.    Is \$14.7 million in funding; and also, on the  
9 RETEC report, it identifies a pool of about 30,000 customers  
10 which it says is probably eligible for the program; also,  
11 the fact that our participation rate is one for two. For  
12 every ten customers we refer to the program, five customers  
13 get in. So we think with a population of about 30,000 and  
14 our efforts of making enrollments, 15,000 to 17,000 we think  
15 is about what the program can handle of people who  
16 participate and get in the program.

17           Now, you have to understand when we do enrollments,  
18 there are four opportunities for the customer to get in the  
19 program. They talk with our phone rep. We send them a  
20 letter. They talk with an agency person; for example, CEO,  
21 Commission on Economic Opportunity. They also send them a  
22 letter. So there is ample opportunity we believe to get  
23 customers enrolled, but our experience has been for every  
24 ten you refer, five will eventually get in the program.

25           JUDGE TURNER: Did that answer your question,

1 Mr. Vullo?

2 MR. VULLO: No, Your Honor, and I'll rephrase it.

3 JUDGE TURNER: Okay.

4 BY MR. VULLO:

5 Q. My point, though, is that the goal of 15,000 to  
6 17,000 customers in OnTrack is based upon a funding level of  
7 \$14.7 million; correct?

8 A. 14.7 million, plus we think the pool of  
9 customers eligible to participate in the program; that's  
10 correct.

11 Q. And you will not reach that funding level of  
12 \$14.7 million until the year 2007?

13 A. That has been our proposal.

14 Q. And the funding level of the OnTrack program  
15 under which the PUC found the universal service program to  
16 be not appropriately funded or available was 12.7 million;  
17 correct?

18 A. 11.7 million.

19 Q. I'm sorry. You're right; 11.7 million. I  
20 apologize. And the PUC found based upon that funding level  
21 that it was inappropriately funded.

22 A. They note that in their order of June 12th,  
23 that's correct.

24 Q. And your proposal in this case is to increase  
25 funding to the year 2005 to \$12.7 million; correct?

1 A. That would be correct. Excuse me. I'm sorry.  
2 In 2005?

3 Q. Yes.

4 A. It would go to 12 point -- yes, 12.7.

5 Q. 12.7. I think that's -- maybe I didn't say  
6 that, but that's what I meant to say.

7 A. 12.7; that's correct.

8 Q. Now, getting back just for a minute to your  
9 proposal to increase participation to 15,000 to 17,000, the  
10 June order references the company's 2000 universal service  
11 plan; isn't that correct?

12 A. It does.

13 Q. And in the company's 2000 universal service  
14 plan, the company proposed back then to increase enrollment  
15 to 15,000 to 17,000; correct?

16 A. That is correct.

17 Q. And that proposal would have been to reach that  
18 figure by the year 2003?

19 A. I believe that's 2003-2004; that's correct.

20 Q. And now under your proposal, you're not going to  
21 reach that figure until 2007?

22 A. That's correct.

23 Q. The June order references a study by RETEC,  
24 which states that there are approximately 30,000 of your  
25 customers eligible for OnTrack. Do you agree with that

1 figure?

2 A. Yes, we do.

3 Q. And you'll also agree with me that the June  
4 order recommends a minimum enrollment of at least 17,000 and  
5 a maximum enrollment of 30,000?

6 A. I'm not sure the order says that. I know the  
7 order does say something up to 17,000. I don't believe it  
8 references anything else.

9 Q. If you could turn to page 15 of the order.

10 A. That I can recall.

11 Q. The last sentence of the ending of the first  
12 paragraph on that page.

13 A. I see the number.

14 Q. And you'll agree with me then that the  
15 Commission in that order recommended a minimum enrollment of  
16 17,000 and a maximum of 30,000?

17 A. That's their recommendation, but I believe also  
18 they say in their order within the budget for the program of  
19 11.7 million to try to achieve efficiencies to get as many  
20 people in the program as you can, and that has really been  
21 our purpose with our budget that is approved and paid for by  
22 all customers, residential customers; what can we do to  
23 enroll as many people as we can with the existing budget.

24 Q. But you'll agree with me that the order that  
25 provides that the universal service program is not

1 appropriately funded or available recommends 17,000 to  
2 30,000 participants?

3 A. It does say that.

4 Q. And that was in June of 2003?

5 A. Yes, that's correct.

6 Q. I'd like to talk to you a minute about your  
7 \$150.00 arrearage requirement. Can you explain that to me?

8 A. To be eligible to participate in the OnTrack  
9 program, which is our Customer Assistance Program, our CAP,  
10 we target people who have overdue balances and low income,  
11 poor payment histories, people who are vulnerable to perhaps  
12 termination of service, and we have in our plan an overdue  
13 balance of \$150.00, because at PPL that's where we started  
14 collection efforts. That's where you would get a  
15 termination notice. That's where your service could be shut  
16 off.

17 So that was the starting point to determine is  
18 someone eligible perhaps for OnTrack participation.

19 Q. Would you agree with me that by not having that  
20 \$150.00 arrearage requirement, you would increase enrollment  
21 in CAP?

22 A. I'm not sure we would increase enrollment,  
23 because we have plenty of opportunities to get other people  
24 in the program. I think what we're trying to do is to  
25 manage to the budget.

1           Again, I guess from our perspective, the program is  
2 really, based on the Commission policy statement, is to  
3 address payment troubled customers, people who could be shut  
4 off for non-payment, and, hence, the \$150.00 overdue  
5 balance, missed payments, and that's really what our target  
6 is, people who are maybe most vulnerable to losing that  
7 service, and that \$150.00 overdue balance is one of the key  
8 indicators.

9           JUDGE TURNER: I think you've answered his question,  
10 Mr. Dahl.

11           BY MR. VULLO:

12           Q. Mr. Dahl, that \$150.00 arrearage requirement,  
13 that was not part of your 2000 universal service plan  
14 submission, was it?

15           A. I believe we've always had the \$150.00 overdue  
16 requirement.

17           Q. Now, I just have a couple more questions, Mr.  
18 Dahl. One of the problems cited in the June 2003 order is  
19 that the company did not make appropriate referrals to  
20 OnTrack; is that correct?

21           A. It does state that.

22           Q. And the RETEC study found that the PP&L call  
23 center does not make appropriate referrals; correct?

24           A. It did say that.

25           Q. And in your rebuttal testimony, you've indicated

1 that 95 percent of all OnTrack customers come from that call  
2 center; correct?

3 A. Yes.

4 Q. What outreach do CBOs do? Would that be the  
5 other 5 percent?

6 A. That would be the agencies who administer  
7 OnTrack. It might be other organizations that do our  
8 programs that might be aware of customers who would be  
9 eligible and might make referrals to the program. But you  
10 have to understand we have a lot of referrals coming from  
11 our contact center, because we have lots of contact with  
12 people who have those bills. So for us it's not a problem  
13 of getting referrals. We believe we have sufficient  
14 referrals to expend the dollars for those customers.

15 JUDGE TURNER: Okay. CBOs means community-based  
16 organization?

17 THE WITNESS: Yes. I'm sorry; community-based  
18 organization.

19 JUDGE TURNER: It's all caps. Thank you.

20 BY MR. VULLO:

21 Q. At page 6 of your rebuttal, you state that you  
22 have a variety of resources in place to increase referrals  
23 to OnTrack. I'm sorry. I'll give you time.

24 (Pause.)

25 JUDGE TURNER: Could you repeat the page again,

1 Mr. Vullo?

2 MR. VULLO: Page 6, Your Honor.

3 JUDGE TURNER: Thank you.

4 MR. VULLO: Beginning towards the end of line number  
5 8.

6 THE WITNESS: Yes.

7 BY MR. VULLO:

8 Q. What are those resources?

9 A. Well, one might be we can target customers  
10 through our information system who have overdue balances and  
11 have stated incomes of level one or two. We can then use  
12 our personnel to do what we call outbound calling campaigns,  
13 and we can call those customers. We can call them in the  
14 evenings where there's a better chance to get a hold of them  
15 or we can do it on a Saturday. Similarly, we can take that  
16 list or information and send letters to these organizations  
17 or these people to get them enrolled as well as inform them  
18 about the program.

19 So, through letters, through phone calls, we have  
20 opportunities to increase enrollments if we need to. We've  
21 also used bill inserts in the past and we've had some ads on  
22 television and newspapers promoting our universal service  
23 programs and have included information about OnTrack as  
24 well.

25 Q. Those last two, the bill inserts and the

1 advertisement still require a customer to call you?

2 A. Yes, they do.

3 Q. And would still have to call the PP&L call  
4 center that was referenced in that June order?

5 A. Yes, they would.

6 Q. And the other resources, including the last two  
7 resources, would all increase the costs of the program?

8 A. There are some costs associated with doing the  
9 advertising that would be spread among our universal service  
10 program. It's not all totally for the other CAP programs.

11 Q. And I see in your testimony that you have been  
12 successful in reducing the costs of administering the  
13 OnTrack program.

14 A. Yes, we have.

15 Q. Is it -- and I believe right now it's currently  
16 at 15 percent?

17 A. Yes; 14 to 15 percent administrative cost.

18 Q. Is that the company's goal for level of  
19 administrative --

20 A. Our goal is to stay at least 15 percent or below  
21 and try to get lower if we can, but 15 percent would be our  
22 benchmark that we want to achieve.

23 Q. Just a couple of questions on WRAP. You've  
24 proposed to increase WRAP spending from 5.7 million to 6.7  
25 million?

1 A. That's correct.

2 Q. And that 6.7 million will not be reached until  
3 the year 2007?

4 A. That's correct.

5 Q. You've also proposed to devote a portion of that  
6 funding to solar hot water installation?

7 A. Yes; a maximum \$600,000.

8 Q. And when would that maximum be reached?

9 A. In the year 2007.

10 Q. Am I correct in saying that your discovery has  
11 indicated that the solar hot water spending in 2003 was  
12 \$2,415?

13 A. For solar water heating, the total expenditures  
14 in 2002?

15 Q. 2003.

16 A. 2003. Yes; I think there were just a few -- it  
17 was a pilot program to install 45 units. Most of the units  
18 were installed in 2002. There were some follow-up items in  
19 2003.

20 Q. Do you employ community-based organizations for  
21 the installation of the WRAP?

22 A. Yes. There are four community-based  
23 organizations that participated with us to install these  
24 units for the pilot program that came out of the 1998  
25 settlement agreement.

1 Q. In this proceeding, do you propose to continue  
2 to use those four CBOs for WRAP?

3 A. Yes, we do.

4 Q. As opposed to a statewide CBO?

5 A. That's correct.

6 MR. VULLO: That's all I have, Your Honor.

7 JUDGE TURNER: Thank you, Mr. Vullo.

8 MR. VULLO: I just move for the admission of CEO  
9 Cross-Examination Exhibit No. 1.

10 JUDGE TURNER: There being no objections, it is  
11 admitted.

12 (Whereupon, the document marked as  
13 CEO Cross-Examination Exhibit No. 1  
14 was received in evidence.)

15 JUDGE TURNER: Mr. McCormick?

16 MR. MCCORMICK: No cross, Your Honor.

17 JUDGE TURNER: Mr. Epstein is not here this morning.  
18 Mr. McPhedran, do you have questions?

19 MR. MCPHEDRAN: No questions, Your Honor.

20 JUDGE TURNER: I don't believe PLUG is represented  
21 here today.

22 MR. FIORENTINO: Your Honor, Michael Fiorentino,  
23 Clean Air Council.

24 JUDGE TURNER: Yes.

25 MR. FIORENTINO: During the cross that was just

1 conducted, it did identify a few questions that I would like  
2 to pose, if I may.

3 JUDGE TURNER: I'll get to you eventually.

4 PPLICIA, do you have any cross-examination?

5 MS. POLACEK: Yes, we do, Your Honor.

6 JUDGE TURNER: Okay.

7 CROSS-EXAMINATION

8 BY MS. POLACEK:

9 Q. Good morning, Mr. Dahl.

10 A. Good morning.

11 Q. How are you? My name is Pam Polacek, and I  
12 represent the PP&L Industrial Customer Alliance. I think  
13 most of my questions for you this morning are going to deal  
14 with the Sustainable Energy Fund.

15 I think there is one issue on which are respective  
16 clients at this point are going to agree to disagree, and  
17 that's on where the current funding for the SEF comes from,  
18 whether it's coming from PPL's shareholders or PPL  
19 ratepayers.

20 So, when we're talking today and answering questions  
21 and dealing with the current funding, if it comes up, we're  
22 both just going to kind of, if we can, reserve those  
23 positions and not get into a back and forth about how we're  
24 categorizing the current funding. I think that would be  
25 constructive.

1           You'd agree?

2           A.    That's fine with me.

3           Q.    Okay.  Now, I think we can agree, though, that  
4 that funding did come about as a result of the settlement of  
5 PP&L's restructuring proceeding at Docket No. R-00973954.  
6 You can accept the docket number subject to check, if you'd  
7 like.

8           A.    Yes.

9           JUDGE TURNER:  There are usually eight numbers in a  
10 Commission docket number.

11          MS. POLACEK:  00973954.

12          JUDGE TURNER:  Okay.

13          MS. POLACEK:  And I actually have an excerpt from  
14 that settlement that I'd like to show to Mr. Dahl so we can  
15 get a few passages from that into the record.

16          JUDGE TURNER:  Well, show it to his counsel.

17          MS. POLACEK:  I certainly will show it to his counsel  
18 first.

19          (Document handed to Attorney MacGregor.)

20          MS. POLACEK:  I do have some extra copies.  It's not  
21 my intention to actually put this into the record as a  
22 cross-examination exhibit, so I'm not going to mark it, but  
23 I am going to give a copy to the court reporter so that she  
24 gets the transcription correct.

25          JUDGE TURNER:  So you're just going to have him read

1 passages into the record?

2 MS. POLACEK: Yes, if that's acceptable, Your Honor.  
3 If you'd prefer for us to put the document in, portions of  
4 the document or all of the document in, we can do that. We  
5 just thought it would be useful to have this language  
6 somewhere in the record for citation.

7 JUDGE TURNER: I'd prefer to have you put this in as  
8 an exhibit. You have three pages here. You want him to  
9 read three pages into the record?

10 MS. POLACEK: I can certainly just put it in as an  
11 exhibit.

12 JUDGE TURNER: Please do.

13 MS. POLACEK: Okay. That's fine. I guess I'd ask  
14 then to mark as PPLICA Cross --

15 JUDGE TURNER: Three.

16 MS. POLACEK: -- Exhibit 3, yes.

17 (Whereupon, the document was marked  
18 as PPLICA Cross-Examination Exhibit  
19 No. 3 for identification.)

20 JUDGE TURNER: We have an extra copy up here if  
21 you're short.

22 MS. POLACEK: Do you need an extra copy?

23 JUDGE TURNER: No. We have one.

24 BY MS. POLACEK:

25 Q. If you could turn to pages 47 and 48 of that

1 excerpt and just review generally paragraph Q.1.

2 JUDGE TURNER: What paragraph?

3 MS. POLACEK: Q.1 on pages 47 and 48.

4 JUDGE TURNER: Okay.

5 BY MS. POLACEK:

6 Q. Are you ready?

7 A. Yes.

8 Q. I know you're not a lawyer, but do you agree  
9 this paragraph generally contains some language about  
10 reserving different positions in different proceedings or if  
11 this settlement had been rejected?

12 A. That seems to be my impression of it, yes.

13 Q. And if you could please turn back to page 23 of  
14 the settlement and if you could please review paragraph E.5.

15 (Witness perusing document.)

16 Q. Do you agree with me that under this paragraph,  
17 there's no presumption that SEF funding will be a cost of  
18 service element after the transmission and distribution rate  
19 cap expires?

20 A. It seems to say to me in here that the funding  
21 will not be considered after December 31st of 2004.

22 Q. Thank you.

23 JUDGE TURNER: So did you agree with her?

24 THE WITNESS: Yes. I'm sorry. I do.

25 BY MS. POLACEK:

1 Q. Could you please turn in your direct testimony  
2 to page 25?

3 Are you there?

4 A. Yes.

5 Q. Starting on page 25 and continuing onto page 26,  
6 you list various criteria when PP&L would discontinue  
7 funding of the SEF even if your proposal in this case is  
8 adopted; am I correct?

9 A. Yes, we did note that as our very last item.

10 Q. I'm just curious. Why isn't ratepayer consent  
11 to funding one of those criteria?

12 A. Well, I think from our perspective we believe  
13 and have proposed that there is benefit in continuing the  
14 SEF beyond its original five years. That wasn't one of the  
15 issues that we considered. We're here concerned about how  
16 the fund went, was it meeting its mission, its purpose,  
17 those types of things.

18 Q. And you weren't concerned about what the  
19 ratepayers thought about it?

20 A. Not when we put this together, no. We were  
21 concerned about how the fund went, and we felt that it made  
22 sense for us to continue the program, and we propose to  
23 continue the program with permission from the Commission.

24 Q. And you do realize that in this proceeding there  
25 are some ratepayer interests that are saying they do not

1 want to have mandatory contributions to the fund?

2 A. That's correct.

3 MS. POLACEK: Your Honor, I have a few additional  
4 cross-examination exhibits. We have put them into packets.  
5 To hopefully make this move faster, if I can distribute them  
6 at this point and we'll mark them as we go along with the  
7 discussion?

8 JUDGE TURNER: Okay. Why don't we go off the record  
9 while you distribute them then?

10 MS. POLACEK: Okay. Thank you, Your Honor.

11 (Discussion off the record.)

12 JUDGE TURNER: Back on the record.

13 All right. We all have a copy of the new cross-  
14 examination exhibit, which will be 5.

15 MS. POLACEK: I believe, Your Honor, it is 4; and  
16 maybe it would be helpful if, while everybody has the packet  
17 together, I could go through and mark each of them as they  
18 will be.

19 JUDGE TURNER: You're marking these separately?

20 MS. POLACEK: Yes. I was planning on marking them  
21 separately, because they do deal with different issues.

22 JUDGE TURNER: Okay.

23 MS. POLACEK: The first would be PPLICA Cross Exhibit  
24 4, I believe we're on. That would be the response to the  
25 interrogatories of the Clean Air Council Set 2, No. 4.

1 JUDGE TURNER: Okay.

2 MS. POLACEK: The next in line would be PPLICA Cross  
3 Exhibit No. 5, the company's response to the Office of  
4 Consumer Advocate Set XII, No. 2. That is actually a three-  
5 page exhibit consisting of Mr. Dahl's response. There is an  
6 organizational chart as the second page and then some salary  
7 information as the third page, all of PPLICA Cross Exhibit  
8 5.

9 JUDGE TURNER: And that's the one that needs to be  
10 stapled?

11 MS. POLACEK: Yes, Your Honor.

12 JUDGE TURNER: Okay.

13 MS. POLACEK: The next would be PPLICA Cross Exhibit  
14 No. 6, which will be the response to the interrogatories of  
15 the Consumer Advocate Set VI, No. 33.

16 JUDGE TURNER: Yes.

17 MS. POLACEK: And the final one is PPLICA Cross  
18 Exhibit No. 7, the company's response to the OCA Set VI, No.  
19 34.

20 JUDGE TURNER: All right. All these exhibits may be  
21 so marked as stated.

22 (Whereupon, the documents were marked  
23 as PPLICA Cross-Examination Exhibits  
24 Nos. 4, 5, 6 and 7 for  
25 identification.)

1 JUDGE TURNER: Does any counsel have any objection to  
2 these as they are first presented?

3 MR. MacGREGOR: Not to the identification, Your  
4 Honor.

5 JUDGE TURNER: Please proceed, Ms. Polacek.

6 MS. POLACEK: Thank you, Your Honor.

7 BY MS. POLACEK:

8 Q. Mr. Dahl, let's start with what we've marked as  
9 PPLICA Cross Exhibit No. 4 still dealing with the  
10 Sustainable Energy Fund.

11 Am I correct that PP&L is proposing to extend funding  
12 through December 31, 2009, because that's the point at which  
13 PP&L believes the SEF can achieve sustainability?

14 A. That's correct.

15 Q. And what do you mean by sustainability?

16 A. The SEF approach is mostly investments and  
17 loans. 90 percent of what they put out in funds are in  
18 loans and investments and expect a return on those. 10  
19 percent are grants. So with their type of approach, they,  
20 in effect, are trying to generate funds coming in to keep it  
21 sustainable, keep it revolving, have additional funds to  
22 continue their activities.

23 Q. Does that mean additional funds that do not come  
24 from PP&L's ratepayers?

25 A. That would be funds as they loan out or make

1 equity investments, that, yes, they return and receive those  
2 from those investments, that's correct.

3 Q. Now, is PP&L providing any assurance that it  
4 will not propose in a future rate case to further extend the  
5 ratepayer funding?

6 A. I can't say for sure, but we're proposing for it  
7 to end on December 31st, 2009, is our proposal.

8 Q. So I guess the answer to that question really is  
9 no, you can't provide an assurance?

10 A. I can't provide an assurance, because I'm saying  
11 yes, but maybe others would say different. But right now  
12 our proposal is to really end it, from my perspective, on  
13 December 31st, 2009.

14 JUDGE TURNER: I don't think this witness could give  
15 that assurance, actually.

16 MS. POLACEK: Your Honor, I'm not sure that anybody  
17 can give that assurance in this proceeding, even the  
18 Commission.

19 JUDGE TURNER: Okay.

20 BY MS. POLACEK:

21 Q. Now, in your response to Clean Air Council, Set  
22 2, No. 4, and I think in other portions of your testimony,  
23 you categorize the Sustainable Energy Fund as a fledgling  
24 company. Do you agree with me?

25 A. Yes, we have said that.

1 Q. Do you know of any other fledgling companies  
2 that rely on utility ratepayer funding from PP&L's  
3 ratepayers?

4 A. Not that I'm aware of.

5 Q. In your rebuttal testimony, page 36, if you  
6 could turn to that, please, at about lines 15 and 16 there,  
7 you're discussing the Bear Creek Wind Farm.

8 A. Yes.

9 Q. Did PP&L, to your knowledge, avoid any  
10 distribution system improvement as a result of the Bear  
11 Creek Wind Farm?

12 A. I don't think that system is set up yet. I  
13 think they're still undergoing research. I don't think it  
14 has become operational from my recollection.

15 Q. To your knowledge, will PP&L avoid any  
16 distribution system improvement when that becomes  
17 operational?

18 A. I can't answer that. That's not my area of  
19 expertise.

20 Q. And maybe leaving the Sustainable Energy Fund,  
21 let's turn to universal service for a couple minutes and to  
22 the other interrogatory responses that I gave you.

23 I think call center activities have actually come up  
24 in some prior cross-examination, and let's start with PPLICA  
25 Cross Exhibit 5. This is an interrogatory response that you

1 provided; correct?

2 A. That is correct.

3 Q. And if I'm looking at the organization chart  
4 here, it appears to me that there is a separate team of  
5 people at PP&L that handle the industrial and commercial  
6 customers.

7 A. Yes. There's a group called Industrial and  
8 Commercial Services.

9 Q. And if we could turn to PPLICIA Cross Exhibit No.  
10 6, which is your response to OCA Set VI, No. 33. In this  
11 interrogatory, the Office of Consumer Advocate requested any  
12 evaluation that the company had performed of the economic  
13 impacts of universal service programs; is that correct?

14 A. That is correct.

15 MS. McCLOSKEY: Your Honor, at this point I might  
16 have to object to this line of questioning in that I believe  
17 this is friendly cross-examination. I believe that PPLICIA's  
18 interests that they're pursuing here is the allocation of  
19 the universal service costs and the testimony provided by  
20 the OCA Witness Colton. Mr. Colton provided direct  
21 testimony. These interrogatories were available for use in  
22 any rebuttal that would have been filed. I believe this is  
23 in the nature of friendly cross-examination that is late in  
24 this proceeding.

25 JUDGE TURNER: It's late?

1 MS. McCLOSKEY: It's late in terms that PPLICA had an  
2 opportunity to respond to Mr. Colton's direct testimony  
3 discussing the benefits, the economic impacts and benefits  
4 of universal service programs on all customers in their  
5 rebuttal testimony to Mr. Colton and did not provide or  
6 utilize these interrogatory responses which were available  
7 at that time.

8 I believe this line is --

9 JUDGE TURNER: Okay. So you're objecting to their  
10 introducing your answers to interrogatories?

11 MS. McCLOSKEY: Six and seven.

12 JUDGE TURNER: You're not saying that this is an  
13 inappropriate line of cross-examination for this witness?

14 MS. McCLOSKEY: I believe this is friendly cross-  
15 examination of this witness in that the company's position  
16 and PPLICA's position on this issue are the same.

17 JUDGE TURNER: Okay.

18 MS. McCLOSKEY: If friendly cross-examination is  
19 permitted, I would ask for a chance then to recross Mr. Dahl  
20 on that, but I believe it should not be permitted.

21 JUDGE TURNER: That's what the Commission's  
22 regulations provide; that it is permissible, but that  
23 additional cross-examination is permitted afterwards.

24 Do you have a response?

25 MS. POLACEK: I do just have one clarification and an

1 explanation of why I don't believe it's friendly cross-  
2 examination. Even though our positions may be in line, in  
3 the end I believe PP&L is indifferent to how these funds are  
4 allocated among the customer classes, and this is --

5 JUDGE TURNER: You believe they're indifferent?

6 MS. POLACEK: I think that they're indifferent. As  
7 long as they can collect the funds that they need, I'm not  
8 sure that the company cares whether it comes from my rates  
9 or residential rates.

10 I'm certainly just willing to just drop the line of  
11 inquiry and I won't introduce the exhibits into the record.  
12 I think Mr. Baron's testimony on this is pretty clear that  
13 there isn't an economic benefit and that there isn't a  
14 collection benefit. We were just trying to confirm that the  
15 company had actually told the OCA that, but we can certainly  
16 drop the line of inquiry.

17 JUDGE TURNER: Okay.

18 MS. McCLOSKEY: Well, I would probably object to the  
19 characterization that the company told the OCA that there  
20 was no economic development or collection impact. They said  
21 they did not evaluate it. So I would disagree with her  
22 characterization of what this is.

23 JUDGE TURNER: Well, she's dropping the line of  
24 cross-examination.

25 MS. McCLOSKEY: Yes, but just for the record, she

1 made a statement which I disagree with, and I disagree that  
2 that represents what these --

3 JUDGE TURNER: All right. So are you withdrawing 6  
4 and 7?

5 MS. POLACEK: I can withdraw 6 and 7, Your Honor.  
6 They're not critical.

7 JUDGE TURNER: All right. You're not going to  
8 explore that issue with this witness, and you and Ms.  
9 McCloskey have agreed to disagree, and we can move on.  
10 Yes?

11 MS. POLACEK: If we're not going to explore this, I'm  
12 actually finished, Your Honor. I guess I would move for the  
13 admission of, I think, PPLICA 3, 4 and 5, but not 6 and 7,  
14 what had been previously marked.

15 (Whereupon, the documents marked as  
16 PPLICA Cross-Examination Exhibits  
17 Nos. 6 and 7 were withdrawn.)

18 JUDGE TURNER: Is there any objection to admitting  
19 PPLICA 3, 4 and 5?

20 (No response.)

21 JUDGE TURNER: Hearing none, they are admitted.

22 (Whereupon, the documents marked as  
23 PPLICA Cross-Examination Exhibits  
24 Nos. 3, 4 and 5 were received in  
25 evidence.)

1 JUDGE TURNER: All right. Does SEF have any cross-  
2 examination of this witness?

3 MR. NIESEN: We have none, Your Honor.

4 JUDGE TURNER: Mr. Fiorentino.

5 MR. FIORENTINO: Thank you, Your Honor.

6 CROSS-EXAMINATION

7 BY MR. FIORENTINO:

8 Q. Good morning, Mr. Dahl.

9 A. Good morning.

10 Q. I'm Michael Fiorentino, and I represent the  
11 Clean Air Council. I just have a few questions for you  
12 regarding the company's position on photovoltaic.

13 A. Yes.

14 Q. Mr. Dahl, the company's renewable pilot from the  
15 1998 settlement included a renewable energy component that  
16 included some installations of photovoltaic?

17 A. Yes, it did.

18 Q. Do you remember approximately the number of  
19 units that were installed under that program?

20 A. Forty-four photovoltaic units were installed.

21 Q. And that aspect of the program is essentially  
22 complete?

23 A. Yes. The goal was to install 45. Forty-four  
24 were completed. An evaluation is being completed by a  
25 third-party, Gill Peach and Associates.

1 Q. And is it your recollection that units were  
2 actually installed in the years 2001, 2002 and 2003?

3 A. That is correct.

4 Q. And would it be accurate to say that roughly 33  
5 of them were installed in 2002?

6 A. I think that is the number; correct.

7 Q. Is it your understanding that the same actual  
8 photovoltaic unit was installed in each of the  
9 installations?

10 A. Yes, it is. We with two other companies, Met-  
11 Ed, which is part of the FirstEnergy Companies, and  
12 Allegheny Power, jointly purchased equipment for the pilots.

13 Q. Is it also your understanding that that  
14 equipment was a bulk purchase?

15 A. Yes, it was.

16 Q. And that equipment was purchased in 2000 or  
17 2001, thereabouts?

18 A. That is correct.

19 Q. So the price that the company paid for those  
20 units would have been determined in 2000 or 2001?

21 A. Yes.

22 Q. Mr. Dahl, I believe it was your testimony that  
23 the company was going to choose to not renew the  
24 photovoltaic aspect of their renewable energy work going  
25 forward under the universal service programs.

1 A. That's correct.

2 Q. And is it also your position that the rationale  
3 for that is that it was not a cost-effective program?

4 A. That was our position. Given the dollars that  
5 we wanted to allocate for solar water heating, photovoltaic,  
6 we thought the payback was superior for solar water heating  
7 and wanted to pursue that versus the photovoltaic  
8 applications.

9 Q. I believe you testified roughly 600,000 a year  
10 is your goal for the solar water heat, but you're going to  
11 zero out the photovoltaic.

12 A. Yes.

13 Q. Is it also the case that the decision to zero  
14 out the photovoltaic aspect was made in the absence of any  
15 performance data on the actual units that were installed in  
16 PP&L territory for photovoltaic?

17 A. The study has not been completed by Gill Peach  
18 and Associates. We have looked at some preliminary data.  
19 We have seen results from other studies in other states that  
20 show the payback periods to be very long; and based on that  
21 data, we've decided the installation costs, the paybacks,  
22 not to continue.

23 Q. But that preliminary data was not based on the  
24 actual performance of the units in Pennsylvania; is that  
25 correct?

1           A.    We did a preliminary calculation for our system  
2 and showed a payback of roughly \$136.00 a year for our  
3 systems at 10,000 -- almost \$11,000 in installation. That's  
4 a 73-year payback. We feel with limited dollars that we  
5 have available, we'd rather earmark those for solar water  
6 heating where there's more favorable payback.

7           JUDGE TURNER: So the preliminary data was based on  
8 PP&L's system?

9           THE WITNESS: We had done some rough calculations  
10 what we thought the system performance would be.

11          BY MR. FIORENTINO:

12          Q.    But, Mr. Dahl, those calculations were estimates  
13 based on your assumptions of the performance of the units;  
14 is that correct?

15          A.    I have to go and look at the data, but we had  
16 calculations done, but also we had feedback from a study in  
17 Gardner, Massachusetts, another one by the California Energy  
18 Commission, respectively in those states showing paybacks of  
19 69 years and 89 years for similar systems. We feel that  
20 example and others show that the payback really isn't there  
21 in cost/benefit terms for photovoltaic.

22          Q.    But, Mr. Dahl, when I asked you for anything  
23 that you have, any information that you have showing  
24 performance of these units, you were not able to produce any  
25 information along those lines. That's correct, isn't it?

1           A.    I think the question was do we have a study from  
2 Gill Peach, and we didn't have any information at that time,  
3 that's correct.

4           Q.    Mr. Dahl, could you describe for me your general  
5 understanding of the term "economies of scale"?

6           A.    Well, sometimes if you make a power plant  
7 bigger, it becomes more efficient; you receive economies of  
8 scale. You receive some economic benefit from doing that.

9           Q.    How about in terms of smaller things in a power  
10 plant in terms of commodities that the company might need?  
11 Is it true in your understanding of economies of scale that  
12 items tend to become cheaper as a general matter as more and  
13 more of them are produced?

14          A.    I think you've seen that with think of the first  
15 calculator you bought or cell phone or other things that as  
16 they become widely distributed, there has been in certain  
17 technologies clearly economies of scale and reduction in  
18 price.

19          Q.    That's a well accepted principle across the  
20 economy?

21          A.    You have seen that in consumer goods purchased  
22 by many people; PCs, for example.

23          Q.    Would you also agree that there has been a  
24 general trend toward lower prices on things like  
25 photovoltaic modules over the years?

1           A.    I don't have information about that trend going  
2 downwards.  I know the purchase price and what we paid for  
3 the existing equipment.  I haven't seen -- I don't have  
4 enough knowledge to say I've seen a drop in equipment prices  
5 for that.

6           Q.    But have you looked recently?

7           A.    Well, recently for us would be the purchase in  
8 2001, of which a 1,000 watt unit is \$10,000, and the  
9 estimated savings in other states still shows it's very  
10 expensive.  Even though the cost of those units may have  
11 come down, the payback is still extended.

12          Q.    I believe you indicated in your testimony -- I'm  
13 sorry.  Do you recall providing a response to an  
14 interrogatory of the Clean Air Council indicating a 30-year  
15 payback for photovoltaic units?

16          A.    I think we said something, you know, under the  
17 best circumstances, there has been suggested a 30-year  
18 payback, which is still a long time.

19          Q.    Your understanding is also that Pennsylvania is  
20 not the only state in the country with some sort of  
21 renewable pilot or Sustainable Energy Fund program that  
22 promotes installation of photovoltaics?

23          A.    I don't know by state.  I know that our  
24 Sustainable Energy Fund has cooperation with other funds in  
25 I think 12 or 13 other states, so I think there are some

1 things going on. I can't list them or know who they are.  
2 I'm aware of general knowledge of some of these activities.

3 Q. Just to clarify for the record, you indicated  
4 that the purchase was made in 2001 and you gave us a price  
5 for the units. We're moving toward fiscal year 2005. But  
6 you have not recently made an attempt to find what kind of  
7 price you would need to pay to purchase photovoltaic units  
8 going forward, have you?

9 A. We have not priced those, but it should also be  
10 remembered that when we bought the equipment, we bought it  
11 at a bulk rate and actually got a discount. So we think we  
12 did pretty well in the purchase of those materials, those  
13 units.

14 Q. But if you were told that the price for a  
15 similar unit perhaps from another company that provides  
16 1 kilowatt units at this point going forward would be less  
17 than \$10,000, you would not be surprised, would you?

18 MR. MacGREGOR: Objection; no foundation, Your Honor.

19 JUDGE TURNER: Agree; sustained.

20 (Pause.)

21 MR. FIORENTINO: Just another question or two, Your  
22 Honor.

23 (Pause.)

24 MR. FIORENTINO: Actually, that will be all, Your  
25 Honor. Thank you, Mr. Dahl.

1 JUDGE TURNER: Thank you. Do you have any redirect,  
2 Mr. MacGregor?

3 MR. MacGREGOR: I do, Your Honor.

4 JUDGE TURNER: Okay.

5 MR. MacGREGOR: May I have just one moment with the  
6 witness?

7 JUDGE TURNER: Yes. Let's go off the record.

8 (Discussion off the record.)

9 JUDGE TURNER: Back on the record.

10 Redirect?

11 MR. MacGREGOR: Yes, Your Honor; just three  
12 questions.

13 **REDIRECT EXAMINATION**

14 BY MR. MacGREGOR:

15 Q. Mr. Dahl, you were asked certain questions by  
16 Ms. McCloskey on behalf of the OCA regarding budget billing.

17 Does the company have experience as to whether  
18 customers on budget billing versus customers on regular  
19 billing, whether there is an effect on energy usage?

20 A. Experience has shown that typically when people  
21 go on budget billing, their energy usage increases.

22 Q. And you were also asked a series of questions by  
23 Mr. Vullo on behalf of CEO regarding the fact that the  
24 company at least at the time that the Commission order was  
25 entered in 2003 had the lowest penetration rate for its

1 OnTrack program of any utility in the state; is that  
2 correct?

3 A. That is correct.

4 Q. Is it also true that the company has the lowest  
5 rate of termination of service of any electric or gas  
6 utility in the state?

7 MR. VULLO: Objection as to form.

8 JUDGE TURNER: Can you rephrase it, Mr. MacGregor?

9 BY MR. MacGREGOR:

10 Q. Mr. Dahl, do you have information regarding the  
11 level of the company's rate of termination of service?

12 A. Based on Public Utility Commission records, PPL  
13 Electric has the lowest termination rate for residential  
14 customers by a considerable amount compared to other  
15 electric utilities and compared to regulated gas utilities  
16 in Pennsylvania.

17 Q. So by having that lowest termination rate, would  
18 it conversely be true that if we defined universal service  
19 in terms of providing utility service to customers, that PPL  
20 has the highest rate of universal service in the state?

21 MR. VULLO: Objection. My objection is to the form.

22 JUDGE TURNER: I'm going to overrule you.

23 THE WITNESS: We believe that we have based on our  
24 collection activities, based on our load termination rate,  
25 availability of programs and services. One of our

1 objectives is to provide universal electric service to as  
2 many people as possible regardless of income.

3 BY MR. MacGREGOR:

4 Q. Finally, Mr. Dahl, you were asked some questions  
5 about the prospect of having 30,000 customers on the OnTrack  
6 program. Do you have an estimate of what the additional  
7 cost would be?

8 A. Based on our current costs of the program, it  
9 would be approximately \$30 million a year for those  
10 customers.

11 Q. And under the company's current rate structuring  
12 as proposed in this proceeding, that would be paid by  
13 residential customers?

14 A. Yes, it would.

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

17 JUDGE TURNER: Thank you. This witness may be  
18 excused. Thank you, Mr. Dahl.

19 (Witness excused.)

20 JUDGE TURNER: Before we turn to the next witness,  
21 I'd like to state on the record a thanks to Mr. Isom for  
22 scheduling the witnesses. He went through a great deal of  
23 effort, I'm sure, to fit everybody on, and he prepared a  
24 witness list for us, prepared a grid, and I appreciate his  
25 efforts. So, thank you.

1 MR. ISOM: You're welcome. I'll pass that on to my  
2 secretary, who really made most of the efforts.

3 JUDGE TURNER: Please do. Okay. Let me see here.  
4 We have Mr. Tuffey and then Mr. Colton and Mr. Hanger. I  
5 seem to remember that Mr. Hanger may have had some  
6 commitments, or was that taken care of?

7 MR. MCPHEDRAN: That was taken care of, Your Honor.  
8 He's available today.

9 JUDGE TURNER: So we don't need to take him out of  
10 order for any reason?

11 MR. MCPHEDRAN: We do not need to take him out of  
12 order.

13 JUDGE TURNER: Okay.

14 MR. VULLO: Your Honor?

15 JUDGE TURNER: Yes, sir.

16 MR. VULLO: Your Honor, I raised yesterday the  
17 possibility of taking Mr. Brady out of order, and the  
18 company has no objection to that, if it's possible that we  
19 do him next.

20 JUDGE TURNER: The company may not have any  
21 objection, but how about the other witnesses?

22 MR. VULLO: I don't know if the other parties or  
23 witnesses have any objection.

24 JUDGE TURNER: Let's go off the record.

25 (Discussion off the record.)

1 JUDGE TURNER: Back on the record.

2 I should say that off the record, Mr. McPhedran asked  
3 to do recross-examination of Mr. Dahl after redirect and  
4 after hearing Ms. McCloskey's cross-examination, I believe,  
5 or Ms. Polacek's, and I denied his request.

6 Also off the record, we had a discussion of changing  
7 the witness order, and all parties agreed to allow Mr.  
8 Brady, who is a witness for CEO, to go next.

9 MR. VULLO: Thank you, Your Honor.

10 JUDGE TURNER: You're welcome. So where is he?

11 MR. VULLO: He's here. I call Eugene M. Brady.

12 JUDGE TURNER: Judge Colwell did not get a copy of  
13 his testimony. Do you have any extras?

14 MR. VULLO: Yes, I do.

15 JUDGE TURNER: Do you have two extras, by any chance?

16 MR. VULLO: Yes.

17 (Document handed to Judge Turner and Judge Colwell.)

18 MR. VULLO: Mr. Brady, can you state your name,  
19 please?

20 MR. BRADY: Eugene M. Brady.

21 JUDGE TURNER: Would you like me to swear him in?

22 MR. VULLO: Yes. I'm sorry.

23 JUDGE TURNER: Would you stand, please, and raise  
24 your right hand?

25 Whereupon,

1 EUGENE M. BRADY

2 having been duly sworn, testified as follows:

3 JUDGE TURNER: And is that also true of your  
4 Statement No. 1 and 1-R?

5 THE WITNESS: Yes.

6 JUDGE TURNER: Thank you. Be seated.

7 DIRECT EXAMINATION

8 BY MR. VULLO:

9 Q. Can you state your name, please, for the record?

10 A. Eugene M. Brady.

11 Q. And how are you employed?

12 A. I'm the Executive Director of the Commission on  
13 Economic Opportunity.

14 Q. Mr. Brady, have you prepared written testimony  
15 in this case, which has previously been distributed to the  
16 parties and identified as CEO Statement No. 1 and CEO  
17 Statement No. 1-R?

18 A. I have.

19 MR. VULLO: I request that I have them so marked at  
20 this time.

21 JUDGE TURNER: They may be so marked.

22 (Whereupon, the documents were marked  
23 as CEO Statements Nos. 1 and 1-R for  
24 identification.)

25 BY MR. VULLO:

1 Q. Mr. Brady, do you have those documents in front  
2 of you?

3 A. I do.

4 Q. And were those documents prepared by you or  
5 someone at your direction?

6 A. Yes.

7 Q. Do you have any corrections or additions to  
8 those documents?

9 A. I don't.

10 Q. If I were to ask you the questions set forth in  
11 those statements, would your answers be the same as set  
12 forth in those statements?

13 A. Yes.

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

16 A. They are.

17 MR. VULLO: Your Honor, CEO requests admission of CEO  
18 Statement No. 1 and CEO Statement No. 1-R subject to cross-  
19 examination.

20 JUDGE TURNER: Hearing no objection, they may be so  
21 admitted.

22 (Whereupon, the documents marked as  
23 CEO Statements Nos. 1 and 1-R were  
24 received in evidence.)

25 MR. VULLO: The witness is available for cross-

1 examination.

2 JUDGE TURNER: Mr. MacGregor?

3 MR. MacGREGOR: Yes, Your Honor. Thank you.

4 CROSS-EXAMINATION

5 BY MR. MacGREGOR:

6 Q. Good morning, Mr. Brady.

7 A. Good morning.

8 Q. Could I refer you first to page 5 of your direct  
9 testimony?

10 A. Statement 1?

11 Q. Yes, sir. Towards the bottom of that page, you  
12 discuss a distinction between the phrase "direct client  
13 service" on the one hand and "administration" on the other;  
14 is that correct?

15 A. Yes.

16 Q. Could you please explain the distinction you're  
17 trying to draw there?

18 A. The work that would be performed by our  
19 organization in programs would be direct service to clients  
20 as opposed to things that are classically described as  
21 administrative, in my opinion.

22 Q. So under the current situation right now and the  
23 materials that PPL Electric files with the Public Utility  
24 Commission, we classify the payments that are made to CEO as  
25 part of administration costs; is that correct?

1 A. That's my understanding.

2 Q. And you would prefer to have those characterized  
3 and classified as direct client service costs; is that  
4 correct?

5 A. I would.

6 Q. And if that proposal were adopted, all else  
7 equal, the level of administrative costs reported by PPL  
8 Electric to the PUC would decline, would it not?

9 A. Yes, it would.

10 Q. And as a general matter, just looking for  
11 ballpark figures, am I correct that for the budget year 2004  
12 under the current contract between PPL Electric and CEO, the  
13 amount anticipated to be paid or required to be paid under  
14 the contracts is roughly \$700,000?

15 A. I don't have that in front of me, but I think it  
16 sounds about right.

17 Q. And under your proposal, that amount of money  
18 would be reclassified as direct service cost as opposed to  
19 administration cost?

20 A. Yes.

21 Q. Now, is CEO the only community-based  
22 organization which PPL employs for its universal service  
23 programs?

24 A. No, it's not, although in the territory that we  
25 cover, we're the only ones that operate those particular

1 programs. In other areas, other organizations operate.

2 Q. Does CEO receive funding from any other  
3 utilities other than PPL Electric?

4 MR. VULLO: Objection.

5 JUDGE TURNER: What's the basis for the objection?

6 MR. VULLO: Relevance; beyond the scope of his  
7 direct.

8 JUDGE TURNER: Would you repeat the question, Mr.  
9 MacGregor?

10 MR. MacGREGOR: I asked if CEO, in addition to  
11 obtaining funding from PPL Electric, also obtains funding  
12 from other utility companies in the state.

13 JUDGE TURNER: I'll let him answer it.

14 MR. VULLO: Okay.

15 THE WITNESS: I should answer?

16 JUDGE TURNER: Do you obtain funds from other  
17 utilities?

18 THE WITNESS: Yes.

19 BY MR. MacGREGOR:

20 Q. Could you describe those for us in general  
21 terms, which utilities and approximately how much?

22 A. UGI Electric --

23 JUDGE TURNER: Now I have a question with --

24 MR. MacGREGOR: I'm sorry?

25 JUDGE TURNER: Now I have a question with relevancy.

1 MR. MacGREGOR: Yes, Your Honor.

2 JUDGE TURNER: On names and amounts. What are you  
3 getting at here?

4 MR. MacGREGOR: I'm just trying to determine, of the  
5 \$700,00 roughly that PPL Electric pays to CEO, how much that  
6 comprises of its overall revenue.

7 MR. VULLO: What relevance is CEO's overall revenue  
8 to this proceeding?

9 MR. MacGREGOR: Well, CEO has proposed in this  
10 proceeding to take over as the primary organizer and  
11 implementer and designer of the universal service programs  
12 for PPL Electric, and I think I should be allowed to inquire  
13 into the basis for its finances and funding source.

14 JUDGE TURNER: And whether he would --

15 THE WITNESS: Could I comment on --

16 JUDGE TURNER: Excuse me. And whether he would have  
17 the ability to do it based on other commitments.

18 Yes, Mr. Vullo?

19 MR. VULLO: If that's the question, would his  
20 organization have the ability to do it based upon other  
21 commitments, I would withdraw the objection then.

22 JUDGE TURNER: Fine. Thank you. Go ahead, Mr.  
23 MacGregor.

24 BY MR. MacGREGOR:

25 Q. My specific question was --

1           A.    Could I just ask a question?  The statement that  
2 you made relative to what we're asking to do I don't think  
3 is accurate, but --

4           JUDGE TURNER:  Well, let him state his question  
5 again.

6           THE WITNESS:  Okay.

7           BY MR. MacGREGOR:

8           Q.    I'm just wondering as a general proposition,  
9 round numbers as a percentage, the \$700,000 that PPL is  
10 obligated to pay you under the agreements for 2004, what  
11 does that represent in terms of your total operating --  
12 sources of operating --

13          JUDGE TURNER:  You asked him the other utilities and  
14 the amounts of money.  So what you want is the total amount  
15 of money in a rounded amount?

16          THE WITNESS:  I would say that, in general, our  
17 budget is around \$14 million, I believe, but that largely is  
18 not from other utilities.

19          BY MR. MacGREGOR:

20          Q.    And what are your other sources of funds?

21          A.    I think we probably have somewhere in the range  
22 of 50 or 60 different sources of funding that are very  
23 diverse.

24          JUDGE TURNER:  Are the state and federal government  
25 among them?

1 THE WITNESS: State, federal, county, local.

2 BY MR. MacGREGOR:

3 Q. Maybe we can get back to the question I think  
4 you wanted to clarify before. On page 6 of your testimony,  
5 I had a little confusion about exactly what CEO's role  
6 should be in your view versus PPL Electric Utilities.

7 You state on lines 9 and 10 of page 6 that "The role  
8 of the company in designing and implementing universal  
9 service programs should be one of administration, monitoring  
10 and inspection," and that "The expertise in developing and  
11 operating the program should lie within community-based  
12 organizations."

13 Is that what you testified to on page 6?

14 A. Yes.

15 Q. Now, the programs we're talking about here are  
16 programs designed to help PPL Electric customers pay their  
17 utility bills; is that correct?

18 A. That's true.

19 Q. And these programs are subject to regulations  
20 and provisions established by the Pennsylvania Public  
21 Utility Commission; is that correct?

22 A. They are.

23 Q. And if you're aware, does the Public Utility  
24 Code itself not require this Commission to provide  
25 administrative oversight of universal service programs?

1 A. I'm sorry. Your question is?

2 Q. Does the Public Utility Code itself require this  
3 Commission to exercise administrative oversight over  
4 universal service programs operating by electric utilities?

5 A. While I'm not an expert in the code, I would  
6 assume it does.

7 Q. And in large measure, the cost of these programs  
8 are paid for out of rates charged to PPL Electric customers;  
9 is that correct?

10 A. Yes.

11 Q. And I take it you would agree with me that CEO  
12 is not a public utility?

13 A. I would.

14 Q. And you're not subject to the regulatory  
15 jurisdiction of this Commission?

16 A. As far as general oversight of our organization,  
17 that's true.

18 Q. Now, on pages 7 and 8 of your testimony, you  
19 discuss your recommendations regarding the expansion of the  
20 OnTrack program, and you find PPL's current program  
21 unacceptable because only about 8.5 percent of the roughly  
22 200,000 low income customers are currently enrolled, is that  
23 correct, looking at the top of page 8?

24 (Witness perusing document.)

25 A. I'm sorry. Your question again after reading

1 it?

2 Q. My question is: it's your testimony that the  
3 company's current program, which under your calculations  
4 only 8.5 percent of the roughly 200,000 low income customers  
5 are participating in the OnTrack program, is unacceptable in  
6 your view?

7 A. I think what this states is that the Commission  
8 stated that.

9 Q. Is it your opinion as well?

10 A. That 8.5 percent of a customer pool that would  
11 be much greater is inadequate? Is that your question?

12 Q. Yes.

13 A. I would say it's inadequate.

14 Q. And your proposal is that PPL should achieve a  
15 penetration rate of at least 50 percent of those eligible;  
16 is that correct?

17 A. I think the company should attempt to do that.

18 Q. And just so the record is clear, 50 percent of  
19 what? Is that 50 percent of the 200,250 low income  
20 customers you reference on line 5?

21 A. Yes.

22 Q. So that would be roughly 100,000 customers?

23 A. Roughly.

24 Q. And I take it from what you state on lines 5 and  
25 6 of your testimony on page 8, that you have made no

1 determination as to how much that might cost or how it would  
2 be funded?

3 A. That's true.

4 Q. Turning to page 10 of your testimony, on lines  
5 11 through 13, you state that you are disappointed that  
6 there is no consideration given to residential demand side  
7 management by the company; is that correct?

8 A. Yes. I said I was disappointed, right.

9 Q. And in making that statement, did you review the  
10 direct testimony of Mr. Krall in this proceeding?

11 A. I did not.

12 Q. And are you aware or not aware that Mr. Krall's  
13 testimony contains a discussion of the company's demand side  
14 management program for residential customers?

15 A. I'm not familiar with his testimony.

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

18 JUDGE TURNER: Thank you, Mr. MacGregor.

19 Mr. Kanaskie?

20 MR. KANASKIE: We have no cross, Your Honor.

21 JUDGE TURNER: Ms. McCloskey?

22 MS. McCLOSKEY: We have no cross, Your Honor.

23 JUDGE TURNER: Mr. Gray?

24 MR. GRAY: No questions, Your Honor.

25 JUDGE TURNER: Mr. Fiorentino?

1 MR. FIORENTINO: No questions, Your Honor.

2 JUDGE TURNER: Sir?

3 MR. McCORMICK: No questions, Your Honor.

4 JUDGE TURNER: Thank you.

5 MR. McPHEDRAN: No questions.

6 JUDGE TURNER: Are you sure?

7 MR. McPHEDRAN: Yes.

8 JUDGE TURNER: PPLICA?

9 MS. POLACEK: No questions, Your Honor.

10 MR. NIESEN: Your Honor --

11 JUDGE TURNER: Do you have redirect, Mr. Vullo?

12 Excuse me. Did I omit you, Mr. Niesen?

13 MR. NIESEN: Yes, you did, Your Honor.

14 JUDGE TURNER: And do you have questions?

15 MR. NIESEN: I have no questions for Mr. Brady.

16 JUDGE TURNER: My apologies for omitting you, Mr.

17 Niesen.

18 MR. VULLO: If I can have one moment with my client?

19 JUDGE TURNER: Surely.

20 (Pause.)

21 MR. VULLO: Just one brief question, Your Honor.

22 JUDGE TURNER: Okay. Please proceed.

23 **REDIRECT EXAMINATION**

24 BY MR. VULLO:

25 Q. Mr. Brady, what is your proposal regarding the

1 role of CBOs in the development and implementation of  
2 universal service programs?

3 A. I think the proposal is to really have a  
4 partnership that would allow the CBOs with their expertise  
5 in the local community and their function of dealing with  
6 people in need in the low income community, that they would  
7 be able to provide advice and suggestions to the company  
8 that would be considered actively by them and using that  
9 expertise.

10 Our suggestions are really not meant that we would  
11 take over the operation. If that was a characterization,  
12 it's not what we're suggesting at all. Really, our desire  
13 is to work with people in our given community that we're  
14 there to serve, and we also feel that other CBOs in other  
15 parts of the territory that serve that function, that they  
16 should be the operating entity with their background to  
17 appropriately provide that service in their community.

18 MR. VULLO: That's all, Your Honor.

19 JUDGE TURNER: Is that a change from his prefiled  
20 testimony?

21 MR. VULLO: No. I wouldn't classify it as a  
22 correction or a change, no, Your Honor. I think he has  
23 clarified something.

24 JUDGE TURNER: Okay. So you're not proposing that  
25 the programs be transferred to you?

1 THE WITNESS: No, we're not.

2 MR. VULLO: No.

3 JUDGE TURNER: Okay. This witness may be excused.

4 THE WITNESS: Thank you, and I appreciate your  
5 advancing my testimony.

6 JUDGE TURNER: Sure.

7 (Witness excused.)

8 JUDGE TURNER: Now is the time that I might take a  
9 short break and then go for an hour, but if people would  
10 prefer to go straight through, I will continue. The next  
11 witnesses are Tuffey, Colton and Hanger.

12 MR. MacGREGOR: My preference would be for a short  
13 break. I don't know what the others are.

14 JUDGE TURNER: Your preference would be?

15 MR. MacGREGOR: Would be to take a short break, if  
16 possible.

17 JUDGE TURNER: How about other counsel?

18 MS. POLACEK: Yes.

19 MS. McCLOSKEY: Yes.

20 JUDGE TURNER: Be back in ten minutes.

21 (Recess.)

22 JUDGE TURNER: Let's go back on the record.

23 Please take your seats. I should note that in  
24 addition to the previous appearances, David Zambito has  
25 entered his appearance on behalf of PLUG.

1 We are now turning to Mr. Tuffey; is that correct?

2 MR. NIESEN: Yes, it is, Your Honor. Good morning.  
3 This is Thomas Niesen representing the Sustainable Energy  
4 Fund.

5 JUDGE TURNER: Good morning. It is still morning.

6 MR. NIESEN: I think it is still morning, yes. We  
7 are presenting today Thomas J. Tuffey on behalf of the  
8 Sustainable Energy Fund. He has a prepared written  
9 statement of rebuttal testimony which I've distributed to  
10 the reporter.

11 JUDGE TURNER: In that case, shall I proceed to swear  
12 him in?

13 MR. NIESEN: Yes, Your Honor.

14 JUDGE TURNER: Will you raise your right hand?

15 Whereupon,

16 THOMAS J. TUFFEY

17 having been duly sworn, testified as follows:

18 JUDGE TURNER: And does that also apply to your  
19 prefiled statement?

20 THE WITNESS: It does.

21 JUDGE TURNER: Please be seated.

22 Mr. Niesen.

23 MR. NIESEN: Thank you, Your Honor. If Your Honor  
24 pleases, I'd like to have Dr. Tuffey's statement marked for  
25 identification as SEF Statement No. 1.

1 JUDGE TURNER: It may be so marked.

2 (Whereupon, the document was marked  
3 as SEF Statement No. 1 with  
4 Attachments A, B and C for  
5 identification.)

6 DIRECT EXAMINATION

7 BY MR. NIESEN:

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

10 A. Thomas J. Tuffey, 609 Hamilton Street,  
11 Allentown, Pennsylvania.

12 Q. And how are you employed?

13 A. Executive Director Sustainable Energy Fund  
14 Central Eastern Pennsylvania.

15 Q. Dr. Tuffey, have you prepared a statement of  
16 rebuttal testimony for use in this proceeding?

17 A. I have.

18 Q. I'm showing you a copy of what has been marked  
19 for identification as SEF Statement No. 1. Is this the  
20 rebuttal testimony which you prepared?

21 (Document handed to witness.)

22 A. It is.

23 Q. Are there any additions or corrections which you  
24 would like to make to SEF Statement No. 1?

25 A. There are not.

1 Q. If I were to ask you the questions set forth in  
2 SEF Statement No. 1, would you give the answers as stated  
3 therein?

4 A. I would.

5 Q. Are those answers true and correct to the best  
6 of your knowledge, information and belief?

7 A. They are.

8 MR. NIESEN: If Your Honor pleases, at this time, we  
9 would move into the record subject to cross-examination by  
10 the other parties SEF Statement No. 1, the prepared rebuttal  
11 testimony of Dr. Thomas J. Tuffey.

12 JUDGE TURNER: It is admitted.

13 (Whereupon, the document marked as  
14 SEF Statement No. 1 with Attachments  
15 A, B and C was received in  
16 evidence.)

17 MR. NIESEN: Thank you, Your Honor. Dr. Tuffey --  
18 well, let me make sure the record is clear that SEF  
19 Statement No. 1 includes Attachment A and Attachment B and  
20 an Attachment C.

21 JUDGE TURNER: Okay.

22 MR. NIESEN: Very good. With that, Your Honor, Dr.  
23 Tuffey is available for cross-examination.

24 JUDGE TURNER: Thank you. Mr. MacGregor?

25 MR. MacGREGOR: We have no questions, Your Honor.

1 JUDGE TURNER: Ms. McCloskey?  
2 MS. McCLOSKEY: Your Honor, we have no questions.  
3 JUDGE TURNER: Mr. Kanaskie?  
4 MR. KANASKIE: We have no questions, Your Honor.  
5 JUDGE TURNER: Mr. Fiorentino?  
6 MR. FIORENTINO: No questions, Your Honor.  
7 JUDGE TURNER: Mr. Vullo?  
8 MR. VULLO: No questions, Your Honor.  
9 JUDGE TURNER: Department of Defense?  
10 MR. McCORMICK: No questions, Your Honor.  
11 JUDGE TURNER: Mr. McPhedran?  
12 MR. MCPHEDRAN: No questions, Your Honor.  
13 JUDGE TURNER: Mr. Zambito?  
14 MR. ZAMBITO: No questions, Your Honor.  
15 JUDGE TURNER: It has all come down to you.  
16 MS. POLACEK: I do have some questions, Your Honor.  
17 JUDGE TURNER: Okay.

18 **CROSS-EXAMINATION**

19 BY MS. POLACEK:

20 Q. Good morning, Dr. Tuffey. My name is Pam  
21 Polacek, and I represent the PP&L Industrial Customer  
22 Alliance.

23 A. Good morning, Ms. Polacek.

24 Q. If you could start please by turning to page 6  
25 of your rebuttal testimony.

1 A. I have page 6.

2 Q. All right. About a third of the way down the  
3 page, you object to the categorization of the SEF funding as  
4 a hidden tax. Do you see that?

5 A. Yes, I do.

6 Q. Do you agree with me, however, that the SEF  
7 funding does not appear as a line item on ratepayers'  
8 utility bills?

9 A. I have not looked at a ratepayer utility bill to  
10 determine if that's the case or not. I'm willing to accept  
11 it, but I haven't actually examined a bill.

12 Q. Are you a customer of PP&L?

13 A. I am at the office. I'm not at my residence.

14 Q. Have you looked at your utility bill at the  
15 office?

16 A. I have not examined it.

17 Q. Now, at several points in your testimony, you  
18 categorize the SEF as being entrepreneurial. Can you  
19 explain to me what you mean by entrepreneurial?

20 A. There are a number of sustainable energy, often  
21 called clean energy funds, across the country. Those are  
22 our peer groups. Those are organizations we look to to  
23 establish models on how we steward this money.

24 As we look at the different programs and we look our  
25 constraints, we have essentially the same objectives and

1 mission of these other funds across the country. We have  
2 far less money and we have a very uncertain future with the  
3 way the first funding came in. So our objective was to  
4 develop a business model that would allow us to get the best  
5 bang for the buck under those constraints.

6 We also had from the PUC a specific insert in our  
7 bylaws that said that we should be entrepreneurial. You'd  
8 have to ask them why they put it in, but that was a specific  
9 request of the PUC.

10 We then looked at the different models. One model is  
11 a programmatic model. I might categorize an organization  
12 like NYSERDA in New York as a programmatic model. They have  
13 far more money, on the order of \$130 million a year. They  
14 have far more staff, on the order of 225 people.

15 We simply couldn't do the kinds of things that a  
16 NYSERDA could do. So both from our own perspective and the  
17 guidance we received, we came up with an entrepreneurial and  
18 we also called it an enterprise approach; and essentially  
19 what it attempted to do was to best steward the money to get  
20 the best bang for the buck.

21 So rather than deciding ahead of time what specific  
22 programmatic areas might be, in issuing RFPs, we adopted a  
23 model which was more entrepreneurial. It had some  
24 influences from a venture capital and investment banking  
25 type model, and it was a model that was based on we're right

1 now at 10 percent grants and we're at 90 percent program  
2 related investments.

3 So that model said "X" number of dollars goes to  
4 grants. The rest of the money goes to loans and it goes to  
5 program related investments, and we seek to be in the  
6 marketplace, understand where at that time is the best  
7 opportunity to get bang for the buck, and that's where we're  
8 going.

9 Q. So if I --

10 JUDGE TURNER: Excuse me. Can you identify was it  
11 NYSERDA, MYSERDA?

12 THE WITNESS: NYSERDA, Your Honor, is New York State  
13 Energy and Research Development Authority. It is written in  
14 caps as N-Y-S-E-R-D-A, a 25-year-old organization, and often  
15 referred to as one of the senior clean energy funds in the  
16 country.

17 JUDGE TURNER: Okay. And RFP is request for  
18 proposal?

19 THE WITNESS: Yes, it is.

20 JUDGE TURNER: Okay. Thank you.

21 THE WITNESS: I'm sorry.

22 BY MS. POLACEK:

23 Q. All right. Back to entrepreneurial, because I  
24 think you actually used entrepreneurial in defining  
25 entrepreneurial. Can I summarize it as -- are you trying to

1 run the SEF like a business?

2 A. We're trying to run the SEF to accomplish  
3 mission. That is clearly our number one objective; to  
4 develop clean energy, renewable energy, energy efficiency,  
5 energy conservation, and we're attempting to do it in a  
6 fashion that gets the best return for the dollars. That  
7 makes us marketplace opportunistic. It means we move in an  
8 entrepreneurial manner.

9 Q. Yes or no; are you trying to run it like a  
10 business? That's the question. You can say yes or no and  
11 then explain, but could you just say yes or no?

12 A. We are trying to run it as a non-profit  
13 business. I'm sorry. Yes, we are trying to run it as a  
14 non-profit business.

15 Q. Do you agree with me that at least most for-  
16 profit businesses don't get their funding from utility  
17 ratepayers except for PP&L, obviously?

18 A. Across the country there are some for-profit  
19 businesses that do receive money from ratepayer settlements  
20 of different kinds. Most, obviously, don't. I would agree  
21 that most, obviously, don't.

22 Q. All right. Now, it's my understanding that in  
23 this proceeding, the SEF is supporting PP&L's proposal to  
24 fund your organization through December 31, 2009. Is that  
25 correct?

1 A. We are in agreement with and supportive of the  
2 petition by the company.

3 Q. Now, if the company's proposal is accepted by  
4 the Commission, will the Sustainable Energy Fund be back  
5 asking for more ratepayer funding after December 31, 2009?

6 A. That would depend upon the condition of the fund  
7 at that time and the marketplace opportunities, the needs of  
8 society. At the moment, of course, we've agreed with the  
9 company's position, which is funding until the end of 2009.

10 Q. On page 8 of your testimony, you discuss  
11 partnering with an organization that I think you referenced  
12 a little bit earlier, the New York State Energy Research and  
13 Development Agency. I think you called it NYSERDA.

14 A. That's correct.

15 Q. Are you aware of any research that that  
16 organization recently has performed related to the effects  
17 of integrating wind power on transmission system planning,  
18 reliability and operations?

19 A. No.

20 Q. You're not aware?

21 A. No.

22 Q. Can you turn to page 11 of your testimony,  
23 please? You're discussing the Bear Creek Wind Farm.

24 Can you tell me how many actual jobs are there at the  
25 wind farm?

1 A. At the wind farm itself at Bear Creek?

2 Q. Yes.

3 A. None. The project hasn't been built yet.

4 Q. When the project is built, how many jobs will be  
5 there?

6 A. On the order of three to four.

7 Q. And in looking at --

8 A. Excuse me; if I could qualify. Those are direct  
9 jobs employed by the wind farm.

10 Q. In looking at where the funding for that is  
11 coming from, am I correct that roughly 70 percent of the  
12 funding for Bear Creek Wind Farm is being provided by  
13 private sources?

14 A. That is correct.

15 Q. Now, at several points in your testimony, you  
16 reference that there are distribution benefits from the  
17 Sustainable Energy Fund projects; is that correct?

18 A. That's correct.

19 Q. We asked you a few interrogatory questions on  
20 those benefits.

21 MS. POLACEK: And, Your Honor, I'd like to distribute  
22 those now to counsel and to the court reporter, if you would  
23 like to go off the record as we have been doing. Once  
24 again, I do have a few interrogatory responses related to  
25 Mr. Tuffey. We do have them in little groups again. There

1 are no stapling errors this time, I don't believe.

2 JUDGE TURNER: Okay. Let's go off the record.

3 (Discussion off the record.)

4 JUDGE TURNER: Back on the record.

5 MS. POLACEK: Your Honor, I'd first like to mark for  
6 the record as I believe PPLICA Cross Exhibit No. 8, it will  
7 be the response by Dr. Tuffey to PPLICA Interrogatory No. 1.

8 JUDGE TURNER: Well, didn't you withdraw 6 and 7?

9 MS. POLACEK: I thought we had marked them but not  
10 admitted them. If you'd like for me to use 6 and 7, I can  
11 do that.

12 JUDGE TURNER: I'm just saying you withdrew them. We  
13 did mark them, but you never moved to admit them. You  
14 withdrew them.

15 MS. POLACEK: That's correct. So my understanding of  
16 the procedure would be I would still start with 8 rather  
17 than 6 and 7, but if --

18 JUDGE TURNER: They're your exhibits. Let's mark  
19 them the way you want to.

20 MS. POLACEK: But it's your hearing, Your Honor. So  
21 however you would like to mark them, I'll mark them.

22 JUDGE TURNER: Eight.

23 MS. POLACEK: Eight? All right. Thank you.

24 (Whereupon, the document was marked  
25 as PPLICA Cross-Examination Exhibit

1 No. 8 for identification.)

2 BY MS. POLACEK:

3 Q. Dr. Tuffey, have you had a chance to review this  
4 interrogatory response?

5 A. Those that you just handed to me?

6 Q. Yes.

7 A. Yes, I have.

8 Q. We're going to start with the response to No. 1.

9 A. Yes, I have.

10 Q. In this, we asked you for each of the SEF  
11 projects that had been authorized, provide any studies that  
12 you had conducted or had available regarding the elimination  
13 or delay of a distribution system upgrade; is that correct?

14 A. That's correct.

15 Q. And your response was that you had no studies,  
16 but I'm a little curious as to why in quotation marks you  
17 have "for each SEF project." Did you not understand the  
18 question?

19 A. I understood the question.

20 Q. Did you think that we were looking for a study  
21 that addressed all the projects or any study that you had  
22 available for any project we had asked you for?

23 A. Well, I thought you were looking for a full  
24 range of documentation on every project that we had funded  
25 to demonstrate this benefit, and we certainly don't for each

1 and every project.

2 Q. Do you have a study for any project?

3 A. We don't have a specific study for any given  
4 project. We have at least one project that I can think of  
5 that during due diligence, system constraints were mentioned  
6 to us.

7 Q. And what project would that be?

8 A. That's Bear Creek.

9 Q. All right. We'll get to that later. We'll talk  
10 about Bear Creek later.

11 If you could please turn to the next --

12 MR. NIESEN: I would note for the record that Ms.  
13 Polacek didn't read the entire question. The question also  
14 asked for studies which included the cost of the SEF project  
15 and the anticipated cost that PPL would have paid for the  
16 upgrade absent the SEF project. That was all part of the  
17 question, and part of the question was not read into the  
18 record when she presented the question to Dr. Tuffey.

19 JUDGE TURNER: But it is going to be in the record  
20 with this exhibit; right?

21 MR. NIESEN: Yes, it will.

22 JUDGE TURNER: Thank you for your addition to the  
23 record. Can we go ahead, please?

24 MS. POLACEK: Sure, we can. Let's turn to the next  
25 response, which will be to Interrogatory No. 2. I'll mark

1 this, Your Honor, if we could, as PPLICA Cross Exhibit No.  
2 9.

3 JUDGE TURNER: It may be so marked.

4 MS. POLACEK: Thank you.

5 (Whereupon, the document was marked  
6 as PPLICA Cross-Examination Exhibit  
7 No. 9 for identification.)

8 BY MS. POLACEK:

9 Q. Dr. Tuffey, do you recognize this response?

10 A. Yes, I do.

11 Q. It was provided by you?

12 A. I'm sorry. Did you ask if it was provided --

13 Q. It was provided by you; correct?

14 A. Yes.

15 Q. Now, I'm a little bit confused, because I think  
16 the actual interrogatory to you asked for you to provide any  
17 studies related to the elimination or delay of a  
18 transmission system upgrade, and this appears to be just a  
19 duplication of the first question.

20 Do you have any studies related to transmission  
21 system upgrades?

22 A. We have studies that I referred to in my  
23 rebuttal testimony on the benefit to transmission system and  
24 the avoidance of the need for upgrade due to distributed  
25 projects and energy efficiency and conservation projects. I

FORM 2

1 think --

2 Q. But you have no studies related to --

3 JUDGE TURNER: Let him finish.

4 THE WITNESS: I think three studies were referred to.

5 BY MS. POLACEK:

6 Q. But you have no studies related to a specific

7 SEF project?

8 A. No, other than -- well, no.

9 Q. Let's turn to energy conservation and demand  
10 management for a couple of moments. If you could please  
11 maybe reference your rebuttal testimony, pages 13 to 16.

12 Can you explain for the record what energy  
13 conservation and demand management is?

14 A. Energy conservation is reducing the amount of  
15 energy that would be consumed in a specific facility,  
16 appliance technology process.

17 Demand management would particularly refer to either  
18 the reduction of that load or the shifting of that load from  
19 one time period to another time period.

20 Q. Do you agree that the PJM interconnection, which  
21 is the regional transmission organization in PPL's  
22 territory, offers customer demand response programs?

23 A. I'm not familiar with their programs in detail.

24 Q. Are you aware that such programs do exist,  
25 though?

1           A.    I'm aware of it, because we have one of our  
2 portfolio companies that offer services to PJM in demand  
3 side management.

4           Q.    Will you also agree that PP&L offers demand side  
5 response programs for both residential customers and  
6 commercial and industrial customers?

7           A.    I'm aware that PPL has some programs of that  
8 nature, yes.

9           Q.    As a general proposition, do you agree that most  
10 businesses try to cut their costs whenever they can?

11          A.    No.

12          Q.    No?

13          A.    No.

14          Q.    In what way?

15          A.    Businesses try to optimize both the top line and  
16 the bottom line. To simply cut costs can drive a business  
17 out of business, so I cannot agree to just a blanket  
18 statement that says that businesses will cut costs, period.

19          Q.    When the benefits of doing so exceed the cost,  
20 do you agree then?

21          A.    Yes, in a certain capacity with certain fixed  
22 costs. A business will always reduce costs if the benefit  
23 is there. There are other areas in which they have to add  
24 costs to get a strategic benefit like a new business line.

25          Q.    Would a business that could receive a benefit

1 through energy conservation or demand management pursue  
2 those options if the benefits that they could obtain  
3 outweigh the costs of doing that?

4 A. Not necessarily. A typical business will look  
5 at their capital investments and will rack them up against a  
6 number of different criteria. They'll look for the payback  
7 periods and they'll look for strategic advantage.

8 So there are many things in a business that provide  
9 benefit against the cost, but the business may not be able  
10 to get to them because of other competing needs either for  
11 increasing the top line or for further decreasing the cost  
12 line.

13 Q. So you won't agree that businesses are trying to  
14 minimize their electricity costs?

15 A. I think businesses are trying to minimize their  
16 electricity costs. You haven't asked specifically about  
17 electricity cost.

18 Q. All right. Then let me rephrase the question.  
19 Would a business that could receive a benefit through lower  
20 electricity costs by pursuing energy conservation or demand  
21 management pursue those options as long as the benefits  
22 outweighed the cost to the business?

23 A. It was a long question. Could I ask you to  
24 repeat it, please?

25 MS. POLACEK: Can we get it read back?

1 JUDGE TURNER: Can you read it back, Sandy?

2 (Whereupon, the reporter read from the record, as  
3 requested.)

4 JUDGE TURNER: Go ahead.

5 THE WITNESS: Yes, I believe they would.

6 MS. POLACEK: Thank you.

7 BY MS. POLACEK:

8 Q. Let's talk a little bit about distributed  
9 generation. I'll give you a reference point at page 16 in  
10 your testimony.

11 Can you explain for the record what distributed  
12 generation is?

13 A. The placement of power generation at other than  
14 central facilities, if you will, with the classical power  
15 generation model. That may be generation that is either on  
16 the grid, off the grid, or a combination of both. It would  
17 typically be facilities that are smaller than the  
18 conventional scale of several hundred megawatts, but in some  
19 cases they may be of that scale.

20 Q. I think you also use as a citation point in your  
21 testimony the Arthur D. Little White Paper. So why don't we  
22 take a look at that and see how they define distributed  
23 generation. I think it's close, but since we like to be  
24 precise in questioning, I think it might be helpful.

25 MS. POLACEK: Your Honor --

1 JUDGE TURNER: Are you going to distribute this?

2 MS. POLACEK: Excuse me?

3 JUDGE TURNER: You're going to distribute this?

4 MS. POLACEK: I'm going to ask the -- I have three  
5 copies; one for counsel, one for me, and one for the  
6 witness. I did not plan to introduce it into the record.  
7 It's being used in terms of his testimony and impeachment of  
8 various aspects of that.

9 JUDGE TURNER: Okay. Let's go off the record to let  
10 counsel look at it and the witness look at it.

11 MS. POLACEK: Sure.

12 (Discussion off the record.)

13 JUDGE TURNER: Back on the record.

14 MR. NIESEN: Is she marking the entire A.D. Little  
15 White Paper or extracts from it?

16 JUDGE TURNER: She's not marking it at all as far as  
17 I know.

18 MR. NIESEN: Is what has been distributed part of the  
19 paper or the entire paper?

20 MS. POLACEK: It's my understanding it's the entire  
21 paper that was available at the Web site address that was  
22 contained in Dr. Tuffey's testimony.

23 MR. NIESEN: Thank you.

24 JUDGE TURNER: So do you have an objection to her  
25 using it?

1 MR. NIESEN: No. I have no objection.

2 JUDGE TURNER: Okay. Go ahead, Ms. Polacek.

3 MS. POLACEK: Thank you.

4 BY MS. POLACEK:

5 Q. Dr. Tuffey, have you reviewed just generally  
6 this document?

7 A. Yes, I have.

8 Q. And is this, in fact, the document that you do  
9 cite and I think quote from maybe on pages 16 to 17 of your  
10 testimony?

11 A. It's one of several documents I cited.

12 Q. But it is the one that is actually addressed on  
13 those pages --

14 A. Yes, it is.

15 Q. -- of your testimony?

16 A. Yes, uh-huh.

17 JUDGE TURNER: Okay. Now, let me remind you both you  
18 must let her finish her question and she must let you finish  
19 your answer.

20 THE WITNESS: I'm sorry.

21 JUDGE TURNER: You can't talk over each other or the  
22 court reporter can't record.

23 THE WITNESS: I'm sorry.

24 JUDGE TURNER: Okay?

25 THE WITNESS: Yes, Your Honor.

1 JUDGE TURNER: Even if you know where she's going,  
2 just let her get there first.

3 THE WITNESS: I'll be patient.

4 JUDGE TURNER: Okay.

5 BY MS. POLACEK:

6 Q. Could you please turn to page 1 of that report  
7 where the introduction is, not the executive summary  
8 portion? The third paragraph on there that begins with  
9 "Distributed Generation," can you read the first two  
10 sentences of that paragraph into the record, please?

11 A. "Distributed Generation (DG) has gained  
12 attention as a viable technology option inherently well-  
13 suited to the geographically fragmented nature of the  
14 reliability problem. As the integrated or stand-alone use  
15 of small, modular electric generation facilities close to  
16 the point of consumption, DG can provide policymakers,  
17 regulators, and the market with flexible options to help  
18 resolve some of the power reliability problems now evident  
19 in the United States."

20 Q. Thank you. Do you agree that there are many  
21 types of distributed generation technologies?

22 A. Yes.

23 Q. Can you name some?

24 A. Micro turbines, wind, photovoltaic, small hydro.

25 Q. Do you agree that reciprocating engines are also

1 considered to be distributed generation?

2 A. Yes, I do.

3 Q. Gas turbines are also considered to be  
4 distributed generation?

5 A. Gas turbines are; so are diesel turbines, diesel  
6 gen sets.

7 Q. Now, the Sustainable Energy Fund would not fund  
8 projects related to, for example, a diesel generator, would  
9 they?

10 A. We would consider funding a distributed  
11 generation project. We would then look at a number of  
12 different criteria. One of those criteria would be  
13 environmental impact. If the particular diesel gen set  
14 caused air pollution at a time that the air was already  
15 stressed, we would probably not fund it for that reason, but  
16 I'd, of course, need to have the specific case and all the  
17 particular, and we'd have to rack it up against, you know,  
18 what were the needs and how badly did society need it there  
19 and all the other considerations.

20 Q. But you would agree with me, though, on the  
21 SEF's Web site, there are certain technologies that  
22 basically should not be even submitted for an application?

23 A. There are preferred technologies and there are  
24 technologies that we do not favor. I don't think in any  
25 case it prohibits anyone from submitting something for an

1 opinion.

2 Q. To be rejected because it's not a preferred  
3 technology, correct, likely?

4 A. No, that's not correct at all. For instance, we  
5 have some clean coal technologies that are on the site that  
6 were not in the preferred category and we've routinely  
7 considered them.

8 Q. You've considered them, or have you approved  
9 them?

10 A. We have not approved the clean coal technology.

11 Q. Thank you. Now, one of the terms in the  
12 quotation that you include from this report in your own  
13 testimony is reliability.

14 Could you, please, going back to the Arthur D. Little  
15 White Paper, could you turn to page 3, please, because I'd  
16 like to have this organization's definition of reliability  
17 clarified in the record? If you could look at page 3, the  
18 first paragraph, and please read that.

19 A. "Reliability is a key characteristic of a strong  
20 electric power delivery system." Did you want the first  
21 sentence or the first paragraph?

22 Q. First paragraph, please.

23 A. "At its simplest, delivery system reliability is  
24 the measure of whether electricity is available to users. A  
25 widely accepted definition for reliability is comprised of

1 two elements: adequacy, the ability to satisfy market  
2 demand at all times; and security, the ability to withstand  
3 sudden disturbances such as short circuits or unanticipated  
4 loss of system elements."

5 Q. Thank you. Do you agree with me that not all  
6 distributed generation has the same reliability benefit?

7 A. If we're considering the broad range of  
8 potential distributed generation, of course, I'd agree with  
9 that.

10 Q. And could the reliability benefit vary based on  
11 how often the unit operates?

12 A. The reliability benefit could rely on many  
13 different attributes of the system and the need and I  
14 suppose different definitions, of which this is one.

15 Q. And could the reliability benefit vary based on  
16 fuel supply?

17 A. Very certainly.

18 Q. And could the reliability benefit vary based on  
19 run time?

20 A. I think the reliability --

21 JUDGE TURNER: On what?

22 MS. POLACEK: Run time.

23 JUDGE TURNER: Run time?

24 MS. POLACEK: Yes, ma'am.

25 THE WITNESS: It could benefit on many different

1 things, including run time.

2 BY MS. POLACEK:

3 Q. So do you agree that distributed generation is  
4 not always the superior cost-effective reliability solution?

5 A. No. I have no way of making that judgment  
6 without knowing the specific instance.

7 Q. Could you turn to page 16 of this report,  
8 please?

9 A. I'm sorry. Is this the ADL report?

10 Q. We're still in the Arthur D. Little White Paper,  
11 page 16, the last paragraph on that page. Are you there,  
12 sir? I've started a beginning bracket, and then going on to  
13 the top of the next page, there is an ending bracket.

14 A. Yes. I have it.

15 Q. Could you read that portion of the report into  
16 the record, please?

17 A. This is under the heading of Distributed  
18 Generation, heading V in the report, Roman Numeral V.

19 The paragraph reads: "In customer-sited  
20 applications, whether deployed to satisfy a facility's total  
21 energy needs or to supplement the grid power supply, DG can  
22 allow the customer to obtain higher reliability than is  
23 available from the grid alone. However, the DG design must  
24 be properly sized and configured. DG will always offer a  
25 superior, cost-effective reliability solution."

1 Q. Excuse me. Did you say always offer or not  
2 always offer?

3 A. Did you want --

4 Q. In that sentence.

5 A. Let me go back to the sentence. I don't know  
6 what I said. I'll read it again the way it is here.

7 Q. Thank you.

8 A. "However, the DG design must be properly sized  
9 and configured. DG will not always offer a superior, cost-  
10 effective reliability solution. When evaluating the  
11 reliability of the DG application, one must also consider  
12 factors such as the forced outage rate of the unit, fuel  
13 supply, environmental limits on emission and/or run time."

14 Q. Thank you. Now, on page 18 of your testimony,  
15 you make some statements regarding the benefits of the Bear  
16 Creek Wind Farm. Let me know when you get to that page.

17 A. I'm on page 18.

18 Q. All right. Now, in interrogatories, we asked  
19 you to confirm some of the information related to the  
20 operational characteristics of that project; is that  
21 correct?

22 A. That's correct.

23 Q. If you turn to the next interrogatory in the  
24 packet I gave you, it would be your response to  
25 Interrogatory No. 3.

1 MS. POLACEK: Your Honor, I'd ask to mark this as I  
2 believe we're on PPLICA Cross Exhibit 10.

3 JUDGE TURNER: It will be so marked.

4 MS. POLACEK: Thank you.

5 (Whereupon, the document was marked  
6 as PPLICA Cross-Examination Exhibit  
7 No. 10 for identification.)

8 BY MS. POLACEK:

9 Q. Now, in your testimony, you state that because  
10 this facility is going to be located on the east of the  
11 bottleneck in PJM, it will relieve congestion in the grid.

12 Now, am I correct in your response to us you could  
13 not explain the specific PJM transmission line where  
14 congestion is claimed to be remediated?

15 A. I'm sorry. Is that your question?

16 Q. Yes. Am I correct that you could not identify  
17 the PJM transmission line?

18 A. I could not identify the specific line or the  
19 specific reason, that is correct.

20 Q. And we also asked for any studies conducted by  
21 or relied upon by SEF demonstrating the difference in  
22 locational marginal prices or otherwise supporting and  
23 quantifying the claimed congestion relief, and you didn't  
24 have a study to show that --

25 A. What we had was --

1 Q. -- did you?

2 JUDGE TURNER: Wait. You can't talk at the same  
3 time. Can you finish your question, Ms. Polacek?

4 BY MS. POLACEK:

5 Q. You did not have a study to show that, did you?  
6 You did not provide it to us at least; am I correct?

7 A. What we had was the due diligence process for  
8 the Bear Creek Wind Farm which made reference to the  
9 statement referred to. I did not have -- there may exist --  
10 I did not have the specific studies.

11 Q. So you're relying upon the due diligence study  
12 that was conducted and put in by somebody else?

13 A. The Bear Creek Wind Farm was approved as a loan  
14 commitment by each of the Sustainable Energy Funds across  
15 the state. It was based on lead syndication from the  
16 Sustainable Development Fund for the PECO territory, which  
17 has done all of the other wind farms in the state. They  
18 performed the due diligence, including due diligence by  
19 other parties, including the private investors.

20 That was presented to us, and we had submitted it in  
21 interrogatories, and that's what we referred to. Each of  
22 the funds did not conduct their own individual due  
23 diligence.

24 Q. So I'm correct you're relying on the PECO fund's  
25 assessment of a report that was prepared by somebody

1 completely -- another party, a third party?

2 A. Due diligence is normally contracted to someone  
3 who has knowledge of the specific project, the specific  
4 technology, and is experienced in it. The investor then  
5 relies upon that due diligence, as we did.

6 Q. Do you believe there's a study out there that  
7 shows this or not?

8 A. I was told it. That's all I can report.

9 MS. POLACEK: Your Honor, based on that, and I do  
10 have some more questions, but I believe we're going to make  
11 a motion to strike that portion of the testimony as being  
12 probably third generation hearsay.

13 JUDGE TURNER: So what portions are you going to move  
14 to strike?

15 MS. POLACEK: Well, the most obvious one that I can  
16 see here is -- and probably if you grant it, I would like  
17 the ability to go and see if there are any other references,  
18 but I think on page 18, lines 1 through 4, that states,  
19 "Third, the purest generation project SEF has financed, the  
20 Wind Park Bear Creek, has transmission and distribution  
21 benefits to the PPL system because it is located east of the  
22 bottleneck in PJM and, thus, relieves congestion in the  
23 grid."

24 This witness has no -- we've tried to probe the basis  
25 of this statement with this witness. They have no

1 independent knowledge of it.

2 JUDGE TURNER: Mr. Niesen?

3 MR. NIESEN: Yes, Your Honor. In response to that, I  
4 think you need to keep in mind that the fund is an investing  
5 entity in the Bear Creek Wind Farm. Dr. Tuffey made it  
6 pretty clear that, no, he does not have a study, a specific  
7 study identifying the specific PJM transmission line that's  
8 congested. But, nevertheless, the information that is here  
9 is obtained by us as an investor through our due diligence  
10 review.

11 I don't think that's hearsay, subject to a hearsay  
12 objection in this situation. We made it clear on the record  
13 we don't have the specific study, but nevertheless, it's  
14 information that we learned directly through our due  
15 diligence review process.

16 JUDGE TURNER: Well, then why didn't a due diligence  
17 report become available?

18 MR. NIESEN: We do not have the due diligence report  
19 discussing the specific PJM transmission line as requested  
20 in the interrogatory.

21 JUDGE TURNER: Can you get a copy of it?

22 MR. NIESEN: I'm not sure.

23 THE WITNESS: The due diligence report we can get a  
24 copy of.

25 JUDGE TURNER: You can?

1 THE WITNESS: Yes. The specific comment, I don't  
2 know if it's in the specific written report. I did ask the  
3 due diligence people about line congestion, grid congestion,  
4 and they told me this statement. I didn't go back to the  
5 due diligence report, because I didn't know it would be such  
6 a bone of contention here, and see if it's exactly listed in  
7 the due diligence report.

8 JUDGE TURNER: So you are just reporting a comment  
9 that somebody made to you in answer to your question in this  
10 paragraph; is that correct?

11 THE WITNESS: As part of our -- yes, as part of our  
12 formal due diligence review, as part of a syndicate  
13 providing funding for this wind farm led by another, I  
14 received it.

15 JUDGE TURNER: You asked someone a question and they  
16 answered it?

17 THE WITNESS: Yes, that's right.

18 JUDGE TURNER: And that's where this information came  
19 from?

20 THE WITNESS: Yes, that's correct.

21 JUDGE TURNER: That is hearsay, Mr. Niesen. I don't  
22 care what you say. If you could get a copy of the due  
23 diligence report for Ms. Polacek's review, I would like you  
24 to do that.

25 At this point, I think what I will do is not strike

1 this, but allow it in for the weight to which it is  
2 entitled. Since it is hearsay, I cannot give it any weight  
3 unless it's corroborated.

4 I suppose that that's sort of a waffling ruling,  
5 because, actually, once hearsay is objected to, it shouldn't  
6 even be admitted, but that's my ruling for the moment.

7 Can you go ahead, Ms. Polacek?

8 MS. POLACEK: Sure, Your Honor.

9 JUDGE TURNER: How much longer do you have?

10 MS. POLACEK: Your Honor, if you're comfortable -- we  
11 do have two more interrogatories. I'm comfortable just  
12 marking them and putting them into the record, if you are  
13 and the witness would be. I think they speak for themselves  
14 again, and then probably I've got less than five minutes if  
15 the witness cooperates.

16 JUDGE TURNER: Well, I think that's an unfair  
17 characterization. I think he's entitled to his defenses.

18 MS. POLACEK: He is.

19 JUDGE TURNER: But I'm wondering about breaking for  
20 lunch. It's 12:30. I don't like to interrupt cross-  
21 examination, but it seems to me that when an attorney says  
22 they have five more minutes, it's usually 10 to 15.

23 MS. POLACEK: Your Honor, I really believe that it is  
24 five minutes, and I would kind of prefer if we could wrap it  
25 up. I apologize, but, again, if we just mark the other two

1 cross-examination exhibits and put them into the record, and  
2 I've got, I think, two more very short.

3 JUDGE TURNER: Okay, but we're breaking at --

4 MS. POLACEK: I'll keep it as short as I can.

5 JUDGE TURNER: We're breaking at 12:45.

6 MS. POLACEK: That I hope will not be a problem.

7 JUDGE TURNER: Okay.

8 MS. POLACEK: So, based on that, I think the next  
9 cross-examination exhibit for PPLICA is 11.

10 JUDGE TURNER: That's correct.

11 MS. POLACEK: So I'd ask to mark as PPLICA Cross  
12 Exhibit 11 the response by Dr. Tuffey to our Interrogatory  
13 No. 4, and then also to ask to mark as PPLICA Cross Exhibit  
14 12 the response by Dr. Tuffey to our Interrogatory No. 5.

15 JUDGE TURNER: It may be so marked. They each may be  
16 so marked.

17 (Whereupon, the documents were marked  
18 as PPLICA Cross-Examination Exhibits  
19 Nos. 11 and 12 for identification.)

20 BY MS. POLACEK:

21 Q. And just so the record is complete, Dr. Tuffey,  
22 you did prepare those two interrogatory responses that were  
23 sent to us?

24 A. Yes, I did.

25 Q. Thank you. Now, on page 18 of your testimony,

1 you discuss Mr. Baron's position related to the SEF. Is it  
2 your understanding that Mr. Baron objects to the inclusion  
3 of the SEF in the tariff or to the inclusion of that funding  
4 in the rates?

5 A. I don't understand the question. Can you refer  
6 me to testimony?

7 Q. To your testimony or to Mr. Baron's?

8 A. I'm sorry. I thought you said that in my  
9 testimony.

10 Q. On page 18.

11 A. Okay. And can you refer me to the part, please?

12 Q. Lines -- let's go 5 through 6. "Fourth, I do  
13 not think the generation/distribution impact is controlling  
14 in determining whether it is appropriate to include SEF  
15 funding in the tariff."

16 JUDGE TURNER: There's no reference to Mr. Baron  
17 there.

18 MS. POLACEK: I believe that there was a reference to  
19 Mr. Baron before.

20 THE WITNESS: I'm prepared to respond, but I don't  
21 want to appear as though I'm dodging the question. What I  
22 was trying to do here is to explain why I think --

23 JUDGE TURNER: Excuse me a minute. Let's not be  
24 coming through for Mr. Baron. Let's rephrase your question  
25 to exclude Mr. Baron and ask him to respond on this

1 paragraph.

2 Do you object to it or are you responding to an  
3 objection to this matter being in the tariff or in the  
4 rates, or do you see a difference?

5 THE WITNESS: I'm not enough of an attorney or  
6 knowledgeable enough on proceedings to know how to respond  
7 to the difference.

8 JUDGE TURNER: Okay.

9 BY MS. POLACEK:

10 Q. You do note there that --

11 A. I know what I meant by this paragraph, though.

12 Q. -- that there are other costs such as economic  
13 development riders that are part of the distribution and  
14 transmission tariffs. Do you see that provision there?

15 A. I'm aware of several industrial and economic  
16 development riders that increase demand on the system and  
17 increase stress on the system.

18 Q. Are you referring to the economic development  
19 initiative rider that's in the tariff?

20 A. I'm not familiar with the specific names.  
21 Generically, I know there are riders which encourage  
22 economic development and industrial development, which would  
23 serve to put stress on the system, not relieve stress on the  
24 system the way I think our projects do.

25 Q. Are you aware of whether those credits that are

1 provided apply to the distribution portion of a customer's  
2 bill after January 1, 2005?

3 A. I'm sorry. You're going to think that I'm --  
4 I don't know what credit you're referring to.

5 Q. The rate incentives that are provided under the  
6 economic development riders that you're referencing. Are  
7 you aware of whether they apply to the distribution portion  
8 of the bill after January 1, 2005 under PP&L's filing?

9 A. No, I don't.

10 Q. You're not aware?

11 A. No.

12 Q. Thank you. One last issue. If we can, let's go  
13 back to the Arthur D. Little White Paper very briefly.  
14 Sorry. I forgot this before. Let's go to the first page  
15 after the cover, please. At the bottom of that page, there  
16 is a disclaimer. Could you please read the text of that  
17 disclaimer into the record?

18 A. "Funding for this white paper was provided to  
19 Arthur D. Little, Inc., by the sponsoring organizations for  
20 an objective analysis and discussion of important issues  
21 related to the use of distributed generation. This white  
22 paper is intended for general information and not as an  
23 endorsement of any product, process or point of view."

24 MS. POLACEK: Thank you. That's all I have, Your  
25 Honor. I would move the admission of PPLICA Cross Exhibits

1 8, 9, 10, 11 and 12, please.

2 JUDGE TURNER: Do you have any objection, Mr. Niesen?

3 MR. NIESEN: We have no objection.

4 JUDGE TURNER: Any other counsel?

5 (No response.)

6 JUDGE TURNER: They may be so admitted.

7 (Whereupon, the documents marked as  
8 PPLICA Cross-Examination Exhibits  
9 Nos. 8 through 12 were received in  
10 evidence.)

11 JUDGE TURNER: Do you have redirect, Mr. Niesen?

12 MR. NIESEN: I believe the OSBA has cross.

13 JUDGE TURNER: I'm sorry. He did say so.

14 MR. GRAY: Yes, Your Honor, I do have cross. Would  
15 you prefer to do it after lunch?

16 JUDGE TURNER: Actually, I would. Do you mind?

17 MR. GRAY: Not at all.

18 JUDGE TURNER: Okay. Then we'll do it after lunch.  
19 We'll take a lunch break, and I guess today it better be  
20 short. Maybe 45 minutes.

21 MR. GRAY: Sounds good.

22 JUDGE TURNER: Do I get agreement from others?

23 (No response.)

24 JUDGE TURNER: Okay. So I'll expect everybody back  
25 at 20 after 1:00.

(Witness temporarily excused.)

(Whereupon, at 12:35 p.m., the hearing was adjourned,  
to be reconvened at 1:20 p.m., this same day.)

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FORM 2

AFTERNOON SESSION

(1:20 p.m.)

JUDGE TURNER: Back on the record.

Before we start in on Mr. Tuffey again, I have proposed to OCA, and they don't have any real objection and the company doesn't have any objection, that we take Mr. Hanger before we take Mr. Colton, because Mr. Colton can be long in my experience. Even though PP&L says they don't have much cross-examination, I expect that Mr. Gray and Ms. Polacek will. So if no one has an objection to that, when we finish with Mr. Tuffey, we'll call Mr. Hanger.

Is that acceptable to you, Mr. McPhedran?

MR. MCPHEDRAN: Yes, it is.

JUDGE TURNER: Okay. Mr. Gray, we're ready to go.

MR. GRAY: Mr. Kanaskie graciously allowed me to take his official seat up here.

JUDGE TURNER: That's good. That's a good seat to be in. Please, go ahead. The witness is still sworn.

MR. GRAY: Thank you, Your Honor.

Whereupon,

THOMAS J. TUFFEY

having previously been duly sworn, testified further as follows:

CROSS-EXAMINATION

BY MR. GRAY:

1 Q. Good afternoon, Dr. Tuffey.

2 A. Good afternoon, Mr. Gray.

3 Q. I'm Steve Gray from the Office of Small Business  
4 Advocate. Let me start you out. Would you please turn to  
5 your testimony, Attachment A, page 3 and 4, about the wind  
6 powering in Pennsylvania?

7 MR. GRAY: While Dr. Tuffey is turning to pages 3 and  
8 4, Your Honor, I'd like to ask to be marked as OSBA Cross-  
9 Examination Exhibit No. 1, we have interrogatory numbered  
10 No. 4 that we asked of Dr. Tuffey.

11 JUDGE TURNER: It may be so marked.

12 MR. GRAY: Thank you.

13 (Whereupon, the document was marked  
14 as OSBA Cross-Examination Exhibit  
15 No. 1 for identification.)

16 BY MR. GRAY:

17 Q. Dr. Tuffey, if you'll look on page 3 of  
18 Attachment A, in the paragraph below the underlying section  
19 that says "Wind Powering Pennsylvania," you have a statement  
20 about three lines down that says, I gather, in PPL's service  
21 territory, there is the highest concentration of wind farms  
22 in the state; is that correct?

23 A. That's a correct statement.

24 Q. Let me turn you now to what has been marked as  
25 OSBA Cross-Examination Exhibit No. 1. First of all, was

1 this a response that was prepared by you?

2 A. Mr. Gray, are we referring to Interrogatory 4  
3 that you just handed out?

4 Q. Yes, sir.

5 A. I have it, and I did prepare this response.

6 Q. Thank you. Do you see the last sentence of that  
7 response?

8 A. I do.

9 Q. And that states, "The SEF also works  
10 collectively with other Pennsylvania funds to provide  
11 funding for Pennsylvania wind farms;" correct?

12 A. That is the statement.

13 Q. Thank you. Now, let's go back to Attachment A,  
14 if you would, and go to page 4. It looks like there are  
15 four major wind projects listed here: Bear Creek,  
16 Undisclosed, Waymart, and the Somerset wind project. If I'm  
17 correct in that -- and if there's more than that, please  
18 feel free to expand.

19 Can you give us a quick summary of the individual  
20 projects and where they are located?

21 A. The Somerset Wind Farm is 40 miles from the City  
22 of Pittsburgh right on the turnpike. It is a 9 megawatt  
23 project. Adjacent to it about 10 miles away is the Mill Run  
24 project, which is on the order of 12 megawatts.

25 The other projects referred to here are all clustered

1 in the Hazleton/Wilkes-Barre/Scranton area, and they are the  
2 Waymart project, which was built and began operating in  
3 December of last year, and the Bear Creek project that we  
4 have talked about earlier.

5 The second project, which is undisclosed at the time  
6 that we prepared this, is the Mountain Top project, which is  
7 also in the direct vicinity of the Bear Creek project.

8 If you take the map of Pennsylvania and look for  
9 where the wind resource and the power, the grid resource is,  
10 they cluster in that Somerset area and in the PPL territory.  
11 It's the old coal area. It's very interesting that that has  
12 such a wonderful wind resource.

13 Q. Okay. Thank you. Now, you mentioned five.  
14 There was one, the Somerset project, I wasn't familiar with.  
15 Three of those, if I'm correct, Bear Creek, Mountain Top and  
16 Waymart, they're in PPL's service territory, and the other  
17 two, Somerset and the other project, are not; is that  
18 correct?

19 A. That's correct.

20 JUDGE TURNER: Okay. Perhaps if you didn't hear it,  
21 the court reporter didn't. What is the name of the other  
22 project?

23 THE WITNESS: Mill Run.

24 MR. GRAY: Thank you.

25 JUDGE TURNER: That's two words, Mill Run; yes?

1 THE WITNESS: I think.

2 JUDGE TURNER: Okay.

3 BY MR. GRAY:

4 Q. Now, in the history of the existence of SEF,  
5 what would you say your percentage of financing for wind  
6 power projects has been?

7 A. Commitments made has been significant. Monies  
8 dispersed have not been, because the Somerset project that  
9 we made a commitment to -- and based on that commitment, the  
10 project was built and is operating -- was ultimately  
11 purchased by Florida Power and Light. So they declined our  
12 money.

13 The Bear Creek project and the Mountain Top project,  
14 we have a commitment to the Bear Creek project. We have two  
15 loans that we made to Energy Unlimited for the Mountain Top  
16 project. Neither of those has been built yet awaiting the  
17 federal tax production credit.

18 MR. GRAY: Your Honor, you looked like you had a  
19 question.

20 JUDGE TURNER: Percentage of what? Percentage of  
21 their overall expenditures? Percentage of money in the  
22 project?

23 MR. GRAY: Well, I have to make sure I get the  
24 language correct.

25 JUDGE TURNER: I know you hate to be tied down, but

1 --  
2 MR. GRAY: Like Dr. Tuffey just said, there is  
3 committed money and there is actual money sent out the door.

4 BY MR. GRAY:

5 Q. Is that correct?

6 A. There is committed money. That money is  
7 reserved until the project milestones are completed, or, if  
8 some reason, like in the case of Florida Power and Light  
9 buying the Somerset project, it's not taken down, and then  
10 there's the money that is actually dispersed.

11 Q. Let me ask it both ways. The sum total of the  
12 amount of money you have had to spend on projects, how much  
13 of that has been committed to wind projects, how much has  
14 actually been spent, if you could do that on a percentage  
15 basis?

16 A. Committed to wind project would be approximately  
17 30, 35 percent. Actually dispersed -- well, excuse me. Let  
18 me go back closer to 40 percent, because when we're talking  
19 about wind projects, I'm now also referring to investments  
20 in marketing companies, too, and we have a -- in fact, we  
21 have the only ownership position in the major wind power  
22 marketing company in the east coast.

23 So I'd say committed is closer to 40 percent.  
24 Dispersed is probably, you know, a third.

25 JUDGE TURNER: Probably a third?

1 THE WITNESS: It's off the top of my head. At this  
2 moment, I did say probably a third.

3 JUDGE TURNER: What's 100 percent in this scenario?

4 THE WITNESS: I'm sorry. I don't understand.

5 JUDGE TURNER: What is 100 percent in this scenario?

6 THE WITNESS: 100 percent would be either the total  
7 money committed, or the second category, as I understood it  
8 from Mr. Gray, is money dispersed, actual paid to somebody  
9 versus a commitment that we're holding in reserve for  
10 someone to complete a requirement.

11 JUDGE TURNER: Shouldn't that add up to 100 percent?  
12 You're talking about the money that is designated for wind  
13 power, right, or are you talking about the total budget?

14 MR. GRAY: I was accepting it like Dr. Tuffey  
15 suggested. It's a concept that I'm not as familiar with.  
16 There is committed funds that you have promised to projects,  
17 and there's actual money sent out the door.

18 BY MR. GRAY:

19 Q. That's two different totals of money; is that  
20 correct, Dr. Tuffey?

21 A. Yes. Let me please illustrate. The Bear Creek  
22 project, we have committed \$1.5 million as a loan. With the  
23 other Sustainable Energy Funds in the state, in total it's  
24 \$4.5 million. That money will not be dispersed until the  
25 project is built and it begins to generate power. However,

1 it is a legal commitment that we have to supply it.

2 JUDGE TURNER: That's not my problem. My problem is  
3 when you start to talk in percentages, the ultimate is 100  
4 percent. When you asked 30 to 35 percent of your total  
5 budget is committed to wind power projects and a third is  
6 actually dispersed for wind power projects, and then you  
7 have -- that's 73 percent. Then you have 27 percent for  
8 other operations. Is that the way it goes?

9 THE WITNESS: May I try to answer a little  
10 differently and I'll try and hit it? We have made  
11 commitments to date of approximately \$8.6 million. Of that,  
12 approximately 40 percent has been committed to wind power of  
13 some type.

14 JUDGE TURNER: Okay. And then what's actually been  
15 dispersed?

16 THE WITNESS: What's actually been dispersed is a  
17 smaller number in both cases.

18 JUDGE TURNER: 8.6 million total committed. And how  
19 much of your total has been dispersed?

20 THE WITNESS: Three or four.

21 JUDGE TURNER: Three to four million?

22 THE WITNESS: I'd have to have the balance sheet in  
23 front of me. It's something on that order. We have in  
24 reserve \$3.6 million for projects that we have committed but  
25 not dispersed yet.

1 BY MR. GRAY:

2 Q. So now let's go back to my Cross-Examination  
3 Exhibit No. 1, which was Interrogatory 4. You said in your  
4 answer that you work with other funds to provide fundings  
5 for these various wind farms.

6 So for the projects you've listed here, are these all  
7 joint projects with other Pennsylvania funds?

8 A. No. Bear Creek is a joint project. Somerset  
9 was a joint project. Mountain Top is company financing by  
10 SEF only. Waymart we do not have either a loan or project  
11 financing for Waymart. What we have done is to finance. We  
12 own over 5 percent of Community Energy, which has the  
13 exclusive marketing rights for the wind power from the  
14 project. It is that marketing of wind that allows a project  
15 to be built.

16 Q. Thank you. Let me turn you now to page 17 of  
17 your testimony. It looks like it starts on line 27. You  
18 talk about biomass digesters.

19 Can you tell us where this Oregon Farm biomass  
20 digester is, what it is, and why SEF thought it was a good  
21 idea to fund it?

22 A. Where it is -- I have not visited this specific  
23 farm. I believe it's in the general Lancaster area. The  
24 Oregon Farm has had an operating bio digester for  
25 approximately 15 years. It received the old PURPA rate. So

1 it is one of the few examples of a manure digester producing  
2 power that exists in the state.

3 The specific request here is to upgrade the system,  
4 specifically the containment vessel to insulate it. They  
5 are losing power production in the wintertime. They lose  
6 about half their power production because the bugs in the  
7 digestion unit get cold. So they're upgrading the system to  
8 insulate it and put in new project controls. If I recall  
9 correctly, it's a \$30,000 loan we've committed to.

10 Q. And why a biomass digester? Why is that in use  
11 in any particular location in central Pennsylvania versus  
12 any of the other technologies that you listed for Ms.  
13 Polacek?

14 A. There is tremendous societal need in the  
15 agricultural community to better handle manure and  
16 specifically to produce clean power both for on-farm  
17 consumption and to put on the grid.

18 The current manure handling practices of spreading on  
19 the fields cause water pollution problems. They cause  
20 global warming problems. They are very immense nuisance  
21 problems to neighbors. Once you digest that manure, you  
22 take care of the nuisance problem and you reduce the volume,  
23 plus your produce power for the farmer.

24 Q. Okay. Thank you. Let me now turn you to page  
25 26 of your testimony, line 20. You talked about the

1 "Directors are nominated by certain of the Joint  
2 Petitioners."

3 Now, the OSBA sent an interrogatory early on to PPL  
4 saying who's on the board and who nominated them, and we got  
5 an answer back that indicated there are seven board members;  
6 is that correct?

7 A. There are seven board seats. There are  
8 currently six members.

9 Q. Frankly, the interrogatory raised more questions  
10 than it answered, so I will go right to the source. Can you  
11 please tell us today who the board members are and what  
12 groups nominated them?

13 A. The board members are Mr. Gary Lamont, who was  
14 nominated by the Weatherization Task Force; I think  
15 specifically Mr. Brady who was here earlier today. Mr.  
16 Craig Onori, who is the PPLICCA representative; I believe  
17 then nominated by Ms. Polacek and Mr. Kleppinger. Mr. Eric  
18 Epstein, who was nominated by the environmentalists and Mr.  
19 Eric Epstein.

20 Q. Our Eric Epstein from this case?

21 JUDGE TURNER: Yes; our own Eric Epstein.

22 THE WITNESS: Yes. Mr. Andrew MacElwaine -- well,  
23 excuse me. Let me do it in order. Mr. Brian Noggle, who  
24 was nominated by PPL; and then Mr. Andrew MacElwaine, who  
25 was not nominated by any particular party. In the first

1 round of nominations, MAPSA and PUC staff nominated parties.  
2 When it came time to replace a director, another procedure  
3 than we currently have was used; and Mr. MacElwaine, who is  
4 president of Pennsylvania Environmental Council.

5 Then the last member is Mr. Art Morris, who, again,  
6 was not nominated by a specific party.

7 BY MR. GRAY:

8 Q. And then there is a seventh open seat?

9 A. That's correct.

10 Q. And who nominates for the seventh seat?

11 A. The current process has the nomination for the  
12 seventh seat going to a group of environmentalists. They  
13 include Mr. Fiorentino, Mr. Epstein, and Mr. Roger Clark.

14 Q. Thank you. Let me now turn you to page 25 of  
15 your testimony. We're going to start here, and then we're  
16 going to go back to your audits in the back.

17 On line 12, page 25, it says, "Additionally, the SEF  
18 by-laws allow directors to receive a stipend for their  
19 efforts." Do you see that?

20 A. Yes, I do.

21 Q. Now, let me turn you back to your Attachment A,  
22 the audit, at page 4.

23 A. Is that entitled "Statement of Functional  
24 Expenses"?

25 Q. Yes. It says, "Statement of Functional Expenses

1 For the Year Ended June 30, 2003."

2 A. Yes, that's correct.

3 JUDGE TURNER: Can you wait until I catch up with  
4 you?

5 MR. GRAY: Certainly.

6 JUDGE TURNER: Exhibit A on page 4 doesn't have  
7 anything like -- we've been there before.

8 MR. GRAY: Well, there's an Attachment A; and as part  
9 of the attachment, I guess, is the audits of the SEF. Is  
10 that correct?

11 JUDGE TURNER: Okay. And where does that occur?

12 MR. GRAY: After page 19, there are a series of  
13 numbered pages in the attachment.

14 JUDGE TURNER: Right.

15 MR. GRAY: And then page 4, numbered page 4 of the  
16 audit.

17 JUDGE TURNER: After page 19?

18 MR. GRAY: Correct. You'll see on page 4 a series of  
19 columns and numbers.

20 JUDGE TURNER: Okay. So there are attachments to the  
21 attachment, yes.

22 BY MR. GRAY:

23 Q. Dr. Tuffey, do you see about halfway down the  
24 left-hand side, there's an item that states "Board Stipends  
25 and Expenses"?

1 A. I do.

2 Q. And then starting from the far right column,  
3 there's a 2002 column, and it looks like it's \$23,467, and a  
4 2003 column to the left of that, which says \$38,336.

5 A. I see it.

6 Q. Can you explain in this context what are these  
7 stipends and why are they paid?

8 A. The stipends are paid, to address the second  
9 question, because we have an amendment that allows for  
10 stipends that was approved by the PUC, and we have a  
11 procedure that we follow.

12 Then in terms of what are the stipends, the policy  
13 allows for any director who is not covered -- I don't want  
14 to use the word "subsidized," but their time is not covered  
15 by a large corporation or a large organization -- may apply  
16 to receive the stipend.

17 The stipend policy is \$300.00 for a day or any given  
18 amount of time in a day that is greater than three hours.  
19 So if somebody works three hours and one minute, they could  
20 be eligible for \$300.00. If they work 15 hours, they're  
21 eligible for \$300.00. That is for directors who submit and  
22 ask for the stipend, fit in that category, and the board on  
23 an annual basis approves their participation.

24 They then are entitled automatically to committee  
25 meetings or any other activity that has been pre-qualified

1 or the president of the fund approves and submits statements  
2 accordingly.

3 Q. Okay. Thank you. Now, on the title page of  
4 this audit, it says, "The Sustainable Energy Fund of Central  
5 Eastern Pennsylvania." I gather there are other Sustainable  
6 Energy Funds throughout the state; is that correct?

7 A. That's correct.

8 Q. Now, did they also have this sort of stipend  
9 arrangement?

10 A. No, they do not.

11 Q. Thank you. Let me turn you to Attachment A,  
12 page 9. I think we're going to stay in the audit. I want  
13 to make sure of that.

14 JUDGE TURNER: So we're doing page 9 of the audit?

15 MR. GRAY: Let me make sure. Yes, it is page 9 of  
16 the audit, Your Honor.

17 BY MR. GRAY:

18 Q. Now, you got into a discussion this morning with  
19 Ms. Polacek about the entrepreneurial nature of your  
20 organization and the question of sustainability, and I note  
21 if we're looking at page 9 here, we have a title that says,  
22 "Investments (continued)," and then about halfway down the  
23 page, it says, "Net Realized and Unrealized Gains (Losses)  
24 on Investments;" is that correct?

25 A. Yes, that's correct.

1 Q. And then we have two columns again. We have a  
2 2003 column and a 2002 column. The first question:  
3 generally, I gather that you used some of your unused funds  
4 to make investments in the stock market to help perpetuate  
5 this organization.

6 A. We employed two asset management organizations  
7 to invest funds that are either on reserve for projects or  
8 for the operation of the fund. They currently are invested  
9 75 percent in the equity market, 25 percent in fixed assets.

10 Q. And then if I'm reading this correctly, the 2003  
11 column, it looks like SEF realized a net gain of \$45,000  
12 plus in 2003, is that correct, 45,822?

13 A. The number is correct. I don't know if I'm  
14 enough of an accountant to say if that is only the managed  
15 funds or that is also our program related investment or  
16 both.

17 Q. Okay. And then there is a negative 836,000 in  
18 the 2002 column; is that correct?

19 A. That's correct.

20 Q. Thank you. Pennsylvania Sustainable Energy Fund  
21 Board met for the first time in June 2004; is that correct?

22 A. You're referring to the PASEB.

23 Q. That is correct.

24 A. Officially, it met for the first time -- what  
25 date did you say?

1 Q. June 2004.

2 A. I believe that's the case.

3 JUDGE TURNER: What were the initials for that, PASE

4 --

5 THE WITNESS: PASEB. Your Honor, that is the  
6 oversight organization mandated by the Commission. It  
7 consists of the Commission having a seat, which Karen Moury  
8 fulfills; DEP; DCED; Pennsylvania Environmental Council;  
9 OCA, which Tanya McCloskey fills; and one representative  
10 from each of the funds.

11 JUDGE TURNER: So that's not the same board that we  
12 were talking about before?

13 THE WITNESS: No, it is not. That is an oversight  
14 organization.

15 JUDGE TURNER: Okay. Were you asking about the board  
16 we were talking about before?

17 MR. GRAY: No. I was asking about PASEB.

18 JUDGE TURNER: Okay.

19 THE WITNESS: Now, if I may clarify, please?

20 BY MR. GRAY:

21 Q. Please.

22 A. The PASEB met a number of times in the year  
23 2000, 2001 and 2002. Some of the members were there.  
24 Representatives were there. It was not an official meeting,  
25 because the officially designated people, which were cabinet

FORM 2

1 level secretaries, never appeared fully.

2 So if you went to look for a set of minutes for a  
3 legal meeting of the PASEB, I don't think you'd find them.  
4 Were there meetings? Yes, there were.

5 Q. Okay. Thank you. Let me turn you back to your  
6 testimony on page 25. We were talking about earlier the  
7 seven directors. Obviously, one seated is vacant. You say  
8 on page 25, line 15, "Related party transactions where a  
9 director is involved in a contract or a grant to a related  
10 organization are disclosed in the SEF's audited financial  
11 statements."

12 Am I correct in my understanding if one of your  
13 directors was involved in a specific project or had a  
14 project they wanted to bring to SEF, that director could  
15 propose that project to the board and continue to work on  
16 the project while still being on the board?

17 A. Let me try and clarify the question. A director  
18 may bring a project and many different sources bring  
19 projects to us. In that case, a director would only  
20 identify that they're bringing the project in. They may  
21 have nothing to do with it. They may not be part of that  
22 organization.

23 This refers to where a director is part of an  
24 organization and is bringing a funding request for that  
25 organization to the board, in which case they may or may not

1 participate in the project.

2 Q. Okay. So is there a process of recusal?

3 A. Yes, there is.

4 Q. There is. And where would I find that document?

5 A. We have a fairly detailed conflict of interest  
6 policy that requires annual sign-offs and disclosures by the  
7 directors, and you would find in our minutes that in cases  
8 in which a director has any involvement, it is pretty  
9 clearly declared, and then the director is asked to not just  
10 step out of the vote, but step out of the discussion or  
11 argument around the project.

12 Q. Now, the policy you referred to, is that a  
13 document or a statement that I could --

14 A. Yes, it is.

15 Q. Is it on the Web site?

16 A. No, I don't think it is.

17 Q. Could I get a copy of that as an on-the-record  
18 data request?

19 JUDGE TURNER: Is this an on-the-record data request?

20 MR. GRAY: Yes, Your Honor.

21 THE WITNESS: I would be glad to satisfy that on-the-  
22 record data request.

23 JUDGE TURNER: Okay.

24 MR. GRAY: Thank you, Your Honor.

25 JUDGE TURNER: Are you going to do that directly or

1 through your counsel? Are you going to send it to Mr. Gray  
2 or are you going to send it to Mr. Niesen?

3 MR. NIESEN: We will process the request through my  
4 office and we'll get the document to Mr. Gray.

5 JUDGE TURNER: Thank you. Do you have any date when  
6 you think you can have that done?

7 MR. NIESEN: I hope certainly by the end of the week.  
8 We'll try and do it tomorrow.

9 THE WITNESS: It's readily available. It should be  
10 no difficulty at all.

11 JUDGE TURNER: If he wants to put it in the record,  
12 he has to have it by the 13th.

13 MR. GRAY: That's correct, Your Honor.

14 JUDGE TURNER: Okay. Unless I'm going to hold the  
15 record open.

16 MR. GRAY: Thank you.

17 BY MR. GRAY:

18 Q. Dr. Tuffey, let's go back to Attachment A, page  
19 10. This is not in the audit. The heading is "Program-  
20 Related Investment and Grant Commitments."

21 A. I have it.

22 Q. Now, you start out that section of text --

23 MR. GRAY: Do you have that, Your Honor?

24 JUDGE TURNER: Yes, I do.

25 BY MR. GRAY:

1 Q. You say, "We received close to 200 inquiries  
2 and/or financing requests during the subject period." And I  
3 believe the subject period is through June 30, 2003?

4 A. The subject period referred to here would be  
5 that specific year. So it would be July 1st, 2002 through  
6 June 30th or 31st, whatever that date is, 2003.

7 Q. Okay; very good. Of the 200 inquires and/or  
8 financing requests, how many were accepted and how many were  
9 rejected?

10 A. If I may clarify, an inquiry may be somebody  
11 picking up the telephone and asking us do we have such and  
12 such a program that they may have seen in another state. It  
13 may be somebody that calls and says, "Do you have a \$75.00  
14 rebate if I buy an energy efficient dishwasher?" We will  
15 record that as an inquiry. I wouldn't require that a  
16 denial. I'd say we're simply saying to them that we don't  
17 have it.

18 As people approach us to even begin the process of  
19 discussing a project, we will track on it and open a file.  
20 They may not go ahead with it or they may withdraw it.

21 So the answer to the question of how many acceptances  
22 are there, it's the number of commitments that you see made  
23 for that year, which are these two pages or so.

24 JUDGE TURNER: So how many?

25 THE WITNESS: Your Honor, it would be roughly 25.

FORM 2

1 JUDGE TURNER: Twenty-five out of that 200?

2 THE WITNESS: That's correct.

3 JUDGE TURNER: Thank you.

4 BY MR. GRAY:

5 Q. And these you were just listing, the commitments  
6 are actually listed on page 10 and 11 and 12; is that  
7 correct?

8 A. That's correct; and those are -- it's 221,000 in  
9 grants and 3 million in program-related investment.

10 Q. Thank you. Let me ask a question. We started  
11 on this earlier on. Thinking broadly, from day one at SEF  
12 through today or through any recent period you'd have the  
13 accounting information, how much money has SEF committed and  
14 how much money has actually gone out the door?

15 A. It has committed somewhere on the order of \$8.6  
16 million. The money that has actually gone out the door is  
17 in the 3 to 4 mill. I mean, I can get you the specific  
18 numbers.

19 Q. Let's ask the first question. Why don't you for  
20 the record tell us what the date boundaries on your answer  
21 is? What's day one? What's the last day of that period?

22 A. The date boundaries were as you specified; from  
23 the initiation of the fund until this time.

24 Q. Okay.

25 JUDGE TURNER: Until when?

1 THE WITNESS: Well, excuse me. The commitment number  
2 that I gave was probably due till June 2004.

3 JUDGE TURNER: And what was your day one?

4 THE WITNESS: Day one would be July 1st, 2000.

5 BY MR. GRAY:

6 Q. Are hard numbers on that easily available?

7 A. Yes.

8 MR. GRAY: Your Honor, could I have an on-the-record  
9 data request just to get the actual numbers?

10 JUDGE TURNER: Yes, you may.

11 MR. GRAY: Thank you.

12 BY MR. GRAY:

13 Q. Over that time period, what were your O&M  
14 expenses?

15 A. We would refer to that as our administration  
16 expenses. Well, let me -- the total expenses, which are  
17 both general and administrative, as well as program-related  
18 expenses, over the period of time you're referring to is  
19 about 1.7 million.

20 JUDGE TURNER: In addition to the other figures you  
21 gave us?

22 THE WITNESS: That is correct.

23 MR. GRAY: Thank you, Dr. Tuffey. That's all I have.

24 Thank you, Your Honor. May I move into the record  
25 OSBA Cross-Examination Exhibit No. 1?

1 JUDGE TURNER: You may if there is no objection from  
2 any counsel.

3 MR. NIESEN: Just a moment.

4 (Pause.)

5 MR. NIESEN: We have no objection.

6 JUDGE TURNER: Okay.

7 (Whereupon, the document marked as  
8 OSBA Cross-Examination Exhibit No. 1  
9 was received in evidence.)

10 JUDGE TURNER: Is there any other counsel who has  
11 cross-examination for this witness?

12 (No response.)

13 JUDGE TURNER: Would you like to have some redirect,  
14 Mr. Niesen?

15 MR. NIESEN: May I have a moment before we proceed to  
16 that?

17 JUDGE TURNER: Yes, you may. Let's go off the  
18 record.

19 (Discussion off the record.)

20 MR. NIESEN: If Your Honor pleases, we have no  
21 redirect examination for Dr. Tuffey.

22 JUDGE TURNER: Thank you, Dr. Tuffey. Thank you for  
23 being here. You may stand down.

24 THE WITNESS: Thank you very much, Your Honor.

25 (Witness excused.)

1 JUDGE TURNER: I believe it was agreed that we could  
2 now call Mr. Hanger.

3 MR. MCPHEDRAN: Your Honor, I'd like to mark for  
4 identification Mr. Hanger's testimony, the direct, rebuttal  
5 and surrebuttal.

6 JUDGE TURNER: As PennFuture Parties Statement No. 1,  
7 No. 1-R and No. 1-S?

8 MR. MCPHEDRAN: That's correct.

9 JUDGE TURNER: You want to mark those before we swear  
10 in your witness?

11 MR. MCPHEDRAN: The court reporter has been provided  
12 with a copy.

13 JUDGE TURNER: All right. We'll mark them.

14 (Whereupon, the documents were marked  
15 as PennFuture Parties Statements  
16 Nos. 1, 1-R and 1-S for  
17 identification.)

18 MR. MCPHEDRAN: Could you swear in the witness?

19 JUDGE TURNER: Please stand up, Mr. Hanger. Will you  
20 raise your right hand?

21 Whereupon,

22 JOHN HANGER

23 having been duly sworn, testified as follows:

24 JUDGE TURNER: And does that also apply to your  
25 prefiled testimony?

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THE WITNESS: It does.

JUDGE TURNER: Thank you. Please be seated.

DIRECT EXAMINATION

BY MR. MCPHEDRAN:

Q. Mr. Hanger, would you state your name and address for the record, please.

A. John Hanger. I work at Citizens for Pennsylvania's Future or PennFuture, 610 North Third Street, Harrisburg, Pennsylvania.

Q. Mr. Hanger, do you have before you what has been marked for identification as PennFuture Statement No. 1, 1-R and 1-S?

A. I do.

Q. Were those statements, the direct, rebuttal and surrebuttal testimony, prepared by you or under your supervision?

A. They have been.

Q. Do you have any changes or corrections to make to your testimony at this time?

A. No.

Q. Is the information contained in this testimony true and correct to the best of your information, knowledge and belief?

A. It is.

Q. If I asked you the questions contained in your

FORM 2

1 testimony today, would your answers be the same?

2 A. Yes.

3 MR. MCPHEDRAN: Your Honor, I move for admission of  
4 PennFuture Statements No. 1, 1-R and 1-S subject to cross-  
5 examination and timely motions.

6 JUDGE TURNER: They may be so admitted.

7 (Whereupon, the documents marked as  
8 PennFuture Parties Statements Nos.  
9 1, 1-R and 1-S were received in  
10 evidence.)

11 MR. MCPHEDRAN: The witness is available for cross-  
12 examination.

13 JUDGE TURNER: Mr. MacGregor?

14 MR. MacGREGOR: I have no questions, Your Honor.

15 JUDGE TURNER: Mr. Kanaskie?

16 MR. KANASKIE: We have no cross, Your Honor.

17 JUDGE TURNER: Ms. McCloskey?

18 MS. McCLOSKEY: We have no cross, Your Honor.

19 JUDGE TURNER: Mr. Gray?

20 MR. GRAY: No cross, Your Honor. Thank you.

21 JUDGE TURNER: Mr. Fiorentino?

22 MR. FIORENTINO: We have no cross for this witness,  
23 Your Honor.

24 JUDGE TURNER: I hope we didn't bring him in for  
25 nothing.

FORM 2

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Mr. Vullo?

MR. VULLO: No cross, Your Honor.

JUDGE TURNER: Mr. DOD?

MR. McCORMICK: No cross, Your Honor.

JUDGE TURNER: Mr. Epstein has entered the room, but he has not entered his appearance for today.

Do you have any cross of this witness, Mr. Epstein?

MR. EPSTEIN: No, Your Honor, no cross.

JUDGE TURNER: Mr. Zambito?

MR. ZAMBITO: No cross, Your Honor.

JUDGE TURNER: PPLICCA?

MS. POLACEK: Yes. We have a couple questions, Your Honor.

JUDGE TURNER: Okay.

MS. POLACEK: We didn't bring Mr. Hanger in for nothing.

JUDGE TURNER: I should hope not.

**CROSS-EXAMINATION**

BY MS. POLACEK:

Q. Good afternoon, Mr. Hanger. My name is Pam Polacek, and I represent the PP&L Industrial Customer Alliance.

First, if you could please in your direct testimony, could you turn to page 3, please? I think when your counsel introduced your statement, you said you didn't have any

FORM 2

1 changes, but I'm just wondering whether on line 2 you're  
2 talking about being doubled to 2 mills, is that a typo?

3 A. Fair enough; a typo, yes.

4 Q. Should it be 0.2 mills?

5 A. Yes.

6 JUDGE TURNER: Okay. On the --

7 THE WITNESS: 0.02. It's now at 0.01, and our  
8 testimony is that it should go to 0.02.

9 JUDGE TURNER: What page?

10 THE WITNESS: Cents per kilowatt-hour.

11 BY MS. POLACEK:

12 Q. Cents per kilowatt-hour?

13 A. Yes.

14 JUDGE TURNER: Thank you.

15 MS. POLACEK: Have you found the right reference Your  
16 Honor?

17 JUDGE TURNER: I do.

18 THE WITNESS: It says "or 2/100 of one cent per  
19 kilowatt-hour." I appreciate that.

20 BY MS. POLACEK:

21 Q. No problem. There's a big difference for some  
22 clients.

23 A. Yes.

24 Q. I have just a couple questions for you about  
25 PennFuture. Does PennFuture invest in companies that

1 provide energy efficiency projects or renewable energy?

2 A. Well, we have no capital that we invest.

3 Q. Have you invested in the past?

4 A. No, not with capital. We do provide technical  
5 assistance. We do provide information and advice to such  
6 companies, but we don't have capital that we invest.

7 Q. How would you categorize the previous investment  
8 in Community Energy?

9 A. Well, in Community Energy, we held for a short  
10 period of time an equity position. Frankly, that was as a  
11 result of sweat equity. Again, we have no capital that we  
12 invest in these companies.

13 Q. And does PennFuture also provide education  
14 regarding energy efficiency and renewables?

15 A. Yes.

16 Q. And just to make sure that it didn't slip past  
17 us, is PennFuture funded through PPL ratepayers through  
18 their utility rates?

19 A. Not to my knowledge, but to further clarify, PPL  
20 did sponsor a restructuring conference. I don't know  
21 exactly where that money came from, but I don't believe it's  
22 in the rate base.

23 MS. POLACEK: Thank you, Mr. Hanger. That's all the  
24 questions I have, Your Honor. Thank you very much.

25 JUDGE TURNER: Mr. Niesen?

1 MR. NIESEN: I have no questions for Mr. Hanger, Your  
2 Honor. Thank you.

3 MS. POLACEK: I'm so sorry.

4 JUDGE TURNER: What happened.

5 MS. POLACEK: I spoke too soon, because I do have --  
6 I talked with counsel about this beforehand. We have some  
7 interrogatory responses that Mr. Hanger provided, and we'd  
8 just like to enter them into the record, mark them and enter  
9 them.

10 JUDGE TURNER: And he can --

11 MS. POLACEK: He can authenticate them.

12 JUDGE TURNER: Okay.

13 MS. POLACEK: But if I could distribute them now. I  
14 apologize.

15 JUDGE TURNER: Let's go off the record.

16 (Discussion off the record.)

17 JUDGE TURNER: Back on the record.

18 Ms. Polacek, you want to identify these documents  
19 you've had passed out?

20 MS. POLACEK: Yes, Your Honor. The first one we  
21 would mark for identification as, I think, PPLICA Cross  
22 Exhibit No. 13. That is Mr. Hanger's response to the PP&L  
23 Industrial Customer Alliance Interrogatory Set I, No. 1.

24 We'd ask to mark as PPLICA Cross Exhibit 14 the  
25 response to PPLICA Interrogatory Set I, No. 2; to mark as

1 PPLICA Cross Exhibit 15 the response to PPLICA Interrogatory  
2 Set I, No. 6; and as PPLICA Cross Exhibit 16 the response to  
3 PPLICA Interrogatory Set I, No. 7.

4 JUDGE TURNER: They may be so marked.

5 (Whereupon, the documents were marked  
6 as PPLICA Cross-Examination Exhibits  
7 Nos. 13 through 16 for  
8 identification.)

9 BY MS. POLACEK:

10 Q. Mr. Hanger, did you have a chance to review  
11 these before you took the stand?

12 A. I have.

13 Q. Can you verify that these were the interrogatory  
14 responses that you provided to us?

15 A. Yes, I can.

16 MS. POLACEK: Thank you, Your Honor.

17 JUDGE TURNER: So let's admit them.

18 MS. POLACEK: Excuse me?

19 JUDGE TURNER: Let's admit them.

20 MS. POLACEK: I'll move to admit them then.

21 JUDGE TURNER: Thank you. They may be admitted.

22 (Whereupon, the documents marked as  
23 PPLICA Cross-Examination Exhibits  
24 Nos. 13 through 16 were received in  
25 evidence.)

FORM 2

1 JUDGE TURNER: And do you have anything further for  
2 this witness?

3 MS. POLACEK: At this point, I don't, Your Honor.

4 JUDGE TURNER: Mr. McPhedran, do you have any  
5 redirect?

6 MR. MCPHEDRAN: No redirect.

7 JUDGE TURNER: Okay. Thank you. Thank you, Mr.  
8 Hanger. I'm sorry we kept you waiting so long.

9 THE WITNESS: It's been a pleasure to listen to  
10 everyone. Thank you.

11 (Witness excused.)

12 JUDGE TURNER: Mr. Colton, good afternoon.

13 MR. COLTON: Good afternoon.

14 JUDGE TURNER: We meet again. Are you ready, Ms.  
15 McCloskey?

16 MS. MCCLOSKEY: Yes, Your Honor.

17 JUDGE TURNER: Will you raise your right hand?

18 Whereupon,

19 ROGER D. COLTON

20 having been duly sworn, testified as follows:

21 JUDGE TURNER: And does that apply to your prefiled  
22 testimony and exhibits?

23 THE WITNESS: It does.

24 JUDGE TURNER: Thank you.

25 MS. MCCLOSKEY: Thank you, Your Honor. I'd like to

1 have marked for identification OCA Statement No. 5, which is  
2 the direct testimony and exhibits of Roger D. Colton. It  
3 consists of 48 pages of questions and answers, Schedules  
4 RDC-1 through RDC-4 and Appendix A.

5 JUDGE TURNER: They may be so marked.

6 (Whereupon, the document was marked  
7 as OCA Statement No. 5 with  
8 Schedules RDC-1 through RDC-4 and  
9 Appendix A for identification.)

10 MS. McCLOSKEY: And I'd also like to have marked for  
11 identification OCA Statement No. 5-S, which is the  
12 surrebuttal testimony and exhibits of Roger Colton  
13 consisting of 18 pages of questions and answers and  
14 Schedules RDC-1S through RDC-3S.

15 JUDGE TURNER: They may be so marked.

16 (Whereupon, the document was marked  
17 as OCA Statement No. 5-S with  
18 Schedules RDC-1S through RDC-3S for  
19 identification.)

20 MS. McCLOSKEY: Thank you, Your Honor.

21 DIRECT EXAMINATION

22 BY MS. McCLOSKEY:

23 Q. Good afternoon, Mr. Colton. Could you please  
24 state your name for the record?

25 A. My name is Roger D. Colton.

1 Q. Mr. Colton, did you prepare or have prepared  
2 under your direction and supervision what has been marked as  
3 OCA Statement No. 5 and OCA Statement No. 5-S, along with  
4 the accompanying exhibits and appendices?

5 A. I did.

6 Q. Do you have any additions or corrections to this  
7 testimony at this time?

8 A. I do not.

9 Q. And to the best of your information, knowledge  
10 and belief, are OCA Statement No. 5 and OCA Statement No.  
11 5-S true and correct?

12 A. They are.

13 Q. And if I were to ask you the questions contained  
14 herein today, would your answers be the same?

15 A. They would be.

16 MS. McCLOSKEY: Your Honor, OCA Statement No. 5 and  
17 OCA Statement No. 5-S have been previously distributed to  
18 the parties. We provided two copies to the court reporter  
19 here today. We would ask for the admission of OCA Statement  
20 No. 5 and OCA Statement No. 5-S and the accompanying  
21 exhibits, schedules and appendices.

22 JUDGE TURNER: Subject to cross-examination and  
23 timely motions.

24 MS. McCLOSKEY: Subject to cross-examination and  
25 timely motions.

1 JUDGE TURNER: They may be so admitted.

2 MS. McCLOSKEY: Thank you, Your Honor.

3 (Whereupon, the documents marked as  
4 OCA Statement No. 5 with Schedules  
5 RDC-1 through RDC-4 and Appendix A  
6 and Statement 5-S with Schedules  
7 RDC-1S through RDC-3S were received  
8 in evidence.)

9 MS. McCLOSKEY: Mr. Colton is available for cross-  
10 examination.

11 JUDGE TURNER: PPL?

12 MR. MacGREGOR: Thank you, Your Honor.

13 CROSS-EXAMINATION

14 BY MR. MacGREGOR:

15 Q. Good afternoon, Mr. Colton.

16 A. Good afternoon.

17 Q. I just have a few questions by way of  
18 clarification in your testimony. Could you please refer to  
19 page 3, lines 6 and 7 of your direct testimony?

20 A. Yes. I have that.

21 Q. You state there that your objective in  
22 presenting testimony in this proceeding is to determine  
23 whether the OnTrack program is operating within the  
24 directive that the company of a CAP program that is  
25 available to all low income customers that require it.

1           Could you specify for me what directive you are  
2 referring to?

3           A.    Under the restructuring statute, universal  
4 service programs are to be available and adequately funded.

5           Q.    And that's the only reference you had in mind  
6 when you used the term "directive" there?

7           A.    It is.

8           Q.    Thank you.  Could you please refer to page 7 of  
9 your testimony, specifically under heading "C," which is  
10 entitled "Expanding Program Enrollment"?  I take it the  
11 program you're referring to there is PPL's OnTrack program;  
12 right?

13          A.    That's true.

14          Q.    And your testimony in this section is dealing  
15 with proposals to expand program enrollment?

16          A.    To expand eligibility for program enrollment,  
17 yes.

18          Q.    And on page 13, beginning at page 13 of your  
19 testimony and going onto page 14, you describe what I think  
20 you call your opt-out proposal for budget billing; is that  
21 correct?

22          A.    Yes, beginning on page 13, I begin the  
23 description of the opt-out program.

24          Q.    And under the current PPL Electric practice, for  
25 a customer to be placed on budget billing, the customer

1 needs to call the company and request to be placed on a  
2 budget bill; is that correct?

3 A. That's my understanding, yes.

4 Q. And under your proposal, as I understand it, I  
5 think in May of each year, those customers who are, I  
6 believe, both low income and have substantial arrearages  
7 would be automatically placed on budget billing and then  
8 would opt out of the program; is that correct?

9 A. Identified low income customers with the term  
10 "identified low income customers" being a term of art, but  
11 identified low income customers with arrears who are not on  
12 payment plans would be placed on a budget billing program on  
13 an opt-out basis, yes.

14 Q. And under your proposal as you envision it, what  
15 would be the customer's options at that point to be removed  
16 from budget billing?

17 A. The customer would need to contact the company  
18 and negotiate a payment plan that would involve something  
19 other than a budget bill if the customer desired to have  
20 something other than a budget bill.

21 Q. So the customer can't simply call up and say, "I  
22 don't want budget billing"? There's more required than that  
23 under your proposal?

24 A. Absolutely. One of the purposes is to take  
25 these 31,000 identified low income customers in arrears that

1 are not on payment plans and to move them to contact the  
2 company to address their arrears.

3 Q. And they could end up on payment plans or they  
4 could end up on the OnTrack program as another possibility;  
5 is that correct?

6 A. No, because these customers are customers -- no,  
7 they cannot end up on the OnTrack program, because one  
8 eligibility requirement for being OnTrack is that you have  
9 to have defaulted on a payment plan, and the 31,000  
10 customers that are identified low income customers who are  
11 in arrears, who are not on payment plans, some of them could  
12 possibly pay their arrears. Some of them could negotiate a  
13 payment plan. Some of them could do nothing. But they  
14 wouldn't have satisfied the eligibility requirement that  
15 they would have defaulted on a payment plan, so they would  
16 not be automatically eligible for OnTrack.

17 Q. Some of them could end up OnTrack, for example,  
18 if they did not meet their budget billing payments; is that  
19 correct?

20 A. Eventually, sure. Eventually, some of those  
21 customers could end up on OnTrack, yes, but not at the time  
22 that they called and the response being placed on the opt-  
23 out mandatory budget billing.

24 Q. So, as I understand it, though, we're putting  
25 these customers onto budget billing in May. If you were

1 here this morning, there was cross-examination and testimony  
2 by Mr. Dahl that by doing so, these customers, to the extent  
3 they're residential heating customers, when they're put onto  
4 budget billing in May are going to receive a significantly  
5 higher May bill than they would based on their actual May  
6 usage; is that correct?

7 A. Yes. While I disagree with the numbers that Mr.  
8 Dahl used this morning -- while I disagree with the numbers  
9 that he used this morning, that is not only the possibility.  
10 That's one of the purposes of the opt-out budget billing is  
11 to put these customers who are over \$500.00 in arrears on  
12 average onto an opt-out budget billing program so the  
13 payments that they are faced with during the shoulder months  
14 in the non-heating months are higher, and, therefore, they  
15 will be making prepayments toward their current bill for the  
16 coming winter heating season.

17 Q. That assumes, though, that these customers who  
18 are already seriously in arrears on their bill will make  
19 those higher May payments.

20 A. It assumes that customers who are already behind  
21 will have a better time and an easier time over an annual  
22 period in making their payments on budget bills than to have  
23 those heating customers pay very low amounts during the  
24 shoulder months that Mr. Dahl described this morning in the  
25 non-heating months and then to have the very, very high

1 heating bills during the next heating season.

2 So, I believe the answer to your question is yes,  
3 that it assumes that those customers over an annual period  
4 will make more payments toward both their arrears and their  
5 current bill.

6 JUDGE TURNER: In situations like that, Mr. Colton,  
7 if the answer is yes, could you begin with yes?

8 THE WITNESS: Yes, Your Honor.

9 JUDGE TURNER: Thank you.

10 BY MR. MacGREGOR:

11 Q. I guess I'll go back to my first question, Mr.  
12 Colton. This whole discussion of the budget billing opt-out  
13 program is under a caption that says, "Expanding Program  
14 Enrollment," which I think means expanding OnTrack  
15 enrollment.

16 Is the purpose of this program to expand OnTrack  
17 enrollment or is that one of the expected consequences of  
18 your proposal or not?

19 A. The expected consequence of the program is a  
20 couple of fold. One is that I do believe that it will --

21 MR. MacGREGOR: Your Honor, I'm sorry to interrupt  
22 the witness.

23 BY MR. MacGREGOR:

24 Q. My question is: is your budget billing plan, is  
25 one of the purposes to expand OnTrack enrollment? I didn't

1 ask you what the other purposes were. I want to know if one  
2 of the purposes is to expand OnTrack enrollment or not.

3 A. No. I dis -- no.

4 Q. Thank you. Can I refer you to page 24 of your  
5 testimony where we're discussing the earned income tax  
6 credit proposal? Again, I'm a little confused. What  
7 exactly is it that you want PPL Electric to do with respect  
8 to your earned income tax program?

9 A. What I propose the company to do is to take  
10 those low income payment troubled customers that they have  
11 identified as having wage income and to basically do two  
12 things. One is to do a targeted outreach to those customers  
13 saying that you owe us money and there is a way to bring in  
14 significant federal dollars to help you have more resources  
15 to help pay your arrears to us, and, in addition, to begin a  
16 program where the company will facilitate getting those  
17 customers to tax preparers who will help those customers  
18 prepare the necessary returns.

19 Q. So you're not proposing that PPL Electric would  
20 actually prepare its own customers' tax returns; is that  
21 right?

22 A. Not at all, no.

23 Q. Is there a requirement here, to the extent that  
24 the customer does file such a tax return and receives money  
25 from the federal government, is there a requirement or a

FORM 2

1 mandate here that that money go to pay down their utility  
2 arrearage?

3 A. There isn't a direct requirement, although I  
4 offer an option on how such a requirement could be  
5 implemented within this program.

6 Q. Is that part of your proposal in this case?

7 A. It was an offer -- no. The proposal is for the  
8 company to do the EITC outreach and to create a pilot  
9 program. The details of that pilot program I think would  
10 follow the approval of the pilot program.

11 Q. Thank you. Could you refer now to page 37 of  
12 your testimony regarding the normalization of universal  
13 service costs? Am I correct that the company has requested  
14 in this proceeding an annual expense allowance for universal  
15 service program costs of 14.7 million? I guess that's  
16 OnTrack, 14.7 million.

17 A. That's my understanding.

18 Q. And you have proposed a reduction in that  
19 allowance; is that correct?

20 A. I have not proposed a reduction in that  
21 allowance, no.

22 Q. Have you reviewed the testimony of Lafayette  
23 Morgan filed on behalf of the Consumer Advocate in this  
24 proceeding who attributes a \$1.9 million expense reduction  
25 in the company's revenue requirement in this case and refers

1 as the source of that adjustment your testimony?

2 A. I have seen that.

3 Q. Do you dispute Mr. Morgan's adjustment?

4 A. No, no, no. You're right.

5 MR. MacGREGOR: Thank you. That's all I have, Your  
6 Honor.

7 JUDGE TURNER: So you did propose a reduction?

8 THE WITNESS: Well, what -- I guess it's a question  
9 of semantics. I proposed that the company spend exactly  
10 what it will spend, and Mr. Morgan did indeed reflect that  
11 in his testimony. So the OCA witnesses, I believe, do have  
12 a lower revenue requirement as a result of my proposal to  
13 normalize it over two years.

14 JUDGE TURNER: Okay. So in chorus, there is a  
15 reduction proposed?

16 THE WITNESS: The two testimonies put together result  
17 in a lower revenue requirement, absolutely; I agree with  
18 that.

19 JUDGE TURNER: Thank you. All right. Mr. MacGregor,  
20 you are completed?

21 MR. MacGREGOR: I am finished, Your Honor. Thank  
22 you.

23 JUDGE TURNER: OTS, do you have cross-examination?

24 MR. KANASKIE: We have no cross, Your Honor.

25 JUDGE TURNER: Mr. Gray?

1 MR. GRAY: No questions, Your Honor. Thank you.

2 JUDGE TURNER: Does any other counsel have cross-  
3 examination for Mr. Colton?

4 MS. POLACEK: Just one question, Your Honor, if I  
5 may.

6 JUDGE TURNER: Please go ahead, Ms. Polacek.

7 CROSS-EXAMINATION

8 BY MS. POLACEK:

9 Q. Good afternoon, Mr. Colton. My name is Pam  
10 Polacek. I represent the PP&L Industrial Customer Alliance.  
11 I'm going to ask you one question, and I'm going to try and  
12 phrase it the right way, because I think we've locked horns  
13 before. So I'm going to try and get a yes or a no from you,  
14 if you could.

15 Can you turn in your direct testimony to page 31,  
16 please? In the question and answer that starts on page 31  
17 and goes on to page 32, you discuss a study that you  
18 performed for Energy Services Corporation looking at the  
19 states of Arkansas, Louisiana, Mississippi and Texas and  
20 finding that energy assistance is a contributor to economic  
21 development.

22 Do you have a study specific to PP&L's service  
23 territory of the same topic?

24 A. No.

25 MS. POLACEK: Thank you. That's all I have.

1 JUDGE TURNER: We're finished with cross-examination  
2 of this witness?

3 (No response.)

4 JUDGE TURNER: Is there redirect, Ms. McCloskey?

5 MS. McCLOSKEY: Yes, Your Honor. Could I have just a  
6 minute with Mr. Colton?

7 JUDGE TURNER: Certainly.

8 (Pause.)

9 JUDGE TURNER: Excuse me. You're looking expectant,  
10 Ms. McCloskey.

11 MS. McCLOSKEY: Yes. We do have some redirect, Your  
12 Honor.

13 JUDGE TURNER: Okay. Please proceed.

14 MS. McCLOSKEY: Thank you, Your Honor.

15 REDIRECT EXAMINATION

16 BY MS. McCLOSKEY:

17 Q. Mr. Colton, you were asked some questions at the  
18 end of your cross-examination by Mr. MacGregor regarding  
19 your normalization of the universal service costs and by the  
20 Administrative Law Judge regarding the same costs.

21 Mr. Colton, are you proposing to provide the company  
22 as part of its revenue requirement the amount of dollars  
23 that the company stated it would spend on its universal  
24 service costs for the years 2005 and 2006?

25 A. Yes.

FORM 2

1 Q. And could you explain the source of what the  
2 company characterized as a reduction in its revenue  
3 requirement for universal service programs?

4 A. The company had proposed to normalize its  
5 universal service costs over a multi-year period and they  
6 would under-spend in the early years and they would make up  
7 for those under-expenditures in the later years.

8 What I have recommended, as reflected in the  
9 testimony of other OCA witnesses, is that the company spend  
10 exactly what its costs are for 2005 and 2006 and to  
11 eliminate the overcollection which it has proposed to  
12 normalize over the several years after 2005 and 2006.

13 Q. And is it your proposal that expenditures after  
14 the 2006 time period be addressed in the next base rate  
15 case?

16 A. That is in both my direct testimony and my  
17 surrebuttal testimony, yes.

18 MS. McCLOSKEY: Thank you, Your Honor. We don't have  
19 any further redirect.

20 JUDGE TURNER: All right. Thank you.

21 MR. MacGREGOR: Your Honor?

22 JUDGE TURNER: Yes.

23 MR. MacGREGOR: If I might have a follow-up question.

24 JUDGE TURNER: I don't think so. Why? I mean, you  
25 finished your cross-examination and she did her redirect.

1 MR. MacGREGOR: Yes; and I further cross in response  
2 to the redirect. It's standard procedure, Your Honor.

3 JUDGE TURNER: It's not standard to me. I refused it  
4 of one person already, which was based on recross.

5 All right. She'll have redirect after you do your  
6 recross.

7 MR. MacGREGOR: Thank you.

8 **REXCROSS-EXAMINATION**

9 BY MR. MacGREGOR:

10 Q. Just so I understand then, Mr. Colton, you  
11 believe that the amounts set forth for 2005 and 2006 by the  
12 company are reasonable amounts to spend and you approve  
13 their adoption in this proceeding?

14 A. Yes.

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

17 JUDGE TURNER: Redirect?

18 MS. McCLOSKEY: I have no redirect on that, Your  
19 Honor.

20 JUDGE TURNER: Okay. Now are we finished with this  
21 witness?

22 (No response.)

23 JUDGE TURNER: Thank you, Mr. Colton. You may be  
24 excused.

25 THE WITNESS: Thank you, Your Honor.

(Witness excused.)

1  
2 JUDGE TURNER: I think that we do have the  
3 possibility to move on with Witnesses Krall and -- help me.

4 MR. MacGREGOR: Krall and Kleha were scheduled late  
5 in the day. We still have Mr. Howat and Mr. Schwarz. I  
6 don't know if there is any cross for Schwarz. I have some  
7 cross for Howat.

8 JUDGE TURNER: Okay. But we do, if we finish really  
9 early today, have that possibility?

10 MR. MacGREGOR: They are here.

11 JUDGE TURNER: Okay. Shall we call Mr. Howat at this  
12 point?

13 MR. VULLO: Yes, Your Honor. John Howat.

14 JUDGE TURNER: Shall I swear your witness in, Mr.  
15 Vullo?

16 MR. VULLO: Yes, Your Honor.

17 JUDGE TURNER: Will you raise your right hand?

18 Whereupon,

19 JOHN HOWAT

20 having been duly sworn, testified as follows:

21 JUDGE TURNER: And does that apply to your prefiled  
22 testimony as well and exhibits, if you have any?

23 THE WITNESS: Yes.

24 JUDGE TURNER: Thank you. Please be seated.

25 MR. VULLO: Thank you, Your Honor.

## DIRECT EXAMINATION

1  
2 BY MR. VULLO:

3 Q. Mr. Howat, can you state your name please for  
4 the record?

5 A. My name is John Howat.

6 Q. And your employment?

7 A. I work at National Consumer Law Center as Senior  
8 Energy Policy Analyst.

9 Q. Have you prepared written testimony and written  
10 surrebuttal testimony in this case which has been previously  
11 distributed to the court and the parties?

12 A. Yes.

13 Q. Are those testimonies identified as CEO  
14 Statement No. 1 with Exhibits JH-1 through JH-5 and CEO  
15 Statement No. 2-R?

16 A. I believe that my direct testimony is marked as  
17 CEO Statement No. 2.

18 Q. I'm sorry. I apologize. CEO Statement No. 2  
19 and CEO Statement No. 2-R.

20 A. Yes, that's correct.

21 MR. VULLO: I request that they be so marked at this  
22 time.

23 JUDGE TURNER: They may be so marked.

24 (Whereupon, the documents were marked  
25 as CEO Statement No. 2 with Exhibits

1 JH-1 through JH-5 and Statement No.  
2 2-R for identification.)

3 BY MR. VULLO:

4 Q. Are those two documents in front of you?

5 A. Yes.

6 Q. Have they been prepared by you or at your  
7 direction?

8 A. Yes, they have.

9 Q. Do you have any corrections or additions to  
10 those documents?

11 A. No.

12 Q. If I were to ask you the questions set forth in  
13 those documents, would your answers be the same?

14 A. Yes, they would.

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

17 A. Yes.

18 MR. VULLO: Your Honor, CEO requests admission of CEO  
19 Statement No. 2 and corresponding exhibits and CEO Statement  
20 No. 2-R subject to timely motions and subject to cross-  
21 examination.

22 JUDGE TURNER: They may be so admitted. Let me just  
23 ask: the exhibits are attached at the back of the statement;  
24 is that correct?

25 MR. VULLO: The back of Statement No. 2, that's

1 correct.

2 JUDGE TURNER: Thank you.

3 (Whereupon, the documents marked as  
4 CEO Statement No. 2 with Exhibits  
5 JH-1 through JH-5 and Statement No.  
6 2-R were received in evidence.)

7 JUDGE TURNER: So, is Mr. Howat available for cross-  
8 examination?

9 MR. VULLO: He's available for cross, Your Honor.

10 JUDGE TURNER: Okay. Mr. MacGregor?

11 MR. MacGREGOR: Thank you, Your Honor.

12 **CROSS-EXAMINATION**

13 BY MR. MacGREGOR:

14 Q. Good afternoon, Mr. Howat.

15 A. Good afternoon.

16 Q. Could I refer you first to page 11 at the bottom  
17 of your direct testimony where you discuss your concept of  
18 affordable utility services at the bottom and continuing  
19 onto 12?

20 A. I'm there.

21 Q. You state that "Low-income household energy  
22 affordability should be defined in a manner such that low-  
23 income households, after receiving assistance through  
24 universal service programs, carry a household energy burden  
25 that is no greater than that carried by a household at the

1 state median income level." Is that correct?

2 A. That's correct.

3 Q. Could you define or explain for the record  
4 exactly how you would go about calculating that for a  
5 particular utility or as a general proposition?

6 A. Calculating it on a per-customer basis, on an  
7 individual customer basis?

8 Q. Yes.

9 A. Well, the state median income is a known number  
10 that is available through both census bureaus and other  
11 statistical entities, and the typical household energy  
12 expenditure is also a known number that can be calculated  
13 through using utility data and information. There is also  
14 statewide data and information that could be used to  
15 calculate what expenditures are, what average or typical, if  
16 you will, expenditures are.

17 So the energy burden being a function of household  
18 income and energy expenditure at the median can be known.  
19 It is a number that can be known. And certainly, as an  
20 individual customer comes into an intake agency, for  
21 example, that customer's income and expenditure levels can  
22 also be determined.

23 If, for example, a customer does not have historical  
24 expenditure information, perhaps statewide averages could be  
25 used as a proxy. However, the energy burden, the household

1 energy burden of an individual customer can really be  
2 calculated in the same way as a function of energy  
3 expenditures and income.

4 Q. So is it your proposal that this be calculated  
5 on an individual customer basis or on an average basis?

6 A. I believe that the context of that statement is  
7 really -- it's an ideal. It's an introductory statement in  
8 the testimony that -- it points to an ideal.

9 JUDGE TURNER: So how does that answer Mr.  
10 MacGregor's question?

11 BY MR. MacGREGOR:

12 Q. I guess my question is: are you proposing that  
13 we calculate the level of burden, I guess, and then the  
14 corresponding level of benefit to eliminate this burden on  
15 the basis of an individual customer's income data or based  
16 upon state median income data?

17 A. Both. In order to determine what subsidy, if  
18 you will, is required to bring a customer to a household  
19 energy burden that's equal to the state median, I think you  
20 need both pieces of information.

21 Q. Have you performed any such calculations for any  
22 customers in the PPL service territory?

23 A. I have not.

24 Q. Further down on page 12, beginning with your  
25 answer on line 14, you state that "An appropriately funded

1 OnTrack program should provide benefits that, when combined  
2 with LIHEAP payments, produce affordable electricity bills  
3 as defined above."

4 So I take it from that testimony then the appropriate  
5 benefit would be one that eliminated the calculated burden  
6 that we discussed above; is that correct?

7 A. It would eliminate the burden above that  
8 experienced by the median income household.

9 Q. And, in your view, an appropriately available  
10 OnTrack program will provide this level of benefit to a  
11 percentage of eligible households that is at least equal to  
12 the statewide average CAP penetration rate, which was 35  
13 percent?

14 A. That's correct.

15 Q. And have you calculated what the dollar value of  
16 that benefit would be for PPL in this case?

17 A. I have not.

18 Q. And I take it then you have not calculated what  
19 effect it would have on residential customer rates if that  
20 cost were imposed upon residential customers?

21 A. Well, I've looked at some scenarios, some of  
22 which are included as an exhibit attached to this testimony.

23 Q. I don't want to cut you off here, but you just  
24 told me that you hadn't calculated the dollar benefit for  
25 PPL Electric. So how can you have calculated the rate

1 impact of a benefit you haven't calculated?

2 A. I don't believe I stated that I've calculated  
3 the rate impact.

4 Q. That was my question. Have you calculated the  
5 rate impact of this benefit that you describe on page 12,  
6 lines 14 through 18 of your testimony?

7 A. I have not.

8 JUDGE TURNER: According to your objection, you know  
9 that he hasn't done that, because he hasn't calculated --

10 MR. MacGREGOR: That's correct, Your Honor.

11 JUDGE TURNER: So why don't we move on?

12 MR. MacGREGOR: I will.

13 BY MR. MacGREGOR:

14 Q. Now, just one final question by way of  
15 clarification. You state a minimum participation rate of 35  
16 percent at page 12 of your testimony; is that correct?

17 A. Yes. I believe that's the statewide average as  
18 reported by the Bureau of Consumer Protection.

19 Q. And there was earlier today testimony presented  
20 by Mr. Brady of CEO. I'll just read one portion of it here.  
21 He says, "I believe at a minimum, PPL should achieve a  
22 penetration rate of at least 50 percent of those eligible."

23 I guess I want to know if you support Mr. Brady's 50  
24 percent or the 35 percent that's in your testimony.

25 JUDGE TURNER: Don't look at counsel. He's asking

1 for your answer.

2 MR. VULLO: His testimony speaks for itself. He  
3 supports the 35 percent.

4 JUDGE TURNER: No. Let him answer this.

5 THE WITNESS: I support 35 percent

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

8 JUDGE TURNER: All right. Thank you, Mr. MacGregor.  
9 Mr. Kanaskie?

10 MR. KANASKIE: I have no questions, Your Honor.  
11 Thank you.

12 JUDGE TURNER: Mr. Mullins?

13 MR. MULLINS: No questions, Your Honor.

14 JUDGE TURNER: Mr. Gray?

15 MR. GRAY: No questions, Your Honor.

16 JUDGE TURNER: Does any other counsel have cross-  
17 examination for this witness?

18 MR. NIESEN: I do, Your Honor.

19 JUDGE TURNER: Mr. Niesen.

20 MR. NIESEN: Yes.

21 JUDGE TURNER: Please go ahead.

22 CROSS-EXAMINATION

23 BY MR. NIESEN:

24 Q. Good afternoon, Mr. Howat. My name is Tom  
25 Niesen. I represent the Sustainable Energy Fund. A couple

1 of questions concerning your suggested residential  
2 photovoltaic program.

3 I'm just wondering how much you fleshed out the  
4 parameters of the program. In your direct testimony, page  
5 17, lines 13 through 15, you discuss a grant to offset PV  
6 system and installation costs.

7 What level of contribution or grant are you  
8 considering? \$2,000, \$3,000? What might it be?

9 A. For low income customers, I'm suggesting a 100  
10 percent grant.

11 Q. I understand that, but I'm interested in the  
12 dollar amount of the PV system and installation costs that  
13 would be offset. What's the dollar amount of that cost?

14 A. Are you asking me what a PV system costs?

15 Q. I think that's what -- well, that is what you  
16 would intend your grant to offset, would it not?

17 A. That's correct, in addition to the costs  
18 associated with installation.

19 Q. Those costs put together then, how much would  
20 that be?

21 A. My understanding is that residential PV systems  
22 range -- there's a wide variability in what their costs are.  
23 Sizing, appropriate sizing is a contributing factor to that  
24 variability. But, in general, I believe residential PV  
25 systems, the capital costs, they are available in the \$9,000

1 range presently.

2 Q. \$9,000. Does that include installation cost or  
3 is that exclusive of installation cost?

4 A. I believe that's exclusive of installation cost.

5 Q. So that on top of that, what would the  
6 installation cost be?

7 A. I'm not prepared to answer that question right  
8 now.

9 Q. So you gave no study -- well, you don't know the  
10 answer to that question?

11 A. That's correct. I think that's knowable.  
12 That's something that could be provided.

13 Q. Now, would that be the -- if we add those two  
14 figures together, the \$9,000 for the system plus the unknown  
15 installation cost, would that be the extent of the grant  
16 that you're suggesting your program cover or would there be  
17 other monies coming to the recipient in connection with your  
18 program? I've seen some of these where there are instances  
19 where there is also a per-watt rebate to the user. Is that  
20 part of your suggested program or not?

21 A. I believe that we set very broad parameters out  
22 in testimony and that program design details would really  
23 need some careful attention. But very broadly, purchase and  
24 installation and related costs would be the subject of this  
25 grant program.

1 Q. Purchase, installation and related costs. Does  
2 related cost include what I mentioned, a per-watt rebate, or  
3 is that not part of your suggestion, or maybe you haven't  
4 given that any consideration, that part of the program?  
5 Have you?

6 A. Again, I think --

7 JUDGE TURNER: It would be helpful if you asked him  
8 one question at a time, Mr. Niesen.

9 MR. NIESEN: I'm sorry.

10 JUDGE TURNER: That's okay. Can you answer that?

11 BY MR. NIESEN:

12 Q. I just want to know the total cost per  
13 residential unit of the program you're recommending. You  
14 gave me the system costs about \$9,000. You're not sure  
15 today what the installation costs would be.

16 Are there any other costs in addition to system and  
17 installation which you would include within your proposed,  
18 suggested grant amount?

19 A. Again, I think that broad parameters are laid  
20 out here, and the extent to which rebates or other  
21 incentives would be appropriate, I think that would be the  
22 subject of people sitting down at a table and discussing  
23 very carefully the program design components.

24 Q. Is there a maximum amount of per unit grant  
25 above which you would think it would be improper under your

1 suggested program?

2 A. I'm not prepared to set a proposed maximum grant  
3 figure right now, no. Again, that's a level of detail that  
4 I believe program implementers and other stakeholders would  
5 need to decide on.

6 Q. All right. A little bit of arithmetic now.  
7 Staying on page 17, looking at line 9, as I understand it,  
8 you're designating \$1.2 million of annual funding for the  
9 residential sector; is that correct?

10 A. That's correct.

11 Q. And then out of that, as I understand it, 17.6  
12 percent of customers are low income. So if I wanted to  
13 determine the dollars to be allocated per your program to  
14 low income, I would take 1.2 million and multiply it by 17.6  
15 percent?

16 A. That's correct.

17 Q. That's about \$211,000?

18 A. Sounds about right.

19 Q. On an annual basis?

20 A. Yes.

21 MR. NIESEN: Thank you. That's all I have.

22 JUDGE TURNER: Are there any other questions for this  
23 gentlemen?

24 (No response.)

25 JUDGE TURNER: Mr. Howat, are you making a specific

1 proposal to the Commission?

2 THE WITNESS: There are a number of proposals  
3 incorporated in this testimony.

4 JUDGE TURNER: But are they all --

5 THE WITNESS: We --

6 JUDGE TURNER: Excuse me. Do they all have to be  
7 fleshed out in detail? Do you follow me? What you've been  
8 cross-examined on here doesn't strike me as much of a  
9 proposal. It's not very certain.

10 THE WITNESS: It's a recommendation. I think that,  
11 for example, allocating a specific amount of funds to the  
12 residential sector and that among those monies a certain set  
13 proportion go into the low income community in order to  
14 obtain not only the stated policy goals of the SEF, but a  
15 number of other energy affordability and equity goals,  
16 that's fairly concretely laid out here, I believe.

17 JUDGE TURNER: And you think this --

18 THE WITNESS: Program design details are not, and my  
19 assumption is that if the Commission were to accept this  
20 funding proposal for SEF, that there could be future  
21 discussion, perhaps a settlement style discussion where --

22 JUDGE TURNER: Okay, okay. But that sort of thing is  
23 not your job; right? You just recommend the money amount,  
24 and then everybody else figures out how to use it?

25 THE WITNESS: I'm not sure what you mean by that's

1 not my job. I'd be more than happy to participate in --

2 JUDGE TURNER: What I'm saying is in your testimony,  
3 you don't deal with that level of detail.

4 THE WITNESS: That's correct.

5 JUDGE TURNER: On anything.

6 THE WITNESS: You know, program design details at  
7 their finest level, no. This is fairly broad.

8 JUDGE TURNER: Okay. Fine. Thank you.

9 Mr. Vullo, do you have redirect?

10 MR. VULLO: No, Your Honor.

11 JUDGE TURNER: Thank you, Mr. Howat.

12 (Witness excused.)

13 JUDGE TURNER: Mr. Schwarz.

14 Good afternoon, Mr. Schwarz.

15 MR. SCHWARZ: Good afternoon.

16 JUDGE TURNER: Would you care to stand to be sworn?

17 MR. SCHWARZ: Oh; sorry.

18 JUDGE TURNER: Will you raise your right hand?

19 Whereupon,

20 ANDREW M. SCHWARZ

21 having been duly sworn, testified as follows:

22 JUDGE TURNER: Is that also true of your prefiled  
23 testimony and exhibits?

24 THE WITNESS: Yes, ma'am.

25 JUDGE TURNER: Please be seated.

1 Mr. Gray.

2 MR. GRAY: Yes, Your Honor.

3 DIRECT EXAMINATION

4 BY MR. GRAY:

5 Q. Good afternoon, Mr. Schwarz.

6 A. Good afternoon.

7 Q. Would you please identify yourself and spell  
8 your name for the court reporter?

9 A. Sure. Andrew Schwarz. I'm a principal in a  
10 consulting firm in Cambridge, MASS, Industrial Economics.  
11 My last name is spelled S-c-h-w-a-r-z.

12 Q. And you say you work for Industrial Economics?

13 A. Yes, sir.

14 Q. That's Bob Knecht's firm, is it not?

15 A. We don't call it Bob Knecht's firm, but he works  
16 there as well, yes.

17 JUDGE TURNER: You prefer to think of it as Andrew  
18 Schwarz's firm.

19 THE WITNESS: Yes. I hope you ask him if it's my  
20 firm.

21 (Laughter.)

22 MR. GRAY: Your Honor, we previously distributed to  
23 the parties the written direct testimony of Andrew M.  
24 Schwarz, we gave copies to the court reporter, and we have  
25 marked it OSBA Statement No. 2. And, by the way, that's

1 text and an attached appendix. So I ask that this direct be  
2 marked OSBA Statement No. 2.

3 JUDGE TURNER: It may be so marked.

4 MR. GRAY: Thank you.

5 (Whereupon, the document was  
6 marked as OSBA Statement No. 2,  
7 with Attached Appendix AMS-1  
8 for identification.)

9 BY MR. GRAY:

10 Q. Mr. Schwarz, do you have your direct testimony  
11 in front of you?

12 A. I do.

13 Q. Was this prepared by you or under your  
14 supervision?

15 A. Yes.

16 Q. Are there any corrections to this testimony?

17 A. Yes, there is. On page 2 of the testimony, line  
18 12, there's a typographical error where we say "equal to  
19 \$0.10 per kWh," and that should be "\$0.10 per MWh."

20 Q. So strike the first small "k" and replace it  
21 with a capital "M"?

22 A. Yes.

23 Q. The first instance of it.

24 JUDGE TURNER: And that also goes within the  
25 parentheses as well?

FORM 2

1 MR. GRAY: No.

2 BY MR. GRAY:

3 Q. The parentheses is correct; correct?

4 A. Correct.

5 Q. Are there any other corrections?

6 A. No.

7 Q. If I asked you the questions that were contained  
8 within your written testimony today, would they be the same?

9 A. My answers would be the same. I have to presume  
10 the questions would be the same.

11 Q. And the answers are true and correct to the best  
12 of your ability and belief?

13 A. Yes.

14 MR. GRAY: Your Honor, I ask the admission into the  
15 record of the direct testimony of Andrew Schwarz, Statement  
16 No. 2, subject to timely motions and cross-examination.

17 JUDGE TURNER: It may be so admitted.

18 (Whereupon, the document marked  
19 as OSBA Statement No. 2, with  
20 attached Appendix AMS-1 was  
21 received in evidence.)

22 MR. GRAY: Mr. Schwarz is available for cross.

23 JUDGE TURNER: I certainly hope that we have  
24 something for him since he's come all the way down here from  
25 Massachusetts.

1 MR. GRAY: Yes, and stayed at the Crowne Plaza, which  
2 I understand was not a success.

3 JUDGE TURNER: I'm sorry to hear that.

4 Mr. MacGregor.

5 MR. MacGREGOR: Sorry to disappoint, Your Honor, but  
6 I have no questions for this witness.

7 JUDGE TURNER: Would the counsel that have questions  
8 for this witness please raise their hands?

9 Mr. Niesen. Good. Ms. Polacek, nothing. So our  
10 only cross-examination is from Mr. Niesen.

11 Please proceed, Mr. Niesen.

12 MR. NIESEN: Thank you, Your Honor.

13 **CROSS-EXAMINATION**

14 BY MR. NIESEN:

15 Q. Good afternoon, Mr. Schwarz. My name is Tom  
16 Niesen. I represent the Sustainable Energy Fund and I have  
17 a few questions for you this afternoon.

18 A. All right.

19 Q. If you would, please, look at page 3, lines 7  
20 through 9 of your testimony. Actually, starting on page 3,  
21 line 4.

22 A. Okay.

23 Q. The question reads, "Have you completed your  
24 analysis?" and you testify that you had not completed your  
25 analysis and that you were awaiting the SEF's responses to

1 OSBA interrogatories. Now, I don't think it's your intent,  
2 but let me ask you: is it your intent at page 3 to suggest  
3 that the Sustainable Energy Fund was late or untimely in any  
4 way in responding to OSBA interrogatories?

5 A. No. My understanding is they were sent  
6 originally to PPL, who sent it to what they view is the more  
7 appropriate group to answer that, SEF, and I actually  
8 received those, I believe, in the first week of July. So  
9 the answer is no.

10 Q. You received the answers the first week in July?

11 A. I believe that's the case. I don't remember  
12 exactly, but I received them in a relatively timely manner.  
13 So no, I'm not making any sort of suggestions about  
14 timeliness.

15 Q. All right. Then let's go to page 7, lines 4  
16 through 23, of your testimony. There you're discussing best  
17 practices, and on line 8 you refer to Sustainable Energy  
18 Fund semi-annual reports. Did you also, in connection with  
19 your analysis, review the annual report of the Sustainable  
20 Energy Fund to the Public Utility Commission?

21 A. I had a report that was dated -- I'm sorry; I  
22 don't have it in front of me -- June 2003. I'm not sure if  
23 that was the semi-annual or the annual. I apologize.

24 Q. Well, going back to page 2 of your testimony,  
25 you said that in undertaking your assignment you reviewed

FORM 2

1 materials provided by PPL, as well as reports filed by SEF  
 2 with the Commission and information available on the SEF  
 3 website. Now, did you find on that SEF website, and was one  
 4 of the reports you reviewed, the 2002-2003 annual report of  
 5 the SEF to the Public Utility Commission?

6 A. Again, I apologize. I can just walk back there  
 7 and get the exact document in front of me. It was dated  
 8 June 2003. I'm not sure if it was a semi-annual or an  
 9 annual report.

10 JUDGE TURNER: Excuse me; you say you have it with  
 11 you and you can check?

12 THE WITNESS: Yes, ma'am.

13 JUDGE TURNER: Let's go off the record.

14 (Discussion off the record.)

15 JUDGE TURNER: Let's go back on the record.

16 THE WITNESS: The report that I referenced was a  
 17 semi-annual report for the period July 1, 2003 to December  
 18 31, 2003.

19 BY MR. NIESEN:

20 Q. Let me ask you to take a look at Attachment A to  
 21 SEF Statement No. 1, Dr. Tuffey's rebuttal testimony. There  
 22 you'll find, you'll agree, the 2002-2003 annual report to  
 23 the Public Utility Commission? Do you agree?

24 (Document handed to witness.)

25 A. Yes.

1 JUDGE TURNER: Do you want to give him some time to  
2 review it? Are you going to ask him some questions about  
3 it?

4 BY MR. NIESEN:

5 Q. You can take a minute to review it.

6 A. If you're going to ask me a question, I'd rather  
7 review the specific part you're asking the question --

8 Q. Well, let me ask you this. We'll go to line 10  
9 and 11 on page 7 of your testimony.

10 A. Okay.

11 MR. GRAY: What was the reference again?

12 MR. NIESEN: Well, I asked the witness to refer to  
13 page 7 of his testimony, lines 10 and 11.

14 MR. GRAY: Okay; right.

15 JUDGE TURNER: Yes.

16 BY MR. GRAY:

17 Q. Now, there you testify that "information is not  
18 available regarding the criteria used to select these  
19 recipients," and let's go back up and read -- maybe we need  
20 the first sentence before that. "The semi-annual reports  
21 provided to the Commission, as well as other reports,  
22 clearly identify the recipients of the grants and other  
23 forms of assistance provided to applicants. However,  
24 information is not available regarding the criteria used to  
25 select these recipients."

1 Now, let me ask you to turn to page 10 of Appendix A  
2 to Dr. Tuffey's testimony.

3 A. Okay.

4 Q. In the first paragraph under section 2.1, it  
5 reads, I'll read it, "We received close to 200 inquiries  
6 and/or financing requests during the subject period. Each  
7 financing request was reviewed by staff against the Board-  
8 approved investment criteria. The investment criteria  
9 guidelines are presented in our Annual Plan and on the web  
10 site [www.SustainableEnergyFund.org](http://www.SustainableEnergyFund.org)."

11 Now, are those the investment criteria that you're  
12 looking for and you said in your testimony are not  
13 available?

14 A. Give me a second, if I could?

15 JUDGE TURNER: Let's go off the record.

16 (Discussion off the record.)

17 JUDGE TURNER: Back on the record.

18 THE WITNESS: Yes, but I guess I would just want to  
19 clarify that I was not as clear as I should have been in the  
20 written testimony, but referring primarily to criteria  
21 concerning the relationship, as I say in that sentence, to  
22 how the projects being funded support the long-term and  
23 short-term goals of the SEF. So to the degree that those  
24 criteria existed otherwise, I wasn't correct.

25 BY MR. NIESEN:

1 Q. Now, reading further in your testimony,  
2 continuing on page 7, lines 12 through 15, "Moreover," you  
3 testify, "the reports include information on the size of the  
4 grants or other assistance provided and the recipients.  
5 However, they do not provide much detail on what  
6 specifically the grantees intended to do with the funds."

7 Now, we're going to just go back to page 10 of  
8 Attachment A. Grants totaling \$221,234 are identified on  
9 page 10, are they not?

10 A. Yes, they are.

11 Q. And is there not a separate explanation for each  
12 grant during that fiscal year?

13 A. Yes, but I would not characterize that as  
14 providing a lot of detail on how the grants are going to be  
15 used.

16 Q. Let's look at the first bullet. The first  
17 bullet says, "\$25,000 to Lower Windsor Township to finance  
18 energy modeling, LEED energy documentation and building  
19 commissioning for a new green municipal building." That is  
20 some detail, you'll agree with me, at least as to that, will  
21 you not?

22 A. Some detail, yes.

23 Q. But you are of the view that more detail is  
24 appropriate and required to give the Commission a clear  
25 indication or what it needs to know what the Fund is doing?

1           A. Well, it has to be viewed in the context of the  
2 whole, the whole sort of management and evaluation of the  
3 funding. In order to evaluate the grants after the fact,  
4 the allocation of funds after the fact, you have to have a  
5 good understanding of the specific intent of what was going  
6 to be done with the money and specifically how that supports  
7 the goals of the grant. It isn't enough simply to say that  
8 they're going to finance energy modeling or for a new green  
9 municipal building, there should be some details about the  
10 real energy savings, the real environmental measures that  
11 would accrue from that activity. It's only then that you  
12 can evaluate the grant after the fact and determine the  
13 degree to which it has, in fact, met those standards. So, I  
14 would say --

15           JUDGE TURNER: I gather your answer to his question  
16 is yes?

17           THE WITNESS: No. The answer --

18           JUDGE TURNER: He wants to know if you wanted more  
19 details.

20           THE WITNESS: The answer would be yes.

21           BY MR. NIESEN:

22           Q. You'll agree with me, however, that for each  
23 grant project, there is some detail provided for the fiscal  
24 year 2002-2003?

25           A. Some detail, yes, but I --

1 Q. And --

2 A. Could I add?

3 Q. Sure.

4 A. But I would just add that it wouldn't be the  
5 type of detail that, in my capacity of reviewing this for  
6 purposes of evaluation, would provide the reviewers with  
7 sufficient material on which to evaluate the project after  
8 the fact.

9 Q. How about program-related investments? We'll  
10 turn over to page 11.

11 A. Okay.

12 Q. Again, program-related investments that year  
13 committed were \$3,005,000. Had you seen that information  
14 before you wrote your testimony with the --

15 A. I'm not sure I saw this exact list. I saw a  
16 list very similar to this, so I would say, without being  
17 positive that it's the exact same list, I've seen this type  
18 of information prior to my testimony, yes.

19 Q. Again, you would acknowledge that there is  
20 detail in this annual report concerning each program-related  
21 investment during the fiscal year, but it's not the kind of  
22 detail that you think is appropriate?

23 A. Yes.

24 Q. By the way, do you know what L-E-E-D stands for?

25 A. N-o.

1 Q. No?

2 A. No.

3 Q. How about L-E-D?

4 JUDGE TURNER: Could you provide those for the record  
5 if he doesn't know them?

6 MR. NIESEN: I think these are standard terms in the  
7 energy efficiency/energy conservation universe, and I'm  
8 simply asking Mr. Schwarz if he knows what those terms stand  
9 for. I think I got an answer as to L-E-E-D. That term  
10 stands for Leadership in Energy and Environmental Design.  
11 And I'll ask him the next question.

12 BY MR. NIESEN:

13 Q. Do you know what L-E-D stands for?

14 A. No.

15 MR. NIESEN: Your Honor, for the record, that term  
16 stands for light emitting diode. Each of those --

17 THE WITNESS: If I could elaborate on that? I'm not  
18 pretending to be an energy efficiency expert. What I  
19 pretend to be an expert in, or what I consider myself an  
20 expert in, is identifying appropriate standards by which  
21 programs can be evaluated. I do a lot of work in the  
22 Environmental Protection Agency in a whole host of programs,  
23 from clean air, water and waste. I'm not an expert  
24 necessarily in any of those. But I do have a sense of  
25 what's appropriate to allow a program to -- funders to

1 examine a program and determine whether or not monies which  
2 they've allocated have been spent appropriately and have met  
3 the goals, and whether those goals are legitimate. And so I  
4 don't know the specifics here, but even within the L-E-E-D,  
5 there's nothing here that would allow me to say, after the  
6 fact, was the money spent wisely for that purpose?

7 BY MR. NIESEN:

8 Q. Your experience with EPA is exclusively in the  
9 area of grants, is it not?

10 A. No, not at all. I work for -- I supervise a  
11 mission contract that our company holds with the Office of  
12 Planning Assessment and Accountability, and with that we do  
13 evaluations for virtually every office within EPA. I've  
14 conducted evaluations for the Office of Solid Waste, Office  
15 of Air and Radiation, Office of Pesticides and Toxic  
16 Substances, and for many states as well.

17 Q. Does your work in that respect involve equity  
18 investments or loan investments?

19 A. No. To the degree -- primarily it involves,  
20 well, grant programs for the most part. I do work with EPA  
21 programs that are involved in funding grants to the states,  
22 either through the regions or directly to the states, and  
23 evaluating them. So it is more in the grant rather than in  
24 equity investment, yes.

25 Q. I'd like you to look at lines 16 through 18, and

1 we're still on page 7.

2 A. Okay.

3 Q. Sorry; we're jumping around here.

4 A. That's all right.

5 Q. Sixteen through 18 of your direct testimony,  
6 page 7. "Further, the SEF appears to have resisted the  
7 reasonable requirement that it explain why proposals for SEF  
8 funding are rejected." On what basis, when you prepared  
9 your testimony, are you presenting that statement?

10 A. Well, I want to say two things. Number one, I  
11 think I've been presented since the fact with more  
12 information about it, which --

13 Q. I --

14 A. -- was the statement before the PASEB when the  
15 groups had met and there was an attempt within that to --  
16 there was a request made to more explicitly decide why  
17 grants were granted or denied, and my understanding in  
18 reading the minutes from that was that the organizations  
19 chose not to provide that information, some of which  
20 information they gave was proprietary on the part of the  
21 grantees and others, but it wasn't given out at that point.

22 Q. I'm sorry; I'm not clear. Did you have those  
23 minutes when you wrote this testimony?

24 A. I had some -- again, I apologize. I don't know  
25 exactly. I had some material reflecting conversations

1 around the PASEB and the willingness or interest of  
2 providing information on the granting of -- whether grants  
3 or -- pardon me; whether proposals would be accepted or not.  
4 Whether it was the official minutes of that, I don't recall.

5 Q. So does this come from the minutes or does it --  
6 is it based on the minutes of the PASEB meeting that you  
7 read, or is it based on something else?

8 A. I'm not positive, because I can't remember if  
9 those were specific minutes of a meeting or not. I think  
10 the larger point is that I since have received other  
11 information that more specifically talks about the criteria,  
12 et cetera, so in many respects that statement doesn't hold  
13 at this point anyway; information I did not have at that  
14 point.

15 MR. NIESEN: Thank you, Mr. Schwarz. That's all I  
16 have.

17 THE WITNESS: Okay. Thank you.

18 MR. NIESEN: Thank you, Your Honor.

19 JUDGE TURNER: No other counsel has cross-  
20 examination?

21 (No response.)

22 JUDGE TURNER: Do you have redirect, Mr. Gray?

23 MR. GRAY: Could I have just one moment?

24 JUDGE TURNER: Yes.

25 (Pause.)

1 JUDGE TURNER: Yes, Mr. Gray?

2 MR. GRAY: No redirect, Your Honor. Thank you.

3 JUDGE TURNER: Thank you for coming down, Mr.

4 Schwarz, and you may be excused.

5 THE WITNESS: Thank you.

6 (Witness excused.)

7 JUDGE TURNER: We'll take a 15-minute break.

8 (Recess.)

9 JUDGE TURNER: Good afternoon. I would like to try  
10 to take one more witness this afternoon. I understand that  
11 will be Mr. Krall, who is already under oath and has given  
12 testimony on another subject previously.

13 This afternoon he is called for what, Mr. MacGregor?

14 MR. MacGREGOR: Revenue allocation, cost allocation  
15 and rate design. Before the break we essentially finished  
16 the universal service portion of the case, and we're now  
17 moving into I think what is generally called cost allocation  
18 and rate design.

19 JUDGE TURNER: Good afternoon, Mr. Krall.

20 MR. KRALL: Good afternoon.

21 JUDGE TURNER: Thank you for being here. Will you  
22 raise your right -- well, actually, you're sworn already.

23 MR. KRALL: That's correct.

24 JUDGE TURNER: You were sworn before, so I don't need  
25 to swear you. You are still under oath.

1 MR. KRALL: Yes.

2 JUDGE TURNER: Thank you. Please be seated.

3 MR. MacGREGOR: Mr. Krall is available for continued  
4 cross-examination, Your Honor, at the convenience of Your  
5 Honor and the parties.

6 JUDGE TURNER: You've done all of your direct and  
7 additional rejoinder; that's all been done?

8 MR. MacGREGOR: Yes, Your Honor, all of Mr. Krall's  
9 testimony and exhibits were moved in at his first  
10 appearance, and I don't believe I had any rejoinder for him  
11 then, and I have none now.

12 JUDGE TURNER: Mr. Kanaskie?

13 MR. KANASKIE: I have no cross, Your Honor.

14 JUDGE TURNER: Mr. Beatty.

15 MR. BEATTY: Thank you, Your Honor.

16 Whereupon,

17 DOUGLAS A. KRALL

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

20 CROSS-EXAMINATION

21 BY MR. BEATTY:

22 Q. Good afternoon, Mr. Krall. My name is Aron  
23 Beatty and I'm representing the Office of Consumer Advocate.

24 A. Good afternoon.

25 Q. Mr. Krall, you indicated in your rebuttal

1 testimony that over the last four years, PPL has peaked  
2 twice in the summer and twice in the winter, and that  
3 there's no clear trend as to which direction PPL will peak  
4 in the future; is that correct?

5 A. That's correct.

6 Q. And for 2004 so far, is PPL's current highest  
7 peak in the summer or winter?

8 A. It's in the winter.

9 Q. I would like to turn to Exhibits DAK-3 and  
10 DAK-4, please. Do you have those?

11 A. Yes, I have them in front of me.

12 Q. In both of these exhibits you refer to class  
13 GRS. Is that your designation for the residential rate  
14 schedule rate RS?

15 A. Yes, it is. The "G" would be general.

16 Q. Now, looking at DAK-3, you show the total rate,  
17 based on 2004 forecasted loads, being .558 cents per  
18 kilowatt-hour. Is that rate equivalent to the overall  
19 average rate you initially proposed?

20 A. Yes, it is. There are slight differences  
21 because this was an estimation.

22 Q. But it's basically the same as idea?

23 A. Yes. It's intended to represent the same thing.

24 Q. And in Exhibit DAK-3, you demonstrate what each  
25 rate class' transmission rates would be for years that PPL

1 peaked in the winter if retail rates were determined  
2 according to PPLICA witness Baron's proposed allocation  
3 methodology; is that correct?

4 A. Yes, that's generally correct. What we used was  
5 the actual 2003 winter peak experience, applied to the 2004  
6 forecasts. So it's not a general winter peaking case, it's  
7 specific to 2003.

8 Q. And under this methodology, rate class RS would  
9 pay .154 cents per kilowatt-hour more than the average total  
10 rate listed; is that correct?

11 A. Yes; that's correct.

12 Q. And RTS would pay .539 cents per kilowatt-hour  
13 more than the average total rate?

14 A. Yes; that's also correct.

15 Q. And based on projected 2004 sales of over 12  
16 billion kilowatt-hours for rate RS, rate RS would pay  
17 approximately \$19 million more than they would under the  
18 average total rate listed, is that correct, for 2004?

19 A. I believe that's approximately the number. I've  
20 done the arithmetic and determined 19 to 20 million dollars.

21 Q. And for rate RTS, would the number be  
22 approximately \$2 million?

23 A. I think that's also correct; yes.

24 Q. On page 31 of your rebuttal you offer an  
25 alternative transmission revenue allocation proposal in

1 which you modify Mr. Baron's proposal by grouping together  
2 the individual rate classes to form three broad classes of  
3 customers, and that's represented at the bottom of DAK-3;  
4 correct?

5 A. Yes. Yes; that's correct.

6 Q. And under your modified proposal, if PPL winter  
7 peaked, residential classes as a group would pay .166 per  
8 kilowatt-hour more than the total average rate?

9 A. That's correct.

10 Q. And again, based on 2004 sales, if PPL winter  
11 peaked, residential customers would see an increase of  
12 roughly \$22 million over what they would pay at the uniform  
13 total rate?

14 A. Yes.

15 Q. And under both of these proposals on DAK-3, if  
16 PPL receives the revenue increase it's requesting in this  
17 proceeding, would the residential classes receive overall  
18 rate increases in excess of 10 percent when the company  
19 winter peaks?

20 A. Yes, they would.

21 Q. Now, turning to DAK-4, in this exhibit you  
22 demonstrate how Mr. Baron's proposal and your alternative  
23 would work if PPL summer peaked; correct?

24 A. Correct.

25 Q. And according to DAK-4, when PPL summer peaks,

1 the general residential group would pay .008 cents per  
2 kilowatt-hour more than the uniform total rate; is that  
3 correct?

4 A. If we combined RS and RTS, we're down at the  
5 bottom of the page, that's correct.

6 Q. And according to both of these exhibits, if  
7 transmission is allocated to each class according to Mr.  
8 Baron's allocation methodology, rate class RTS would pay  
9 only 4/10ths of a cent per kilowatt-hour if summer peaking,  
10 and over 1 cent if winter peaking, which is greater than a  
11 100 percent difference; is that correct?

12 A. That's correct.

13 MR. BEATTY: Thank you, Mr. Krall.

14 Your Honor, no further questions.

15 JUDGE TURNER: Mr. Gray?

16 MR. GRAY: No cross, Your Honor. Thank you.

17 JUDGE TURNER: Mr. Vullo has excused himself, as has  
18 Mr. Niesen.

19 PPLICA, do you have cross-examination of this  
20 witness?

21 MS. POLACEK: Yes, I do, Your Honor.

22 JUDGE TURNER: Would you please proceed?

23 MS. POLACEK: Sure.

24 **CROSS-EXAMINATION**

25 BY MS. POLACEK:

1 Q. Good afternoon, Mr. Krall. If you could, let's  
2 turn back to your DAK-3 and 4 first, please.

3 A. Okay.

4 Q. I just want to clarify, because I think in the  
5 prior discussion there might be a little bit of confusion  
6 about what's Mr. Baron's proposal and what's maybe your  
7 alternative proposal. Is it your understanding that Mr.  
8 Baron proposes for transmission costs actually to be  
9 collected through a two-part rate, one part having a demand  
10 component and one part having an energy component?

11 A. That's right. My understanding is that that's  
12 the way the collection would show up on customer bills.

13 Q. And PPL's alternative number one that's shown on  
14 DAK-3 and 4 is to collect the entire transmission rate on a  
15 cents per kilowatt-hour basis, but to develop a different  
16 rate for each rate schedule; correct?

17 A. That's correct. I think in agreeing that our  
18 method was similar, if not the same, as Mr. Baron's, my  
19 intent was to describe that the underlying revenue was  
20 calculated on the same basis as Mr. Baron did, using the PJM  
21 formulas for the specific components of the PJM bill.

22 Q. And then kind of the call it PPL alternative  
23 number two would actually take and kind of group various  
24 customer classes into three general industrial, residential  
25 and commercial classes and develop a specific, again, cents

1 per kilowatt-hour rate for each of those three groups; is  
2 that right?

3 A. That's right. We would do the same calculation,  
4 similar to Mr. Baron, to identify the total revenue for rate  
5 schedule, collect those together under the three groups and  
6 then divide by the retail sales for those groupings.

7 Q. But in the proceeding I think your primary  
8 recommendation is still that there would be a unitized cents  
9 per kilowatt-hour charge for transmission, the same charge  
10 for each rate schedule. Is that still your primary --

11 A. Yes, that still is our primary position.

12 Q. If you could turn to page 26 of your rebuttal.

13 (Pause.)

14 Q. All right. It looks like you're there.

15 A. Yes.

16 Q. I believe on this page you have a discussion of  
17 the transmission rate that you would use for 2005, and you  
18 propose using the number that you've calculated in the case  
19 starting January 1, 2005, rather than performing kind of the  
20 update calculation that would happen in subsequent years for  
21 the transmission service charge; is that correct?

22 A. That's correct. I guess thinking about it a  
23 little further, the calendar is working against the process  
24 that we would propose for subsequent years, so if the  
25 Commission were to provide an order and direction on how to

1 do the TSC in, say, mid December, it wouldn't work with our  
2 proposal to start the process in November, so we thought it  
3 appropriate to try to establish the number here.

4 Q. If one of the alternative proposals that we just  
5 discussed were adopted by the Commission, either one of the  
6 two PP&L alternatives or the PPLICA alternative design for  
7 the transmission service charge, would the company propose  
8 to use the rates as have been calculated in the exhibits  
9 submitted in this proceeding rather than, again, performing  
10 a new calculation as of January 1, 2005?

11 A. We propose to start with numbers that supported  
12 the number that's here, 198,973,679, and that number is  
13 supported in DAK-2 attached to this testimony. DAK-3 and  
14 DAK-4 were estimates done during the informal discovery  
15 process to try to understand the implications of different  
16 alternatives, and there are some assumptions that are made  
17 in those that suggest that those would not be exactly the  
18 rates, but they're close.

19 Q. And you agree that Mr. Baron's calculations were  
20 also designed to recover the same revenue requirement for  
21 you on the transmission end; is that correct?

22 A. My understanding is yes, we're in agreement on  
23 that.

24 Q. Now, continuing on with your rebuttal on page  
25 28, if you'd like a reference point, I believe that one of

1 the reasons that you advance in support of using the uniform  
2 cents per kilowatt-hour transmission charge is simplicity.

3 Am I correct?

4 A. Yes, that's one of the key issues. Another is  
5 rate design, and I think Mr. Beatty came to that point by  
6 comparing the results of our proposal to the results that  
7 would happen to the residential class if we went with  
8 something more like DAK-3, DAK-4, Mr. Baron's proposal,  
9 wherein our rate design objective wouldn't be achieved.

10 Q. Can you clarify, please, which rate design  
11 objective is that?

12 A. We actually had two outlined in my testimony.  
13 One was to try to keep the rate increase for residential  
14 customers at or below 10 percent; and secondarily, to keep  
15 the rate impact for all rate schedules at or below 10  
16 percent.

17 Q. Getting back maybe to simplicity, are there any  
18 other rates that are currently charged by PP&L to all  
19 customers on a uniform cents per kilowatt-hour basis?

20 A. I hesitate to bring it up, but SEF is embedded  
21 in there at a uniform cents per kilowatt-hour basis.

22 Q. Apart from that. I know that's not your topic.

23 JUDGE TURNER: You waited until he left, too.

24 BY MS. POLACEK:

25 Q. However, does that appear on the bill that way?

1 A. No, that doesn't appear on the bill. Other than  
2 uniform rates for taxes, no, I can't think of any components  
3 that appear on a uniform cents per kilowatt-hour basis.

4 Q. So you do agree with me that the majority of the  
5 rates that a customer pays actually vary by rate schedule?

6 A. That's correct.

7 Q. And for some rates this does include a demand  
8 component and an energy component; correct?

9 A. That's correct.

10 Q. For example, the generation energy and capacity  
11 rates for larger customers includes a demand component and  
12 an energy component on those rate schedules at this time?

13 A. Good point. I would agree at this time, and it  
14 reflects the unbundling of rates that existed in '95. I'm  
15 guessing that when we get to the post-generation cap period  
16 and POLR rates are changed, it may be a uniform cent per  
17 kilowatt-hour rate in that circumstance.

18 Q. That's a debate for another day and another  
19 proceeding; right?

20 A. But probably in the same room.

21 Q. Along with the transmission charge, the  
22 generation rates on those rate schedules, those two come  
23 together to kind of be the price to compare for shopping  
24 purposes; is that correct?

25 A. That's the way the Commission refers to it, yes.

1 Q. And so due to the demand/energy structure and  
2 the generation component of the price to compare, do you  
3 agree that, once again, the price to compare actually varies  
4 for larger customers from customer to customer based on  
5 their load factor and other usage characteristics?

6 A. Yes, it does, but let's keep in mind that when  
7 we talk in terms of simplicity, we're also mindful of  
8 another body of customers, and that being residential  
9 customers, who don't have demand components in their bills  
10 right now.

11 Q. For rate design purposes, it is appropriate to  
12 adopt different rate designs for different rate classes?

13 A. Ultimately, it is, in general, yes.

14 Q. So it might be appropriate to adopt a  
15 demand/energy type of rate design for larger customers but  
16 have a residential customer on a cents per kilowatt-hour  
17 basis?

18 A. It might be, and in fact, you can infer maybe  
19 some of our rates now do that. But we also need to think  
20 through, we've proposed that this be reconcilable, and if  
21 you introduce demand charges and kilowatt-hour charges into  
22 the reconciliation process, that becomes significantly more  
23 cumbersome.

24 Q. On the alternate proposals, in terms of  
25 reconciliation -- and I'm not sure whether this was in your

1 testimony or in Mr. Kleha's -- would you be doing that on a  
2 total customer group basis, or would you do it within kind  
3 of the broader customer groups, once again, industrial,  
4 commercial, residential, like you do the CTC and ITC,  
5 competitive transition charge and intangible transition  
6 charge?

7 A. We propose to do it on the same basis as we do  
8 CTC and ITC, which is the broad customer group basis. Even  
9 in the first alternative where rate schedules would be  
10 called out and have different rates on the bill, we would  
11 still like to reconcile those as groups.

12 Q. If you could turn, please, to page 31 of your  
13 rebuttal. It begins with a question. Do you want to take a  
14 chance to review the question and answer?

15 A. You're talking the top of the page?

16 Q. The top of the page, yes.

17 JUDGE TURNER: Let's go off the record for a minute  
18 then to allow him to review it.

19 (Discussion off the record.)

20 JUDGE TURNER: Back on the record.

21 BY MS. POLACEK:

22 Q. Mr. Krall, I think in this question and answer  
23 you address the PPLICA proposal to create a demand and an  
24 energy transmission rate, and I would like to clarify. You  
25 state that you do not agree with the proposal, but do you

1 agree that the PPLICA proposal is a more precise application  
2 of the PJM open access transmission tariff procedures?

3 A. Yes, I do.

4 Q. Can you tell me roughly what's the system  
5 average load factor for PP&L's large commercial and  
6 industrial customers?

7 A. I don't know.

8 Q. Would you accept roughly in the 60 to 70 percent  
9 range?

10 MR. MacGREGOR: Objection, Your Honor. The witness  
11 said he doesn't know.

12 JUDGE TURNER: That's correct. She is entitled to  
13 probe it a little.

14 MR. MacGREGOR: I'm sorry, Your Honor?

15 JUDGE TURNER: She is entitled to probe that a  
16 little.

17 BY MS. POLACEK:

18 Q. Does that sound like a reasonable range for you?

19 A. I think that's not an unreasonable range.

20 Q. I'll take that. Do you recall the testimony of  
21 the PPLICA witnesses Mr. Stalica and Ms. Hunsperger that  
22 indicate that the average load factor for a typical air  
23 separation facility is in the range of 90 percent to 95  
24 percent?

25 A. Yes.

1 JUDGE TURNER: Are those testimonies in the record,  
2 or are they just filed?

3 MS. POLACEK: They're filed. They are not in the  
4 record yet.

5 JUDGE TURNER: Okay.

6 THE WITNESS: I have read both testimonies, and yes,  
7 I'm familiar with that.

8 BY MS. POLACEK:

9 Q. Do you have any basis to disagree with their  
10 assessments?

11 A. No, I don't.

12 Q. Do you agree that, in general, when costs are  
13 incurred by a utility on a demand basis, but they're  
14 recovered from customers on an energy basis, this will  
15 result in higher load factor customers paying a  
16 disproportionate amount of those costs in comparison to a  
17 demand recovery mechanism?

18 A. Yes, I think that's generally true. The way I'd  
19 say it is that high load factor customers would be  
20 disadvantaged relative to lower load factor customers.

21 Q. If you could turn back to your -- let's go to  
22 your direct testimony real quickly, page 27.

23 A. Okay.

24 Q. Now, it's the company's goal I believe stated  
25 here to eliminate cross-subsidies in distribution rates. Am

1 I correct?

2 A. Our ultimate goal, yes.

3 Q. I think you categorize this filing as a step in  
4 the process?

5 A. Yes.

6 Q. Does the company have definitive plans for  
7 future steps?

8 A. No, we do not. I would --

9 Q. There's no -- go ahead.

10 A. I would expect, as has been the case with other  
11 utilities that have come out from under the generation rate  
12 cap, when stranded costs are collected, we would be filing  
13 something certainly to establish generation rates; and  
14 clearly there would be an opportunity to pursue the removal  
15 of further cross-subsidies. For us, the generation cap is  
16 ended December 31 of 2009.

17 Q. So that's roughly five years after we will  
18 establish the rates in this proceeding?

19 A. That's correct. I can't speculate on what might  
20 happen in the interim.

21 Q. Turn to page 28 of your direct. I've got some  
22 questions for you on rate design principles.

23 A. Okay.

24 Q. Now, PP&L is proposing to recover more  
25 distribution revenues on a fixed basis, and I think the

1 reason you give for that is that distribution costs are  
2 primarily fixed costs. Am I correct?

3 A. Yes.

4 Q. And I think you also at some point here  
5 categorize it as correct economics for rate design to follow  
6 the nature of the underlying costs. Would you agree with  
7 that statement?

8 A. Yes, if you'll accept that from somebody who's  
9 not an economist.

10 Q. Do you agree that transmission costs are  
11 primarily demand related?

12 A. I think we've established through  
13 interrogatories, testimony, that it's about 70 percent  
14 demand and maybe 30 percent kilowatt-hours, although even  
15 some of the demand component is actually determined by  
16 kilowatt-hours because, for example, on the large body of  
17 residential customers we don't have demand meters, we work  
18 from load profiles on a few rate samples. So to some extent  
19 yes, PJM does charge the costs on a demand basis and does a  
20 demand calculation, but fundamentally there's a lot of  
21 kilowatt-hour usage that determines the customer's ultimate  
22 burden on the system.

23 Q. And PP&L, for those customer classes that don't  
24 have the demand metering, you develop a load profile and  
25 that's how you report to PJM for them to bill you?

1 A. That's correct.

2 Q. Now, a little farther down in the passage  
3 there's a discussion of the potential distortion to  
4 customers' buying decisions if non-usage related components  
5 of distribution are being collected on a usage basis. Do  
6 you see that?

7 A. That's correct.

8 Q. I think you have agreed with me that under the  
9 PJM structure, transmission and ancillary service charges  
10 that PPL pays to PJM for a POLR customer are generally equal  
11 to the charges that an EGS supplying generation service to  
12 the same customer would pay to PJM. I don't think you --  
13 actually, as I got through the end of the question, I don't  
14 think you have agreed with me on that yet, but would you  
15 agree?

16 JUDGE TURNER: Can you ask one question here?

17 MS. POLACEK: Let me restate the question.

18 THE WITNESS: Sure.

19 JUDGE TURNER: Yes.

20 BY MS. POLACEK:

21 Q. Do you agree with me that under the PJM  
22 structure, the transmission and ancillary services that PPL  
23 pays to PJM for a POLR customer, provider of last resort  
24 customer, are generally equal to the charges that an  
25 electric generation supplier, supplying generation service

1 to the same customer, would pay to PJM?

2 A. In general, yes. I definitely agree that the  
3 calculations are the same, but I'm not sure, from an EGS's  
4 perspective, what timing differences might occur. I mean,  
5 from our perspective, my experience has been with non-  
6 shoppers who have been non-shoppers for a while. I'm not  
7 sure if there might be a difference when somebody goes from  
8 non-shopping to shopping mid year or mid planning year, but  
9 --

10 Q. But in general --

11 A. -- the calculation that's applied to both  
12 entities would be the same.

13 Q. And do you agree with me that the shopping  
14 decision for a customer could be distorted if the  
15 transmission charges that the customer pays to PP&L as a  
16 POLR customer are not generally equal to the transmission  
17 charges that the electric generation supplier, supplying  
18 service to that same customer, would pay to PJM?

19 A. In terms of a theoretical response, yes, I agree  
20 with you, but there are other practical considerations. For  
21 example, in my experience, shopping has generally been a  
22 September to May event, which means it goes across two years  
23 for transmission calculation purposes. So if an EGS is  
24 offering a price to a customer -- I'm not sure if we've  
25 defined EGS.

1 JUDGE TURNER: I was just about to say.

2 THE WITNESS: That's electric generation supplier,  
3 and it's capital E, capital G, capital S.

4 JUDGE TURNER: Thank you.

5 THE WITNESS: If he makes a quote to a customer in,  
6 say, July, to sign the customer up for start of service in  
7 September, he would have knowledge of the current  
8 transmission obligation that that customer would create and  
9 its current effect, but the impact of that customer from  
10 January 1 to the end of the term of the contract would be,  
11 to some extent, unknown because it would be a function of  
12 what the calculation would be for the coming year; and I  
13 guess if we went to the more specific alternative of  
14 identifying individual rate schedules, then you've  
15 introduced the volatility of summer/winter to that  
16 uncertainty. So my guess is that for most customers,  
17 electric generation suppliers quote some sort of average  
18 that has a little bit of margin in there for an error. I  
19 don't know, I've never looked at quotes and I'm not an  
20 electric generation supplier. But there are other issues  
21 that enter into that shopping comparison that a customer is  
22 making.

23 Q. We could agree, though, if we, on a January 1  
24 through December 31 comparative purpose, if we were looking  
25 at a contract that a customer was going to execute from

1 January 1 to December 31, and the transmission charges were  
2 not the same under the PPL tariff, if they remain as a POLR  
3 customer, or what the EGS is going to pay to PJM, that there  
4 could be a distortion in the shopping decision under those  
5 circumstances?

6 A. Yes, I do agree, but I've seen very few calendar  
7 year contracts.

8 Q. And in your non-calendar year contracts, just to  
9 complete the record, PPL now actually has a provision in its  
10 tariff that prohibits the donut contract where a customer  
11 would leave every September and come back every May?

12 A. I think you're speaking of our generation rate  
13 adjustment?

14 Q. I believe I may be. Not to bring generation  
15 issues in here, but you do have a provision to address that,  
16 just to make it --

17 A. Yes. I'd have to look at the language of the  
18 tariff to see how it addresses transmission, though. It may  
19 only reflect generation differences, our assumption being  
20 that transmission costs are strictly a pass-through, so that  
21 even if there were a donut contract, we'd simply pass  
22 through whatever we got, but that's -- I'd need to be  
23 certain of that.

24 Q. Do you agree that this type of mismatch that  
25 we've been discussing is also possible under the company's

FORM 2

1 proposal to use a uniform cents per kilowatt-hour  
2 transmission rate?

3 A. Yes.

4 Q. Do you agree that this mismatch is also possible  
5 under kind of alternative proposal number one to create a  
6 cents per kilowatt-hour rate for each rate schedule?

7 A. I think alternative one mitigates the problem.  
8 It does isolate individual rate schedules and doesn't cross-  
9 subsidize within a grouping that way. It is based on the kW  
10 and kWh for the specific rate schedules, but it may play  
11 one, for example, large power customer off against another  
12 in, say, rate schedule LP-4, because we haven't isolated  
13 their specific components. But it does improve the matter,  
14 I think.

15 Q. And when you said mitigate, that was in  
16 comparison to the primary PP&L proposal?

17 A. Yes. It mitigates the distortion that we've  
18 been talking about. Of course, the problem that it  
19 introduces then is the one of volatility which we discussed  
20 with OCA.

21 Q. And kind of your alternative proposal number  
22 two, there's also a possibility for a mismatch there?

23 A. That's correct, and that also brings to light  
24 some of the volatility issues. Our analysis shows that as  
25 you go to the rate schedule detail, you introduce the

1 volatility issue of summer peak versus winter peak, and  
2 there's just no way to avoid that. So we continue to  
3 recommend our uniform approach as being a middle ground that  
4 tries to address a number of different issues over a  
5 transition period that still has a lot going on in terms of  
6 rates that aren't yet corrected, if we want to use that  
7 term.

8 Q. And that volatility is being driven primarily by  
9 the PJM procedures; correct?

10 A. It's driven by whether we're summer peaking or  
11 winter peaking and how that shows up in the PJM calculation.  
12 And I guess from a reliability perspective, I'd say that it  
13 is correct that it show up the way it show up.

14 Q. Maybe just to close out this topic, if you had  
15 to, of the kind of four proposals, give me an order in terms  
16 of which is least likely to have a mismatch, down to most  
17 likely to have a mismatch, can you do that?

18 A. Can we recap? Are the four proposals our  
19 uniform; our alternative one, which would be cents per  
20 kilowatt-hour across individual rate schedules; our grouped  
21 cents per kilowatt-hour?

22 Q. Uh-huh.

23 A. Is number four Mr. Baron?

24 Q. Yes. Mr. Baron would be number four.

25 A. I think Mr. Baron's probably does the best job

1 of following the PJM procedure and addressing the distortion  
2 issue. I would say that our first alternative of looking at  
3 individual rate schedules does the next-best job. The  
4 grouping is probably the next-best; and the uniform is  
5 probably the last. Of course, volatility is probably  
6 addressed in the reverse order.

7 Q. I believe another reason you talked about for  
8 the transmission rate design in supporting the uniform cents  
9 per kilowatt-hour basis was the goal of keeping the total  
10 bill increase below 10 percent for each rate schedule; is  
11 that correct?

12 A. That's correct.

13 Q. Now, the company's calculations of this 10  
14 percent bogey are premised on the transmission increase of  
15 about \$57 million as of January 1, 2005; is that correct?

16 A. That's correct, which is the same \$198 million  
17 number we talked about before when looked at as a total.

18 Q. Now, subject to check, would you agree that  
19 roughly two-thirds of PPL's transmission charges are related  
20 to network transmission service?

21 A. I believe that's correct.

22 JUDGE TURNER: If he's doing it subject to check,  
23 he's got to check and get back to us.

24 MS. POLACEK: That's fine. I will give him the  
25 interrogatory response that I took it off of at the end of

1 the hearing.

2 JUDGE TURNER: So, Mr. Krall, you can get back to us  
3 tomorrow?

4 THE WITNESS: I think I can get back to you before we  
5 leave here today.

6 JUDGE TURNER: That would be good.

7 BY MS. POLACEK:

8 Q. As of January 1, 2005, PPL is able to go to the  
9 Federal Energy Regulatory Commission to increase that rate  
10 for network transmission service; correct?

11 A. As of January 1, 2005? You don't mean that  
12 we're precluded from doing that now by that question?

13 Q. The rate increase could not take effect until  
14 January 1, 2005 due to the rate caps; right?

15 A. That's correct.

16 Q. And after January 1, 2005, you're no longer  
17 constrained by the transmission rate cap; is that correct?

18 A. The transmission and distribution rate cap; yes.

19 Q. Does the company have any plans to submit a  
20 transmission rate increase to the Federal Energy Regulatory  
21 Commission?

22 A. We don't have any specific plans to initiate a  
23 request, although there are proceedings at FERC that are  
24 currently underway that could result in FERC's reexamination  
25 of network transmission service rates.

1 Q. And if that rate does increase after January 1,  
2 2005, the 10 percent calculations you've performed here  
3 don't reflect any increase like that, do they?

4 A. No, they don't. We've used our best estimate of  
5 what we know today. Of course, a lot of things could  
6 change, too.

7 MS. POLACEK: I think that's all I have. Thank you,  
8 Mr. Krall.

9 THE WITNESS: You're welcome.

10 MS. POLACEK: Thank you, Your Honor.

11 JUDGE TURNER: Thank you, Ms. Polacek.

12 Does any other party have cross-examination for Mr.  
13 Krall?

14 MR. FIORENTINO: Yes, Your Honor.

15 JUDGE TURNER: Mr. Fiorentino.

16 MR. FIORENTINO: Thank you, Your Honor.

17 **CROSS-EXAMINATION**

18 BY MR. FIORENTINO:

19 Q. Good afternoon, Mr. Krall.

20 A. Good afternoon.

21 Q. I am Michael Fiorentino. I represent Clean Air  
22 Council. I have a number of questions for you.

23 You mentioned in your testimony --

24 JUDGE TURNER: Can you hold the microphone over  
25 closer to you?

1 MR. FIORENTINO: Yes.

2 BY MR. FIORENTINO:

3 Q. Mr. Krall, a few minutes ago in your discussion  
4 with Attorney Polacek you mentioned, in the context of a  
5 customer and their load usage, their burden on the system.  
6 I take that to mean that each individual customer takes up a  
7 certain percentage of the overall T&D system capacity. Is  
8 that what you were getting at?

9 A. In kind of a layman's sense, yeah. What PJM  
10 does is use a calculation procedure to calculate what that  
11 burden is, and that's what I was referring to. So it's a  
12 very specific procedure that looks at a customer's  
13 contribution on certain peak days and then averages those in  
14 a certain way to create a single number to represent what  
15 the customer's typical burden on the system would be. On  
16 any given day it could be who-knows-what depending on the  
17 customer's circumstances, the circumstances of the system,  
18 loadings of other customers, those kinds of things.

19 Q. But as a general matter, that's illustrative of  
20 the fact that there are limits to the load-carrying capacity  
21 of any transmission and distribution system?

22 A. Yes, there are.

23 Q. And one of the ways you could deal with those  
24 limits would be to increase the available capacity of  
25 transmission lines or distribution components; is that

1 correct?

2 A. Yes, among a number of different ways, I mean,  
3 if the electric system is a fully integrated system of  
4 transmission, loads, generation, matched, literally second  
5 to second.

6 Q. And likewise, if you were to reduce the demand,  
7 and thereby reduce the burden on the system, from the  
8 customers that are currently taking power, that would also  
9 serve to solve a problem of stress and congestion on the T&D  
10 system?

11 A. In general, although some congestion is  
12 localized, in which case a reduction taken in Pittsburgh  
13 would have very little to do with congestion in Newark, New  
14 Jersey.

15 Q. I asked you because your testimony -- you're the  
16 one who's responsible for the demand side response program  
17 issues.

18 A. Uh-huh. That's correct.

19 Q. A couple of things. Would you characterize one  
20 factor of DSR's purpose to be the improvement to reliability  
21 and stability of the system on peak days?

22 A. It can provide that benefit. It can provide a  
23 number of different benefits, but that's one among them.

24 Q. And, in fact, the program that PPL is currently  
25 offering in the demand side response realm is sort of an

1 off-peak pricing program; is that correct?

2 A. That's one of several programs that we offer.  
3 If you talk about peak days in particular, that program  
4 doesn't do much for peak days. We have an interruptible  
5 program that's been in place for many years that is more  
6 focused on peak days.

7 Q. The off-peak program, that is the only DSR  
8 program available to residential consumers, residential  
9 customers?

10 A. There are residential customers on other  
11 programs that we would consider under the broad umbrella of  
12 demand side, but those programs are generally closed. The  
13 current program, which is a pilot program and at this point  
14 limited in its participation, is the one that's available,  
15 yeah.

16 Q. So one of the purposes of DSR also is to  
17 diminish demand and thereby relieve stress on T&D systems?

18 A. It's that. We believe it's more directly  
19 related to generation markets, though, and that seems to be  
20 the Commission's primary interest; that there should be some  
21 demand side response available on the same footing as  
22 generation to help mitigate price spikes.

23 Q. But you did acknowledge a moment ago that there  
24 are some benefits to reducing congestion, localized fashion,  
25 through demand side activities?

1           A.    Yeah.  As a general principle, yes.  More  
2 specifically, I think to address specific distribution or  
3 transmission congestion issues, you'd need a fairly focused  
4 demand side program, such as one aimed at a particular  
5 electrically aggregated group of customers -- they might not  
6 be geographically, but they're the ones off the substation  
7 that has the problems -- or a particular customer who would  
8 take interruptions in lieu of a distribution system upgrade  
9 on those occasions when called.  Those types of programs  
10 require a lot of sophistication and a lot of coordination;  
11 you need operators sitting there seeing exactly what needs  
12 to be done, exactly when, and you would need customers or  
13 aggregated customers that could respond confidently,  
14 quickly; otherwise everybody else who's depending on that in  
15 lieu of a distribution system upgrade is going to end up in  
16 the dark.

17           Q.    I think you've indicated also your work on AMR,  
18 automatic meter reading?

19           A.    Right.

20           Q.    You indicated that approximately 1.3 million  
21 meters that would be capable of automatic meter reading will  
22 be installed by September of this year?

23           A.    That's correct.

24           Q.    Is that still the current pace?

25           A.    I believe so.

1 Q. And my understanding also is the meters that are  
2 being installed, those 1.3 million, are going to be capable  
3 of supporting sort of a time-of-use tariff?

4 A. That's the objective. There's some development  
5 between where we are now and what the meters are capable of  
6 doing and specifically what the communication infrastructure  
7 and billing infrastructure are capable of handling, but the  
8 idea would be that those meters can be queried when we would  
9 want to. If you would want to do them on an hourly basis,  
10 in theory you would be able to do that. The communication  
11 challenge is to talk to 1.3 million meters every hour, on  
12 the hour, and get information back.

13 Q. The current DSR program for residential  
14 customers I believe is serving currently about 275  
15 customers?

16 A. I think when we started this year there was some  
17 attrition. We may be down to 250 customers, but, yes.

18 Q. Your program is open to 300, though; right?

19 A. It has a limitation of 300; yes.

20 Q. And the program, again, is considered an  
21 on-peak/off-peak program, so --

22 A. It's on-peak, off-peak and seasonal. Customers  
23 are on the general residential rate for the fall, winter,  
24 spring, and they go on the rider that has on-peak/off-peak  
25 pricing in the summer months.

1 Q. So for those customers on that program, on that  
2 DSR program, during the months that are of concern, the  
3 summer months here, they're either on an on-peak price or an  
4 off-peak price; there's two different prices available?

5 A. That's right, and they're a function of time,  
6 and we let the customers know ahead of time and publish the  
7 price ahead of time. It's not one of those super slick  
8 instantaneous price programs that some people propose.

9 Q. The proposal of PPL is to have this DSR program  
10 also continue at the level of 300 in 2005, '06 and '07; is  
11 that correct?

12 A. That's correct.

13 Q. It's also my understanding that the meters that  
14 are being installed are capable of communicating with  
15 appliance control devices that could be connected to  
16 customer appliances?

17 A. They would require some modification, but that's  
18 an option. Of course, when you begin to do direct control  
19 there might be other ways that are more appropriate or more  
20 cost effective. The communication capabilities of our  
21 system are geared towards meter reading, in the first  
22 instance, and maybe not to the most sophisticated control  
23 system, so you could envision getting the billing data from  
24 the meters using additional capabilities that we don't  
25 currently have, but doing the appliance control by wireless

1 means or something like that.

2 Q. In other words, that's another option?

3 A. Right.

4 Q. But currently, the people who are participating  
5 in your program, the 250 that are participating, they're  
6 getting their bills read accurately for on-peak or off-peak  
7 with the technology that you already have?

8 A. It's the technology used in a slightly different  
9 way. The customers actually have on-peak and off-peak  
10 meters, because we do not currently have the capability to  
11 reliably read them hourly and the billing capability to  
12 summarize the reads into the appropriate on-peak/off-peak  
13 periods. So what we've done is we've put meters out there  
14 that have registers that record on-peak and off-peak, which  
15 we use for billing data, which are quite accurate; they're  
16 the same meters that we use for the residential thermal  
17 storage rate schedule that we have. In parallel, we're  
18 exercising the hourly read capability to try to develop that  
19 and understand it and develop the billing capabilities that  
20 we need. That's one of the primary things we would do in  
21 the three-year extension; we don't want to roll out a  
22 program to a lot of customers that's going to create billing  
23 problems. We had billing problems during the phase-in of  
24 customer choice and it was not fun.

25 Q. So as far as the accurate hourly capabilities,

1 you're going to take a little while to work on that.

2 A. Correct.

3 Q. But in terms of the rougher calculation that  
4 you're currently applying to the 250 customers, they're  
5 falling into an on-peak and off-peak category in a  
6 relatively satisfactory manner for you?

7 A. It's not a rough calculation at all. It's an  
8 exact calculation, and that's the one we're looking at  
9 comparing the hourly readings to and saying we've got to get  
10 to this level of accuracy.

11 Q. Right. My understanding also is that the meters  
12 that are -- I'm sorry. My understanding of the brochure  
13 that you have used to appeal to customers indicates or makes  
14 a recommendation that they explore programmable thermostats  
15 and timing devices for air-conditioning and things of that  
16 nature.

17 A. That's correct. We tried to design the program  
18 as one that would appeal to customers willing to make  
19 lifestyle changes and not necessarily watch the clock and  
20 decide can I turn on a light or not, but put a timer on  
21 something and then not have to worry about it or think about  
22 it.

23 Q. Sure, right.

24 A. We're doing customer focus groups and collecting  
25 survey information, too, to find out to what extent such a

1 program appeals to customers and to what extent customers  
2 would want something else, direct control, things like that.

3 Q. But you've also indicated that -- it's true that  
4 you've also indicated that the company has no plans to  
5 provide such devices, programmable thermostats or AC timers,  
6 to DSR program participants?

7 A. We have no current plans. When we developed the  
8 pilot program, we did do some investigation about  
9 programmable thermostat rebates, but we couldn't find  
10 anybody who was interested in partnering with us for as  
11 small a pilot as we were doing, but I wouldn't rule out  
12 something like that in the future.

13 Q. I'm sorry. I misheard you. Who would you be  
14 approaching to obtain the rebates?

15 A. We had spoken with Home Depot as the --

16 Q. Large retailers?

17 JUDGE TURNER: You can't both talk at once.

18 MR. FIORENTINO: I'm sorry, Your Honor.

19 THE WITNESS: I'll wait.

20 JUDGE TURNER: I said you both can't talk at once.

21 Wait for him to finish his answer.

22 MR. FIORENTINO: Sure.

23 JUDGE TURNER: Go ahead.

24 THE WITNESS: I guess what I was saying is we had  
25 spoken with Home Depot, considering that its footprint was

1 similar to the footprint of our service territory. It's a  
2 place that appeals to most customers. They're there doing  
3 things. The do-it-yourself homeowner would be there anyway  
4 and such a thing would appeal to them. Home Depot had no  
5 interest in partnering with us for such a small program.

6 If the program fleshes out, if it looks like  
7 something that should be developed further, we would  
8 consider whatever might be appropriate and justifiable for  
9 -- I'd put that in the category of a marketing tool.

10 Q. I'm just about to finish up, but just if I can  
11 understand that, the programmable thermostat and the AC  
12 timer, those are items that need not -- they can be set by  
13 the customer. They need not have any electronic connection  
14 to the meter itself.

15 A. That's right. We were looking for a relatively  
16 low tech program that the customer could interface with  
17 himself, that's right.

18 Q. And if you can tell us, when about did you  
19 approach Home Depot to explore the rebate option?

20 A. It would have been in -- the program began in  
21 2002. It would have been in either late 2001 or early 2002.

22 Q. And you have not considered simply providing a  
23 credit or some sort of direct rebate to your customers  
24 without reference to a particular retailer, doing it  
25 directly yourselves to the participants?

1           A.    No.  One of our purposes was to really test  
2 customer willingness to do what it says in the brochure for  
3 the kinds of benefits that are there in the brochure.  We're  
4 actually kind of surprised at the number of people that have  
5 indicated a desire to participate, and the continued  
6 participation suggests that it may be a good program on its  
7 own merits; that people would be interested in saving on  
8 their electric bill that way.

9           We've had people who take the timer that they use on  
10 their lights for vacation and stick it on their  
11 dehumidifier, which is a wonderful, simple way to save  
12 electricity, and they haven't bought anything.  They've used  
13 a timer that they already have.

14           MR. FIORENTINO:  That's all I have.  Thank you.

15           THE WITNESS:  You're welcome.

16           JUDGE TURNER:  Are there other counsel that --  
17 you have questions, Ms. Knight?

18           MS. KNIGHT:  Yes.

19           JUDGE TURNER:  Just checking, Ms. Knight, did --

20           MS. KNIGHT:  Mr. Zambito may have signed in.

21           JUDGE TURNER:  He did sign in, but he didn't sign in  
22 for you.

23           MS. KNIGHT:  Do you want me to do that afterwards?

24           JUDGE TURNER:  Yes.

25           MS. KNIGHT:  Thank you, Your Honor.

## CROSS-EXAMINATION

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BY MS. KNIGHT:

Q. Good afternoon, Mr. Krall.

A. Good afternoon.

Q. How are you?

A. I'm okay.

Q. My name is Louise Knight, and I'm counsel for PPL PLUG, as I think you know, and I have a few questions for you this afternoon.

Mr. Krall, you testified about the AMR deployment; correct?

A. Correct.

Q. Is PPL intending to replace any traffic signalling meters with AMRs?

A. We're replacing all of our manually read meters with AMR meters. So if there are traffic signals that have meters that are manually read, they're being replaced.

Q. Now, generally, in developing the rate allocation for this case, it's my understanding that you considered the cost of service study; correct?

A. Correct.

Q. As well as at least one extrinsic factor, gradualism?

A. That's correct.

Q. Are there any other factors that you can

FORM 2

1 identify that you applied in determining the rate allocation  
2 in this case?

3 A. Within gradualism, there are principles;  
4 customer acceptance. We want rates that are understandable  
5 to customers. Maybe that's a separate principle. But I  
6 think those are probably the broadest principles.

7 Q. And in your experience in allocating rates, are  
8 there any reasons that would allow you not to follow the  
9 cost of service study other than gradualism and customer  
10 acceptance?

11 A. In doing the revenue allocations to classes, our  
12 desire would be to follow the cost allocation study. In  
13 this particular circumstance, with rates having been  
14 unbundled in 1999, those rates are, in fact, based on rates  
15 that were in place since 1995. Having rate caps in place,  
16 customer demographics and investment in the system having  
17 changed, we've gotten to a place where distribution rates  
18 appear to be fairly distorted as to the cost of service  
19 allocation. It would require significant increases to some  
20 classes that could be a problem.

21 In addition, the generation cap remains in place till  
22 we complete collection of stranded costs. Those structures  
23 can't be changed. So we're in a period of -- it's called a  
24 transition period, and there are a lot of things  
25 transitioning. One of our principles, as you point out, in

1 this case was to recognize that long transition and to  
2 reflect the fact that there ain't going to be perfection and  
3 let's take advantage of the time that we have to gradually  
4 adjust rates as we undertook restructuring till the point  
5 where we come out of the rate cap periods, and then we  
6 should truly have the competitive market and the price  
7 signals that we were all looking for in the Competition Act.

8 Q. At the end of the restructuring and after the  
9 rate caps are eliminated, are there any factors that  
10 permanently or that would suggest a permanent variance from  
11 strict adherence to the cost of service study?

12 A. Not to us other than that they may be regulated  
13 or legislated; and I'm thinking, for example, of the special  
14 rates that are available to volunteer fire companies. I  
15 can't speak to the societal issue of whether it's  
16 appropriate or not, but in doing our allocations, we follow  
17 the law and the regulation that says that they get a  
18 different treatment than they might otherwise receive.

19 Q. And based on your understanding, is that because  
20 those particular end uses of electricity constitute a public  
21 benefit?

22 A. I'm not going to speculate on what the  
23 Legislature had in mind when it established that or what the  
24 Commission may have had in mind when it established those  
25 regulations.

1 Q. Well, did you have the opportunity in this case  
2 to read Mr. Baron's testimony?

3 A. Yes, I have.

4 Q. And do you remember the section where he talked  
5 about what constitutes a public benefit?

6 A. Not specifically.

7 Q. Do you happen to have his testimony with you?

8 A. No, I don't.

9 Q. Will you be back tomorrow so that I can --

10 A. I will be back tomorrow.

11 JUDGE TURNER: Yes, but we're finishing up on this  
12 topic today. Do you want to try to borrow his testimony  
13 from someone else?

14 MR. MacGREGOR: I don't know if we have a copy.

15 MS. KNIGHT: I have to admit I did not make a copy of  
16 it either to bring along with me today.

17 MR. McCORMICK: Is that what you're looking for  
18 (indicating)?

19 MS. KNIGHT: Give me just a minute.

20 JUDGE TURNER: Let's go off the record for a minute.

21 (Discussion off the record.)

22 JUDGE TURNER: Let's go back on the record.

23 Ms. Polacek, you have something bothering you?

24 MS. POLACEK: Yes, I do, Your Honor. I believe  
25 before we went off the record, there was a categorization of

1 Mr. Baron's testimony as testifying as to what does and does  
2 not constitute a public good.

3 JUDGE TURNER: No; a public benefit.

4 MS. POLACEK: A public -- I think it's actually --  
5 the term if art is public good that's used.

6 JUDGE TURNER: Okay.

7 MS. POLACEK: Mr. Baron is testifying in this  
8 proceeding that the arguments by certain other parties that  
9 universal service program costs are a public good is wrong.  
10 He's not testifying at all that anything is a public good.

11 JUDGE TURNER: Okay. It's Mr. Colton who is talking  
12 about what a public good is; right?

13 MS. POLACEK: That's correct, and Mr. Baron responded  
14 to that.

15 JUDGE TURNER: And Mr. Baron said?

16 MS. POLACEK: That universal service program costs  
17 are not a public good.

18 JUDGE TURNER: Okay. Do you have questions based on  
19 this testimony, Ms. Knight?

20 MS. KNIGHT: Yes, I do, but I would go on to say  
21 that, in fact, Mr. Baron gave a definition of what a public  
22 good is and he gave several illustrations of what a public  
23 good is.

24 JUDGE TURNER: Okay. Well, your objection is  
25 overruled, Ms. Polacek.

1 BY MS. KNIGHT:

2 Q. Mr. Krall, have you had a chance to refresh your  
3 recollection as to Mr. Baron's testimony on this particular  
4 point?

5 A. And I gather that you'd like me to look  
6 specifically at line 8 on page 6 where there is a definition  
7 of a public good?

8 Q. Actually, the whole first paragraph that's on  
9 page 6.

10 A. I'm sorry. Let me read the entire first  
11 paragraph then.

12 (Witness perusing document.)

13 A. I've read the whole first paragraph.

14 Q. Thank you. Would you agree with me that under  
15 the definition of public good given by Mr. Baron, that  
16 street lighting is a public good?

17 A. He lists three examples here, police, fire  
18 protection or military, as being public goods; and then  
19 under his broader definition he says, "A public good is a  
20 good, the consumption of which by one consumer does not  
21 reduce the consumption by the other."

22 I'm not sure I'm ready to embrace that definition.

23 JUDGE TURNER: Whether you embrace it or not, do you  
24 think --

25 THE WITNESS: Oh, as it relates to -- does his

1 definition apply?

2 JUDGE TURNER: To street lighting.

3 MS. KNIGHT: To street light was my question.

4 THE WITNESS: I guess I'd feel more comfortable if we  
5 asked Mr. Baron that question, but --

6 MR. MacGREGOR: So would I, Your Honor. I actually  
7 object to that. Why are we asking Mr. Krall to characterize  
8 what Mr. Baron thought when he wrote this testimony? If she  
9 wants to ask Mr. Krall what he thinks a public good is or  
10 isn't, that's acceptable; and if she wants to challenge the  
11 credibility of his answer by showing him what some other  
12 witness said, that's fine, but he can't testify to what Mr.  
13 Baron thinks or doesn't think is a public good.

14 JUDGE TURNER: Well, she's not asking him to testify  
15 what Mr. Baron thinks, but I grant you she's asking him to  
16 apply that definition.

17 Why are you taking this approach, Ms. Knight?

18 MS. KNIGHT: Well, Your Honor, because it ties into  
19 the general application of -- definition of rates generally  
20 and rate structure. Mr. Krall is the company's witness, and  
21 I wanted to know whether he took into account any of these  
22 factors. I am tying Mr. Baron's testimony into that,  
23 because he actually gives a working definition.

24 If Mr. MacGregor on redirect wants to ask him if he  
25 has a different definition of a public good, that's fine.

1 JUDGE TURNER: Well, how about you ask him if he  
2 agrees with those elements without putting them in Mr.  
3 Baron's name?

4 MS. KNIGHT: I can do that, too. I was just trying  
5 to be somewhat more efficient, but apparently I wasn't.

6 JUDGE TURNER: Now, you're not going to make an  
7 objection that there's no basis, are you?

8 MR. MacGREGOR: I haven't heard the question yet, but  
9 I don't think so, Your Honor.

10 JUDGE TURNER: No foundation. Well, think before you  
11 make such an objection. That's all I have to say to you.

12 MR. MacGREGOR: Yes, Your Honor, I will certainly.

13 BY MS. KNIGHT:

14 Q. Mr. Krall, you have a definition of a public  
15 good that essentially defines a public good as not -- I'm  
16 sorry -- as a good that does not diminish for the general  
17 body of users if it's consumed by a single user.

18 A. Correct.

19 Q. So you agree with that definition?

20 A. Again, I'm not sure I do.

21 Q. Can you give me your definition of a public good  
22 in that case?

23 A. Again, I said earlier I'm not an economist, but  
24 I would say a public good is a commodity available for the  
25 general benefit of the public at large.

1 Q. And in designing rates in this particular case,  
2 did you consider in allocating rates whether any of the  
3 customers that you serve provide a public good with the  
4 electricity that you provide?

5 A. No, we didn't, because I can think of numerous  
6 examples. I'm sure you're heading in the direction that  
7 street lighting is a public good, and I certainly believe  
8 street lighting is a good thing. I feel safer at night on  
9 the streets of Harrisburg because there are street lights.

10 JUDGE TURNER: Why don't you wait until she asks you  
11 a question?

12 THE WITNESS: I thought I was responding to the  
13 question she did ask.

14 JUDGE TURNER: She did not ask you whether street  
15 lighting was a public good. Answer the question she asked  
16 you.

17 THE WITNESS: What was the question you asked me?

18 BY MS. KNIGHT:

19 Q. The question I asked you was: did you consider  
20 in allocating rates whether any of the end users or users on  
21 particular rate schedules do deliver a public good?

22 A. The simple answer is no.

23 Q. I only have one other question on transmission  
24 rates; and, again, I just want to clarify. On your  
25 alternative proposals to allocate transmission rates on

1 demand charges --

2 A. Yes.

3 Q. -- on PJM type demand schedules, you would have  
4 different rates for each rate schedule; is that correct?

5 A. That's correct. What we showed in Exhibit DAK-3  
6 and DAK-4 grouped all the street lighting together. We  
7 haven't looked at street lighting individually to see  
8 whether there would be significant differences and a need to  
9 produce separate transmission rates for each street lighting  
10 rate schedule.

11 Q. You were a little ahead of me there, but -- so  
12 that's an element of your proposed structure that you  
13 haven't defined yet?

14 A. That's correct.

15 Q. When it comes to the reconciliation, however,  
16 street lighting would be aggregated with what customer  
17 classes?

18 A. It would be in the commercial group.

19 Q. And so you would not propose to reconcile on a  
20 street lighting stand-alone basis?

21 A. No.

22 Q. And what are the reasons why you would not do  
23 that?

24 A. We'd be looking to follow the mechanism that we  
25 now use for ITC, the intangible transition charge, and CTC,

1 the competitive transition charge, which group rate  
2 schedules into the three broad classifications; and the ITC  
3 and CTC of street lighting is currently part of the  
4 commercial group.

5 Q. And is that for administrative convenience?

6 A. Partially that. Partially because that's the  
7 way the qualified rate order reads for ITC and a subsequent  
8 order for CTC. We propose those groupings for  
9 administrative ease, yes but we're following the orders now.

10 Q. I was going to say the qualified order does not  
11 apply to the transmission rates that you are suggesting at  
12 this point.

13 A. No, it doesn't. It applies to the intangible  
14 transition charge.

15 MS. KNIGHT: I have no further questions for this  
16 witness, Your Honor. Thank you.

17 JUDGE TURNER: Are there any other counsel that have  
18 questions?

19 (No response.)

20 JUDGE TURNER: In that case, I have a question, Mr.  
21 Krall.

22 THE WITNESS: Yes.

23 JUDGE TURNER: Ms. Polacek spent some time with you  
24 quite clearly differentiating the four alternatives.

25 THE WITNESS: Correct.

1 JUDGE TURNER: And it appeared to me that they all  
2 had flaws of one sort or another. There was the question of  
3 volatility, and there was the question of twisting, for lack  
4 of a better word, the shopping factor, distorting.

5 THE WITNESS: Yes. We refer to it as distortion,  
6 yes. I think we agree.

7 JUDGE TURNER: So no one of those alternatives meets  
8 all factors; is that right?

9 THE WITNESS: I think that's the conclusion we came  
10 to in preparing our proposal and the proposal that we do  
11 something that at the end is relatively simple.

12 JUDGE TURNER: So the Commission in reviewing this is  
13 going to have to balance those two factors. It's going to  
14 have to adopt a schedule or a combination of schedules that  
15 balances keeping volatility low and creating the least  
16 distortion in the shopping factor?

17 THE WITNESS: I think that's correct.

18 JUDGE TURNER: Okay. And what are you recommending  
19 as that schedule?

20 THE WITNESS: We are recommending our original  
21 proposal, which is the simple uniform cent per kilowatt-hour  
22 rate applied to all rate schedules, and that that would be  
23 something that would be appropriate during this transition  
24 period where generation prices are capped, stranded costs  
25 are still being collected, and we haven't reached the state

1 of full competition contemplated by the Act.

2 JUDGE TURNER: And do you think that schedule keeps  
3 volatility low?

4 THE WITNESS: Yes, it does, because the average will  
5 be roughly the same in any year regardless of whether we're  
6 summer peaking or winter peaking. The summer/winter effect  
7 relates more to certain individual rate schedules. For  
8 example, the street lighting rate schedule has a significant  
9 amount of volatility in it whether we're summer or winter  
10 peaking.

11 It's simply a function of the fact that in the  
12 winter, the lights are on when the peak occurs. In the  
13 summer, they're not.

14 JUDGE TURNER: Okay.

15 THE WITNESS: So as soon as you begin to reveal the  
16 individual rate schedules, you introduce the volatility  
17 issue.

18 JUDGE TURNER: Okay. And that original proposal, how  
19 does it handle the distortion issue that Ms. Polacek raised?  
20 Do you think there is an extreme amount of distortion?

21 THE WITNESS: In going through the listing she asked  
22 me, I indicated that that would be the proposal that  
23 contributed the most to distortion, but we need to keep in  
24 perspective that the transmission portion of the unbundled  
25 bill is a relatively small portion of the bill.

1 Even the price to compare, I'm guessing that we're  
2 talking less than 10 percent. So if there's an error of 20  
3 percent in a component that's already less than 10 percent,  
4 we're not talking about a lot of distortion. And as we  
5 discussed with the competitive example that Ms. Polacek  
6 raised, there are other issues in an electric generation  
7 supplier making a price proposal to a customer across a long  
8 period of time where he has to account for the same sorts of  
9 things.

10 So I think the distortion may get lost in the  
11 background. That's our opinion.

12 JUDGE TURNER: Okay. In the best of those  
13 alternatives in terms of curing distortion, how much is the  
14 distortion left, assuming there is some distortion in all  
15 schedules?

16 THE WITNESS: I really can't speak for Mr. Baron's  
17 proposal, which is the one that I indicated is resulting in  
18 the least amount of distortion, and I do believe it does  
19 result in the least. I believe there probably is still some  
20 distortion in it.

21 JUDGE TURNER: But of the other, excluding Mr. Baron?

22 THE WITNESS: Your question is how much distortion is  
23 left?

24 JUDGE TURNER: Right, compared to how much -- I  
25 believe you said something like 20 percent distortion.

1 THE WITNESS: And that was strictly a hypothetical.

2 JUDGE TURNER: Oh, I'm sorry.

3 THE WITNESS: We haven't really analyzed --

4 JUDGE TURNER: In that case, if that was a  
5 hypothetical, let me withdraw my question, because I thought  
6 it was -- I was trying to match them in terms of how much  
7 distortion, but you didn't --

8 THE WITNESS: No. The feature that I intended to  
9 bring across was the fact that the transmission component is  
10 a small component of the bill. It's only 10 percent. So if  
11 there is some distortion, it's distortion within a small  
12 piece of the bill, which means it's a smaller impact than  
13 one might think on the total bill.

14 I'm sorry if my 20 percent hypothetical confused the  
15 issue.

16 JUDGE TURNER: Not your fault. It was on the  
17 receiving end I'm sure.

18 Okay. Then you can't give me any ranking of them in  
19 terms of more or less distortion, of those three, excluding  
20 Mr. Baron?

21 THE WITNESS: Well, I think I did rank them when Ms.  
22 Polacek asked, and I said that Mr. Baron's is the one that  
23 results in the least distortion effect. Our proposal that  
24 would look at individual rate schedules, charge them on a  
25 cent per kilowatt-hour basis, would produce the next best

1 relative to distortion.

2 JUDGE TURNER: That's the alternative one; right?

3 THE WITNESS: That's the first alternative.

4 JUDGE TURNER: The first alternative.

5 THE WITNESS: The second alternative where you would  
6 group customers together into three large groups would be  
7 third relative to the distortion measure.

8 JUDGE TURNER: Okay. So your original proposal is  
9 not as good as your first alternative?

10 THE WITNESS: In terms of addressing distortion,  
11 that's correct.

12 JUDGE TURNER: Thank you. Mr. MacGregor, do you have  
13 redirect?

14 MR. MacGREGOR: I have no redirect, Your Honor.

15 JUDGE TURNER: Thank you. We can excuse this  
16 witness.

17 THE WITNESS: Thank you.

18 JUDGE TURNER: Thank you very much, Mr. Krall.

19 (Witness excused.)

20 JUDGE TURNER: Okay. I don't think we have time to  
21 take another witness this afternoon. It's almost 5:00.  
22 Unless someone has a pressing need to press on.

23 MR. MacGREGOR: I'd prefer to adjourn myself, Your  
24 Honor.

25 JUDGE TURNER: Thank you. We will meet again at

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10:00 in the morning. Does anyone feel the need to begin at 9:00?

(No response.)

JUDGE TURNER: All right. Mr. Krall's testimony and exhibits are already in the record.

MR. MacGREGOR: That is correct.

JUDGE TURNER: So there's nothing left to be admitted. So we're done for the day, actually?

MR. MacGREGOR: Yes, we are.

MS. McCLOSKEY: Your Honor?

JUDGE TURNER: Yes.

MS. McCLOSKEY: Your Honor, when we go off the record, can we just discuss scheduling for tomorrow?

JUDGE TURNER: Certainly. Let's go off the record. We're adjourned.

(Whereupon, at 5:00 p.m., the hearing was adjourned, to be reconvened at 10:00 a.m., Thursday, August 12, 2004, in Harrisburg, Pennsylvania.)

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FORM 2

C E R T I F I C A T E

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