

COMMONWEALTH OF PENNSYLVANIA

PUBLIC UTILITY COMMISSION

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Pennsylvania Public Utility Commission, :  
U.S. Department of Defense and Federal : Docket No.  
Executive Agencies (C0001), PPL : R-00049255  
Industrial Customer Alliance (C0002), : R-00049255  
Office of Small Business Advocate (C0003), : C0001-C0005  
Office of Consumer Advocate (C0004), :  
Eric Joseph Epstein (C0005) v. PPL :  
Electric Utilities Corporation. :  
 :  
 Public Input Hearing :  
 Evening Session :  
 :  
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Pages 347 through 378

Mountain Laurel Room  
 Professional Development Center  
 Pennsylvania College of Technology  
 One College Avenue  
 Williamsport, Pennsylvania

DOCUMENT

Monday, July 19, 2004

Met, pursuant to adjournment, at 6:00 p.m.

BEFORE:

ALLISON K. TURNER, Administrative Law Judge

APPEARANCES:

PAUL E. RUSSELL, Esquire  
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 (For PPL Electric Utilities Corporation)

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FOR IDENTIFICATION IN EVIDENCE

(None.)

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FORM 1

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ADMINISTRATIVE LAW JUDGE ALLISON K. TURNER: Let's go on the record, please. My name is Allison Turner and I am the Administrative Law Judge assigned to hear this case. The case is PP&L's proposed rate increase.

It's the first rate increase in many years because when competition was introduced and the electric industry was restructured, PP&L and the Commission made an agreement to impose a rate cap on the transmission and distribution rates which are being considered in this case -- that rate cap will expire at the end of December of this year -- and also on the generation rates, and that rate cap will expire at the end of 2009 and the generation rates are not any part of this case.

So far in this investigation -- well, let me first deal with the court reporter. Mr. Kelly is transcribing everything that is said, so you cannot speak at the same time as another person, because he can't record that.

And also, I would like to request all people to turn off their cell phones or at least set them on vibrate so you don't interrupt any witness.

So far in this case, we've had a prehearing conference after PPL filed its proposed increase on March 29, 2004. The base rate case is for an increase of \$164.4 million in additional revenues, and PP&L is

FORM 1

1 projecting an increase of approximately \$57.2 million in  
2 transmission rates. Those charges arise under a FERC  
3 regulation, PJM open access transmission tariffs, so the PUC  
4 doesn't really regulate them. The combination will produce  
5 an overall increase of \$221.6 million, representing an  
6 increase in revenues of 8.1 percent.

7 Under the combined proposal, the average monthly bill  
8 for a residential customer using 900 kilowatt-hours of  
9 electricity would increase approximately \$7.62 from \$77.47  
10 to \$85.09. This is the first rate increase PPL has  
11 requested since 1995. The increase will affect 1.3 million  
12 customers in 29 counties.

13 The Commission suspended the proposed rate increase  
14 and the effective date of the rates would be January 1,  
15 2005. The investigation will be mostly carried out by  
16 parties and persons who have intervened or filed complaints,  
17 namely the Office of Consumer Advocate or OCA, which  
18 represents residential customers; the Office of Small  
19 Business Advocate, which represents small commercial and  
20 industrial customers; PP&L Industrial Customers Alliance,  
21 which represents large customers; and Commission's Office of  
22 Trial Staff, which represents the public interest as a  
23 whole; also the union, IBEW, and several individual  
24 customers. Some of the other utilities have also filed  
25 complaints.

1 Since PPL has not filed a rate case for a number of  
2 years, the parties have not had a chance to scrutinize their  
3 operations and rates to see if their actions are prudent and  
4 their expenses and revenues and rate of return are fair and  
5 reasonable.

6 The parties will examine all these things to find out  
7 if there are matters they want to challenge. In addition,  
8 PPL has proposed some basic changes that the parties oppose,  
9 for instance the distribution system improvement charge,  
10 DSIC, which would allow PPL to recover costs associated with  
11 system upgrades between base rate proceedings.

12 As I stated, we had a prehearing conference. The  
13 parties have already held one informal discovery conference  
14 with PP&L, and there have been several settlement  
15 discussions.

16 The public input hearings were held June 28th, 29th  
17 and 30th in Lancaster and Harrisburg, Scranton and Wilkes-  
18 Barre, and Allentown and Bethlehem, and then this is the  
19 last public input hearing tonight.

20 The hearings to take technical evidence are to be  
21 held the week of August 9th through 13th in Harrisburg.  
22 Before these hearings, the parties will submit their  
23 testimony in writing and at the hearings, the witnesses who  
24 submitted testimony will be cross-examined.

25 The parties will file briefs on September 2nd and

1 September 13th, and my recommended decision is due October  
2 7th to the Commission. The Commission will serve it on the  
3 14th and the parties will be able to file exceptions to the  
4 Commission. After that, the Commission reviews the whole  
5 ball of wax and issues a decision.

6 The purpose of this public input hearing is to hear  
7 from you. Hearing from the public is an important part of  
8 the Commission's rate case process.

9 The Commission policy regarding public input hearings  
10 gives you three options. You may testify formally under  
11 oath or affirmation and be subject to cross-examination. If  
12 you testify in this manner, your testimony becomes part of  
13 the record and I and the Commission can rely on it.

14 You may make an unsworn or unaffirmed statement. It  
15 will be off the record, not subject to cross-examination,  
16 and not useful in making the decision.

17 You may provide information to the Commission's  
18 Office of Trial Staff, the Consumer Advocate or the Small  
19 Business Advocate for their possible use at hearings in  
20 Harrisburg at their discretion, and of course you may talk  
21 to PP&L employees here if you have a specific problem that  
22 you want to bring up and get help on.

23 I urge you to testify under oath so that I and the  
24 Commission can use your testimony to the extent it meets the  
25 rules of evidence.

1 I don't know how many people are here to testify. I  
2 will impose time limits if necessary, but I don't think it  
3 will be necessary with so few witnesses as tonight. If you  
4 want to testify, please sign up on the list which is on the  
5 clipboard at the back of the hearing room so we'll be able  
6 to have a record of your name.

7 Now, I'm going to ask counsel for the parties,  
8 beginning with PP&L, to make introductory remarks. Mr.  
9 Russell?

10 MR. RUSSELL: Thank you, Your Honor.

11 My name is Paul Russell. I'm one of PP&L's in-house  
12 lawyers and I'm one of the lawyers representing the company  
13 in this rate case proceeding.

14 At the outset, I'd like to thank you all for  
15 appearing at today's hearing. Public input hearings are an  
16 important part of the Commission's ratemaking process. It  
17 gives the Commission an opportunity to obtain valuable  
18 customer perspective on a broad range of ratemaking issues.

19 Your testimony today will be carefully reviewed by  
20 PPL Electric, by many of the other parties, by the  
21 Administrative Law Judge and ultimately by the Commission,  
22 so if you have views on the case, I would urge you to  
23 testify tonight.

24 The purpose of today's hearing is to listen to the  
25 public, so I won't take valuable time summarizing our

1 request. However, I would like to make two points about the  
2 impact of Pennsylvania's 1996 Customer Choice Act on the  
3 case.

4 First, as discussed by Judge Turner, the act  
5 established rate caps for each electric utility in  
6 Pennsylvania. PPL Electric has two rate caps. The  
7 distribution rate cap ends December 31, 2004 and we're  
8 proposing that the rates in this case go into effect after  
9 that, at the end of that cap, on January 1, 2005.

10 Second, the Act made the generation of electricity  
11 competitive and required electric utilities to unbundle  
12 their operations.

13 Because of that change, the rate request now before  
14 the Administrative Law Judge and ultimately the Commission  
15 involves only PPL Electric Utilities, the company that  
16 provides electricity delivery service to approximately 1.3  
17 million customers in central and eastern Pennsylvania.

18 It has nothing to do with PPL's other companies or  
19 other operations, the generation of electricity or its  
20 international investments.

21 In conclusion, I'd like to mention two housekeeping  
22 items. You can view the company's entire filing on line at  
23 [www.pplrateinfo.com](http://www.pplrateinfo.com).

24 Second, there is another PP&L employee here with me  
25 tonight. Don Stringfellow is over in the middle of the room

1 there. Don can answer any questions you might have about  
2 your individual service or rates, so if you have those kinds  
3 of questions, I would encourage you to see Don during a  
4 break or at the end of tonight's hearings.

5 Again, thank you for attending and I look forward to  
6 hearing your comments. Thank you, Your Honor.

7 JUDGE TURNER: Thank you, Mr. Russell. Mr. Kanaskie?

8 MR. KANASKIE: Thank you, Your Honor.

9 Good evening. My name is Rick Kanaskie and I'm with  
10 the Commission's Office of Trial Staff. The Office of Trial  
11 Staff was formed in the middle eighties and charged with  
12 protecting the public interest, and that's our role in this  
13 proceeding, is to protect the public interest.

14 There are many aspects involved. The key, and our  
15 focus, is to insure that rates remain just and reasonable.  
16 We are part of the Commission for administrative purposes,  
17 but I am not here on behalf of the Commission. I'm here to  
18 advocate before the Commission just like every other party.

19 We have engineers, we have financial analysts. We  
20 have prepared testimony. We're preparing rebuttal  
21 testimony. We'll be involved in the hearings starting in  
22 August and we'll be right through to the end, filing briefs,  
23 reply briefs and exceptions that may be needed.

24 We've had a chance to analyze all the company's data,  
25 all their responses to our questions. In a rate proceeding,

1 that's only part of the whole picture. The other part is  
2 what the public sees and the public experiences and that's  
3 why we're having this hearing tonight.

4 As the Judge has mentioned, there's a couple  
5 different ways you can have your views brought forward. I  
6 would urge you to go on the record, though. That way,  
7 whatever you say becomes part of the total record, can be  
8 referred to by all the parties, can be looked at by the  
9 Judge when she's rendering her decision.

10 Thank you for coming out and I hope to hear you on  
11 the record. Thank you, Your Honor.

12 JUDGE TURNER: Mr. Beatty?

13 MR. BEATTY: Thank you, Your Honor.

14 Good evening. My name is Aron Beatty. I'm an  
15 attorney with the Pennsylvania Office of Consumer Advocate.  
16 Our office represents the interests of utility consumers,  
17 residential consumers in particular, in matters before the  
18 Public Utility Commission.

19 Our office has filed a complaint against the  
20 company's request for a rate increase in order to help  
21 insure that any rate increase that may be awarded is  
22 reasonable and fully supported.

23 We've also hired expert witnesses in the utility  
24 field to analyze the company's case, and these experts are  
25 presenting testimony challenging portions of the company's

1 request.

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

8 Also, I have brought along with me some brochures  
9 that describe what our office does. They're in the back at  
10 the table. In the brochure is a form that you can fill out  
11 if you want to become part of our mailing list to receive  
12 information regarding your local utilities. I look forward  
13 to hearing your comments. Thank you.

14 JUDGE TURNER: Mr. Gray?

15 MR. GRAY: Thank you, Your Honor. Good evening. My  
16 name is Steve Gray. I'm with the Office of Small Business  
17 Advocate. We represent small commercial and industrial  
18 interests across the Commonwealth, and if you are a  
19 representative of a small business here tonight, I would  
20 very much appreciate it if you would put your comments on  
21 the record. Thank you very much.

22 JUDGE TURNER: All right. I have two names at this  
23 point, and I will call these two witnesses and hopefully  
24 swear them in, and after that, if no one else has come, I  
25 will adjourn for a period of time to see if anyone else will

1 arrive.

2 The first witness -- I hope I'm pronouncing your name  
3 right, sir -- is Richard T. Nassberg?

4 MR. NASSBERG: That's correct.

5 JUDGE TURNER: Could you approach the podium?

6 MR. NASSBERG: I'd be happy to do so. You'll have to  
7 bear with me. This is allergy season for me, so I'm going  
8 to retrieve a glass of water I tucked away over here.

9 JUDGE TURNER: Fine. May I swear you in?

10 MR. NASSBERG: Yes, ma'am.

11 JUDGE TURNER: Would you raise your right hand?

12 Whereupon,

13 RICHARD T. NASSBERG

14 having been duly sworn, testified as follows:

15 **DIRECT TESTIMONY**

16 JUDGE TURNER: Will you state your name and spell it  
17 for the record?

18 THE WITNESS: Dick Nassberg, N-A-S-S-B-E-R-G,  
19 Lycoming County Commissioner.

20 JUDGE TURNER: Okay. And you give your address as  
21 Courthouse, Williamsport, PA.

22 THE WITNESS: Do you need a residence address? I can  
23 give you that. Normally I just use Courthouse, 48 West  
24 Third.

25 JUDGE TURNER: Okay. And that's 17701?

1 THE WITNESS: Yes.

2 JUDGE TURNER: Okay. And will you help me out here?  
3 How many county commissioners are there?

4 THE WITNESS: Three. We have a commission of three.  
5 I'm vice chair.

6 JUDGE TURNER: You're the vice chair, okay. And  
7 these are elected officials?

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

9 JUDGE TURNER: Okay. And is that your entire  
10 occupation?

11 THE WITNESS: It's enough to keep my busy, Your  
12 Honor, yes.

13 JUDGE TURNER: Okay. Are you a customer of PP&L?

14 THE WITNESS: Yes, Your Honor.

15 JUDGE TURNER: And I'm assuming the county courthouse  
16 is also a customer of PP&L?

17 THE WITNESS: To the best of my knowledge, it is.

18 JUDGE TURNER: Okay. I guess you don't pay the  
19 bills?

20 THE WITNESS: No, we do pay the bills.

21 JUDGE TURNER: But you're not --

22 THE WITNESS: Yes, we are.

23 JUDGE TURNER: -- responsible for the --

24 THE WITNESS: But I'm saying there are county  
25 operations in outlying areas that may not be a PPL customer.

1 JUDGE TURNER: Okay. I appreciate that  
2 clarification. Welcome and thank you for coming out this  
3 evening, and will you go ahead with your testimony.

4 THE WITNESS: Your Honor, thank you very much, and  
5 I'll try to make this as brief as I can. I first want to  
6 just set the tenor of this by saying that PP&L has been not  
7 just a good neighbor to us in this county but has been a  
8 very good and supportive friend.

9 PP&L has been a force in economic development for us,  
10 and has very generously contributed its time, its energies  
11 and its resources to the needs of this county, both  
12 economically and in terms of development and planning and a  
13 host of other things. And it's been a very good and a  
14 cooperative relationship.

15 In the spirit of this relationship, I'm asking that  
16 PP&L might consider some factors that weigh heavily on my  
17 mind as a commissioner with regard to a proposed rate  
18 increase.

19 If you look at population trends in this county,  
20 they're very similar to those in similar rural counties in  
21 that for the past eight years, from 1994 on, we have  
22 suffered a small, annual but persistent population decline.

23 And similarly to other similarly situated rural  
24 counties, unfortunately, the highest percentage of those  
25 leaving are, to the best of my knowledge, younger people,

1 ambitious for jobs that may not be as easily available in a  
2 rural area, so that we have a demography here that is skewed  
3 toward an older population.

4 And we have a growing portion of our population which  
5 is to my knowledge made up of senior citizens and they  
6 clearly are people who have limited means, fixed incomes,  
7 and rising expenses.

8 We also have young, working families who have the  
9 same burdens of raising families, paying mortgages, paying  
10 taxes, buying cars, doing orthodontics and everything that  
11 comes with being a young, working family.

12 And this past year, in spite of taking a ten percent  
13 across the board cut, 9.1 percent actually, in the budgets  
14 of every county department, taking \$7 million out of the  
15 small county budget, the evaporation of our investment  
16 income in a terrible money market, and the inability, in  
17 spite of the support we got from a wonderful legislative  
18 delegation, the inability because of its own financial press  
19 of the state to continue the level of financial support that  
20 in the past we had counted on to run programs and social  
21 services and mental retardation and mental health and all  
22 sorts of things, court system, we were faced with a tax  
23 increase that we didn't want and are now striving mightily  
24 to reverse.

25 To add to this a rate increase for an essential

1 utility would in my estimation, at a very wrong time,  
2 increase the burden, the fear and the uncertainty of life  
3 for those most vulnerable in our society.

4 We can look also at the positive side of the picture  
5 and say that this is a county blessed with physical beauty,  
6 two million acres of virgin forest, an ideal environment for  
7 hiking, camping, fishing, hunting, living a life and raising  
8 children.

9 We have fine educational institutions. We are right  
10 now in the beating heart of one of the finest technical  
11 colleges, part of Penn State, Penn College of Technology,  
12 and across town we have Lycoming College, one of the finest  
13 and oldest liberal arts schools in America.

14 Two years ago, we had an unemployment rate of 7.5  
15 percent here. Last year, to my knowledge, we had in this  
16 county an unemployment rate of 7 percent. And again to the  
17 best of my knowledge, we this year have an unemployment rate  
18 that has dropped to 6.5 percent.

19 If we are to continue this trend of putting people to  
20 work, of finding not just jobs but quality jobs -- and I  
21 have to say as an economist, which I am, that unemployment  
22 figures don't warm my heart because a national discount  
23 chain, a warehouse, a lot of things, a pharmacy company, pay  
24 very low wages and you have people who are permanent temps  
25 with no benefits at a time when these things are desperately

1 needed.

2           The one thing that will keep our trend of  
3 unemployment numbers falling, that will keep the employment  
4 of our people rising, the one thing that will reverse the  
5 demographic shift and keep the best and the brightest of our  
6 young people here will be our ability to entice, invite and  
7 retain in this county companies that offer quality, secure  
8 employment, career employment with benefits, with health  
9 coverage, with retirement benefits that a young person can  
10 sign onto and grow with and raise a family on and buy a  
11 house with.

12           And if we are to realize that goal, we need to insure  
13 that this county is competitive with other counties, is  
14 competitive with Ohio and Marietta, Georgia and the Sun  
15 Belt.

16           And if we can contain utility costs, that along with  
17 an easing regulatory environment would be an enormous  
18 benefit to helping us stay and become more competitive in a  
19 desperately competitive economic world.

20           We're competing with Georgia, with California and  
21 with China. It's my belief that stability in these rates  
22 will be beneficial to the most vulnerable people in our  
23 community and provide them a safety net and induce some  
24 sense of security in a difficult time, but most important  
25 will be an aid to us in maintaining the quality employment

1 that we have and in attracting and building the kind of  
2 quality employment we so desperately want and need.

3 Now, I mentioned that I was an economist, and I have  
4 to say that Mr. Stringfellow over here has been a remarkable  
5 person for us to work with as county commissioners.

6 He has been a remarkable person for the business  
7 community to work with. And as I noted, PP&L has been a  
8 superb partner to this county in its efforts.

9 And I know that PP&L faces the same challenges that  
10 we do, that labor costs are up, as they should be, that cost  
11 of materials is up, that cost of fuels is undoubtedly up,  
12 that the taxes imposed on it are up.

13 And to ask it not to raise the prices of the  
14 commodity it sells in some ways is saying, well, you know,  
15 how you come up with the difference is your problem.

16 But the reality is, we were able, with the help of  
17 remarkable people working for this county, to take  
18 \$7 million out of an \$82 million budget without losing a  
19 single county employee and while increasing our services.

20 PP&L, being a strong, well motivated and well  
21 intentioned company, I would urge to do the same budgetary  
22 soul searching that we as a county did and see whether,  
23 notwithstanding the financial pressures on it, whether it  
24 could help us by avoiding a rate increase and thereby  
25 sustaining our economic development efforts.

1 Your Honor, I have nothing further and I thank you  
2 for your time and patience.

3 JUDGE TURNER: Well, thank you for attending. I just  
4 think we ought to clarify one thing.

5 THE WITNESS: Yes.

6 JUDGE TURNER: What county are you county  
7 commissioner of?

8 THE WITNESS: You are in the beautiful and very, very  
9 blessed Lycoming County.

10 JUDGE TURNER: Lycoming.

11 THE WITNESS: And if you fish, hike, hunt, camp, or  
12 just like beautiful places, I would urge you to come back  
13 here and spend some more time here. It's going to be a  
14 relief from the urban environment in which you live.

15 JUDGE TURNER: I only needed the name, sir.

16 THE WITNESS: Oh, I've got to give the pitch.

17 JUDGE TURNER: Mr. Russell, do you have any cross-  
18 examination?

19 MR. RUSSELL: No questions, Your Honor.

20 JUDGE TURNER: Mr. Kanaskie?

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

22 JUDGE TURNER: Mr. Beatty?

23 MR. BEATTY: No questions, Your Honor.

24 JUDGE TURNER: Mr. Gray?

25 MR. GRAY: No questions, Your Honor.

1 JUDGE TURNER: Thank you very much.

2 THE WITNESS: Your Honor, thank you very much.  
3 Gentlemen, thank you.

4 (Witness excused.)

5 JUDGE TURNER: Mr. Philip J. King. Good evening,  
6 sir.

7 MR. KING: Good evening.

8 JUDGE TURNER: May I swear you in?

9 MR. KING: Yes, you may.

10 JUDGE TURNER: Will you raise your right hand?  
11 Whereupon,

12 PHILIP J. KING  
13 having been duly sworn, testified as follows:

14 **DIRECT TESTIMONY**

15 JUDGE TURNER: Will you state your name for the  
16 record and spell it?

17 THE WITNESS: My name is Philip King, K-I-N-G.

18 JUDGE TURNER: And Philip is with one "L"?

19 THE WITNESS: One "L".

20 JUDGE TURNER: And your address?

21 THE WITNESS: 1605 Marlin Parkway, Williamsport.

22 JUDGE TURNER: PA, 17701 --

23 THE WITNESS: Seven oh one.

24 JUDGE TURNER: Okay. And --

25 THE WITNESS: I work for Kvaerner Holding here in

1 Williamsport.

2 JUDGE TURNER: Can you spell Kvaerner?

3 THE WITNESS: K-V-A-E-R-N-E-R.

4 JUDGE TURNER: Okay. And then you --

5 THE WITNESS: I am a shipping and receiving clerk.

6 JUDGE TURNER: Okay. Thank you. Are you a customer

7 of PPL?

8 THE WITNESS: Yes, I am.

9 JUDGE TURNER: Okay. I guess your employer is also?

10 THE WITNESS: My employer is also.

11 JUDGE TURNER: Please go ahead with your testimony.

12 THE WITNESS: After listening to part of this here,  
13 maybe I shouldn't be speaking here, where I'm at, but this  
14 has to do with a little bit of the generating part of the  
15 deal. I realize this is a transmission thing.

16 JUDGE TURNER: And distribution case, yes.

17 THE WITNESS: Distribution case. But we build boiler  
18 parts for power stations and what have you. We had a bid in  
19 with PPL. PPL took their job -- we are 30 miles away from  
20 where they needed the work. They took it to China.

21 Now, if they can do that, you know, here we are,  
22 they're asking us for a rate increase. Why can't they give  
23 us a chance to earn some money and put some money back into  
24 this community to help pay for this, offset this rate  
25 increase, if they want? That's, you know -- this company

1 has been in town for 140 years, and we are booming right  
2 now, .but we could have done --

3 JUDGE TURNER: Moving where?

4 THE WITNESS: We could have done the job and done it  
5 as well. We have done work for them in the past, not  
6 directly from them, in a roundabout way. We did jobs  
7 through the back door for them, that other people can't  
8 handle and they'll send them to us and we do them, and  
9 they're more than pleased with the work we do. But --

10 JUDGE TURNER: Excuse me. Did you say you were  
11 moving right now?

12 THE WITNESS: No, no. I said we are booming.

13 JUDGE TURNER: Booming. Thank you.

14 THE WITNESS: Right now. But that is, you know, I --  
15 with the economy and everything the way it is right now, and  
16 like Mr. Nassberg said, this community is becoming an older  
17 community and as everybody knows, Pennsylvania has, what,  
18 the second highest retiree rate next to Florida.

19 And I'm about ready to retire, be on a fixed income,  
20 and I just -- it's hard enough now to make ends meet in a  
21 lot of ways, and I can imagine what it is for people on a  
22 fixed income. So, that is basically the end of my statement  
23 right there.

24 JUDGE TURNER: Okay. I think your statement is  
25 appropriate here because it has to do with the role of PPL



1 MR. RUSSELL: I am, Your Honor.

2 JUDGE TURNER: Okay.

3 MR. RUSSELL: Would you like it on the record?

4 JUDGE TURNER: Yes.

5 MR. RUSSELL: Okay. Before the restructuring of the  
6 electric utility industry in Pennsylvania, PPL was one  
7 company basically, vertically integrated electric utility,  
8 which means the one company provided generation service,  
9 transmission and distribution service.

10 The Customer Choice Act was passed in 1996. I  
11 referenced it quickly in my opening statement. And  
12 following on that, as a result of provisions of the Act, as  
13 a result of generation being made competitive rather than a  
14 regulated function, PPL restructured its corporation,  
15 significantly restructured the corporation.

16 And what we have today is a much different PPL, and  
17 I'll try to do this at a high level because there's a lot of  
18 affiliates and subsidiaries.

19 But at a high level, there's a holding company called  
20 PPL Corporation. It's the parent of four subsidiary  
21 companies. The four -- I'll just name them quickly and then  
22 go back and talk about what each does -- the four  
23 subsidiaries of the holding company are PPL Electric  
24 Utilities, which is what we're talking about today; PPL  
25 Generation; PPL Global; and PPL Energy Plus.

1 Starting at the beginning, PPL Electric Utilities is  
2 the company that's regulated by the Public Utility  
3 Commission. It's also regulated by the Federal Energy  
4 Regulatory Commission in Washington.

5 And its function is just delivery of electricity,  
6 both distribution and transmission. And the only difference  
7 between distribution and transmission really is the voltage  
8 level and whether it's regulated by the PUC or by the  
9 Federal Energy Regulatory Commission.

10 PPL Electric does one other thing, it provides  
11 electricity to customers who don't want to shop. It's  
12 called provider of last resort. PPL Electric is the  
13 company, the ultimate default company. If a customer  
14 doesn't want to shop for electric supply, PPL Electric is  
15 required by law to make that available. But really, its  
16 fundamental role is to delivery electricity to customers.

17 PPL Generation, the second subsidiary of the holding  
18 company, owns all the generating plants, almost all the  
19 generating plants in the PPL family.

20 It was the company to which the existing generating  
21 plants were transferred in 2001 after restructuring. So  
22 Susquehanna, the nuclear plant in Berwick is now owned by  
23 PPL Generation. Montour, Bruner Island, all the plants that  
24 were originally owned by the vertically integrated utility  
25 are now owned by PPL Generation, and PPL Generation has

1 built some additional plants. Its only function is to own  
2 and operate generating plants, and it sells its output to  
3 another affiliate that I'll discuss in a minute.

4 The third company owned by the holding company is PPL  
5 Global, and its role is international investment. It  
6 basically looks for distribution companies or generating  
7 companies to buy in other countries, and PPL Global has  
8 purchased companies in Great Britain and quite a few in  
9 South America.

10 The fourth company that's owned by PPL Corporation is  
11 PPL Energy Plus. PPL Energy Plus is a marketing company.  
12 It sells the electricity that PPL Generation, the companies  
13 owned by PPL Generation produce, both at retail and  
14 wholesale.

15 So PPL Energy Plus sells to other utilities at  
16 wholesale, which is regulated by the Federal Energy  
17 Regulatory Commission. They are also the company that sells  
18 in some markets at retail to an end use customer. If a  
19 customer wants to buy from somebody other than the incumbent  
20 utility, they might choose to buy from PPL Energy Plus.

21 At the highest level, that's how we're structured,  
22 the holding company, the four subsidiaries. Each of the  
23 subsidiaries has a totally different function.

24 They are separated both by corporate structure and by  
25 separate accounts, separate books, separate employees,

1 separate locations in many instances.

2 Under the four I've mentioned, then there are  
3 additional subsidiaries and the chart gets very complicated,  
4 but that's the high level explanation of how we're set up.

5 JUDGE TURNER: How does PPL Electric Utilities, Inc.  
6 relate to the other companies financially? Does any of PPL  
7 Electric Utilities' money go into any of the other  
8 subsidiaries, or up to the parent company? Probably some of  
9 it goes up to the parent.

10 MR. RUSSELL: Yes, it's a little complicated. Two  
11 things I think happen. Number one is, PPL Electric has  
12 common stock that used to be sold publicly and is no longer  
13 sold publicly. All of PPL Electric's common stock is owned  
14 by PPL Corporation.

15 PPL Electric pays dividends on its common stock up to  
16 its parent company, PPL Corporation, so dollars flow in that  
17 direction. PPL Corporation can make capital contributions  
18 down to PPL Electric as well.

19 The other way that the money can move within the  
20 enterprise is under Commission approved affiliated interest  
21 agreements, the affiliates can do work for one another.

22 So for example, there are maintenance employees in  
23 PPL Electric who do maintenance work on the power plants  
24 that are owned by PPL Generation.

25 That's under an affiliated interest agreement and PPL

1 Generation pays over the cost of those employees, wages,  
2 benefits, trucks, equipment, everything, all the costs that  
3 those employees incur, they charge to PPL Generation in my  
4 example and PPL Generation pays PPL Electric. So in that  
5 way, money would move back and forth between the affiliates.

6 But on income statements and balance sheets, the  
7 fundamental documents that report a company's financial  
8 performance are all kept separately. There's not a  
9 commingling, for example, of the income of PPL Electric and  
10 PPL Generation. They have their own income statements,  
11 their own balance sheets.

12 JUDGE TURNER: And the same is true with PPL Electric  
13 and PPL Global?

14 MR. RUSSELL: Yes, yes, and PPL Energy Plus as well.

15 JUDGE TURNER: Because I heard in the testimony this  
16 afternoon concerns that perhaps part of this increase was  
17 going into PPL Global's or other operations.

18 MR. RUSSELL: And that is not the case, no.

19 JUDGE TURNER: Not directly, at any rate. It would  
20 have to go up to the parent first and then be reinvested.

21 MR. RUSSELL: Income that PPL Electric -- I guess  
22 retained earnings, really, that PPL Electric has that's paid  
23 up in dividends could be contributed down to one of the  
24 other affiliates by the holding company, yes.

25 JUDGE TURNER: Thank you for that explanation. I

1 appreciate it.

2 MR. RUSSELL: You're welcome.

3 JUDGE TURNER: And I hope it answered some questions  
4 that some of the customers here may have. At this point, I  
5 will take a recess to see if any further witnesses arrive,  
6 and I'll probably wait until five minutes of seven. So we  
7 are off the record.

8 (Recess.)

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

10 Actually, there was a gentleman here but he has left,  
11 and I know the court reporter explained his options to him  
12 and I think he took his options by speaking to a PPL  
13 employee, so no additional witnesses have arrived.

14 I think that I can adjourn this hearing and close  
15 this public input session, unless there is anything that any  
16 of the parties needs to put on the record at this point.

17 MR. RUSSELL: Nothing, Your Honor.

18 JUDGE TURNER: Okay. In that case, we are adjourned.  
19 Thank you very much.

20 (Whereupon, at 6:51 p.m., the proceedings were  
21 concluded.)

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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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