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FORM 2

P R O C E E D I N G S

1
2 ADMINISTRATIVE LAW JUDGE SUSAN D. COLWELL: This is
3 the time and the place set for the case entitled
4 Pennsylvania Public Utility Commission versus PPL Electric
5 Utilities Corporation, docketed at R-00049255 and the
6 accompanying complaints filed by the U.S. Department of
7 Defense and Federal Executive Agencies, PPL Industrial
8 Customer Alliance, Office of Small Business Advocate, Office
9 of Consumer Advocate and Eric Joseph Epstein at the same
10 rate docket followed by C0001 through 5. I'm Administrative
11 Law Judge Susan D. Colwell. I am beginning the hearing this
12 morning. The assigned Judge is Allison Turner, who was
13 delayed and will be here presently.

14 I note for the record the appearances of the
15 following: Richard A. Kanaskie for the Office of Trial
16 Staff; David A. McCormick, consumer interest of the U.S.
17 Department of Defense and Federal Executive Agencies; James
18 A. Mullins, Tanya J. Mccloskey and Lori A. Herman for the
19 Office of Consumer Advocate; Steven C. Gray for the Office
20 of Small Business Advocate; Pamela C. Polacek and David
21 Kleppinger for PPL Industrial Customer Alliance; Eric J.
22 Epstein appearing on behalf of himself; Paul E. Russell for
23 PPL Electric Utilities; David B. MacGregor for PPL Electric
24 Utilities; Michael W. Gang and John H. Isom for PPL Electric
25 Utilities; Thomas T. Niesen for Sustainable Energy Fund of

1 Central Eastern Pennsylvania; Kevin J. Moody for MAPSA; and
2 Louise A. Knight for PPL -- I can't read what you wrote
3 there; I'm sorry.

4 MS. KNIGHT: I'm sorry; PPL PLUG, Public Light Users
5 Group.

6 JUDGE COLWELL: Have I called on everyone? Is there
7 someone who should have signed this sheet and did not?

8 MR. KANASKIE: Your Honor, if I might add, Mr. Simms
9 will be attending hearings for the balance of the week and
10 will sign appearance sheets at the appropriate time.

11 JUDGE COLWELL: Yes. Unfortunately for all of you,
12 we have a separate appearance sheet for every day.

13 Okay. At this point the parties --

14 MR. MOODY: Excuse me, Your Honor.

15 JUDGE COLWELL: Yes?

16 MR. MOODY: I'm also here on behalf of Strategic
17 Energy as well.

18 JUDGE COLWELL: Okay. So noted. Thank you, Mr.
19 Moody.

20 The parties, having been extraordinarily organized,
21 have set forth a proposed hearing scheduled to which they
22 seem to have all agreed, and they have submitted documents
23 in advance and are prepared to proceed at this time.

24 Mr. MacGregor.

25 MR. MacGREGOR: Your Honor, before calling our first

1 witness, we had distributed a document captioned "PPL
2 Electric Utilities Corporation Statements and Exhibits to be
3 Moved Into Evidence" in an effort to streamline the
4 identification and introduction of the documents. We have
5 provided two copies of all of these documents to the court
6 reporter; they have been previously distributed to Your
7 Honor and to the parties as part of the filing process in
8 this case. I would ask that all of these documents be
9 marked for identification in accordance with the listing
10 that's been provided; rather than running through each one
11 as each witness takes the witness stand, if they could
12 simply be marked for identification as set forth in this
13 document and moved into evidence subject to cross-
14 examination and motions to strike at the time the witness is
15 presented.

16 I will state for the record that if I were to ask the
17 witness if the testimony was prepared by him or under his
18 supervision, he would answer yes, and that the information
19 contained in the exhibits and testimony are true and
20 correct. I can ask each witness that if you want me to, but
21 I think in some large proceedings the parties simply
22 stipulate to that for all of the witnesses and move the
23 testimony in, and then it's excluded by motion to strike
24 later, if that's acceptable.

25 JUDGE COLWELL: Does anyone have an objection to

1 proceeding in that manner?

2 (No response.)

3 JUDGE COLWELL: In that case, I suspect you already
4 have labeled all these documents accordingly; right?

5 MR. MacGREGOR: That's correct, Your Honor.

6 JUDGE COLWELL: Is there any objection to their
7 admittance subject to cross-examination?

8 (No response.)

9 JUDGE COLWELL: Hearing none, they are admitted
10 subject to cross.

11 (Whereupon, the documents were marked
12 as PPL Statements Nos. 1; 2 and 2-R;
13 3 and 3-R; 4 and 4-R; 5, 5-R and
14 5-SR; 6 and 6-R, with Attachments 1
15 through 3; 7 and 7-R; 8; 9, with
16 Appendices A through I, and 9-R;
17 10, with Appendix A, and 10-R for
18 identification, and were received in
19 evidence.)

20 (Whereupon, the documents were
21 marked as PPL Exhibits JRS-1 through
22 JRS-4; Rebuttal Exhibit JRS-1;
23 Exhibit DRW-1; Rebuttal Exhibit
24 DRW-2; Exhibit DAK-1; Rebuttal
25 Exhibits DAK-2 through DAK-4;

FORM 2

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Rebuttal Exhibits JMK-4 and JMK-5;
Rebuttal Exhibits PRM-2 through
PRM-5; Exhibit Future 1-Revised July
27 for identification, and were
received in evidence.)

(Whereupon, the documents were marked
as PPL Exhibit Historic 1; Exhibit
Future 1; Exhibit Regs. §53.52 and
Exhibit Regs. §53.53, Part I and
Part II; Exhibit Regs. §53.53,
Part III; Exhibit Regs. §53.53,
Part IV; Exhibit Regs. §53.53, Part
V and Part VI; Exhibits JMK1
through JMK3; Exhibits OGK1
through Exhibit OGK3; Exhibits
TRD1 through TRD3; Exhibit JJS1;
and Exhibit PRM1 for identification,
and were received in evidence.)

MR. MacGREGOR: Thank you, Your Honor.

We would call as our first witness Mr. Douglas A.
Krall, K-r-a-l-l.

JUDGE COLWELL: Good morning. Will you raise your
right hand, please?

Whereupon,

DOUGLAS A. KRALL

1 having been duly sworn, testified as follows:

2 JUDGE COLWELL: Thank you. Please be seated.

3 MR. MacGREGOR: Your Honor, Mr. Krall is responsible
4 for his testimony, which is Statement 4, his rebuttal
5 testimony, Statement 4-R, his Exhibit DAK-1, his Rebuttal
6 Exhibits DAK-2, 3 and 4, and for various parts of the
7 Exhibit Future 1 Revised and the filing requirements as set
8 forth on the document previously submitted. By agreement of
9 the parties, Mr. Krall's cross-examination today will be
10 limited to revenue requirement issues. He testifies both on
11 revenue requirement issues and cost allocation rate design
12 issues. The cross today is limited to revenue requirement
13 issues, and if it's okay with the parties, I'm including in
14 rate design cost allocation both the DSIC and the
15 transmission service charge and would propose that that
16 cross-examination take place on Thursday. If that's not
17 acceptable, we could take questions on those today, but
18 that's how I propose to divide it.

19 MR. MULLINS: Dave, I've got one brief question on
20 DSIC, but it's a hybrid question.

21 MR. MacGREGOR: That's fine.

22 MR. MacGREGOR: Subject to those stipulations, Your
23 Honor, Mr. Krall is available for cross-examination.

24 JUDGE COLWELL: Mr. Kanaskie.

25 MR. KANASKIE: Thank you, Your Honor. I just have

1 one quick clarification question.

2 **CROSS-EXAMINATION**

3 BY MR. KANASKIE:

4 Q. On page 39 of your rebuttal, line 13, you talk
5 about witness Weakley's 10-year recovery period.

6 A. Correct.

7 Q. Is it your position that by going ten years, the
8 company would not recover every dollar of the storm damage
9 expense?

10 A. I've laid out in the lines that follow 13 a
11 present worth calculation.

12 Q. Yes.

13 Q. And on a present worth basis my answer would be
14 no, the company does not collect --

15 Q. But on a dollar-for-dollar basis, your answer
16 would be the same, no, they would not get it?

17 A. Assuming that there were no disallowances of the
18 claim we've made, on a dollar-for-dollar basis, yes, there
19 would be recovery.

20 MR. KANASKIE: That's all I needed. Thank you, Your
21 Honor.

22 JUDGE COLWELL: Mr. Mullins.

23 MR. MULLINS: Thank you, Your Honor.

24 **CROSS-EXAMINATION**

25 BY MR. MULLINS:

FORM 2

1 Q. Good morning, Mr. Krall.

2 A. Good morning.

3 Q. My name is James A. Mullins. I'm one of the
4 attorneys representing the Office of Consumer Advocate in
5 this proceeding. I will be conducting cross-examination on
6 behalf of the Office this morning. For purposes of my cross
7 you'll need your direct and your rebuttal testimony.

8 A. I have them here.

9 Q. I'd like to start with page 35 of your direct
10 testimony, and in particular, lines 10 through 13. In
11 summary, you're speaking about the DSIC there and you state
12 that absent implementation of a DSIC, lack of recovery would
13 go on for years and years. Do you see that language on line
14 12 of your testimony?

15 A. Yes, I do.

16 Q. Are you familiar with the company's rate case
17 expense in this proceeding, rate case expense proposal?

18 A. Yes, I am.

19 Q. And that would be a normalization over two
20 years?

21 A. Yes, it is.

22 Q. I'd like to turn to page 11 of your rebuttal
23 testimony. Towards the top of that page, lines 1 through 7,
24 you're speaking about over-earnings and the possibility of
25 any complainant to file a complaint if he or she or it deems

1 the company to be in an over-earning situation. Do you see
2 that?

3 A. Yes, I do.

4 Q. Under such a scenario, the complainant would
5 have the burden of proof in that particular proceeding?

6 A. I'm not a lawyer, but that's my understanding.

7 Q. I'd like to flip back to page 38 of your direct.
8 I have a few questions on the DSIC, or if you don't feel
9 comfortable answering those today, we can postpone them or
10 we can just play it by ear.

11 A. No; let's proceed.

12 Q. In particular, line 4, page 38, you state that
13 the DSIC formula would result in about \$3.3 million in
14 revenues that will have to be collected, additional
15 revenues?

16 A. That is our estimate, yes.

17 Q. And you also state that that would equate with a
18 0.01 cents per kilowatt-hour charge?

19 A. Correct.

20 Q. And that's on a uniform basis?

21 A. Yes.

22 Q. I'd like to quickly turn to page 15 of your
23 rebuttal testimony. There in the answer you're speaking
24 once again to the DSIC, and in particular, an alternative to
25 the company's initial proposal. I'll just read that

1 quickly. "PPL, as an alternative, is willing to calculate
2 the DSIC as a percentage to be applied to distribution
3 rates." My first question is: exactly how would that
4 calculation be done? What would that be a percentage of and
5 how would that be calculated?

6 A. It would be a percentage that reflected the
7 distribution revenues charged to those rate schedules, so it
8 would not be a uniform approach across all rate schedules.

9 Q. To follow up with that, if we compare the
10 company's initial proposal and this alternative proposal,
11 have there been any calculations as to if the \$3.3 million
12 number would remain the same in the alternative? And
13 likewise, what would be any impact to the residential class
14 in particular if the alternative is proposed or adopted as
15 opposed to the initial proposal?

16 A. We've not done that calculation.

17 Q. Would you expect the rates for the residential
18 class to remain the same under both proposals?

19 A. No. I'd expect, because the residential class
20 relies more heavily on the distribution system, and because
21 their contribution to distribution system revenue
22 requirements would likely be larger, that their rate would
23 be higher than an average uniform rate would be.

24 Q. Under the alternative.

25 A. Yes.

1 Q. I'd like to turn to page 39 of your direct at
2 this time. There you begin a discussion of the Hurricane
3 Isabel costs which the company is seeking to amortize. To
4 the best of your knowledge, were any other -- were the
5 service territories of any other EDCs, electric distribution
6 companies, in Pennsylvania affected by Hurricane Isabel?

7 A. I believe they were.

8 Q. Would you happen to know which companies?

9 A. Given the path of the storm, I would expect the
10 GPU companies to have been affected.

11 Q. That hurricane struck September 19 and September
12 20 of 2003, and the company, PPL, filed a petition for
13 deferral one month later, October of 2003?

14 A. On October 20; that's correct.

15 Q. Did any other EDCs file for a similar recovery
16 of costs in the month of October 2003?

17 A. I do not know.

18 Q. Have any EDCs to date filed for recovery of such
19 costs?

20 A. I don't know.

21 Q. Mr. Krall, I realize you aren't an attorney, but
22 I'll ask you this question and if you don't have the answer,
23 you can simply state such.

24 A. That's fine.

25 Q. Are you familiar with the Commonwealth Court

1 decision decided in 2002 with ARIPPA as petitioner and the
2 Pennsylvania PUC as respondent?

3 A. Not by caption, no. Perhaps generally by
4 subject matter.

5 Q. The case dealt with the GPU Companies' request
6 for deferral of POLR costs which they were disallowed to
7 recover due to the rate caps that were in place at the time
8 that the costs were incurred.

9 A. I'm generally familiar with that subject matter
10 then, yes.

11 Q. Are you familiar with that particular case?

12 A. Generally.

13 Q. The resolution of that case?

14 A. I don't know where it currently stands. I know
15 it went through several levels of appeal.

16 Q. Would you accept subject to check that the
17 Commonwealth Court disallowed GPU's request for deferral of
18 POLR costs that were sustained while the rate caps were in
19 effect as to that company?

20 A. I believe I can accept that, yes.

21 Q. I'd like to turn to page 14 of your direct
22 testimony. There you're speaking about the AMR system,
23 automated meter reading system. Line 8 of your testimony,
24 you state that the total cost over a 15-year period will be
25 \$198 million?

1 A. Correct. That's the calculation we had done
2 using a capital cost of \$160 million.

3 Q. And then a few lines below that you state that
4 over the same period, the benefits associated with this AMR
5 roll-out would be \$205 million over the same period?

6 A. That's correct, although we need to keep in
7 mind, that was one category of benefits, and I've described
8 several categories of benefits.

9 Q. Right. Correct. I'm just looking at the
10 numbers, the quantifications, at this point.

11 A. Right.

12 Q. So on a quantifiable basis -- I'm just going to
13 do some quick math here -- if we have a \$198 million cost
14 and a \$205 million benefit, quantifiably we're looking at a
15 \$7 million benefit on paper? I realize you've gone through
16 other non-economic benefits and future benefits, but just
17 looking at the numbers, what you've quantified thus far.

18 A. The currently available quantified benefits,
19 yes. But again, I caution that we anticipate significant
20 other benefits as time goes on.

21 Q. I understand. If we can turn to page 18 of your
22 direct. At that point in your testimony we're still
23 speaking to the AMR, and, in particular, the AMR
24 displacement costs. The company is seeking to recover
25 \$8.8 million over five years?

1 A. Correct.

2 Q. If we can turn to page 16 of your direct. I
3 think you just alluded to the benefits enumerated on pages
4 16 and 17. We can focus on the last two.

5 A. There are other benefits prior to that, too, on
6 pages 14, 14 and 15.

7 Q. Yes, I'm aware of that. These are the ones you
8 used as examples, so these are the ones that we'll speak to
9 at this point. I've just got a quick question.

10 Benefits 3 and 4, I'll just highlight the language.
11 "Data from an enhanced AMR system may support more optimal
12 utilization of the distribution system." And point 4 being,
13 "The analysis of data obtained through an enhanced AMR
14 system may be useful in identifying theft of service." I'm
15 making the assumption that usage of the phrase "may support"
16 in point 3, and "may be useful" in point 4 are indicative of
17 contingencies or scenarios that are not definite at this
18 point?

19 A. I think that's generally accurate. That's why I
20 put these benefits in the category of things that we
21 anticipate being beneficial to customers, potentially being
22 quantifiable benefits, but require some additional
23 development.

24 Q. Right.

25 A. We have had some instances where the system and

1 the data that it provides have allowed us to identify some
2 theft of service circumstances.

3 Q. Right. I've seen that in your testimony.

4 A. So we actually do have -- if we wanted to start
5 quantifying that, I'd say that's a pretty tangible benefit.

6 Q. Well, I'm just going on the black and white
7 print in your testimony wherein you outline these points 3
8 and 4 as being contingent in nature, not definite. That was
9 my question.

10 A. And I guess in complete answer, it's not
11 unrealistic to expect these benefits, and, in fact, we are
12 moving towards actually making them more tangible.

13 MR. MULLINS: I believe cross-examination is complete
14 on behalf of the Office of Consumer Advocate.

15 Thank you, Mr. Krall.

16 Thank you, Your Honor.

17 JUDGE COLWELL: Thank you.

18 Mr. Gray?

19 MR. GRAY: No questions, Your Honor.

20 JUDGE COLWELL: I think we have a couple of acronyms
21 here that we don't have representation for.

22 MR. MacGREGOR: I'm not sure I know them all. Let's
23 see, Clean Air Council, Your Honor, is CAC. Commission on
24 Economic Opportunity is CEO. Department of Defense is DOD.
25 Mr. Epstein speaks for himself. IBEW is the International

1 Brotherhood of Electrical Workers. That's Mr. Rubin. I
2 believe he doesn't plan to attend. Northeast Delegation of
3 Legislators. Pennsylvania Energy Consortium. Penn Future.
4 PLUG is the street lighting and PPLICCA is the PPL Industrial
5 Customer Alliance; that's Ms. Polacek. And SEF is the
6 Sustainable Energy Fund.

7 JUDGE COLWELL: So do we have anybody here from the
8 Clean Air Council?

9 (No response.)

10 JUDGE COLWELL: I don't have anybody signed in from
11 the Clean Air Council, right, so we can mark that one off.

12 What about the CEO? Has anyone signed in for that?

13 (No response.)

14 JUDGE COLWELL: Mr. McCormick?

15 MR. MCCORMICK: No questions, Your Honor.

16 JUDGE COLWELL: Mr. Epstein?

17 MR. EPSTEIN: Yes, I do.

18 JUDGE COLWELL: Go ahead.

19 **CROSS-EXAMINATION**

20 BY MR. EPSTEIN:

21 Q. How are you doing, Mr. Krall?

22 A. Good morning.

23 Q. Eric Epstein on behalf of myself. I have one
24 follow-up and then two other questions that I may need to
25 ask counsel if it's the appropriate venue. The first is on

1 the DSIC where you had the percentage as an alternative. On
2 the figures that you gave, for instance for the residential
3 class, would there be three different alternatives or 15
4 different alternatives when you blended the value?

5 A. (No response.)

6 Q. For instance, on the -- do you know what I mean?
7 On the CTCs we have, instead of like 15 different rates,
8 they're blended. Under your alternative, would there be a
9 blended value as well?

10 A. I don't think we defined the alternative that
11 far. The alternative is to follow the water company and
12 sewer company model, to allocate back to rate schedules on a
13 percentage basis. Whether it's worth doing that on the
14 basis of 23 rate schedules, I'm not sure is practical, or
15 necessary, but that's the gist of the alternative, yeah.

16 Q. So it would be different than the CTC model that
17 we're currently using?

18 A. We could use the CTC/ITC model. That tends to
19 capture voltage levels, which tends to capture the use of
20 the distribution system by customers.

21 Q. Even if we did that, though, residential
22 consumers would probably still see a higher rate, regardless
23 if it's the CTC scenario or the water company scenario?

24 A. As I responded to Mr. Mullins, we haven't done
25 the calculation, but thinking through where the revenue

1 impacts are in terms of distribution revenue requirements,
2 and, in the alterative, the allocation of distribution
3 system improvement charge would follow the same, I would
4 expect the effect to be greatest on residential customers.

5 Q. In your response to an interrogatory to OCA Set
6 III, Question 30 -- and I can read it; it's just one
7 sentence or two -- you said, "The company did not implement
8 any cost savings program other than AMR during 2003, and
9 none currently is planned for 2004 or thereafter. Many
10 projects do, however, have cost savings as an ancillary
11 benefit." Can you identify those programs and what the
12 benefits were last year?

13 A. Well, the response was that we didn't have any
14 programs that were undertaken, such as AMR was kind of a
15 massive effort to fundamentally change the way we perform a
16 certain function. I think you're asking about individual
17 projects where benefits may be ancillary to the project?

18 Q. I guess what I'm asking is if you're able to
19 quantify or capture in real terms, you know, how much
20 savings were a result of the program. I mean, I think
21 you've done so with AMR, but I'm trying to find out if
22 there's a tangible net result that you've been able to find
23 or compute.

24 A. We have no other large programs to identify
25 where we've quantified that. The intent of that answer was

1 to identify that, for example, if a computer system is used
2 for a certain purpose and that software is no longer
3 maintained by the vendor, it's basically obsolete; we have
4 to buy the latest version of whatever it is. It may include
5 ancillary benefits, in fact, it may be more costly to buy an
6 in-kind replacement; it might have to be custom built
7 because the off-the-shelf version has moved on and computers
8 have greater power. So that's the kind of thing that the
9 answer is intended to identify, that ancillary to the normal
10 course of everything we do, we look for the best way to
11 approach it, and there may be cost savings associated with
12 it, but we don't tabulate those separately.

13 Q. But based on what you said, there could also be
14 increased costs?

15 A. Yes, there can be increased costs, and in that
16 instance, then any cost savings available would tend to
17 mitigate the cost increase.

18 Q. By and large then, essentially, you're not
19 really able to quantify numerically how much you save, but
20 you do think there is some intangible benefit to the AMR
21 program that you're just not able to capture?

22 A. Are you referring back to the AMR testimony
23 where I identified three categories of benefits?

24 Q. No. Again, I guess what I'm struggling with is
25 an ancillary benefit. Basically, there is no number to

1 that. That's something that's out there that we haven't
2 been able to capture or quantify.

3 A. In terms of the AMR system?

4 Q. Yes.

5 A. I think we've identified them fairly completely
6 in the testimony. Perhaps you're talking about something
7 like improved customer satisfaction the customers would
8 experience as a result of not having estimated meter reads
9 anymore. That one's hard to quantify. I can't measure the
10 smiley face on the customer. But we do know from doing
11 customer satisfaction surveys over many, many years that
12 estimated meter readings are not something that makes
13 customers happy, so there is a benefit. It may be tangible
14 in terms of fewer phone calls that we get, and it may be
15 quantifiable in terms of some fewer CSRs that would be
16 required, but we need to recognize that fundamentally
17 there's a customer satisfaction benefit that is not reduced
18 to economics.

19 Q. But you're not trying to recuperate smiley face
20 revenues?

21 A. Recuperate?

22 Q. Recoup, rather.

23 A. No. No, we don't measure them, nor do we
24 include them in the future test year.

25 Q. I understand. The last question on this would

1 be are you actually losing money by not using estimated
2 meter reading?

3 A. Are we losing money?

4 Q. Right.

5 A. I don't think so. Nor can I say that we're
6 gaining higher revenues by not using them. We use
7 estimating algorithms if we can't access a customer's meter.
8 The algorithm is based on prior months' usage. It should be
9 a fairly accurate representation of what their usage is. In
10 any event, we do get an actual meter reading within a month
11 or two months, or, if the customer is unhappy enough, a
12 special read is made and then a revenue adjustment is made,
13 so it's corrected.

14 Q. But it's a net push. You don't look at whether
15 you're losing or gaining any revenues based on the switch?

16 A. Not from customers, no, but we do look at the
17 cost savings of not having to take their call, of having to
18 send a meter reader out to do a check read or a special read
19 or those kinds of things.

20 Q. I have one other line of questioning, and that
21 has to do with your --

22 MR. EPSTEIN: And again, Mr. MacGregor, I don't know
23 if this is the appropriate venue. I did want to ask Mr.
24 Krall about the ratio of employees in terms of linesmen to
25 customers. Would that be okay today?

1 MR. MacGREGOR: I think that's within what was
2 thought to be encompassed for today.

3 MR. EPSTEIN: Okay.

4 BY MR. EPSTEIN:

5 Q. Based on your earlier testimony, we have your
6 current ratio of linemen to households, and this is in
7 response to my second set of interrogatories, Question 8.
8 Businesses, customers in general is .006 employees in
9 linemen type positions per customer. I think when I
10 followed up on that you stated that number.

11 A. And that was a calculation that we did using the
12 number of customers and the number of people in the
13 positions that we thought satisfied your request.

14 Q. And from what I understand, you have no plans to
15 improve on that ratio, in other words, you're content with
16 that ratio; you think you can deliver the same quality of
17 service at that existing ratio?

18 A. Well, I have to say we're always looking to
19 improve.

20 Q. Right.

21 A. If we could find a way to better, more easily
22 maintain the electric system and reduce the number of
23 linemen, that would be something that would reduce that
24 ratio. I don't anticipate right now finding that magic
25 bullet, but we always -- and again, as part of the ancillary

1 benefits of other things we do -- seek to identify those
2 opportunities.

3 Q. This is where I'm confused. I understand that.
4 I think that's a laudable goal. But you also, -- not
5 necessarily in your testimony, but in the company's argument
6 -- note that you need a rate increase because you're having
7 a growing customer base, which would suggest to me, since
8 you're not hiring more linemen and your customer base is
9 growing, essentially what you're saying is that that ratio
10 is necessarily going to have to go down, and that you don't
11 believe that will have an impact on your service.

12 A. If you add customers and keep the same number of
13 linemen, that arithmetic calculation that we did would go
14 down.

15 Q. Right.

16 A. But there are a lot of factors in how you add
17 customers. I mean, they could be in high density settings,
18 they could be apartments, you could be changing the
19 infrastructure in ways that change the formula so that you
20 don't need as many linemen to provide the same reliability
21 function. So there are a lot of factors that go into it.
22 Strictly from an arithmetic standpoint, though, you're
23 correct.

24 Q. Have you conducted any hypotheses, though, or
25 investigation or studies to examine the impact of, you know,

1 different growth sectors, for instance, whether it's
2 dormitories or apartments or residential? Have you
3 anticipated a model where the growth is going to be?

4 A. I haven't, no.

5 Q. Do you know if the company has?

6 A. The company is aware of growth trends and
7 geographic areas where growth is higher than others, and the
8 nature of the growth in those areas, so there is awareness
9 and there is some analysis, and it fits into staffing plans
10 that certainly look one year ahead, may look as much as five
11 years ahead, but I don't believe that there's a
12 comprehensive study that would drive back to the ratio that
13 you asked us to calculate.

14 Q. I'll ask this and then I'll just leave this line
15 of questioning. My question is that you do anticipate a
16 growing customer base, but at the same time, you haven't
17 conducted any studies to pinpoint where that growth will
18 come?

19 A. No. We are aware of areas shorter term where
20 that growth will occur. Absolutely.

21 Q. And where would that be, or can you direct me,
22 say, to an exhibit or testimony where I could find that
23 information?

24 A. My recollection is the Lancaster area, the
25 Harrisburg area, are two examples of geographic areas where

1 we expect greater than average growth. I think Mr. Woodruff
2 might be able to provide additional information.

3 Q. Okay. From what you're saying, though, you're
4 looking at just net growth, you're not sure how that growth
5 will appear, whether that would be more residential, more
6 apartment complexes?

7 A. No. Again, I think that there is an awareness
8 of a residential growth in Lancaster, for example, and
9 there's an awareness in Lancaster of the types of
10 developments that are planned and the types of challenges
11 that they would have. You're pretty far beyond my level of
12 knowledge now.

13 Q. Well, you know, this is an extreme hypothesis,
14 but if that growth is among the Amish and the Mennonites, I
15 doubt they're going to require more electric service, and
16 that's why I think it's important to know those
17 demographics.

18 A. We haven't traditionally included them in our
19 load forecasts.

20 Q. The final question is this: are you aware of
21 the linemen ratio of other EDCs?

22 A. No, I'm not.

23 Q. Thanks very much.

24 A. And I caution that we did the calculation based
25 on our job titles, and if you have data from others, they

1 may have different job titles that reflect different duties
2 and you may have an apple and a banana.

3 Q. I think you're absolutely right. We found that
4 in the GPU case.

5 Thanks.

6 JUDGE COLWELL: I don't have anyone here for the IBEW
7 or the Legislative Delegation.

8 The PA Energy Consortium?

9 (No response.)

10 JUDGE COLWELL: Penn Future?

11 (No response.)

12 JUDGE COLWELL: Ms. Knight?

13 (No response.)

14 JUDGE COLWELL: Where did she go?

15 MR. MacGREGOR: I suspect her questions relate to
16 Thursday and rate allocation, rate design, although I don't
17 know that.

18 JUDGE COLWELL: Well, I'll leave a question mark
19 there and we'll go on to Ms. Polacek.

20 MS. POLACEK: Your Honor, I do have just a couple of
21 brief questions.

22 **CROSS-EXAMINATION**

23 BY MS. POLACEK:

24 Q. Good morning, Mr. Krall. How are you?

25 A. Good morning. Fine, thank you.

1 Q. My questions actually relate to the discussion
2 we've been having on the alternative proposal for the DSIC
3 and how that would work. Maybe I'm a little confused about
4 how it would work, because my understanding is, from your
5 testimony, reading it, that there would be a uniform
6 percentage that would be applied to each of the rate
7 schedules that the DSIC would be applicable to, the
8 non-69 kV rate schedules, and that it would not be
9 translated into any sort of cents per kilowatt-hour rate.
10 Am I correct?

11 A. Yes. And I guess in answer to Mr. Mullins'
12 question and Mr. Epstein's, wherever the follow-up was, I
13 think I took it to the next step, which you're exactly
14 right.

15 MS. POLACEK: Thank you. That's all I have.

16 JUDGE COLWELL: Mr. Niesen?

17 MR. NIESEN: Your Honor, I have no questions for Mr.
18 Krall.

19 JUDGE COLWELL: Mr. Moody, you're not on my grid.
20 Did you want to ask questions?

21 MR. MOODY: No; no questions.

22 JUDGE COLWELL: Do you have any questions ever?
23 Should I put you on the grid?

24 MR. MOODY: Pardon?

25 JUDGE COLWELL: Should I put you on this grid?

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MR. MOODY: No, we have no questions.

JUDGE COLWELL: You're just here to watch; okay.

Mr. MacGregor, based on the questions you've heard here today, do you have any further questions for Mr. Krall?

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

JUDGE COLWELL: Based on the questions and answers we've heard, does any party have any recross?

(No response.)

JUDGE COLWELL: Hearing none, you are excused. Thank you, Mr. Krall.

THE WITNESS: Thank you.

(Witness excused.)

JUDGE COLWELL: Go ahead, Mr. MacGregor.

MR. MacGREGOR: Thank you, Your Honor. Our next witness is Mr. Joseph M. Kleha, K-l-e-h-a.

Whereupon,

JOSEPH M. KLEHA

having been duly sworn, testified as follows:

JUDGE COLWELL: Thank you. Please be seated.

MR. MacGREGOR: Thank you. Your Honor, Mr. Kleha is responsible for his testimony, Direct Statement 5, Rebuttal Statement 5-R and Surrebuttal Statement 5-SR, and in addition the Exhibits JMK-1 through 5, and various aspects of Exhibit Historic 1, Future 1, and the exhibits filed in response to the Commission's regulations at 53.53. His

FORM 2

1 cross-examination is also going to be bifurcated along the
2 same lines as Mr. Krall. He addresses both revenue
3 requirement issues and cost allocation rate design issues,
4 and he will be appearing on Thursday to address the latter
5 issues. He's available for cross.

6 JUDGE COLWELL: Okay. Mr. Kanaskie.

7 MR. MacGREGOR: Oh, I'm sorry; I apologize, Your
8 Honor. I have two rejoinder questions, rejoinder testimony,
9 for Mr. Kleha.

10 **DIRECT EXAMINATION**

11 BY MR. MacGREGOR:

12 Q. Mr. Kleha, in his surrebuttal testimony filed
13 last Thursday, Mr. Morgan, on behalf of the OCA, addresses
14 the issue of prepaid postage as a rate base item and how it
15 relates to the company's cash working capital study. Just
16 so the record is clear, can you explain when the company
17 records prepaid postage on its books, and where it is
18 recorded?

19 A. Yes, I can. The company, like most operating
20 businesses, will prepay for postage, primarily to the U.S.
21 Postal Service, but there can be for other reasons, too.
22 That prepayment is made because a company like PPL Electric
23 sends out hundreds of thousands of bills every month and
24 there is postage associated with sending out those bills.
25 So the prepayment is made to the U.S. Postal Service, a

1 postage meter is established at the PPL offices, and as
2 postage is prepaid, it is recorded on the balance sheet of
3 PPL Electric. When the company sends out its bills, it
4 draws down from that prepaid balance sitting on its balance
5 sheet; for example, if it had a balance of \$100,000 on its
6 books at June 30 of any particular year, during the month of
7 July it's going to send its July bills out to customers. It
8 will draw down from that \$100,000; for round numbers, let's
9 say it draws down \$50,000 because it's going to use up the
10 postage meter by \$50,000. As it draws down, by the time it
11 hits July 31, when the next balance sheet item is recorded,
12 the balance sheet amount will be \$50,000, because it has
13 drawn down \$50,000 and expensed it beginning July 1 through
14 July 31.

15 Q. So the expense is recorded on the income
16 statement at the time the postage is actually utilized to
17 provide service to customers?

18 A. That's correct.

19 Q. And when the company performs its lead/lag study
20 to determine its cash working capital requirements, when
21 does the expense lead calculation start for postage?

22 A. When it would look at postage expense as it's
23 been used in my example, it would look at the month of July,
24 and bills are sent out from the 1st of the month through the
25 31st of the month; therefore, in that 31-day period, or in a

1 month that has 30 days, the midpoint of the month is the
2 point at which you would start the calculation for the
3 lead/lag analysis; and that would look at that point in
4 time, then versus the time it takes for customers to make
5 the payments to PPL so that it gets reimbursed for that
6 expense. So two separate and distinct items here:
7 prepayments, where you make the cash outlay to start with in
8 terms of including an asset on your balance sheet; it's
9 sitting there waiting to be used. When it is used, it now
10 becomes part of the lead/lag study because you're looking at
11 the expense from the day it's incurred, or the midpoint of
12 the month it's incurred, until the point at which the
13 customer actually pays his bill and reimburses the company
14 for that expense.

15 Q. Now, just a couple questions on Mr. Epstein's
16 surrebuttal on the tax appeals related to certain PPL
17 generating units.

18 A. Yes.

19 Q. Are any of the taxes associated with those
20 generating units part of the company's distribution or
21 transmission revenue requirement in this proceeding?

22 A. No, they are not.

23 Q. And does PPL Electric Utilities have any control
24 over those appeals?

25 A. No, it does not. Those appeals are taken on

1 behalf of PPL Generation Corporation.

2 Q. And am I correct that one of the issues in those
3 tax appeals relates to the proper market valuation or asset
4 valuation of PPL generating stations post-restructuring?

5 A. That's correct.

6 Q. And in that regard, after the company's
7 restructuring proceeding was completed, am I correct that
8 the company incurred a \$1.6 billion pre-tax write-off
9 reflecting the reduced market value of its generating
10 assets?

11 A. That's correct.

12 MR. MacGREGOR: That's all I have, Your Honor. Mr.
13 Kleha is available for cross.

14 JUDGE COLWELL: Mr. Kanaskie.

15 MR. KANASKIE: Thank you, Your Honor.

16 **CROSS-EXAMINATION**

17 BY MR. KANASKIE:

18 Q. Good morning, Mr. Kleha.

19 A. Good morning.

20 Q. I'm Rick Kanaskie with the Office of Trial
21 Staff. I want to focus on your Statement 5-R, and
22 specifically Exhibit JMK-5, which I believe is the last
23 exhibit in that section.

24 A. I have it.

25 Q. Okay; thanks. I just want to clarify a couple

1 things. Maybe you can walk me through parts of this. Would
2 you agree that net income, for whatever portion of the year,
3 but for year 2000 does include some generation income in
4 there?

5 A. Well, it includes income associated with PPL
6 Electric Utilities Corp. as it existed in the year 2000.
7 Beginning January 1 of year 2000 through June 30 of year
8 2000, PPL Electric Utilities Corp. was an integrated
9 electric utility, generation, transmission, distribution
10 functions, all within the context of the overall utility.
11 July 1 of 2000, --

12 Q. I understand.

13 A. -- the generation assets approved by this
14 Commission were transferred to PPL Generation Corp. and were
15 removed from PPL Electric Utilities Corp.'s income statement
16 and balance sheet.

17 Q. Okay. Thank you. So given that explanation,
18 this first number has PPL Utilities Corp., which includes a
19 generation aspect in it?

20 A. That's correct.

21 Q. I note in year 2004, you have an asterisk, --

22 A. That's correct.

23 Q. -- saying that "2004 book income increased and
24 net work increased by \$90,162 to reflect the effect of base
25 rate increase requested."

1 A. Right.

2 Q. Would you agree that the effect of the base rate
3 will occur in 2005?

4 A. That's correct. The actual dollars will flow
5 in; however, the reason it's done in this fashion is because
6 when you're preparing an income statement for a rate
7 proceeding, you need to know where you stand at your present
8 rate condition and where you're going to stand at your
9 proposed rate condition to make sure that whatever return
10 you're claiming is accurate. So the first thing you need to
11 do is, as column one here of the dollar value shows, is a
12 calculation of the capital stock tax at present rate
13 conditions.

14 Q. Excuse me; column one, you're talking about the
15 "Requested Amount" column?

16 A. Yeah, I'm talking about the requested amount
17 here; I'm sorry.

18 The adjusted amount is simply the same dollar figures
19 as in the requested amount, except for the amount of the
20 rate increase, the net income to be produced by the rate
21 increase, because what happens in terms of asking for a rate
22 increase, I'm going to ask for an income amount, but I need
23 to get revenue. In order to get the revenue, I need to know
24 what my taxes are. There will be some capital stock tax
25 liability generated from the fact that I have income

1 associated with my rate increase. Now, the rate increase,
2 while in actual fact will start coming in the door sometime
3 in January of 2005, my condition for 2004, for a test year,
4 that I have to present to this Commission so it knows how
5 much it's going to give me in terms of an overall revenue
6 requirement, has to show all of the effects of all of the
7 tax information. So that's what column two here, looking at
8 the adjusted amount, will show. Requested amount is present
9 rate conditions, adjusted amount is proposed rate
10 conditions, and the increase is the calculation of the
11 amount of the tax liability that will be generated by the
12 tax effect of -- excuse me; capital stock tax -- on the
13 income of the rate increase.

14 Q. Let me just make sure I understand. You took
15 the 2005 number and added it to the 2004 number to get your
16 adjusted amount under your adjusted column?

17 A. No. If the Commission approves the entire
18 amount of our rate increase, we will begin collecting those
19 dollars by tariff on January 1, 2005. All of the
20 calculations that are done here are based upon where we are
21 in 2004. I have to show, and I have to calculate, my
22 dollars, my revenue dollars and my return dollars, as to
23 where I am on my present rate conditions so that I can then
24 tell the Commission how much of an increase I'm asking for.
25 Part of the calculation of the increase that I'm asking for

1 has to be a gross-up for all of the taxes that are
2 associated with my increase. The sum of all of that becomes
3 my income statement, and if you go to Exhibit Future 1 or
4 Future 1 Revised, the income statement associated with that,
5 Schedule D-1, --

6 (Pause.)

7 Q. You said Exhibit Future 1 Revised?

8 A. You can use Future 1 or you can use Future 1
9 Revised.

10 Q. All right. And you're sending me to D-1?

11 A. Schedule D-1.

12 Q. Go ahead.

13 A. So column 1 from Exhibit JMK-5, which is the
14 requested amount, are the taxes that would show up in column
15 5. Okay?

16 Q. Uh-huh.

17 A. That's my present rate conditions for the
18 combined T&D operation. All right?

19 Q. Okay.

20 A. Column 6, taken from Exhibit JMK-2, is the
21 removal of the transmission portion of the costs associated
22 with that function, so that we're dealing only with the
23 distribution portion of the business. Column 7 is the
24 calculation of the taxes associated with the -- the
25 calculation of the entire revenue requirement, including all

1 the taxes associated with the amount of the rate increase.

2 Okay?

3 Q. Uh-huh.

4 A. And that column is equivalent to column --
5 actually, it would be column 8, which would be the combined
6 total, would be the differential.

7 Q. I'm sorry; could you repeat that?

8 A. Yes. To get to the adjusted amount you take
9 column 7, add it back to column 5, and you get the total.
10 And all Exhibit JMK-5 is representing is that there is a
11 capital stock tax liability associated with the amount of
12 income that can be derived from any utility's rate increase,
13 proposed rate increase.

14 MR. KANASKIE: I have no further questions, Your
15 Honor.

16 Thank you, Mr. Kleha.

17 THE WITNESS: You're welcome.

18 JUDGE COLWELL: Mr. Mullins?

19 MR. MULLINS: Your Honor, my co-counsel, Ms. Herman,
20 will be conducting cross on behalf of the OCA.

21 MS. HERMAN: Thank you, Your Honor.

22 **CROSS-EXAMINATION**

23 BY MS. HERMAN:

24 Q. Good morning, Mr. Kleha.

25 A. Good morning.

1 Q. I have a few questions for you relating to the
2 company's claim regarding the capital stock tax.

3 A. Certainly.

4 Q. I'd like to direct your attention to page 18 of
5 your rebuttal testimony.

6 A. Yes, ma'am.

7 Q. In particular, lines 4 through 7.

8 A. Four through 7?

9 Q. Yes. There you state that in each of the two
10 previous years, being 2002 and 2003, the Legislature
11 rescinded the proposed capital stock tax rate decrease for
12 those two years.

13 A. That's correct.

14 Q. Would you agree that in the first instance to
15 which you refer, when you refer to the tax rate in 2002, a
16 tax decrease did go into effect but it was smaller than the
17 originally proposed?

18 A. Right. That's correct.

19 Q. And as to your second reference, for the tax in
20 2003, that decrease was rescinded in whole as part of the
21 budget process to address a large deficit facing the
22 Commonwealth?

23 A. That's correct. And as I'm sure you're aware,
24 PPL Electric Utilities Corp., like every utility in the
25 state of Pennsylvania, utilizes a mechanism authorized by

1 this Commission in 1970, the state tax adjustment surcharge.
2 When there is a rescission or change in the tax rate during a
3 calendar year, after it's already been put into place
4 beginning January 1, especially if it's a decrease, as it
5 was in the last two years, it requires the utility to file a
6 revised state tax adjustment surcharge showing that change
7 in the tax rate, but having a shorter time period over which
8 to deal with the recovery of that differential. So, for
9 example, last year when they rescinded a 1 percent decrease
10 in the capital stock tax rate, the company had approximately
11 two months or three months over which to recover that
12 increase, which causes a significant burden upon customers
13 as well as it does for the utility.

14 Q. And the tax decrease for 2004 was implemented
15 under the new schedule as --

16 A. It was, but I think what I was addressing here
17 in my rebuttal testimony was the fact that there was a
18 proposal to use the 2005 proposed decrease to 5.99 percent,
19 to use that as part of calculating the base of capital stock
20 tax in this rate case. My point being made here is that we
21 have the state tax adjustment surcharge mechanism in place,
22 it has a specific designed purpose, and the designed purpose
23 of that is to deal with any change in the tax liabilities.
24 Now, if we include the reduction for 2005 here in 2004, in
25 the rates being created in 2004, and we have another budget

1 impasse in 2005, which we haven't gotten to yet, and they
2 rescind it, then the company is going to be forced to change
3 its rates in mid stream or later to deal with the fact that
4 we've now built in an artificial decrease in the 2004 rate
5 proposal.

6 Q. That didn't happen in 2004; correct?

7 A. It did not happen in 2004, but we're not through
8 the year yet.

9 Q. If you follow your proposal, you would have to
10 file a STAS change request with the Commission?

11 A. On December 31.

12 Q. If the tax rate goes into effect.

13 A. If the --

14 Q. If the tax rate goes into effect as planned.

15 A. If it goes into effect as planned, with the
16 reduction to 5.9, yes. And the company's intended purpose
17 in all instances was to file that state tax adjustment
18 surcharge, because our tariff requires us to do that.

19 Q. December 31 of which year?

20 A. Of 2004.

21 Q. I have one question relating to your oral
22 rejoinder.

23 A. Sure.

24 Q. Is it true that in the lead/lag study expenses
25 are measured from the payment date to the midpoint of the

1 service period?

2 A. Generally speaking, that's true. That's not
3 true for prepaid postage.

4 MS. HERMAN: Thank you.

5 I have nothing further, Your Honor.

6 JUDGE COLWELL: Mr. Gray?

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

8 JUDGE COLWELL: Mr. McCormick?

9 MR. MCCORMICK: No questions, Your Honor.

10 JUDGE COLWELL: Mr. Epstein?

11 MR. EPSTEIN: Yes, I have several questions.

12 **CROSS-EXAMINATION**

13 BY MR. EPSTEIN:

14 Q. How are you doing, Mr. Kleha?

15 A. I'm doing just fine, Mr. Epstein. How are you?

16 Q. It depends on whether or not we (inaudible).

17 MR. EPSTEIN: David, Mr. MacGregor, I have another
18 question for you, and that is regarding is Mr. Kleha the
19 appropriate witness to direct questions regarding political
20 contributions, or do we want to wait and address that at a
21 later time?

22 MR. MacGREGOR: Can we have a moment, Your Honor?

23 JUDGE COLWELL: Sure. We're off the record.

24 (Discussion off the record.)

25 JUDGE COLWELL: Back on the record.

1 MR. MacGREGOR: I think those questions would be more
2 appropriately addressed to Mr. Schadt.

3 MR. EPSTEIN: Okay. That's fine. I will delay that
4 line of questioning to Mr. Schadt.

5 BY MR. EPSTEIN:

6 Q. Mr. Kleha, I just have several questions
7 concerning your oral rejoinder to my surrebuttal. That
8 would be, I believe if the company's proposed rate increase
9 would go through, that would be an 8.14 percent increase for
10 everybody in the rates, all 29 counties.

11 A. That's the average increase for all customers.

12 Q. Okay; that would be the average increase. And
13 subject to check, are you aware that the Northeastern School
14 District lives at 20 percent below poverty level? You have
15 20 percent of the population lives at or below poverty
16 level.

17 A. I have no direct knowledge of that.

18 Q. But can you accept that subject to check?

19 MR. MacGREGOR: I object, Your Honor. It's not
20 appropriate for -- Mr. Kleha has no way of checking that.
21 If he has evidence to put on, he can put it on, but we can't
22 accept that subject to check.

23 MR. EPSTEIN: Well, that was enclosed in my
24 surrebuttal testimony, that the demographics are such that
25 that school district, 20 percent of the population lives at

1 or below poverty level. If you need that information, I can
2 supply it tomorrow.

3 JUDGE COLWELL: Well, apparently he does need that
4 information, Mr. Epstein.

5 MR. EPSTEIN: Okay. I will supply that tomorrow.

6 BY MR. EPSTEIN:

7 Q. In addition, subject to check -- I'll supply
8 this information tomorrow -- are you aware that the school
9 district's property taxes went up 5 percent last year?

10 A. I'm not aware of that.

11 MR. MacGREGOR: Your Honor, I would like to voice a
12 continuing objection to any questions regarding this issue.
13 I'm going to move to strike Mr. Epstein's testimony on
14 Wednesday when he appears, but because of the way the
15 schedule is set up, I had to go ahead and respond to it
16 today in the event that my motion to strike is denied on
17 Wednesday. I should have said this up front. All the
18 testimony I presented from Mr. Kleha on the generation tax
19 appeals and this questioning will be subject to my motion,
20 because I don't believe that the taxes we pay on generating
21 assets that are not part of this case, and not under the
22 control of PPL Electric Utilities, have any bearing
23 whatsoever on the rate increase and the issues before the
24 Commission in this proceeding.

25 MR. EPSTEIN: Can I respond?

1 JUDGE COLWELL: Yes, you may.

2 MR. EPSTEIN: I strongly disagree. The folks in
3 northern York County, when they get their electric bill,
4 their rates will go up, and regardless if it's PPLE or just
5 PPL Genco responsible for those rates going up, what has
6 occurred in that area is, because the company did not pay
7 the taxes, taxes did go up, so if there is an 8.1 percent
8 increase in their electric bill, regardless of who is
9 responsible, the Genco or the EDC, that person -- and we're
10 talking about a population, 20 percent of which is on or
11 below poverty -- that person is going to have an increased
12 electric bill on top of increased taxes as a result of PPL
13 Electric and PPL Genco. So what I'm saying to you is
14 regardless of --

15 JUDGE COLWELL: Wait a minute. Are you saying it's
16 because of PPL Electric or because of PPL Genco?

17 MR. EPSTEIN: Well, that person is going to see their
18 electric bill go up because of this rate increase.

19 JUDGE COLWELL: There's only one company here today.

20 MR. EPSTEIN: Right.

21 JUDGE COLWELL: Is that the one you're holding
22 responsible?

23 MR. EPSTEIN: I'm holding that company that sends the
24 bill responsible. That includes PPL Electric Utilities.
25 When people pay their bills, they don't differentiate. They

1 get one bill. They don't pay a bill to PPL EU or PPL Genco;
2 they pay one bill.

3 Maybe this is something we can -- I can leave this
4 line of questioning and take it up again Wednesday or
5 Thursday when they move to strike with Judge Turner here.

6 JUDGE COLWELL: That would be fine; yes.

7 MR. EPSTEIN: That would conclude my line of
8 questioning for Mr. Kleha.

9 JUDGE COLWELL: Has Ms. Knight returned?

10 (No response.)

11 JUDGE COLWELL: Ms. Polacek?

12 MS. POLACEK: Your Honor, I don't have any questions.
13 I do have a cross-examination exhibit that I would like to
14 mark and enter into the record in lieu of cross-examining
15 Mr. Kleha. We'd like it marked as PPLICA Cross Exhibit No.
16 1. It's the company's response to PPLICA Interrogatory Set
17 III, No. 2.

18 **CROSS-EXAMINATION**

19 BY MS. POLACEK:

20 Q. Mr. Kleha, while I'm distributing things around,
21 if you could please review that and just confirm that that
22 is the response that you provided to our interrogatory.

23 (Document handed to witness.)

24 A. I can state for the record that this is the
25 response that I prepared to this interrogatory.

1 MS. POLACEK: Your Honor, with that, I have no
2 questions on it. I would just move for the admission of
3 PPLICA Cross Exhibit No. 1.

4 JUDGE COLWELL: Any objection to the admission of
5 this exhibit?

6 (No response.)

7 JUDGE COLWELL: It is admitted.

8 (Whereupon, the document was marked
9 as PPLICA Cross-Examination Exhibit
10 No. 1 for identification, and was
11 received in evidence.)

12 JUDGE COLWELL: Mr. Niesen?

13 MR. NIESEN: I have no questions of Mr. Kleha, Your
14 Honor.

15 JUDGE COLWELL: Mr. MacGregor, do you have any more
16 questions for your witness?

17 MR. MacGREGOR: I have one question, Your Honor.

18 REDIRECT EXAMINATION

19 BY MR. MacGREGOR:

20 Q. Mr. Kleha, you were asked a series of questions
21 by Mr. Kanaskie regarding the capital stock tax. Would it
22 be correct that the procedure the company employs to gross
23 up the capital stock tax to reflect the amount of the
24 revenue increase granted in this proceeding is the same
25 procedure that it follows for all taxes, federal and state?

FORM 2

1 A. That's correct.

2 Q. And it's the same procedure the company has
3 followed in all of its prior rate proceedings in which
4 you've been involved?

5 A. That's correct.

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

7 JUDGE COLWELL: Does any party have any further cross
8 based on the questions that were asked here today?

9 (No response.)

10 JUDGE COLWELL: Hearing none, thank you, Mr. Kleha,
11 you're excused.

12 THE WITNESS: Thank you, Your Honor.

13 (Witness excused.)

14 JUDGE COLWELL: We're going to take a short break
15 right now. Fifteen minutes.

16 (Recess.)

17 ADMINISTRATIVE LAW JUDGE ALLISON TURNER: Good
18 morning, everyone. I'm Allison Turner and I'm assigned to
19 hear and decide this case, with the assistance of Judge
20 Colwell and Judge Jandebaur. I apologize for my lateness.
21 I tried a new route to get here and it did not work well. I
22 went miles out of my way, speaking softly under my breath
23 all the while. I do apologize. I meant no disrespect to
24 any of you here. I know that the hearing has gone smoothly
25 in the hands of Judge Colwell. For the next hour or so we

1 will preside jointly, and then after lunch I think she'll
2 trust me enough to leave me on my own.

3 I understand that we have completed Mr. Kleha and are
4 about to turn to Mr. Spanos. Is that correct?

5 MR. MacGREGOR: Yes, Your Honor. Mr. Spanos has
6 already taken the witness chair and is available to be
7 sworn.

8 JUDGE TURNER: Will you raise your right hand?

9 Whereupon,

10 JOHN SPANOS

11 having been duly sworn, testified as follows:

12 JUDGE TURNER: Do you also swear that as to your pre-
13 filed testimony and the exhibit that accompanies it?

14 THE WITNESS: Yes.

15 JUDGE TURNER: Please be seated.

16 MR. MacGREGOR: Your Honor, Mr. Spanos is responsible
17 for his testimony, which is Statement 8, his Exhibit JJS-1,
18 which is the depreciation study in this case, and for
19 various portions of the filing requirements and exhibits
20 that relate to depreciation, and he is available for cross-
21 examination on those items.

22 JUDGE TURNER: Am I correct in my information that
23 Mr. Epstein is the only person that has cross-examination
24 for this witness?

25 MR. MacGREGOR: I believe that's correct, Your Honor.

1 JUDGE TURNER: Mr. Epstein.

2 MR. EPSTEIN: Thank you.

3 CROSS-EXAMINATION

4 BY MR. EPSTEIN:

5 Q. Good morning, Mr. Spanos.

6 A. Good morning.

7 Q. Were you able to look at my alternative scenario
8 for geometric depreciation?

9 A. I've seen what you put together, yes.

10 Q. Do you feel that there's ever an instance where
11 that's appropriate for a base rate case?

12 A. No. In my mind the geometric mean methodology
13 for utility companies is not appropriate because of the fact
14 that the assumptions are made based on either constant
15 growth or no growth with each plant account, and that's not
16 the case in assets being added and retired in each of these
17 plant accounts for a utility company.

18 Q. I was trying to revisit that. Would geometric
19 depreciation be appropriate if a utility had a fleet of
20 plants that were re-licensed or upgraded and, therefore, not
21 being retired or taken out of service?

22 A. Well, this particular study that I performed was
23 related to transmission, distribution and general plant.
24 There were no assets such as generation facilities that were
25 in the line of where you're describing that, so I don't

1 feel, as part of this study, that that's really a situation
2 we would be discussing.

3 Q. I guess what I'm asking is: if that were the
4 case, that you had a fleet of assets that extended past
5 their used and useful life span, would geometric accounting
6 be appropriate in that instance?

7 A. Again, I would not say so because of the fact
8 that you would not have either constant growth or no growth
9 in the assets, because you -- the reason why that would go
10 beyond an estimate or beyond a re-license date would be
11 because of the fact that assets were added to the system at
12 a given point in time when there is a decision to make
13 either a full overhaul or major change to the facilities, so
14 the overall recovery of those assets have been changed. So
15 that's why I don't consider that methodology to be
16 appropriate even for those assets.

17 Q. What I'm saying is, what if that asset isn't
18 materially changed but the license to operate that asset is
19 extended, could you use the geometric method in that
20 instance?

21 A. Well, I wouldn't use the geometric methodology
22 at all.

23 Q. That's okay; I'm getting that.

24 A. I think that's the most appropriate answer to
25 your question.

1 Q. But what I'm saying is some of your underlying
2 assumptions are not necessarily the case in other scenarios,
3 and what you're saying is regardless of those assumptions,
4 that methodology is something you would probably never
5 utilize?

6 A. Not for depreciation for utility companies.

7 Q. Okay. I just have one other question.

8 JUDGE TURNER: Excuse me. Hence, from what I've
9 heard, those other scenarios don't involve this case.

10 MR. EPSTEIN: No.

11 JUDGE TURNER: They would be irrelevant.

12 MR. EPSTEIN: I think so, yes.

13 JUDGE TURNER: Okay. You're going to move on?

14 MR. EPSTEIN: Yeah, I have one last question.

15 BY MR. EPSTEIN:

16 Q. Do you believe the value of an asset is the same
17 in the first year of installation as in the last year of its
18 used and useful life?

19 A. No. The asset value changes based on the amount
20 of depreciation recovered for that asset each year. A newer
21 asset has higher value than an older asset in the sense of
22 what it can do for the utility. The recovery of each asset
23 is on a rateable level, so depending on the survivor curve
24 and the average service life, there are assets that have a
25 different rate of value based on how old they are.

1 Q. But that's based on a vintage model; you don't
2 do site specific asset evaluation, they're categorized based
3 on their vintage?

4 A. That's based on the vintage model for the assets
5 that we reviewed here in this particular study, yes.

6 MR. EPSTEIN: That's it.

7 JUDGE TURNER: Redirect?

8 MR. MacGREGOR: No, Your Honor.

9 JUDGE TURNER: Thank you, sir; you may be excused.

10 THE WITNESS: Thank you.

11 (Witness excused.)

12 JUDGE TURNER: Mr. Schadt is next, I assume?

13 MR. MacGREGOR: Yes, Your Honor.

14 JUDGE TURNER: Good morning, sir.

15 MR. SCHADT: Good morning.

16 JUDGE TURNER: Will you raise your right hand?

17 **Whereupon,**

18 **JOSEPH R. SCHADT**

19 **having been duly sworn, testified as follows:**

20 JUDGE TURNER: Is that the same for your pre-filed
21 testimony and exhibits?

22 THE WITNESS: Yes, it is.

23 JUDGE TURNER: Please be seated.

24 THE WITNESS: Thank you.

25 MR. MacGREGOR: Your Honor, Mr. Schadt is our general

FORM 2

1 accounting witness and responsible for Statement 2, his
2 Rebuttal Statement 2-R, and various exhibits as identified
3 on the sheets that were previously handed out. Before his
4 cross-examination, I have two or three brief questions by
5 way of oral rejoinder testimony.

6 **DIRECT EXAMINATION**

7 BY MR. MacGREGOR:

8 Q. The first of which relates to Mr. Weakley's
9 surrebuttal testimony at page 2 where he states that the
10 company's pension plan is currently over-funded. Is that
11 true for purposes of GAAP and SFAS-87, Mr. Schadt?

12 A. As far as GAAP and Statement of Financial
13 Accounting Standards 87, which is the prevailing GAAP on
14 pensions, that is not true. PPL Electric Utilities has a
15 liability for their pension plan of approximately \$75
16 million.

17 JUDGE TURNER: Excuse me. Can you have him identify
18 what GAAP is?

19 MR. MacGREGOR: I'm sorry, Your Honor; it's G-A-A-P
20 and it stands for Generally Accepted Accounting Principles.

21 JUDGE TURNER: And the other one, SFAS?

22 MR. MacGREGOR: SFAS is Statement of Financial
23 Accounting Standards. I apologize.

24 JUDGE TURNER: Issued by whom?

25 MR. MacGREGOR: Issued by the Financial Accounting

1 Standards Board or FASB, F-A-S-B.

2 JUDGE TURNER: Thank you.

3 BY MR. MacGREGOR:

4 Q. Referring to Mr. Morgan's testimony in his
5 surrebuttal on behalf of the OCA at pages 3 and 4, where he
6 discussed an adjustment for late payment fees to reflect the
7 amount of the rate increase granted in this proceeding, if
8 such an adjustment were made, Mr. Schadt, would it be
9 appropriate also to consider a similar adjustment for
10 uncollectible accounts expense?

11 A. Yes, sir. The proposal was to take the adjusted
12 revenue, whatever the rate increase would be, and apply a
13 percentage for the late payment fees to increase the late
14 payment fees' portion of revenue. While that seems
15 reasonable, if that is adopted, a very similar methodology
16 should be applied to our uncollectible accounts expense.

17 Q. And I think the adjustment proposed by Mr.
18 Morgan was approximately, in round numbers, about a million
19 dollars for the additional late payment fees associated with
20 the rate increase; is that correct?

21 A. Yes, it is.

22 Q. And have you calculated what a similar
23 adjustment would be to uncollectible accounts expense?

24 A. We have. We took the uncollectible percentage
25 that we've used in the future test year of .655 percent of

1 revenues, and we applied that to our requested rate
2 increase, and that resulted in an increase in uncollectible
3 expense of \$1,044,000.

4 Q. I have just two more questions related to Mr.
5 Epstein's surrebuttal. In fact, just one question; I
6 covered the other with Mr. Kleha.

7 In Mr. Epstein's surrebuttal, he includes a proposal
8 that the Commission recommend that the company include a
9 shareholder proposal at its next annual meeting relating to
10 the consideration of reliability and customer satisfaction
11 in setting executive compensation. Do the company's
12 incentive compensation arrangements already contain such
13 measures?

14 A. Yes, they do. Executive compensation already
15 has goals relating to reliability and customer satisfaction.

16 Q. And those relate not just to PPL Electric
17 Utility employees but also to executive officers of the
18 holding company?

19 A. That's correct.

20 MR. MacGREGOR: Your Honor, that completes my
21 rejoinder presentation, and Mr. Schadt is available for
22 cross-examination.

23 JUDGE TURNER: OTS.

24 MR. KANASKIE: Good morning, Your Honor.

25 JUDGE TURNER: Would you like to begin, Mr. Kanaskie?

1 Do you have cross-examination?

2 MR. KANASKIE: Yes, Your Honor, I have brief cross-
3 examination.

4 **CROSS-EXAMINATION**

5 BY MR. KANASKIE:

6 Q. Good morning, Mr. Schadt. My name is Rick
7 Kanaskie with the Office of Trial Staff. I'd like to point
8 you to your rebuttal testimony, Statement 2-R, pages 4 and
9 5. Got it?

10 A. Yes, sir.

11 Q. I guess as a background question, would you
12 agree that SFAS-87 and SFAS-88, which we'll talk about a
13 little later, are accounting treatments, that is, they are
14 accounting standards?

15 A. Yes, they are.

16 Q. Would you also agree that these accounting
17 standards do not control contributions, physical
18 contributions, into the trust itself?

19 A. I agree with that. The physical contributions
20 are governed more by the IRS regulations, the Internal
21 Revenue Service regulations.

22 JUDGE TURNER: Do you cover those regulations
23 elsewhere?

24 THE WITNESS: Do I cover those elsewhere?

25 JUDGE TURNER: Yes.

1 THE WITNESS: Well, the Internal Revenue Service has
2 regulations that dictate when you can give contributions to
3 a pension plan and get a tax deduction for those
4 contributions.

5 JUDGE TURNER: Okay. And you've just identified that
6 regulation; yes?

7 THE WITNESS: Yes.

8 JUDGE TURNER: Is that elsewhere in your testimony or
9 will you identify it again so that --

10 THE WITNESS: We commented upon that within the
11 interrogatories.

12 JUDGE TURNER: Which may not be admitted. So what is
13 the regulation?

14 THE WITNESS: It's part of the IRS Code. I do not
15 have the Code reference. I'm sorry.

16 MR. MacGREGOR: We can supply it, Your Honor.

17 JUDGE TURNER: Okay.

18 Sorry for the interruption, Mr. Kanaskie.

19 MR. KANASKIE: That's quite all right, Your Honor.

20 BY MR. KANASKIE:

21 Q. For basis of this conversation, would I be
22 correct in stating ERISA controls the minimum you can place
23 in a trust and IRS tax guidelines control the maximum?

24 A. I believe that's correct.

25 Q. Would you agree, under those standards, PPL's

1 contribution is zero, or liability is zero?

2 A. Under those standards --

3 Q. Under ERISA and IRS standards.

4 A. Under those standards, our contribution is zero.

5 Q. On page 5, on line 6, actually, starting in the
6 beginning, you say that this pension expense claim is
7 consistent with the Commission's order in your last base
8 rate case.

9 A. That is correct.

10 Q. You also say on line 6 that rates based on cash
11 contributions can result in dramatic fluctuations. On the
12 basis that I just talked about, ERISA standards and IRS tax
13 standards from your last base rate case, would you agree
14 subject to check that your minimum and maximums have been
15 zero?

16 A. I would agree that since the last base rate case
17 our contributions have been zero, but I would caution that
18 we are building up a substantial liability balance, and that
19 liability is going to require funding at some future date.

20 Q. Would you agree that in your last base rate
21 case, you got ratepayer funds as part of your case
22 resolution?

23 A. There was a claim for pension expense in the
24 last rate case, and that was included in rates.

25 Q. So if I'm correct, you received funds from the

1 last base rate case, but according to ERISA minimums and IRS
2 maximums, no contributions have been made?

3 A. Correct.

4 MR. KANASKIE: I have no further questions. Thank
5 you.

6 JUDGE TURNER: Before we leave this, I want to make
7 sure that we have the spelling of ERISA on the record.

8 THE WITNESS: E-R-I-S-A.

9 JUDGE TURNER: Thank you.

10 OCA?

11 MR. MULLINS: No questions. Thank you, Your Honor.

12 JUDGE TURNER: OSBA?

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

14 JUDGE TURNER: Ma'am, do you represent OSBA?

15 MS. POLACEK: No. I'm actually Ms. Polacek on behalf
16 of the PP&L Industrial Customer Alliance. I don't have any
17 questions. I do have a cross-examination exhibit of an
18 interrogatory response that I'd like to identify and just
19 enter into the record.

20 JUDGE TURNER: Cross-examination response of what
21 witness?

22 MS. POLACEK: Of Mr. Schadt. That one was already
23 done with Mr. Kleha. I think we're on PPLICA Exhibit No. 2,
24 and that would be PPL Electric Utilities Corporation
25 Response to Informal Data Requests of Eric Joseph Epstein

1 No. 3. I've got a copy here; I haven't distributed it yet,
2 Your Honor.

3 JUDGE TURNER: What I'm looking at is one, PPLICA 1.

4 MS. POLACEK: Yes, Your Honor. We had --

5 JUDGE TURNER: And you're making this PPLICA --

6 MS. POLACEK: No. 2.

7 JUDGE TURNER: Okay.

8 MS. POLACEK: That was entered into the record during
9 the cross-examination of Mr. Kleha.

10 JUDGE TURNER: This one, No. 1.

11 MS. POLACEK: No. 1 was, yes, Your Honor. Now we
12 have No. 2 that we'd like to mark for the record.

13 JUDGE TURNER: And it relates to this witness?

14 MS. POLACEK: It is a response co-sponsored by Mr.
15 Schadt and Mr. Krall.

16 JUDGE TURNER: So you want to ask him to identify it?

17 MS. POLACEK: That's what I'd like to do, Your Honor.

18 JUDGE TURNER: Okay.

19 **CROSS-EXAMINATION**

20 BY MS. POLACEK:

21 Q. Mr. Schadt, if you could please look at that
22 response and confirm that it is an interrogatory response
23 that you co-sponsored with PPL witness Mr. Krall to the
24 informal data requests of Mr. Epstein.

25 (Document handed to witness.)

1 (Pause.)

2 Q. Can you confirm that that is your interrogatory
3 response?

4 A. Yes.

5 MS. POLACEK: Your Honor, I have no additional
6 questions on the actual exhibit. I would just move it,
7 unless you believe some additional authentication or
8 evidentiary basis needs to be laid before it's moved into
9 admission.

10 JUDGE TURNER: Well, he's identified it, but I guess
11 I would like a statement of counsel, why do you want it in
12 the record?

13 MS. POLACEK: We want it into the record because it
14 is relevant to actually an issue related to the Sustainable
15 Energy Fund, and that is whether, when line upgrades occur
16 in the PJM transmission system, how those line upgrades are
17 paid for, whether all market participants pay for them or
18 whether only the specific people who benefit from an
19 extension do. That's relevant because one of the issues in
20 this case is whether ratepayers should fund the Sustainable
21 Energy Fund. Proponents of that funding have claimed that
22 all ratepayers benefit because we avoid transmission
23 upgrades, and our point with this interrogatory response
24 would be that that's not necessarily so according to the PJM
25 rules.

1 JUDGE TURNER: Thank you.

2 Does PPL or any other party have an objection to this
3 being entered?

4 MR. MacGREGOR: No objection, Your Honor.

5 JUDGE TURNER: It shall be admitted.

6 (Whereupon, the document was marked
7 as PPLICA Cross-Examination Exhibit
8 No. 2 for identification, and was
9 received in evidence.)

10 JUDGE TURNER: Mr. McCormick, do you have cross-
11 examination?

12 MR. McCORMICK: No questions, Your Honor.

13 JUDGE TURNER: Mr. Epstein?

14 MR. EPSTEIN: Yes, ma'am.

15 **CROSS-EXAMINATION**

16 BY MR. EPSTEIN:

17 Q. Mr. Schadt, how are you doing this morning?

18 A. Good.

19 Q. Good to see you. I have two questions regarding
20 the rejoinder to my surrebuttal. The first, just so that
21 I'm clear, is that executive compensation for corporate
22 executives is essentially coupled, for instance, they get
23 compensation for PPL EU, PPL EDC, it's all bundled together
24 when they get a paycheck?

25 A. For executive management?

1 Q. Yes.

2 A. As far as their incentive comp?

3 Q. Yes.

4 A. That is correct.

5 Q. And if I understood you, essentially what you're
6 saying is that my shareholder proposal would be redundant
7 because there are already goals and objectives for the
8 executives as it now stands?

9 A. Yes, to satisfy reliability and customer
10 satisfaction.

11 Q. So that it would be logical to presume that if
12 this shareholder proposal was put forward, that it would be
13 overwhelmingly approved?

14 A. I'm unable to opine on that.

15 Q. Do you oppose introducing the shareholder
16 proposal?

17 A. I believe it's unnecessary. I believe our goals
18 already cover those objectives.

19 Q. So essentially, would it be your testimony that
20 you find my proposal to be a duplicate?

21 A. I do.

22 Q. I just had a couple of quick questions on the
23 AMR. My confusion is one of a shareholder. In my annual
24 report, the figure I got for the AMR work force reduction
25 was \$9 million. I think your proposal is it would recover -

1 - is it \$8 million or is it \$8.8 million?

2 A. It's \$8.8 million. I believe in the annual
3 report, Mr. Epstein, that we simply rounded it to \$9
4 million.

5 Q. Okay. Now, does that figure representation the
6 separation of 94 or 106 employees?

7 A. The original separation, the original booking
8 for the AMR severance was for 94 employees, and then at a
9 later date we found there were 12 additional displacements,
10 and we did not go back and have an actuarial true-up to the
11 severance cost.

12 Q. So the severance cost is only for 94, the other
13 12 have been omitted from the true-up cost?

14 A. Correct.

15 Q. Where did you find those 12 additional jobs?
16 I'm trying to determine, what were they? Were they
17 management, were they union, were they line?

18 A. One minute.

19 (Witness perusing documents.)

20 JUDGE TURNER: Is this related to the witness' direct
21 or rebuttal?

22 MR. EPSTEIN: I'm sorry?

23 JUDGE TURNER: Can you tell me in the testimony where
24 this is?

25 MR. EPSTEIN: It's in my direct testimony.

1 JUDGE TURNER: It's in the direct?

2 MR. EPSTEIN: Yes.

3 (Pause.)

4 THE WITNESS: I'm sorry; I really don't seem to have
5 the detail you're asking for. I don't have the detail on
6 whether the remaining 12 employees were management or
7 bargaining unit.

8 MR. EPSTEIN: Judge Turner, it's part of the
9 discussion that begins on 5 and then I think ends on page 10
10 with labor reductions and work by others.

11 It is possible to get that figure, David, or do you
12 need me to do a data request?

13 MR. MacGREGOR: We can handle it as an on-the-record
14 data request, if that's acceptable to Your Honor, then
15 provide it.

16 JUDGE TURNER: Well, it's acceptable to me if you can
17 get it back for inclusion in the record before we close the
18 case.

19 MR. MacGREGOR: I think that might be difficult,
20 particularly as we go on later in the week. I think there's
21 a regulation about on-the-record data requests, that they
22 have to be answered within a certain number of days, and I
23 think the provision is generally made to hold the record
24 open to submit them, if the party wants to, but maybe I
25 could report back on that after lunch. I'm not quite --

FORM 2

1 JUDGE TURNER: I'm not familiar with that regulation,
2 but if it's there, I'll certainly follow it. I just want to
3 be sure that it's not a loose end. If he wants to put it in
4 the record, and you're not objecting to it, --

5 MR. MacGREGOR: I suspect the easiest way to handle
6 it, maybe, we can probably call back and get the information
7 over lunch, and we'll just have Mr. Schadt put it on the
8 record after lunch, or I can just state it for the record,
9 would be the easiest thing to do.

10 JUDGE TURNER: Are you and Mr. Epstein comfortable
11 with that?

12 MR. EPSTEIN: Yes.

13 JUDGE TURNER: Okay.

14 MR. EPSTEIN: I mean, I can't answer for
15 Mr. Schadt --

16 JUDGE TURNER: He's nodding his head.

17 THE WITNESS: Yes, Your Honor, that's fine.

18 MR. EPSTEIN: I have just two other questions.

19 BY MR. EPSTEIN:

20 Q. Mr. Schadt, I'm just curious, as I've been
21 following your testimony, if it's fair to conclude that as
22 PPL continues to eliminate jobs, the number of jobs and
23 person hours will be filled by outside contract labor? Do
24 you look to that to increase as a trend?

25 A. The way electric utilities approach their work

1 force is they figure out in advance how much work they feel
2 is necessary to be completed in the future year as far as
3 maintenance and operations and construction. They fill as
4 much of that work as they can with their existing staff, and
5 any remainder that they're unable to get -- any remaining
6 work that they're unable to complete with their existing
7 staff they have to backfill with outside services.

8 Q. I guess, sir, what I've seen in the data you
9 submitted, that over the last couple of years, the number of
10 positions have been eliminated as the number of tasks
11 performed by work by others has increased.

12 A. I think more of those positions that have been
13 eliminated are such positions as meter readers. I believe
14 it's not so significant -- I believe the actual line
15 positions, I'm not sure that applies to.

16 Q. So what you would be saying is that it's not
17 necessarily a policy decision to downsize labor and then
18 supplant it with work by others?

19 A. Yes. I'm not aware that that's a policy.

20 Q. Are the same hiring standards applied to work by
21 others as are applied to your internal employees?

22 A. I cannot speak to that.

23 MR. EPSTEIN: Mr. MacGregor, who could speak to that?

24 MR. MacGREGOR: What's the specific question again?

25 I'm sorry.

1 MR. EPSTEIN: Do the same hiring standards apply to
2 work by others that are applied to internal employees?

3 MR. MacGREGOR: Can I have a moment, Your Honor?

4 JUDGE TURNER: Yes.

5 (Pause.)

6 MR. MacGREGOR: Mr. Sipics can answer the question
7 when he appears.

8 MR. EPSTEIN: Okay.

9 JUDGE TURNER: You said you had just two more
10 questions, Mr. Epstein.

11 MR. EPSTEIN: Yes.

12 JUDGE TURNER: And you said that twice, so you should
13 be finished; right?

14 MR. EPSTEIN: Well, I didn't realize I said it twice.
15 I'm sorry.

16 JUDGE TURNER: Yes. Do you have any more questions?

17 MR. EPSTEIN: Yes, I do. I'm sorry. I have one
18 question regarding -- actually, it was a line of questions,
19 but I can defer it.

20 JUDGE TURNER: Go ahead.

21 MR. EPSTEIN: That line of questions would be, Mr.
22 MacGregor, if you agree, Mr. Schadt would be the appropriate
23 witness relevant to political contributions?

24 MR. MacGREGOR: Yes.

25 BY MR. EPSTEIN:

1 Q. I just need a clarification, if it's okay. I
2 initially asked in my interrogatories -- and I don't know
3 who answered them -- on May 24, Set III, Question 1 and 2,
4 whether or not the company made political contributions. I
5 think there were objections filed by the company. Then the
6 company and myself agreed that the objections answered the
7 questions. The objection said, "By way of further response,
8 however, PPL Electric has made no political contributions
9 during the period." However, what I found is that there's a
10 lot of money being made by Political Action Committees from
11 PPL.

12 A. Yes.

13 Q. How do you differentiate political contribution
14 from Political Action Committee? I'm confused, because
15 there's a great deal of money going through that.

16 A. PPL has a Political Action Committee, and
17 employees are entitled to voluntarily contribute to the
18 Political Action Committee, and then they can contribute to
19 the candidates as they find appropriate. But it is all
20 employee contributions, and there is no company money going
21 into that Political Action Committee.

22 Q. So essentially it's a voluntary contribution
23 from employees to the PAC, then go to a particular
24 candidate?

25 A. That is correct.

1 Q. And is that different from the money that goes
2 to the Electric Association? That is a corporate
3 contribution?

4 A. Yes; that's different.

5 MR. EPSTEIN: Thank you.

6 JUDGE TURNER: Mr. Niesen?

7 MR. NIESEN: Your Honor, I have no questions for Mr.
8 Schadt.

9 JUDGE TURNER: So have I called on all the parties
10 that are present that might have questions of Mr. Schadt?
11 Am I leaving anyone out?

12 (No response.)

13 JUDGE TURNER: In that case, do you have redirect?

14 MR. MacGREGOR: No, Your Honor.

15 JUDGE TURNER: Thank you, Mr. Schadt; you may step
16 down.

17 THE WITNESS: Thank you, Your Honor.

18 (Witness excused.)

19 JUDGE TURNER: Witness Woodruff?

20 MR. MacGREGOR: Yes, Your Honor.

21 JUDGE TURNER: Good morning, Mr. Woodruff.

22 MR. WOODRUFF: Good morning, Your Honor.

23 JUDGE TURNER: Will you raise your right hand?

24 Whereupon,

25 DAVID R. WOODRUFF

1 having been duly sworn, testified as follows:

2 JUDGE TURNER: Is that the same for your pre-filed
3 testimony and exhibits?

4 THE WITNESS: Yes, ma'am.

5 JUDGE TURNER: Thank you. Please be seated.

6 THE WITNESS: Thank you.

7 MR. MacGREGOR: Your Honor, Mr. Woodruff is
8 responsible for his testimony, which is Statement 3, and his
9 rebuttal statement testimony, which is Statement No. 3-R.
10 He's also responsible for various exhibits and portions of
11 the historic and future test year exhibit. He is
12 essentially our sales forecasting and revenue forecasting
13 witness, and he is available for cross-examination.

14 JUDGE TURNER: Mr. Kanaskie.

15 MR. KANASKIE: Your Honor, if I may, may I defer to
16 Mr. Epstein and then reply after he's finished? I'd like
17 him to go first.

18 JUDGE TURNER: You may.

19 MR. KANASKIE: Thank you, Your Honor.

20 JUDGE TURNER: Mr. Mullins?

21 MR. MULLINS: No questions, Your Honor.

22 JUDGE TURNER: Mr. Gray?

23 MR. GRAY: No questions, Your Honor.

24 JUDGE TURNER: Mr. McCormick?

25 MR. McCORMICK: No questions, Your Honor.

1 JUDGE TURNER: Mr. Epstein.

2 MR. EPSTEIN: I have one question. It will only be
3 one question, I promise, Your Honor.

4 CROSS-EXAMINATION

5 BY MR. EPSTEIN:

6 Q. How are you doing this morning?

7 JUDGE TURNER: That's it.

8 (Laughter.)

9 BY MR. EPSTEIN:

10 Q. It pertains to a follow-up to Mr. Krall and my
11 confusion over that the company noted that they needed a
12 rate increase to help service a growing customer base, and I
13 was trying to ascertain demographics, because essentially
14 what the company is saying is that they can maintain the
15 linemen ratio to households as the customer base is growing;
16 however, -- and I don't want to speak for Mr. Krall -- he
17 was also saying that that may be possible because of where
18 the growth is taking place. Do you have access to data or
19 have you conducted studies where you predict growth will
20 take place in your customer base and what type of customer
21 that would be?

22 JUDGE TURNER: Do you mean where geographically or --

23 MR. EPSTEIN: No, not geographically, because --

24 JUDGE TURNER: -- the class of customer?

25 MR. EPSTEIN: Yeah, because, I mean, if the growth is

1 mostly residential customers, you're going to need more
2 linesmen, in my opinion. Maybe it's a college dormitory. I
3 understand. That's what I'm trying to figure out.

4 JUDGE TURNER: Okay.

5 THE WITNESS: Potentially, our forecast model, when
6 we -- we run models for electric heat customers and general
7 residential customers, so we have total numbers of customers
8 for those two large residential groupings. The forecast is
9 based on the total number of households within our service
10 territory, and we get that information from forecast
11 information from economy.com, who supplies us information
12 like that in terms of households, GDP and other forecasts.

13 BY MR. EPSTEIN:

14 Q. What was that website?

15 A. Economy.com. It's the vendor we use for our
16 economic data.

17 So we forecast by total number of electric heat
18 customers and general residential customers.

19 Now, the distribution planning engineers, though,
20 when they look at substation loadings, will look at the
21 loading on individual substations, will look at growth in
22 regions. That's not really part of our model, but we do
23 compare our growth expectations with them just to make sure
24 everything looks in line. But they look at the total
25 loading on substations to see where the growth is occurring,

1 where they need to do improvements.

2 Q. So if I understand you correctly then, your
3 future plans for growth do not include small business or
4 industrial, but you plan just residential --

5 A. No. We do -- I thought you were focusing on
6 residential. We also do commercial and we do industrial and
7 other. Other includes railroad, public authority and
8 lighting.

9 Q. Is there a copy of that data that you could
10 direct me to? I mean the study where you're predicting the
11 growth sector to be.

12 A. I'm trying to recall if we provided our
13 forecasts by that breakdown or not. I can't recall. I have
14 to --

15 JUDGE TURNER: Do you want someone with the company
16 to check for you?

17 THE WITNESS: Yes, if you could do that.

18 JUDGE TURNER: He wants to know if that study was
19 already provided. He thought it had been.

20 MR. MacGREGOR: I'm not sure.

21 (Pause.)

22 MR. MacGREGOR: Why don't we check over lunch?

23 JUDGE TURNER: Okay.

24 Proceed with your cross-examination.

25 MR. EPSTEIN: That would conclude my line of

1 questioning.

2 JUDGE TURNER: So you've completed your cross-
3 examination?

4 MR. EPSTEIN: Yes, ma'am.

5 JUDGE TURNER: Mr. Kanaskie?

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

7 JUDGE TURNER: Ms. Polacek?

8 MS. POLACEK: No questions, Your Honor.

9 JUDGE TURNER: Mr. Niesen?

10 MR. NIESEN: Your Honor, I have no questions for Mr.
11 Woodruff.

12 JUDGE TURNER: Do you have redirect?

13 MR. MacGREGOR: No, Your Honor.

14 JUDGE TURNER: Then this witness can be excused.

15 (Witness excused.)

16 JUDGE TURNER: Why don't we do one more witness and
17 then break for lunch.

18 MR. MacGREGOR: Mr. Sipics, the next witness, would
19 conclude the company's witnesses, and it would be an
20 appropriate time to break before we turn to the other
21 parties' witnesses.

22 JUDGE TURNER: Shall we call Mr. Sipics?

23 MR. MacGREGOR: Yes.

24 (Pause.)

25 JUDGE TURNER: In case it hasn't been made before,

1 we'll make an announcement about cell phones: turn them off
2 or set them on vibrate. If you have to use your cell phone,
3 leave the room.

4 Now, Mr. Sipics, would you raise your right hand?

5 **Whereupon,**

6 **JOHN F. SIPICS**

7 **having been duly sworn, testified as follows:**

8 JUDGE TURNER: And is that the same for your pre-
9 filed testimony?

10 THE WITNESS: Excuse me, Your Honor?

11 JUDGE TURNER: Do you swear that your pre-filed
12 testimony is the truth, the whole truth, and nothing by the
13 truth as far as you know?

14 THE WITNESS: Yes, I do, Your Honor.

15 JUDGE TURNER: Thank you. Please be seated.

16 MR. MacGREGOR: Your Honor, Mr. Sipics is responsible
17 for his direct testimony, Statement No. 1, and he is the
18 President of PPL Electric Utilities.

19 JUDGE TURNER: I did have a question for Mr. Sipics.
20 I don't know if anyone else does.

21 On page 3 of your testimony, at the bottom of the
22 page, you say, "In PPL Electric's case, its 1997 rates were
23 set by the Commission's final order in the company's 1995
24 base rate case. Because the 1995 rate increase was, in
25 large measure, offset by decreases in energy costs

1 experienced prior to that case, the company's 1995 rates
2 were essentially equal to rates established in 1986. As a
3 practical matter, the company's retail rates have remained
4 essentially unchanged since 1986." Can you explain that to
5 me?

6 THE WITNESS: I can try, Your Honor. In December of
7 '94, we filed for a general rate increase. That rate
8 increase was granted in I believe it was September of 1995,
9 and that raised our general rates somewhat in the order of
10 3, 3.5 percent. However, our last rate case before that was
11 in 1986, the Susquehanna II rate case, and the rates that
12 were set in 1986 still had an energy charge rate, energy
13 cost rate, a pass-through of changes in fuel prices, and
14 there were some decreases, net decreases in the energy cost
15 rate between the 1986 case and the 1995 case, such that the
16 total rates after the 1995 rate increase were actually about
17 the same as they were set in 1986. It depends on the --

18 JUDGE TURNER: So it's actually because of the energy
19 charge pass-through?

20 THE WITNESS: The energy cost rate pass-through
21 actually had some net decreases between '86 and --

22 JUDGE TURNER: So it was just a pass-through, it
23 doesn't affect the rest of the rates; right?

24 THE WITNESS: No. The energy cost rate was
25 eventually rolled into rates at the levels -- I don't

1 remember the year now, but the level it was rolled in at was
2 lower than the rate that was set in '86.

3 JUDGE TURNER: But it was a pass-through rate?

4 THE WITNESS: It was a pass-through of fuel costs,
5 purchased power costs, net of revenues from sales of energy
6 to other companies, but the effect on --

7 JUDGE TURNER: So the -- I'm sorry.

8 THE WITNESS: I'm sorry. I was going to suggest that
9 one of the things we did to make this statement, we actually
10 calculated the rates for typical customers in 1986 and then
11 did the same calculation today, and it depends a little bit
12 on rate class, but for an average residential customer, if I
13 plug in 900 kilowatt-hours, which is roughly the monthly
14 average use per residential customer, I came up with a
15 number that was I think 17 cents different than plugging in
16 the same 900 kilowatt-hours to today's rates. So it was
17 based on that simple calculation. And it differs a little
18 bit for commercial customers and industrial customers. For
19 the larger customers, there's actually a decrease in '04
20 rates compared to '86.

21 JUDGE TURNER: I guess my question is, if you're
22 talking about a pass-through rate, doesn't that mean that
23 you've only decreased the amount of your purchases, that
24 you're actually functioning more efficiently? This is a
25 good thing; right?

1 THE WITNESS: The decrease in the energy cost rate
2 between 1986 and 1995 could have been a function of several
3 things, some of which could have included extra sales to
4 other companies, which would be, to the extent you sold them
5 for higher than it cost, you actually credited that to
6 customers. I couldn't speak to the exact delta, but it
7 would deal with fuel prices and purchases and sales. It
8 doesn't really -- I'd like to take credit for it being more
9 efficient operations, but the ECR really isn't solely that,
10 except if you ran your plants better.

11 JUDGE TURNER: I was going to say, other places PPL
12 is not shy about taking credit for being more efficient.

13 THE WITNESS: You're right, Your Honor. Customer
14 satisfaction awards.

15 JUDGE TURNER: I don't want to beat a dead horse. I
16 think I understand what you mean by decreases in energy
17 costs prior to that case now. You're just specifically
18 talking about the energy charge pass-through?

19 THE WITNESS: That's right, Your Honor. If we took
20 1986 rates and followed the energy cost rate, you would have
21 a slightly lower rate in '95, and then we bumped it up for
22 the general rate increase, and that really turned out to be
23 almost the same as they were in '86; and then, of course,
24 they were frozen till '04.

25 JUDGE TURNER: And based on that, you say that the

1 rates are essentially unchanged since 1986. You're just
2 talking about the energy charge.

3 THE WITNESS: That statement refers to total rates,
4 Your Honor. The statement that the rates are essentially
5 unchanged since 1986 is looking at the customer bill; and I
6 could provide data for specific customer uses or specific
7 customer classes if you'd like.

8 JUDGE TURNER: But you're basing it on the offset by
9 decreases in energy cost?

10 THE WITNESS: We're making the statement on the total
11 customer bill, and two things happened between 1986 and
12 2004. One was energy costs had gone down a little bit, and
13 a second one was that we had a small increase in overall
14 rates in 1995. Those two pieces offset, resulting in the
15 rates that were in effect in 2004 being approximately the
16 same as the rates that were in effect in 1986. I don't know
17 if that explanation is a little cleaner.

18 JUDGE TURNER: Are you talking dollar-for-dollar?

19 THE WITNESS: Yes, Your Honor.

20 JUDGE TURNER: And not adjusting for effects of
21 inflation or anything like that?

22 THE WITNESS: No, Your Honor. No. This is straight
23 dollars, which would be absorbing inflation, essentially.

24 JUDGE TURNER: Thank you.

25 THE WITNESS: You're welcome, Your Honor.

1 JUDGE TURNER: Does anyone else have questions?

2 MR. EPSTEIN: I do.

3 JUDGE TURNER: Mr. Epstein.

4 CROSS-EXAMINATION

5 BY MR. EPSTEIN:

6 Q. I'd like to follow up on what Judge Turner was
7 pursuing just so that we have the proper context. You were
8 saying essentially the price for the electric consumer
9 hasn't gone up since '86.

10 A. Yes.

11 Q. However, in 1983 the company did get a 16
12 percent rate increase; is that not correct?

13 A. Susquehanna I case was then. The percentage is
14 probably accurate. I don't know exactly what it was.

15 Q. And in 1985, there was an 8 percent increase for
16 Susquehanna II?

17 A. (No response.)

18 Q. The point I'm trying to make --

19 JUDGE TURNER: Let's get this straight. You agree
20 that there was a 16 percent increase in '83?

21 THE WITNESS: I agree that there was a rate increase
22 in 1983 and another one in 1985. I don't know the amounts
23 exactly, but I'm sure Mr. Epstein --

24 JUDGE TURNER: How about subject to check, 16 percent
25 in '83 and 8 percent in '85, and if PPL wants to correct

1 that on the record today, we'll take the correction;
2 otherwise, it's 16 and 8.

3 MR. EPSTEIN: I just wanted to provide that context
4 in follow-up to what Judge Turner was saying about the cost
5 of the electric bill.

6 BY MR. EPSTEIN:

7 Q. The other question I had, I was directed to
8 follow up with you in regard to hiring standards.

9 A. Yes, sir.

10 Q. And I was wondering if the hiring standards for
11 work by others is different than the hiring standards for
12 internal PPL employees.

13 A. We don't set the hiring standards for our
14 contractors, Henkels & McCoy or Baldwin or that. We do have
15 requirements on how a job is done and the safe work
16 practices that are used, and we hold our contractors to the
17 same standards as we hold our employees.

18 Q. But you have absolutely no control over wages,
19 health benefits, things like that, et cetera, by work by
20 others?

21 A. Telling them what their wages are? No.

22 Q. All you're concerned is what the end product is?

23 A. Well, we're concerned about the cost, too. We
24 wouldn't contract something we could do more economically
25 in-house.

1 Q. I guess the point I'm trying to make is if you
2 can get someone to produce the same product without health
3 benefits and at a lower wage, you would by all means go
4 after that?

5 A. I think that's a fairly broad statement, and I
6 don't believe I agree. I like having employees that are
7 loyal to the company, have a history there. In fact, if I
8 have a bias it's actually to have people as employees and
9 not as contractors. We have not hired a lot in the last
10 couple of years. I would suggest that's in part due to the
11 displacements from the AMR project. I'm sure you're
12 familiar with seniority and how bumping works. If we would
13 have brought somebody new in, that position wouldn't be
14 there for very long with the bumping process, so we've kind
15 of deferred hiring till we get through that bumping process.
16 We're almost through. I was just out visiting our IBEW
17 Local 1600, the labor union that represents most of our
18 physical workers, on Friday, and we talked about how we can
19 go ahead with some hiring plans for the future, and they're
20 reasonably substantial.

21 MR. EPSTEIN: Thank you.

22 THE WITNESS: You're welcome.

23 JUDGE TURNER: Are there any other questions for Mr.
24 Sipics?

25 (No response.)

1 JUDGE TURNER: In that case, Mr. Sipics, you may be
2 excused; thank you very much.

3 THE WITNESS: You're welcome, Your Honor.

4 (Witness excused.)

5 JUDGE TURNER: I take it it's agreed that we can take
6 a lunch break now, it's appropriate, because the company is
7 finished putting in its direct case; yes?

8 MR. MacGREGOR: On revenue requirement. We have
9 witnesses on other days, yes, but this completes our
10 witnesses for today.

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

12 (Discussion off the record.)

13 JUDGE TURNER: We're back on the record.

14 Mr. McCormick stated that there are no questions for
15 his witness, Mr. Kincel.

16 MR. McCORMICK: Yes, Your Honor.

17 JUDGE TURNER: He would like me to read his testimony
18 to see if I have any questions. If not, Mr. Kincel will not
19 have to appear on Tuesday.

20 OCA says that no parties have any questions for Mr.
21 Catlin's testimony.

22 MR. MULLINS: Correct, Your Honor.

23 JUDGE TURNER: And if there are none, he does not
24 have to appear.

25 The other witness is Selecky; am I correct?

1 MS. POLACEK: Yes, Your Honor.

2 JUDGE TURNER: Ms. Polacek is proposing to put in a
3 two sentence stipulation along with his testimony when it is
4 put in by stipulation, Mr. Selecky's; is that correct?

5 MS. POLACEK: Yes, Your Honor, in lieu of cross-
6 examining him.

7 JUDGE TURNER: Okay. That would be acceptable to me.
8 Are there any other witnesses that we discussed and
9 I'm not remembering?

10 MR. MOODY: Yes, Your Honor. Mr. McCormick for
11 Strategic Energy, scheduled for Thursday.

12 JUDGE TURNER: No questions for him?

13 MR. MOODY: No, Your Honor, other than if there would
14 be a question, we would work some stipulation out with
15 counsel for the industrials.

16 JUDGE TURNER: All right. So he doesn't need to
17 appear either.

18 Is there any other business to be done before we
19 break for lunch?

20 (No response.)

21 JUDGE TURNER: Why don't we return at 2:00, which
22 will give you an hour-and-a-half.

23 MR. MacGREGOR: That would be good. It would help us
24 maybe answer some of the questions we were asked to follow
25 up on.

1 (Whereupon, at 12:29 p.m., the hearing was adjourned,
2 to be reconvened at 2:00 p.m., this same day.)
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FORM 2

AFTERNOON SESSION

(2:03 p.m.)

JUDGE TURNER: Let's go on the record.

Good afternoon, ladies and gentlemen. This is the afternoon session of the first day of hearings in the PPL rate case. We completed PPL's revenues and expenses testimony this morning.

MR. MacGREGOR: That is correct, Your Honor.

JUDGE TURNER: And we're now ready to take testimony from the opposing parties. We would like to begin with the Office of Trial Staff?

MR. KANASKIE: We can, Your Honor. I believe we had OCA'S witnesses first, but we can.

JUDGE TURNER: All right. Looking at the list, it's true, we do. I'm just used to taking Office of Trial Staff first, but I'm very happy to take OCA's witness. Please excuse me.

Mr. Mullins.

MR. MULLINS: Your Honor, Ms. Herman will present Mr. Morgan.

JUDGE TURNER: Ms. Herman.

MS. HERMAN: Yes; Lafayette Morgan.

JUDGE TURNER: I have to say that I'm having a little trouble hearing people. The court reporter suggested that I try and get microphones for counsel tomorrow. There usually

FORM 2

1 are microphones here. I will try to do that. In the
2 interim, can I ask you all to speak up?

3 You are Lafayette Morgan?

4 MR. MORGAN: Yes.

5 JUDGE TURNER: Will you raise your right hand?

6 **Whereupon,**

7 **LAFAYETTE K. MORGAN, JR.**

8 **having been duly sworn, testified as follows:**

9 JUDGE TURNER: And that applies to your pre-filed
10 testimony and exhibits as well?

11 THE WITNESS: That's correct.

12 JUDGE TURNER: Thank you. Please be seated.

13 Go ahead, Ms. Herman.

14 **DIRECT EXAMINATION**

15 BY MS. HERMAN:

16 Q. Good afternoon, Mr. Morgan.

17 A. Good afternoon.

18 Q. Do you have before you documents pre-marked as
19 OCA Statements Nos. 1 and 1-S?

20 A. I do.

21 MS. HERMAN: Your Honor, two copies of the documents
22 pre-marked as OCA Statement No. 1, which includes Schedules
23 LKM-1 through 18, and OCA Statement No. 1-S, which includes
24 Schedule LKM-1S through LKM-19S, have been provided to the
25 court reporter today and were previously provided to Your

1 Honor and to all parties in accordance with the procedural
2 schedule established in this case. We would ask that the
3 statements be identified for the record as marked.

4 JUDGE TURNER: They may be so identified.

5 (Whereupon, the documents were marked
6 as OCA Statement No. 1, with
7 Schedules LKM-1 through LKM-18, and
8 OCA Statement No. 1-S, with
9 Schedules LKM-1S through LKM-19S
10 for identification.)

11 BY MS. HERMAN:

12 Q. Mr. Morgan, do these statements contain your
13 direct and surrebuttal testimony in question and answer
14 format?

15 A. Yes, they do.

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

18 A. Yes, they were.

19 Q. Do you have any changes to these statements?

20 A. None at this time.

21 Q. And if I were to ask you the questions contained
22 in these statements this afternoon, would your answers be
23 the same?

24 A. Yes.

25 Q. Are the answers to the questions contained in

1 these statements true and correct to the best of your
2 knowledge, information and belief?

3 A. Yes.

4 MS. HERMAN: Your Honor, I would ask at this time to
5 move OCA Statements Nos. 1 and 1-S into evidence, subject to
6 any timely motions and cross-examination.

7 JUDGE TURNER: Hearing no objections, they are so
8 admitted.

9 (Whereupon, the documents marked
10 as OCA Statement No. 1, with
11 Schedules LKM-1 through LKM-18, and
12 OCA Statement No. 1-S, with
13 Schedules LKM-1S through LKM-19S
14 were received in evidence.)

15 MS. HERMAN: Mr. Morgan is available for cross.

16 JUDGE TURNER: Shall we begin with PPL?

17 MR. MacGREGOR: That would be great, Your Honor.

18 JUDGE TURNER: Okay.

19 MR. MacGREGOR: Thank you.

20 **CROSS-EXAMINATION**

21 BY MR. MacGREGOR:

22 Q. Good afternoon, Mr. Morgan.

23 A. Good afternoon.

24 Q. Could you first refer to your Schedule LKM-1S
25 attached to your surrebuttal testimony?

1 A. Yes, I have it.

2 Q. Am I correct that this summarizes the Office of
3 Consumer Advocate adjustments in this proceeding?

4 A. Yes, it does; that's correct.

5 Q. And if we look in the second column captioned
6 "OCA Cost of Service Adjustments," just running down that
7 list, am I correct that the OCA has proposed an increase in
8 operating revenues of \$330,000?

9 A. That's correct. That's consistent with the
10 rebuttal testimony of Mr. Schadt.

11 Q. And the total net adjustment to operating
12 expenses is \$6.89 million?

13 A. I'm sorry; repeat that.

14 Q. The total net adjustments to operating expenses
15 proposed in this schedule is \$6.891 million?

16 A. Yes; that's correct.

17 Q. And if we look further down, the differential in
18 rate base is approximately \$14 million, which is the
19 difference between the company claim of \$1.842 billion and
20 the OCA proposal of \$1.828 billion?

21 A. That's correct.

22 Q. And that \$14 million, round numbers, would
23 produce a revenue requirement reduction of approximately \$2
24 million?

25 A. Approximately.

1 JUDGE TURNER: Just to be clear, you're on LKM-1?
2 MR. MacGREGOR: 1S, Your Honor.
3 JUDGE TURNER: 1S.
4 MR. MacGREGOR: It's attached to the surrebuttal.
5 JUDGE TURNER: Yes. And are you on page 1 or page 2?
6 MR. MacGREGOR: Page 1.
7 JUDGE TURNER: Okay.
8 BY MR. MacGREGOR:
9 Q. So ignoring rate of return for a moment, the
10 total of the adjustments in the column entitled "OCA Cost of
11 Service Adjustments" would be just under \$10 million; is
12 that correct?
13 A. That's correct.
14 Q. If you could refer to your direct testimony, I
15 just want to summarize the areas of agreement and difference
16 here. If we could just look at the table of contents of
17 your direct testimony, and very quickly, just running down
18 from the top, the first adjustment, plant held for future
19 use, I believe you have accepted the company's alternative
20 proposal to accrue AFUDC on plant held for future use in
21 lieu of including it in rate base?
22 A. That's correct.
23 Q. And the allowance for cash working capital, you
24 had proposed in your testimony a change in the expense lead
25 for certain purchases, and the company has agreed with that

1 in its rebuttal?

2 A. That's correct.

3 Q. And on customer deposits, the company presented
4 an alternative adjustment in its rebuttal, and you've
5 accepted that in your surrebuttal?

6 A. That's correct.

7 Q. And on prepaid postage, there remains a
8 disagreement between the parties that I guess amounts to
9 about \$42,000 in revenue requirement?

10 A. That's correct.

11 Q. And under the revenue and expense adjustments,
12 the community affairs department's expense, the company has
13 agreed with your, I believe, \$300,000 adjustment?

14 A. Yes.

15 Q. And expiring amortizations, most of that's
16 resolved; there's a remaining differential of about \$70,000?

17 A. That's correct.

18 Q. And environmental remediation expense, you had
19 proposed a three-year amortization of that expense, and the
20 company has agreed to that?

21 A. That's correct.

22 Q. And social programs, as I understand it, the OCA
23 is proposing a reduction in the amount spent on these social
24 programs per Mr. Colton?

25 A. As I recall, it's not necessarily a reduction.

1 His proposal was that we look over a different time span in
2 terms of projecting what the costs will be. Mr. Colton can
3 better speak to what those costs are.

4 Q. Well, if we look at page 13, lines 7 to 15, of
5 your direct testimony, am I correct that the effect of Mr.
6 Colton's adjustment, which you reflected in your schedules,
7 is to reduce operating expenses by \$1.9 million?

8 A. Yes, it is.

9 Q. And continuing down the list, on pension
10 expense, the parties are in agreement on that issue?

11 A. That's correct.

12 Q. And on post-retirement benefits other than
13 pension, the company provided updated information in its
14 rebuttal testimony and you have withdrawn your initial
15 adjustment based on that data?

16 A. That's correct.

17 Q. And on capital stock tax, there is a remaining
18 disagreement of the parties?

19 A. Correct.

20 Q. And on transmission revenues, there had been an
21 adjustment proposed in your initial testimony that's now
22 been withdrawn?

23 A. That's correct.

24 Q. Looking at the remaining areas of dispute
25 briefly, on prepaid postage, when the company prepays for

1 postage, am I correct that that amount of the prepayment is
2 recorded on the balance sheet as an asset and not on the
3 income statement?

4 A. That's correct.

5 Q. And when the company actually utilizes the
6 postage to provide service to customers, say in using the
7 postage meter, then the amount is expensed on the income
8 statement?

9 A. That's correct.

10 Q. And on the capital stock tax, there are two
11 issues, referring to page 14 of your testimony. The first
12 is the reflection of the expected reduction in the tax rate
13 from 6.99 mills to 5.99 mills; is that correct?

14 A. That's correct.

15 Q. And we really have just a difference between the
16 parties here in the manner in which that reduction is
17 reflected; is that correct?

18 A. Yes.

19 Q. In that the company proposes to do it through
20 the STAS filing, the state tax adjustment surcharge filing?

21 A. And I propose that the actual rate be included
22 in base rates.

23 Q. Fine. But in either event, the effect of the
24 tax decrease will be reflected in reduced rates to
25 customers, under either proposal?

1 A. Under both proposals, the rate decrease would be
2 reflected.

3 Q. And the second issue you deal with is the
4 calculation of the capital stock tax liability and the
5 inclusion of data for 2000 and 2001; is that correct?

6 A. That's correct.

7 Q. And you state on page 15, at the top of your
8 testimony, that it's your understanding that those years
9 were higher because they included the results of the
10 electric generation operations, which are no longer part of
11 the company's business. Are you aware that the generation
12 business was transferred out of PPL Electric Utilities on
13 July 1, 2000?

14 A. Yes.

15 Q. So it would be appropriate to include the 2001
16 data because that data reflects a transmission and
17 distribution only company?

18 A. Well, for part of the year.

19 Q. Well, July 1, 2000 now is when it was
20 transferred. So for all of 2001, the company was a T&D only
21 company. Are you aware of that fact?

22 A. No, because when I spoke with the company, my
23 impression is that there were some remaining assets that
24 were transferred during 2001.

25 Q. Do you know whether those were significant in

1 amount?

2 A. The actual dollar amount of the transfers, no, I
3 do not know, but again, it was my understanding that there
4 were some assets transferred during 2001.

5 JUDGE TURNER: There was what?

6 THE WITNESS: There were some assets transferred
7 during 2001.

8 JUDGE TURNER: Okay. Thank you.

9 BY MR. MacGREGOR:

10 Q. And the third part of your adjustment is the
11 gross-up of the capital stock tax to reflect the rate
12 increase in this proceeding; is that correct?

13 A. That's correct.

14 Q. I take it you're not generally opposed to such
15 an adjustment, it's just that you already took care of it
16 when you did the recalculation excluding 2000 and 2001?

17 A. I guess I'm opposed to including it in the
18 gross-up factor, the capital stock tax being included in the
19 gross-up factor.

20 Q. But you, in your calculation, include 2005 net
21 income in calculating --

22 A. Right; to recognize --

23 Q. Let me finish the question.

24 JUDGE TURNER: You can't talk at the same time,
25 gentlemen.

1 Will you finish your answer, Mr. Morgan, and then you
2 can ask him a question.

3 MR. MacGREGOR: Okay.

4 BY MR. MacGREGOR:

5 Q. Do you have something else to finish?

6 A. No, no. Go ahead.

7 Q. My point is that you, in your calculation,
8 include 2005 net income, including net income produced by
9 the anticipated rate increase in this proceeding; is that
10 correct?

11 A. That's correct. And again, the reason for doing
12 that was to reflect the fact that the revenues -- net income
13 from the company will increase as a result of any rate
14 increase that's produced by this proceeding. My
15 disagreement is how you reflect that, and I disagree that --
16 I disagree with how the company proposed, and that was to
17 include in the gross-up a component for the capital stock
18 tax.

19 Q. Would you agree with me that the methodology
20 employed by the company is the same methodology it uses for
21 every other item of tax, including federal income tax, state
22 income tax, gross receipts tax?

23 A. Those are taxes -- yes, I agree, but those are
24 taxes that are on income. The capital stock tax has a
25 component that is not an income component, and that's why I

1 disagree with the inclusion of the component in the gross-up
2 factor.

3 Q. Now, the capital stock tax does have a component
4 for income, right, 50 percent --

5 A. It has two components, one is an income
6 component and the other is a net worth component, but it's
7 not solely an income component or income based.

8 Q. Finally, if I could ask you just a brief
9 question about the expiring amortizations --

10 A. Okay.

11 Q. -- at the bottom of 2 and going on to page 3 of
12 your surrebuttal testimony. The company proposed an
13 alternative in its rebuttal, after it made certain
14 corrections, to include a \$177,000 amortization, is that
15 correct, of removal cost?

16 A. That's correct.

17 Q. And you propose \$107,000; is that correct?

18 A. That's correct.

19 Q. I think there is, at least in my mind, some
20 remaining confusion here. If you would look at page D-14 of
21 Exhibit Future 1, page 1 -- I can show it to you, or if you
22 have it, that's --

23 A. I have it. Did you say D-14?

24 Q. Yes, D-14, page 1 of 2, Exhibit Future 1,
25 entitled "Adjustment to Deferred Income Taxes."

1 A. Correct.

2 Q. If you look down, I think it's the third entry,
3 under "Removal Costs," transmission property, distribution
4 property, the total of the 60,000 and the 116,000 is the
5 177,000 rounded that we're talking about; is that correct?

6 A. Correct.

7 Q. And that's shown on this sheet as a reduction to
8 tax expense; is that correct?

9 A. Yes.

10 Q. And so if you are proposing a \$107,000 reduction
11 in tax expense, as opposed to a \$177,000 reduction in tax
12 expense, the effect is to increase net tax expense and
13 increase the revenue requirement; is that correct?

14 A. I'm sorry; repeat that.

15 Q. The company's adjustment is a credit adjustment,
16 an adjustment that reduces tax expense by \$177,000.

17 A. Correct.

18 Q. You're proposing to reduce that reduction to
19 \$107,000, so the net effect would be to increase revenue
20 requirement, not to decrease revenue requirement?

21 A. Right. I think perhaps as described in Mr.
22 Schadt's, I believe, testimony, rebuttal testimony, that
23 therein may be the cause of this confusion, because it was
24 my understanding that there was a deferred tax credit
25 balance, and the manner in which you get rid of that is to

1 debit that item; and so my treatment was to reflect that as
2 a decrease in taxes, because the debit would be an increase
3 in tax based on that description.

4 Q. I think Mr. Schadt acknowledged, did he not, in
5 his rebuttal testimony that the interrogatory answer was
6 incorrect, that it was the wrong sign, so it's not an
7 increase to tax expense, it was a decrease to tax expense,
8 and that's what's shown on D-14, isn't it?

9 A. Right; right.

10 Q. So at the end of the day here, the revenue
11 requirement should be going up \$70,000, not going down; is
12 that correct?

13 A. Well, it's not my intent to flow some costs
14 through to ratepayers that are not due. I mean, based on --
15 when I read Mr. Schadt's surrebuttal, and based on my
16 understanding when he indicated that the signs had changed,
17 I interpreted the sign on my adjustment to be in the
18 reverse, so it -- I don't see this as something that can't
19 be worked out. I think what has happened here, there's been
20 a confusion in the language in the surrebuttal and in the
21 data request. At the end of the day, if taxes are to go up
22 by \$70,000, then that's what it should be.

23 JUDGE TURNER: Could we get a yes or no answer to his
24 question? Do you agree that if --

25 THE WITNESS: Yes.

1 JUDGE TURNER: -- you reduce the amount from 177,000
2 to 107,000, that the revenue requirement goes up?

3 THE WITNESS: Based on what he described, yes; the
4 answer is yes.

5 JUDGE TURNER: You agree. Okay.

6 MR. MacGREGOR: That's all I have.

7 JUDGE TURNER: Mr. Kanaskie?

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

9 JUDGE TURNER: Ms. Herman?

10 MS. HERMAN: May I please have a moment?

11 JUDGE TURNER: Sure.

12 (Pause.)

13 JUDGE TURNER: Do you have redirect?

14 MS. HERMAN: One question.

15 JUDGE TURNER: I actually took Mr. Kanaskie out of
16 order, so you go ahead and do your redirect, and if he then
17 has questions, he may question.

18 **REDIRECT EXAMINATION**

19 BY MS. HERMAN:

20 Q. Mr. Morgan, regarding Mr. MacGregor's questions
21 regarding expiring amortizations, will you need to make a
22 correction to your schedules based on what you testified to?

23 A. If the company is willing, I would like to just
24 have a brief conversation, and I will then make a correction
25 to ensure that the proper amount is included.

1 MR. MacGREGOR: That would be fine; thank you.

2 JUDGE TURNER: And then you'll admit that for the
3 record?

4 MS. HERMAN: Excuse me? I'm sorry.

5 JUDGE TURNER: You will then admit that for the
6 record?

7 MS. HERMAN: Yes.

8 JUDGE TURNER: When can you have that done?

9 MS. HERMAN: We can have it done by tomorrow.

10 JUDGE TURNER: Will he be here tomorrow to sponsor
11 it?

12 MS. HERMAN: No; that's true.

13 JUDGE TURNER: Well, then perhaps you can work it out
14 by stipulation.

15 MS. HERMAN: Sure; we will do that.

16 JUDGE TURNER: Just make sure you've got the proper
17 sponsorship for me.

18 MS. HERMAN: Yes, Your Honor.

19 JUDGE TURNER: Is that it on redirect?

20 MS. HERMAN: That's it, Your Honor. Thank you.

21 JUDGE TURNER: Mr. Kanaskie, do you have any cross?

22 MR. KANASKIE: No, Your Honor.

23 JUDGE TURNER: Mr. Gray?

24 MR. GRAY: Nothing, Your Honor. Thank you.

25 JUDGE TURNER: Mr. McCormick?

1 MR. McCORMICK: No questions, Your Honor.

2 JUDGE TURNER: Mr. Epstein?

3 MR. EPSTEIN: One question.

4 CROSS-EXAMINATION

5 BY MR. EPSTEIN:

6 Q. Sir, how are you doing?

7 A. Fine.

8 Q. I'm confused. Is it your understanding that in
9 2001, this was still not a 100 percent T&D company? I'm
10 trying to figure out when this became completely --

11 A. It's my understanding that in 2001 there were
12 still some generation assets that were on the books that had
13 to be -- that were eventually taken off.

14 MR. EPSTEIN: Thank you.

15 JUDGE TURNER: Ms. Polacek?

16 MS. POLACEK: No questions, Your Honor.

17 JUDGE TURNER: Mr. Niesen?

18 MR. NIESEN: Your Honor, I have no questions for Mr.
19 Morgan.

20 JUDGE TURNER: Thank you.

21 Mr. Morgan, you may be excused.

(Witness excused.)

23 MR. MacGREGOR: Your Honor?

24 JUDGE TURNER: Yes.

25 MR. MacGREGOR: While the next witness is preparing,

FORM 2

1 I do have a report on the items that were open from this
2 morning. The incremental 12 meter readers, that is the
3 difference between the 94 and the 106, were all bargaining
4 unit employees and none were management level employees.

5 JUDGE TURNER: Okay.

6 MR. MacGREGOR: Secondly, according to our records,
7 the amount of the rate increase granted in 1983 was 12
8 percent, the amount granted in 1985 was 8.4 percent.

9 JUDGE TURNER: Okay.

10 MR. MacGREGOR: And then finally, the question
11 regarding forecasts of number of customers by the
12 classification residential, commercial and industrial, there
13 is no specific information about that either in the record
14 or in the discovery responses submitted to date. We are
15 going to try to pull together some summary information
16 showing some forecasts of numbers of customers, we're going
17 to provide that to Mr. Epstein in the next day or two, and
18 then if it needs to come into the record, it can as far as
19 we're concerned, subject to Your Honor's agreement and the
20 agreement of the other parties.

21 JUDGE TURNER: Okay. That covers all the items?

22 MR. MacGREGOR: I believe it does.

23 JUDGE TURNER: I think we're now calling Mr. Prisco.
24 Is that correct?

25 MR. McCORMICK: Yes. Your Honor, I'm going to pass

1 the court reporter a couple copies of the prepared direct.

2 JUDGE TURNER: Thank you.

3 MR. McCORMICK: Mr. Prisco is ready to be sworn.

4 JUDGE TURNER: Will you raise your right hand?

5 **Whereupon,**

6 **THOMAS J. PRISCO**

7 **having been duly sworn, testified as follows:**

8 JUDGE TURNER: Is that also true of your pre-filed
9 testimony and exhibits?

10 THE WITNESS: Yes, it is.

11 JUDGE TURNER: Thank you.

12 **DIRECT EXAMINATION**

13 BY MR. McCORMICK:

14 Q. Mr. Prisco, do you have before you your direct
15 testimony and exhibits, consisting of ten pages of prepared
16 testimony and Schedules TJP-1 through 9?

17 A. Yes, I do.

18 Q. Do you have any changes or corrections?

19 A. No, I do not.

20 Q. You've indicated previously that it's true and
21 correct to the best of your knowledge?

22 A. Yes, I have.

23 MR. McCORMICK: Your Honor, I'd like to have Mr.
24 Prisco's testimony and exhibits that were previously filed
25 and circulated to the parties and Your Honors marked as DOD

1 Statement No. 1.

2 JUDGE TURNER: It may be so marked.

3 (Whereupon, the document was marked
4 as DOD Statement No. 1, with
5 Attached Schedules TJP-1 through
6 TJP-9 for identification.)

7 MR. McCORMICK: The witness is available for cross-
8 examination.

9 JUDGE TURNER: Let me just cover one thing. Is this
10 statement already in the record as part of the agreement
11 this morning?

12 MR. McCORMICK: No. Mr. Kincel's testimony will be
13 stipulated.

14 JUDGE TURNER: Don't forget to move it in then.

15 MR. McCORMICK: Yes. I'll move in Mr. Kincel's
16 perhaps at the close of Mr. Prisco's testimony.

17 JUDGE TURNER: Okay.

18 PPL do you have cross-examination?

19 MR. MacGREGOR: I have some brief questions, Your
20 Honor.

21 **CROSS-EXAMINATION**

22 BY MR. MacGREGOR:

23 Q. Good afternoon, Mr. Prisco.

24 A. Good afternoon.

25 Q. With respect to your adjustment for unbilled

1 revenue, roughly \$2.4 million, so the record is clear, am I
2 correct that that reflects essentially the difference
3 between unbilled revenue for December 2003 and unbilled
4 revenue at December 2004?

5 A. Correct.

6 Q. Do you have any opinion as to why unbilled
7 revenue in December 2004 would be \$2.4 million higher than
8 it was in December 2003? What sort of factors could cause
9 that, if you have an opinion?

10 A. Additional sales, you know, differences in
11 expenses, maintenance, employees. It could be a number of
12 various things that the unbilled revenues would be higher
13 for.

14 Q. Weather differential?

15 A. Yeah.

16 Q. Difference in number of customers?

17 A. True.

18 Q. And if you know, can you cite any decision where
19 the Pennsylvania Commission has ever adopted --

20 A. No, I cannot.

21 Q. -- this type of unbilled revenue adjustment?

22 A. No, I can't.

23 Q. You also propose a rate base adjustment on pages
24 9 and 10 of your testimony, which, as I understand it, would
25 essentially take the amount of test year additions, the

1 amount of plant additions the company plans for the future
2 test year, and disallow half of it; is that correct?

3 A. Average.

4 Q. And the goal would be to get an average balance
5 at June 30; is that correct?

6 A. Right.

7 Q. And I take it you don't dispute that the company
8 will plan to make those additions by December 31?

9 A. No.

10 Q. And you haven't made any investigation or
11 challenged the prudence of those investments --

12 A. No.

13 Q. -- or their used and useful character in
14 providing service to customers?

15 A. No, I have not.

16 JUDGE TURNER: Mr. Prisco, you need to wait till he's
17 finished his question before you answer.

18 THE WITNESS: Sorry.

19 BY MR. MacGREGOR:

20 Q. This \$64 million in rate base that you're
21 proposing to disallow here, when would the company be
22 permitted to include that in rates?

23 A. Next rate base case.

24 Q. If you look briefly at the bottom of page 9 and
25 going on to page 10 of your testimony, you say that your

1 adjustment is based on a principle that only about half of
2 the additions will be used and useful for providing service
3 to the test year number of customers; is that correct?

4 A. True.

5 Q. Are you aware that the company has annualized
6 the future test year to reflect the number of customers at
7 the end of the future test year, December 31, 2004?

8 A. True.

9 JUDGE TURNER: What was your answer?

10 THE WITNESS: True.

11 JUDGE TURNER: True?

12 THE WITNESS: Yes.

13 JUDGE TURNER: Okay.

14 BY MR. MacGREGOR:

15 Q. And are you aware that the company has
16 annualized its expense claim to reflect conditions at the
17 end of the future test year, --

18 A. Yes.

19 Q. -- that is December 31, 2004?

20 A. Sorry.

21 JUDGE TURNER: Your answers should come at the end of
22 his question.

23 (Laughter.)

24 MR. MacGREGOR: He knows where I'm going, Your Honor.

25 JUDGE TURNER: He should just let you get there.

1 BY MR. MacGREGOR:

2 Q. And again, the same question that I asked you
3 regarding the unbilled revenue. Do you know of any case
4 where the Pennsylvania Commission has ever adopted this
5 particular rate base convention?

6 A. No, I do not.

7 MR. MacGREGOR: Thank you. That's all I have, Your
8 Honor.

9 JUDGE TURNER: Thank you.

10 Mr. Kanaskie, do you have questions?

11 MR. KANASKIE: No, Your Honor.

12 JUDGE TURNER: Ms. Herman?

13 MR. MULLINS: Mr. Mullins. No questions.

14 JUDGE TURNER: I'm sorry.

15 MR. MULLINS: No questions, Your Honor. Thank you.

16 JUDGE TURNER: She was there before.

17 MR. McCORMICK: She was kind enough to give me this
18 seat, Your Honor.

19 JUDGE TURNER: Mr. Gray?

20 MR. GRAY: No questions, Your Honor.

21 JUDGE TURNER: Mr. Epstein?

22 MR. EPSTEIN: No questions.

23 JUDGE TURNER: Ms. Polacek?

24 MS. POLACEK: No questions.

25 JUDGE TURNER: Mr. Niesen?

1 MR. NIESEN: Yes, Your Honor, I do have a few
2 questions.

3 CROSS-EXAMINATION

4 BY MR. NIESEN:

5 Q. Good afternoon, Mr. Prisco.

6 A. Good afternoon.

7 Q. My name is Tom Niesen. I represent the
8 Sustainable Energy Fund.

9 If you would, please, turn to page 7 of your
10 testimony. You've got two questions and answers there
11 concerning the proposal for funding, and I would like to
12 direct your attention to lines 9 and 11, if you would,
13 please. There you state that "The Department of Defense and
14 the Other Federal Executive Agencies support life-cycle cost
15 effective conservation measures as described in Executive
16 Order 13123, Section 203." Now, let me ask you, does that
17 mean that the agencies that you're here representing are
18 obligated to follow Executive Order 13123 and specifically
19 Section 203?

20 A. Yes.

21 Q. And is it only Section 203 that the agencies are
22 obligated to follow and support, or is it the entire
23 Executive Order?

24 A. The entire Executive Order.

25 Q. Now, you didn't attach the Executive Order to

1 your testimony. When is the last time you read that order?

2 A. I have a copy right here.

3 Q. When is the last time you read it?

4 A. I don't know, a couple weeks ago, two weeks ago,
5 three.

6 Q. You read it before your testimony was
7 distributed?

8 A. Before it was distributed?

9 Q. Yes.

10 A. Yes.

11 Q. Is the Department of Defense a Federal Executive
12 Agency?

13 A. Yes, it is.

14 Q. Now, let me ask you then to turn, since you have
15 the order there -- let me ask you, first of all, have there
16 been any amendments or changes to this particular Executive
17 Order since 1999?

18 JUDGE TURNER: Since 1999?

19 MR. NIESEN: Yes.

20 BY MR. NIESEN:

21 Q. It was issued in 1999; correct?

22 A. Yes.

23 Q. Have there been any changes or amendments since
24 that time, to your knowledge?

25 A. Not to my knowledge.

1 Q. Now, if you would look, please, at Section --
2 you have the order there -- Section 605. It's entitled
3 "Amendments to Federal Regulations."

4 A. Okay.

5 Q. Do you have it?

6 A. Yes.

7 Q. "The federal acquisition regulations and other
8 federal regulations shall be amended to reflect changes made
9 by this order, including an amendment to facilitate agency
10 purchases of electricity from renewable energy sources."
11 Did I read that correctly?

12 A. Yes.

13 Q. To your knowledge, have there been changes to
14 these particular regulations to facilitate purchases from
15 renewable energy sources?

16 A. I assume they were.

17 Q. But you don't know if they were or not?

18 A. Sure, there's been ongoing practices, yeah,
19 throughout the --

20 Q. So to your knowledge --

21 JUDGE TURNER: Excuse me; his question was do you
22 know whether they've been changed or not.

23 Is that correct?

24 MR. NIESEN: Yes, that's what I asked.

25 JUDGE TURNER: And first you said you didn't know?

1 THE WITNESS: I thought he said was there amendments
2 to the regulation.

3 BY MR. NIESEN:

4 Q. I did. It seems to me that Section 605
5 contemplates certain amendments to certain regulations to
6 facilitate agency purchases of electricity from renewable
7 energy sources. I'm really asking you, were those
8 amendments made, to your knowledge?

9 A. I do not know if the amendments were made.

10 MR. NIESEN: Thank you. That's all I have.

11 JUDGE TURNER: The answer is you do not know; right?

12 THE WITNESS: If agencies changed the regulations.

13 JUDGE TURNER: All right. And what you're saying,
14 Mr. Niesen, is that there's no copy of this Executive Order
15 with the testimony?

16 MR. NIESEN: I'm sorry, Your Honor?

17 JUDGE TURNER: There's no copy of the Executive Order
18 with the testimony?

19 MR. NIESEN: I don't believe there is, no.

20 THE WITNESS: No, there isn't.

21 MR. NIESEN: However, it is attached as Attachment B
22 to Dr. Tuffey's testimony. Dr. Tuffey will testify --

23 JUDGE TURNER: So it is in the record?

24 MR. NIESEN: It will be, yes.

25 JUDGE TURNER: Will be; okay. Thank you.

1 MR. NIESEN: Thank you.

2 JUDGE TURNER: Do you have any redirect, Mr.
3 McCormick?

4 MR. McCORMICK: Two items. Your Honor, I have copies
5 of the Executive Order, if Your Honor wishes to have them in
6 in addition to the copy that is attached to Mr. Tuffey's
7 testimony. Since he already has it in, I don't really know
8 that there's a great -- I mean since he has it in his filed
9 direct, I don't know that there's a great deal of need to
10 have an additional copy of that same Executive Order.

11 JUDGE TURNER: I'll leave that up to you. We're
12 going to have a copy in, but if you want to have a copy with
13 his testimony, I'll accept it.

14 MR. McCORMICK: I guess I'll go with the one that's
15 already been filed and so on. I do have a couple of
16 redirect questions.

17 JUDGE TURNER: Please go ahead.

18 **REDIRECT EXAMINATION**

19 BY MR. McCORMICK:

20 Q. Mr. Prisco, in discussing unbilled revenues with
21 Mr. MacGregor, am I correct that the company selected the
22 test year and the sales volumes that would result in the
23 revenues that it's projecting in its future test year?

24 A. Correct; yes.

25 Q. In addition to that, do you -- first of all, you

1 have a copy of the Executive Order with you?

2 A. Yes, I do.

3 Q. In the various other sections, let's say Section
4 -- you mentioned Section 203. How about Section, say, 201,
5 do life-cycle costs apply as a criteria for agencies in that
6 section?

7 A. Yes, in all the sections throughout the
8 Executive Order.

9 Q. And you do not know -- I believe in response to
10 the Judge that you indicated that you did not know of any
11 specific agency changes; even though they might be
12 authorized to make changes for purchase of renewable energy
13 sources, that you do not personally know of any changes that
14 have been made?

15 A. That's correct; I do not know of any changes to
16 regulations.

17 JUDGE TURNER: That was in response to Mr. Niesen,
18 not in response to me.

19 MR. McCORMICK: I stand corrected, Your Honor.

20 That's all the redirect I have, Your Honor.

21 JUDGE TURNER: All right.

22 MR. McCORMICK: I'd like to move DOD Statement No. 1,
23 Mr. Prisco's prepared direct testimony, into the record.
24 And then I would like to mark Mr. Kincel's direct testimony
25 as DOD Statement No. 2 and also move it into the record as

1 stipulated testimony.

2 JUDGE TURNER: Let's first of all discharge Mr.
3 Prisco.

4 You may leave the stand. We don't have any more
5 questions for you.

6 (Witness excused.)

7 JUDGE TURNER: Statement 1 is moved in.

8 MR. McCORMICK: Thank you, Your Honor.

9 (Whereupon, the document marked
10 as DOD Statement No. 1, with
11 Attached Schedules TJP-1 through
12 TJP-9 was received in evidence.)

13 JUDGE TURNER: Statement 2 of Mr. Kincel you want to
14 move in on stipulation?

15 MR. McCORMICK: On stipulation. As far as I know,
16 unless Your Honor has cross-examination, there's no counsel
17 who have indicated that they have any cross at all for
18 Mr. Kincel.

19 JUDGE TURNER: I'm not going to ask you to bring him
20 here since there's no cross-examination, but did you give
21 copies of the statement to --

22 MR. McCORMICK: All the parties, --

23 JUDGE TURNER: -- the court reporter?

24 MR. McCORMICK: -- and I will provide the court
25 reporter with copies of Mr. Kincel's testimony.

1 JUDGE TURNER: Am I correct that the stipulation was
2 worked out in the early part of this morning's hearings?

3 MR. McCORMICK: Yes, Your Honor. We worked that out.
4 There was a polling of counsel by Judge Colwell this
5 morning, and no one indicated any questions for Mr. Kincel
6 on either his cost of capital testimony or his rate design
7 testimony.

8 JUDGE TURNER: So it is to be admitted as sworn
9 testimony; is that correct?

10 MR. McCORMICK: Yes, Your Honor; yes. And there is
11 an affidavit attached to the testimony as filed.

12 JUDGE TURNER: All right. In that case, it may be so
13 admitted, unless any counsel has any objection?

14 MR. MacGREGOR: No objection.

15 JUDGE TURNER: Fine. Would you present two copies to
16 the court reporter then?

17 MR. McCORMICK: Thank you, Your Honor. That's all I
18 have.

19 (Whereupon, the document was marked
20 as DOD Statement No. 2, with
21 attached Exhibits KLK-1 through
22 KLK-15 for identification, and was
23 received in evidence.)

24 JUDGE TURNER: Mr. Weakley is next; is that correct?

25 MR. McCORMICK: Yes, Your Honor.

1 JUDGE TURNER: Good afternoon, Mr. Weakley.

2 MR. WEAKLEY: Good afternoon.

3 JUDGE TURNER: Can I swear you in, please? Will you
4 raise your right hand?

5 **Whereupon,**

6 **CHARLES T. WEAKLEY, III**

7 **having been duly sworn, testified as follows:**

8 JUDGE TURNER: And does that apply also to your pre-
9 filed statement and exhibits?

10 THE WITNESS: Yes.

11 JUDGE TURNER: Thank you. Please be seated.

12 Mr. Kanaskie.

13 MR. KANASKIE: Thank you, Your Honor.

14 **DIRECT EXAMINATION**

15 BY MR. KANASKIE:

16 Q. Mr. Weakley, could you please state your name
17 and position for the record?

18 A. My name is Charles T. Weakley, III. My position
19 is a Financial Analyst in the Office of Trial Staff.

20 Q. Mr. Weakley, have you prepared written testimony
21 and exhibits for the purpose of this proceeding?

22 A. Yes, I have.

23 MR. KANASKIE: Your Honor, I previously distributed
24 to the parties, the court reporter and to yourself three
25 documents that have been preliminarily identified as OTS

1 Statement No. 2, the Direct Testimony of Charles T. Weakley,
2 OTS Exhibit No. 2, the Exhibit to Accompany the Direct
3 Testimony of Mr. Weakley, as well as OTS Statement No. 2-SR,
4 representing the surrebuttal testimony of Mr. Weakley. At
5 this time, Your Honor, I ask they be marked for
6 identification.

7 JUDGE TURNER: They may be so marked.

8 MR. KANASKIE: Thank you, Your Honor.

9 (Whereupon, the documents were marked
10 as OTS Statements Nos. 2 and 2-SR
11 and OTS Exhibit No. 2 for
12 identification.)

13 BY MR. KANASKIE:

14 Q. Mr. Weakley, do you have the documents that I
15 just referenced in front of you?

16 A. Yes, I do.

17 Q. Do these documents contain your direct testimony
18 and accompanying exhibit, as well as your surrebuttal
19 testimony?

20 A. Yes.

21 Q. Were these documents prepared by you or under
22 your direct supervision?

23 A. Yes, they were.

24 Q. Do you have any changes or corrections to make
25 to the documents at this time?

1 A. Yes. I've prepared an errata sheet that I
2 believe was distributed to all the parties, and I'd like
3 that attached to the testimony.

4 MR. KANASKIE: Your Honor, I previously distributed
5 to the court reporter, as well as to yourself, OTS Statement
6 No. 2 Errata Sheet, representing Mr. Weakley's corrections
7 and updates. I endeavored to distribute it to as many
8 counsel as I could find. I have additional copies for any
9 parties that don't have it and so desire. We'd like to
10 attach that to Mr. Weakley's testimony.

11 JUDGE TURNER: And you gave copies of this to the
12 court reporter?

13 MR. KANASKIE: Pardon me?

14 JUDGE TURNER: You gave copies to the court reporter?

15 MR. KANASKIE: Yes, Your Honor.

16 JUDGE TURNER: All right. I think that that's good
17 if it's going to be attached to the testimony. I guess we
18 might describe it a little bit. There are 16 changes to the
19 statement and three changes to the exhibit, and anybody who
20 wishes to read the exhibit or the statement will have these
21 changes with it when they get to it. Okay?

22 MR. KANASKIE: Yes, Your Honor.

23 JUDGE TURNER: Did you ask me to mark this, or admit
24 it? I've lost your train here.

25 MR. KANASKIE: Well, Your Honor, we've preliminarily

1 marked Mr. Weakley's Statement No. 2, and I would like to
2 make note that this will be attached.

3 JUDGE TURNER: All right.

4 MR. KANASKIE: So we could consider it marked for
5 identification also.

6 JUDGE TURNER: Okay. It is so marked.

7 MR. KANASKIE: Thank you, Your Honor.

8 (Whereupon, the document was marked
9 as OTS Statement No. 2 Errata Sheet
10 and OTS Exhibit No. 2 Errata Sheet
11 for identification.)

12 BY MR. KANASKIE:

13 Q. Mr. Weakley, with the sheet that's been
14 distributed and just discussed, if I were to ask you the
15 questions contained in your direct testimony and your
16 surrebuttal testimony, would your answers be the same?

17 A. Yes, they would.

18 Q. Would these answers be true and correct to the
19 best of your knowledge and belief? .

20 A. Yes.

21 MR. KANASKIE: Your Honor, at this time I request
22 that the documents that have been preliminarily identified
23 be admitted into the record, subject to timely motions to
24 strike and cross-examination by the other parties.

25 JUDGE TURNER: Are there any other parties who need

1 copies of this errata sheet?

2 (No response.)

3 JUDGE TURNER: Are all of you prepared to cross-
4 examine on the exhibit as changed by this errata sheet?

5 (No response.)

6 JUDGE TURNER: So you can make him available for
7 cross-examination?

8 MR. KANASKIE: Mr. Weakley is available for cross-
9 examination, Your Honor.

10 JUDGE TURNER: PPL?

11 MR. MacGREGOR: Thank you, Your Honor.

12 **CROSS-EXAMINATION**

13 BY MR. MacGREGOR:

14 Q. Good afternoon, Mr. Weakley.

15 A. Good afternoon.

16 Q. At pages 3 to 7 of your direct testimony, you
17 originally discussed the company's claim for other post-
18 employment benefits recorded pursuant to Statement of
19 Financial Accounting Standard 106; is that correct?

20 A. That's correct.

21 Q. And your original adjustment was roughly for
22 \$4 million?

23 A. That's correct.

24 Q. And that has been withdrawn based upon an update
25 provided by the company in its rebuttal testimony?

FORM 2

1 A. Yes. It's discussed in my surrebuttal.

2 Q. At pages 7 to 14 of your testimony, direct, you
3 discuss the pension cost issue. And just summarizing, as I
4 understand it, the company's claim for pension expense is
5 based on the expense recorded on its books for accounting
6 purposes pursuant to SFAS-87, while you believe that the
7 appropriate ratemaking claim should be based on a cash
8 basis, based on the cash contributions to the pension plan;
9 is that correct?

10 A. That's correct.

11 Q. Do you have any quarrel with or dispute with the
12 company's accounting for pension expense and the expense
13 recorded on its income statement pursuant to SFAS-87?

14 A. No. The company is required to make certain
15 calculations according to FAS-87; however, the actuarial
16 report dictates the funding level that's required. The
17 difference between the funding level and the FAS-87 expense
18 is reported as liabilities on the company's books.

19 Q. And the calculations performed pursuant to
20 SFAS-87 are based upon an actuarial study; is that correct?

21 A. It's included in the actuarial study. The
22 actuaries perform the calculation and the company records
23 the FAS-87 amount on the books.

24 Q. Who issued SFAS-87?

25 A. The Financial Accounting Board.

FORM 2

1 Q. And they are responsible for developing and
2 promulgating Generally Accepted Accounting Principles in the
3 United States?

4 A. That's correct; and the purpose of FAS-87 is
5 comparability among companies.

6 Q. And to comply with GAAP accounting, Generally
7 Accepted Accounting Principles, PPL must use SFAS-87 for
8 accounting purposes in recording its pension expense; is
9 that correct?

10 A. That's correct.

11 Q. And as a U.S. public company, SEC rules also
12 require that the company employ GAAP accounting?

13 A. Yes.

14 Q. As a general matter, when the company sets up
15 and reports its accounting statements, do they do that on a
16 cash basis or an accrual basis?

17 A. On an accrual basis.

18 Q. In addition to being consistent with GAAP, is
19 the company's pension expense claim in this case also in
20 accordance with the Commission's decision in the company's
21 last rate case in 1995?

22 A. Yes, but that's been ten years ago and the
23 Commission's current policy is to recognize in rates only
24 the cash contribution made to the pension trust.

25 Q. Have there been any electric rate cases since

1 the company's last electric rate case?

2 A. No, but there's been several large water and gas
3 companies.

4 Q. The Office of Trial Staff participated in the
5 company's last rate case, is that correct, in 1995?

6 A. That's correct.

7 Q. And I believe you were a witness yourself; is
8 that correct?

9 A. Yes.

10 Q. And the staff opposed the company's claim to use
11 SFAS-87 for pension expense, did it not?

12 A. Yes, it did. The company claimed \$10 million in
13 the last base rate case based on FAS-87, and my
14 recommendation was, as it is here today, that the Commission
15 only recognize the cash contribution, which is zero, and in
16 the interim, the company had not made any additional pension
17 contributions to the trust.

18 JUDGE TURNER: Did the Commission adopt your
19 recommendation, Mr. Weakley?

20 THE WITNESS: No, they did not; no. The Commission
21 adopted the company's position and included \$10 million in
22 rates; however, during the interim, they haven't made any
23 contributions to the trust.

24 JUDGE TURNER: Thank you.

25 BY MR. MacGREGOR:

1 Q. Turning to the storm damage claim just briefly,
2 Mr. Weakley, am I correct that you oppose a portion of the
3 company's claim that relates to regular time employee costs?
4 Is that correct?

5 A. Yes. I consider those normal costs of the
6 company.

7 Q. The remainder of the costs, you recommend
8 recovery, but over a ten-year amortization period; is that
9 correct?

10 A. That's correct.

11 Q. And in that amortization, have you included any
12 recovery of carrying charges on the unamortized balance?

13 A. No, I have not.

14 Q. So would you agree with me as a general matter
15 then, on a present value basis as opposed to the dollar-for-
16 dollar basis we were talking about earlier during Mr.
17 Krall's cross-examination, that the effect of allowing
18 recovery of a cost over ten years without carrying charges,
19 on a present value basis, the effect is to deny a portion of
20 the company's claim?

21 A. Yes. However, as you said, the company will be
22 recovering dollar-for-dollar the entire claim if the
23 Commission approves.

24 Q. There's a time value difference in receiving
25 money today versus receiving it ten years from now; wouldn't

1 you agree?

2 A. Yes.

3 Q. On the capital stock tax, Mr. Weakley, just a
4 couple questions. Am I correct that under your proposal,
5 the base rates established in this proceeding would reflect
6 the anticipated decrease in the capital stock tax rate
7 scheduled to take effect January 1, 2005?

8 A. Yes; that's correct.

9 Q. And the company proposal is to reflect that in
10 an STAS filing to be made in December of 2004, to be
11 effective January 1, 2005?

12 A. That's correct. However, it's our position that
13 the when the company files their rates, that STAS is zeroed
14 out.

15 Q. You propose a similar adjustment to that
16 proposed by Mr. Morgan regarding the use of 2000 data, year
17 2000 data, in calculating the capital stock tax for purposes
18 of this proceeding; is that correct?

19 A. That's correct.

20 Q. I take it there's no argument that the use of
21 the five-year average income data is the basis upon which
22 the company's actual tax liability will be calculated for
23 the future test year?

24 A. Yes; it's the most recent five years.

25 Q. And that's provided for in the tax statutes of

1 the Commonwealth of Pennsylvania?

2 A. That's correct. And what I did, I recalculated
3 the 2005 valuation that's going to into effect January 1,
4 2005.

5 Q. And in so doing, you reflected the capital stock
6 tax effect as a result of the rate increase proposed in this
7 proceeding?

8 A. Yes, I did.

9 Q. One reason you state in your testimony at pages
10 43 to 44 that it's important to establish the proper base is
11 because future STAS filings will reflect only the rate
12 changes and not valuation changes; is that correct?

13 A. That's my understanding, yes.

14 Q. But at least with respect to the change in rate,
15 when you calculate the effect of that change in a tax rate
16 for capital stock tax in a STAS filing, that is applied to
17 the most current valuation, is that your understanding,
18 Mr. Weakley, and not to the valuation in the prior rate
19 case?

20 A. No. Most companies use the valuation that was
21 established at the time rates were put into effect.

22 Q. I'm talking about when there's a change in the
23 rate and a STAS filing is made because of the change in the
24 rate of the capital stock tax.

25 A. Right.

1 JUDGE TURNER: A change in the tax rate, not the
2 company's rate.

3 BY MR. MacGREGOR:

4 Q. A tax rate change.

5 A. A tax rate change.

6 Q. The effect of that tax rate change is calculated
7 based upon the most recent accepted valuation for capital
8 stock tax property.

9 A. By recent accepted valuation, do you mean what's
10 established in this proceeding?

11 Q. No.

12 A. Or do you mean last year's or the current year's
13 valuation.

14 Q. The most recently approved valuation by the
15 Department of Revenue.

16 A. It was my understanding that -- well, most
17 companies that follow STAS follow it based on the valuation
18 established in the last base rate proceeding.

19 Q. In preparing your testimony in this proceeding,
20 have you reviewed recent PPL STAS filings?

21 A. No, I have not.

22 Q. Is that part of your job responsibilities?

23 A. No.

24 Q. Now, my last question. If you could look at
25 Exhibit JMK-5 that was attached to Mr. Kleha's rebuttal

1 testimony?

2 A. (Witness perusing documents.)

3 MR. KANASKIE: Do you have it?

4 THE WITNESS: Yes.

5 BY MR. MacGREGOR:

6 Q. There's been some testimony back and forth about
7 how the capital stock tax is calculated, and I just -- I
8 can't seem to find it myself.

9 (Pause.)

10 JUDGE TURNER: What page of JMK-5?

11 MR. MacGREGOR: There is only one page, Your Honor,
12 and I'm on it.

13 BY MR. MacGREGOR:

14 Q. If we could ignore for the moment the dispute
15 about the year 2000 data and assume that this was all T&D --
16 and I'm not talking about the generation versus transmission
17 dispute over the year 2000, but just looking at this
18 calculation that Mr. Kleha has made to reflect the gross-up
19 of capital stock tax, is there any part of this calculation
20 which is arithmetically in error or in any way contrary to
21 the provisions of the tax laws?

22 A. You're referring to the amount requested?

23 Q. Yes, the adjusted amount -- well, he starts with
24 a requested amount column, then he adjusts it to reflect the
25 effects of the rate increase and shows the differential in

FORM 2

1 capital stock tax resulting from the rate increase.

2 A. I have no problems with the requested amount.

3 Q. Do you have any problems with the adjusted
4 amount?

5 A. The adjusted amount isn't the correct income for
6 a 2005 valuation.

7 Q. Which number are we talking about?

8 A. (No response.)

9 Q. As I understand it, the calculation in the two
10 columns are identical except that there's an income number
11 revision for 2004, and the difference between the 45,551,000
12 under the requested amount column and the 135,713,000 under
13 the adjusted amount is the income effect of the rate
14 increase proposed in this proceeding. Otherwise, the
15 calculations are identical, are they not?

16 A. The calculations are identical, but I disagree
17 with the iteration of the capital stock tax.

18 Q. I understand you oppose it as a policy matter.
19 Is it calculated incorrectly?

20 A. Well, the calculations are identical.

21 MR. MacGREGOR: Thank you. That's all I have.

22 JUDGE TURNER: Will it be Mr. Mullins or Ms. Herman?

23 MR. MULLINS: Neither, Your Honor. No questions.

24 Thank you.

25 JUDGE TURNER: Mr. Gray?

FORM 2

1 MR. GRAY: No questions, Your Honor.

2 JUDGE TURNER: Mr. McCormick.

3 MR. McCORMICK: No questions.

4 JUDGE TURNER: Mr. Epstein?

5 MR. EPSTEIN: No questions.

6 JUDGE TURNER: Ms. Polacek?

7 MS. POLACEK: No questions.

8 JUDGE TURNER: Mr. Niesen?

9 MR. NIESEN: No questions, Your Honor.

10 JUDGE TURNER: Do you have any redirect, Mr.

11 Kanaskie?

12 MR. KANASKIE: If I had one moment, Your Honor?

13 JUDGE TURNER: Sure.

14 (Pause.)

15 MR. KANASKIE: We have no redirect, Your Honor.

16 JUDGE TURNER: No redirect. In that case, Mr.

17 Weakley, you can be excused. Thank you very much.

18 (Witness excused.)

19 JUDGE TURNER: May we admit OTS Statement 2, Exhibit

20 2, Statement 2-SR and the errata sheet?

21 (No response.)

22 JUDGE TURNER: All those are admitted.

23 (Whereupon, the documents marked

24 as OTS Statements Nos. 2 and 2-SR,

25 OTS Exhibit No. 2, OTS Statement No.

1 2 Errata Sheet and OTS Exhibit No. 2
2 Errata Sheet were received in
3 evidence.)

4 JUDGE TURNER: Good afternoon, Mr. Gruber. How are
5 you?

6 MR. GRUBER: Good afternoon.

7 JUDGE TURNER: May I swear you in?

8 Whereupon,

9 MICHAEL J. GRUBER

10 having been duly sworn, testified as follows:

11 JUDGE TURNER: Does that also apply to your pre-filed
12 testimony and exhibit?

13 THE WITNESS: Yes, it does.

14 JUDGE TURNER: Thank you. Will you please be seated?

15 THE WITNESS: Thank you.

16 JUDGE TURNER: Mr. Kanaskie.

17 MR. KANASKIE: Thank you, Your Honor.

18 DIRECT EXAMINATION

19 BY MR. KANASKIE:

20 Q. Good afternoon, Mr. Gruber. Would you please
21 state your name and your position with the Commission for
22 the record, please?

23 A. My name is Michael J. Gruber and I am employed
24 as a Fixed Utility Valuation Engineer in the Office of Trial
25 Staff.

1 Q. Mr. Gruber, have you prepared written testimony
2 and exhibits for the purposes of this proceeding?

3 A. I have.

4 MR. KANASKIE: Your Honor, I previously distributed
5 to the parties, to the court reporter, as well as Your
6 Honors three documents that have been preliminarily
7 identified as OTS Statement No. 5, the Direct Testimony of
8 Michael J. Gruber, OTS Exhibit No. 5, the accompanying
9 exhibit to his direct testimony, as well as OTS Statement
10 No. 5-SR, Mr. Gruber's surrebuttal testimony. At this time
11 I ask they be marked for identification.

12 JUDGE TURNER: They may be so marked.

13 (Whereupon, the documents were
14 marked as OTS Statements Nos. 5
15 and 5-SR and OTS Exhibit No. 5 for
16 identification.)

17 MR. KANASKIE: Thank you, Your Honor.

18 BY MR. KANASKIE:

19 Q. Mr. Gruber, do you have these documents just
20 referenced in front of you?

21 A. I do.

22 Q. Do these documents contain your direct testimony
23 and accompanying exhibit, as well as your surrebuttal
24 testimony, as represented?

25 A. They do.

1 Q. Were these documents prepared by you or under
2 your supervision?

3 A. They were.

4 Q. Do you have any corrections to make to these
5 documents?

6 A. Not at this time, no.

7 Q. If I were to ask you the questions contained in
8 your direct testimony as well as your surrebuttal testimony,
9 would your answers be the same today?

10 A. They would.

11 Q. Would these answers be true and correct to the
12 best of your knowledge and belief?

13 A. Yes.

14 MR. KANASKIE: Your Honor, at this time the Office of
15 Trial Staff requests that these documents that have been
16 marked for identification be admitted into the record,
17 subject to timely motions to strike and cross-examination by
18 the other parties.

19 JUDGE TURNER: They may be so admitted.

20 (Whereupon, the documents marked
21 as OTS Statements Nos. 5 and
22 5-SR and OTS Exhibit No. 5 were
23 received in evidence.)

24 MR. KANASKIE: Your Honor, Mr. Gruber is available
25 for cross-examination.

1 JUDGE TURNER: PPL.

2 MR. MacGREGOR: Thank you, Your Honor.

3 CROSS-EXAMINATION

4 BY MR. MacGREGOR:

5 Q. Good afternoon, Mr. Gruber.

6 A. Good afternoon.

7 Q. Could you please refer to page 5 of your direct
8 testimony? At the top we're discussing the Sustainable
9 Energy Fund and the fact that the Commission set up the
10 funding for a limited time period and there were two
11 possible end dates, I guess either December 31, 2004 or when
12 new distribution rates are set; is that correct?

13 A. That's correct.

14 Q. And you go on to say that the company was a
15 party to the settlement and it should adhere to the terms of
16 that settlement. I just want to understand, you're not
17 testifying, are you, that the company is violating the
18 settlement agreement by simply proposing to extend the SEF,
19 are you?

20 A. I didn't mean to infer that they were violating
21 it, no.

22 Q. Turning to page 8 of your testimony, which is
23 part of your discussion of the distribution system
24 improvement charge, you oppose the company's claim on
25 several grounds, one of which you believe that there's no

1 statutory authority for the Commission to establish such a
2 charge for electric utilities; is that correct?

3 A. Yes.

4 Q. And part of the argument you make on page 8 of
5 your testimony is that 1307(g) of the Public Utility Code
6 includes a provision permitting such distribution
7 improvement charges for water utilities, and that that's an
8 exception to the general rule, and then you cite a provision
9 from the Statutory Construction Act, stating that
10 "Exceptions expressed in a statute shall be construed to
11 exclude all others." Would that be a fair summary of what
12 you say there?

13 A. Yes.

14 Q. I guess what I'm having a little trouble with is
15 the notion of an exception. To me, if you have an
16 exception, it's an exception to a rule or a general rule, so
17 as I read your testimony, there's a general rule or a
18 general provision in the Public Utility Code that prohibits
19 such surcharges, and this provision in 1307(g) is an
20 exception. I guess I'm wondering where this general rule is
21 or where this statutory provision is that prohibits
22 distribution system charges for utility companies in
23 general.

24 A. That was done on advice of my attorney as a
25 legal conclusion to the law and how it was written. My

1 objection is to a DSIC on the general basis that a utility
2 is not allowed to charge for plant until it's actually in
3 service and admitted in a rate case.

4 Q. So you have no additional testimony to explain
5 or supplement this beyond what was provided to you by your
6 counsel?

7 A. That's correct.

8 Q. Would that also be true with your statement at
9 lines 11 to 13 on that page that the Legislature intended to
10 provide water utilities, and only water utilities, with a
11 system improvement project surcharge?

12 A. That was my understanding of the legislation,
13 yes.

14 Q. Are you aware that this Commission has approved
15 system improvement surcharges for sewer companies?

16 A. I believe they did for one sewer company, yes.
17 I believe that's also under appeal.

18 Q. I believe you're right.

19 Turning to the transmission service charge, am I
20 correct that you're not opposed to the company recovering
21 this transmission service expense, but that you believe it
22 should recover it as a normal base rate item and not through
23 a separate automatic adjustment surcharge?

24 A. I don't think that you should be looking at the
25 transmission expense as anything other than a normal expense

1 incurred by the company. To allow them to go back and
2 change the amount they collect, to reconcile it, would be
3 wrong, it would be guaranteeing the company a revenue
4 source, which isn't usually done.

5 Q. Am I correct in summarizing your proposal,
6 referring to page 13 of your testimony, that the proposed
7 transmission charge made by the company in this case should
8 be adjusted based on the final transmission-related costs
9 and kilowatt-hour sales figure determined at the end of this
10 proceeding?

11 A. Whatever the Commission decides is the
12 appropriate amount for transmission, yes, and the usage as
13 well.

14 Q. Maybe it's my misunderstanding here, but in
15 preparing your surrebuttal testimony, did you review the
16 rebuttal testimony of OTS witness Gary Yocca?

17 A. No, I didn't, actually. They were being done at
18 the same time.

19 Q. Page 5 of that testimony, --

20 JUDGE TURNER: Excuse me; if you're going to ask him
21 questions about it, don't you think you should give him a
22 chance to read it?

23 MR. MacGREGOR: I'm sorry?

24 JUDGE TURNER: If you're going to ask him questions
25 about it, don't you think you should give him a chance to

1 read it?

2 MR. MacGREGOR: I'm going to, Your Honor.

3 JUDGE TURNER: All right. Let's go off the record so
4 that you can present it to him and he can read it.

5 (Discussion off the record.)

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

7 BY MR. MacGREGOR:

8 Q. Mr. Gruber, am I correct that at page 5 of that
9 rebuttal testimony Mr. Yocca states that "I recommend that
10 the TSC" -- that is the transmission service charge -- "as
11 proposed by PPL be approved on a kilowatt-hour basis"?

12 A. That's what it says, yes.

13 Q. And I take it that's not your position in this
14 proceeding?

15 A. That's what I said, too. I mean, the
16 transmission surcharge, the amount of whatever the
17 transmission expenses are, should be divided by the
18 kilowatt-hours determined to be the appropriate number, and
19 that's how much you get charged for transmission, which I
20 think is the same thing, unless -- no; that's the same
21 thing.

22 JUDGE TURNER: Well, actually, you said it shouldn't
23 be a surcharge, it should be a base rate, didn't you?

24 THE WITNESS: No. I said it shouldn't be a
25 reconcilable surcharge. If I said it shouldn't be a

1 surcharge, I spoke wrong. It shouldn't be a reconcilable
2 surcharge.

3 BY MR. MacGREGOR:

4 Q. So you're okay with a surcharge?

5 A. Yes, as long as it's not reconcilable. I
6 mean, --

7 Q. Would it be changed each year then but just not
8 reconciled; is that what you're --

9 A. No. It would be an expense. The company would
10 have the expense, whatever it is, and just determined based
11 on the projected usage.

12 Q. It would be annually adjusted but not
13 reconciled?

14 A. That's correct.

15 Q. Thank you. Just stepping back for a minute on
16 the transmission cost issue, am I correct, the company is
17 recovering transmission service expenses in its rates today?

18 A. Yes, they are.

19 Q. And it incurs those costs in providing service
20 to POLR customers, provider of last resort customers; is
21 that correct?

22 A. Well, anybody they supply power to, yes.

23 Q. I think that's all I have on that. Thank you.

24 Page 18 of your direct testimony, you propose an
25 adjustment to late payment fees; is that correct?

1 A. That's correct.

2 Q. And you propose an adjustment to the company's
3 proposal because the company did not reflect the fact that
4 it was likely to receive increased late payment revenue as a
5 result of the rate increase in this case?

6 A. That's my opinion, yes.

7 Q. Would the same be true of uncollectible accounts
8 expense, if you get a rate increase, all else equal,
9 uncollectible accounts expense --

10 A. I really didn't look at uncollectible accounts.

11 JUDGE TURNER: Wait a minute; let him finish his
12 question.

13 All other things being equal?

14 BY MR. MacGREGOR:

15 Q. All else equal, if the company receives a rate
16 increase, would it be likely that its uncollectible accounts
17 expense would go up in the same fashion as its late payment
18 fees would go up?

19 A. I don't look at uncollectible accounts.

20 Q. You made no examination?

21 A. No, I did not.

22 Q. Well, just as a general matter, why do you think
23 late payment fees are going to go up?

24 A. The same people that don't pay their bill, or
25 pay their bill late, will probably pay their bill late

1 regardless of the level. Some people will, some people
2 won't. And if the bill is higher, then late payment fees
3 will go up.

4 Q. And all else equal, wouldn't you expect
5 uncollectible accounts expense to go up as well?

6 A. Without --

7 JUDGE TURNER: Isn't it a different issue? Your late
8 payment is a percentage based fee; right?

9 MR. MacGREGOR: That is correct.

10 JUDGE TURNER: Uncollectibles are not percentage
11 based, they're just bills that you failed to collect. It's
12 a different issue.

13 MR. MacGREGOR: But if rates go up, and the same
14 customers don't pay their bills, uncollectible accounts
15 expense will be higher than it would be otherwise. That's
16 all I'm trying to establish.

17 JUDGE TURNER: Because the same people will have
18 larger bills.

19 MR. MacGREGOR: Yes.

20 JUDGE TURNER: Okay.

21 MR. MacGREGOR: That's all I'm trying to establish.

22 THE WITNESS: Without actually -- I've never really
23 looked at uncollectible accounts. Without looking at it,
24 from a statistical standpoint, it probably would be true,
25 yes.

1 MR. MacGREGOR: That's all I have. Thank you, Mr.
2 Gruber.

3 JUDGE TURNER: Ms. Herman?

4 MS. HERMAN: Nothing, Your Honor.

5 JUDGE TURNER: Mr. Gray?

6 MR. GRAY: No questions, Your Honor.

7 JUDGE TURNER: Mr. McCormick.

8 MR. McCORMICK: No questions, Your Honor.

9 JUDGE TURNER: Mr. Epstein?

10 MR. EPSTEIN: No questions.

11 JUDGE TURNER: Ms. Polacek?

12 MS. POLACEK: I do have a couple questions, Your
13 Honor.

14 **CROSS-EXAMINATION**

15 BY MS. POLACEK:

16 Q. Mr. Gruber, this is dealing with your discussion
17 with Mr. MacGregor on the transmission service charge and
18 what we would do with the transmission expenses. Can you
19 tell me how transmission expenses are currently allocated to
20 rate schedules in today's rates?

21 A. I'm not that familiar with it, no.

22 Q. You're not familiar with that.

23 MS. POLACEK: Thank you, Your Honor. That's all I
24 have.

25 JUDGE TURNER: Mr. Niesen?

1 MR. NIESEN: I do have a few questions, Your Honor.

2 CROSS-EXAMINATION

3 BY MR. NIESEN:

4 Q. Mr. Gruber, I'm Tom Niesen. I represent the
5 Sustainable Energy Fund. I want to be sure that I
6 understand and the record is clear about the Office of Trial
7 Staff position concerning the fund.

8 On page 2 of your surrebuttal testimony, as I
9 understand it, Trial Staff supports the Sustainable Energy
10 Fund, but it takes issue, disagrees with the proposal for
11 further funding presented in the PPL tariff supplement. Is
12 that accurate?

13 A. The Office of Trial Staff thinks that the goals
14 of the Sustainable Energy Fund are worthwhile, but we do not
15 believe that the rates of an electric company are the place
16 to pay for those goals.

17 MR. NIESEN: Thank you. That's all I have.

18 JUDGE TURNER: Mr. Kanaskie, do you have redirect?

19 MR. KANASKIE: I have no redirect, Your Honor.

20 JUDGE TURNER: Thank you.

21 Thank you, Mr. Gruber; you may step down.

22 (Witness excused.)

23 JUDGE TURNER: That finishes the witnesses scheduled
24 for today. Are there any witnesses available from tomorrow
25 that could be moved up?

1 MR. MacGREGOR: The primary witnesses tomorrow are on
2 rate of return, and they're largely coming in from out of
3 town, and they are not available. I understand we start
4 tomorrow with Mr. Kubas, for Trial Staff, and Mr. Catlin,
5 for whom there is no cross. I'm ready to proceed with Mr.
6 Kubas, but I understand he's not available.

7 MR. KANASKIE: Mr. Kubas is not in town.

8 MR. MacGREGOR: We've exhausted our supply of
9 witnesses, I believe, Your Honor.

10 JUDGE TURNER: I hate to waste hearing time.

11 Let's go off the record.

12 (Discussion off the record.)

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

14 We had a discussion of scheduling. At least the
15 following changes will be made: on Tuesday, August 10, Mr.
16 Catlin is not appearing for OCA; his testimony will go in on
17 stipulation. Mr. Kincel of DOD is not appearing, likewise
18 will go in under stipulation. Mr. Dahl of PPL will testify
19 on Wednesday morning, and in his place Mr. Epstein will
20 testify Tuesday afternoon, the last witness.

21 Wednesday, the only change so far that I know of is
22 that Mr. Dahl has definitely been added for Wednesday
23 morning. There's no other change in the witnesses, right,
24 except that Krall and Kleha, who are already on the schedule
25 for Thursday in the morning, may be able to testify that

1 afternoon.

2 Then on Thursday, it's possible that Mr. Selecky's
3 testimony will go in under stipulation, and Mr. McCormick's,
4 for Strategic Energy, will also go in under stipulation.
5 The court reporter already has that testimony.

6 Then, as far as I know, Friday is the same, although,
7 Ms. Polacek, you're going to contact Mr. Baron to see if he
8 could come up earlier?

9 MS. POLACEK: Yes, Your Honor, I'll do that.

10 JUDGE TURNER: Mr. McCormick?

11 MR. McCORMICK: Your Honor, I believe also on
12 Thursday, among the stipulated testimonies will be Mr.
13 Kincel. He's currently listed on Thursday. In other words,
14 he had two appearances, one was on Tuesday for rate of
15 return, one on Thursday for rate design, and I believe he's
16 been stipulated for both.

17 JUDGE TURNER: I'm sorry; I wasn't aware of that. So
18 he is already stipulated.

19 MR. McCORMICK: Yes.

20 JUDGE TURNER: And he's coming off for Thursday.
21 Thank you.

22 MR. McCORMICK: Thank you, Your Honor.

23 JUDGE TURNER: Are there any other housekeeping
24 matters that we need to deal with at this point in the
25 proceeding?

1 (No response.)

2 JUDGE TURNER: So all the on-the-record data requests
3 that were made today were answered today; there's nothing
4 hanging over from that?

5 MR. EPSTEIN: Well, the one for the summary of the
6 customer demographics, I think you're going to produce
7 something, David, later in the week?

8 MR. MacGREGOR: Yes.

9 JUDGE TURNER: Okay.

10 MR. MacGREGOR: And I have not provided the citation
11 to the IRS regulation on the pension contribution, which I
12 will.

13 JUDGE TURNER: And you'll do that tomorrow?

14 MR. MacGREGOR: I hope so.

15 JUDGE TURNER: I hope so, too.

16 MR. MacGREGOR: I'll try my best.

17 JUDGE TURNER: Are there any other loose ends that we
18 need to check on?

19 (No response.)

20 JUDGE TURNER: And no housekeeping matters?

21 (No response.)

22 JUDGE TURNER: Everybody's happy? In that case,
23 we'll see you tomorrow. Thank you all.

24

25

(Whereupon, at 3:40 p.m., the hearing was adjourned, to be reconvened at 10:00 a.m. on Tuesday, August 10, 2004, in Harrisburg, Pennsylvania.)

C E R T I F I C A T E

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

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