

COMMONWEALTH OF PENNSYLVANIA

PUBLIC UTILITY COMMISSION

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 :
 Petition of PPL Electric Utilities Corp. :
 For Approval of a Competitive Bridge Plan : Docket No.
 : P-00062227
 Initial Hearing :
 :
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Pages 41 through 192 Hearing Room 2
 Commonwealth Keystone Building
 Harrisburg, Pennsylvania

Tuesday, December 19, 2006

Met, pursuant to notice, at 9:00 a.m.

BEFORE:

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P R O C E E D I N G S

1
2 ADMINISTRATIVE LAW JUDGE MARLANE R. CHESTNUT: I'd
3 like to say good morning, nice to see all of you.

4 The first thing is then to notice the appearance of
5 all of you. What I'm going to do is I'm going to go through
6 the hearing report, I'm going to say your name, you're going
7 to indicate if you're here. I'm not going to go through and
8 have you state your address and your phone number and your
9 e-mail address and your fax number. I assume that what you
10 wrote down is correct; okay?

11 The first person on the list, Mr. Mickens.

12 MR. MICKENS: Good morning, Your Honor.

13 JUDGE CHESTNUT: Mr. Russell.

14 MR. RUSSELL: Good morning, Your Honor.

15 JUDGE CHESTNUT: Good morning.

16 Mr. Swindler.

17 MR. SWINDLER: Yes. Good morning, Your Honor.

18 JUDGE CHESTNUT: Mr. Stewart.

19 MR. STEWART: Good morning, Your Honor.

20 JUDGE CHESTNUT: Ms. Kolich.

21 MS. KOLICH: Right here, Your Honor.

22 JUDGE CHESTNUT: Nice to meet you.

23 Mr. MacGregor.

24 MR. MacGREGOR: Present, Your Honor.

25 JUDGE CHESTNUT: Mr. Russell again.

1 MR. RUSSELL: Still here, Your Honor.

2 (Laughter)

3 JUDGE CHESTNUT: Ms. Evers.

4 MS. EVERS: Good morning, Your Honor.

5 JUDGE CHESTNUT: Good morning.

6 Mr. Knipe.

7 MR. KNIPE: Good morning, Your Honor.

8 JUDGE CHESTNUT: Nice to see you again.

9 Mr. Gray.

10 MR. GRAY: Good morning, Your Honor.

11 JUDGE CHESTNUT: Mr. Mullins, Ms. McCloskey.

12 MS. MCCLOSKEY: Good morning, Your Honor.

13 MR. MULLINS: Good morning, Your Honor.

14 JUDGE CHESTNUT: Good morning.

15 Mr. Moody.

16 MR. MOODY: Good morning, Your Honor.

17 JUDGE CHESTNUT: Mr. Hassell.

18 MR. HASSELL: Good morning, Your Honor.

19 JUDGE CHESTNUT: Mr. MacGregor, I think I got you
20 already, but --

21 MR. MacGREGOR: That's correct.

22 JUDGE CHESTNUT: Mr. Lewis.

23 MR. LEWIS: Good morning, Your Honor.

24 JUDGE CHESTNUT: Ms. Corson.

25 MS. CORSON: Good morning, Your Honor.

1 JUDGE CHESTNUT: And Mr. Jugovic.

2 MR. JUGOVIC: Good morning, Your Honor.

3 JUDGE CHESTNUT: If I'm saying your name right. Your
4 writing is not very good.

5 Are there any preliminary matters that anybody wants
6 to raise at this time?

7 MR. MacGREGOR: Yes, Your Honor.

8 JUDGE CHESTNUT: Okay.

9 MR. MacGREGOR: Two matters. The first is -- and I
10 notified the parties as to both of these, and Your Honor,
11 via e-mail yesterday afternoon. We have reached a
12 stipulation with Reliant Energy resolving all of the issues
13 between PPL and Reliant in this case, and we have reduced
14 that to a stipulation that I would like to enter into the
15 record, and which was previously distributed to the parties.
16 I have a couple of extra copies if they are needed.

17 JUDGE CHESTNUT: Okay. Thank you.

18 MR. MacGREGOR: This stipulation also involves the
19 substantial redaction of Mr. Ajello's testimony. I believe
20 Reliant is in the process of producing that redaction, and
21 off the record at a break we may want some guidance from you
22 as to the proper way of doing that. As a result of that,
23 there are portions of PPL's rebuttal testimony that
24 addressed Mr. Ajello's testimony that also need to be
25 redacted.

1 We have produced our rebuttal testimony as pre-filed,
2 but with references to Mr. Ajello and his testimony
3 redacted, and I have those available for the parties. They
4 will be the rebuttal testimonies that we'll be introducing
5 into the record.

6 JUDGE CHESTNUT: Okay. Mr. Knipe, do you have
7 redacted copies of Mr. Ajello's testimony, or are you going
8 to withdraw it or what?

9 MR. KNIPE: We are preparing a redacted version, and
10 the only question is whether or not we want to distribute
11 many copies with blank pages or whether or not it would be
12 permissible to consolidate in a word-processed document. It
13 will be substantially redacted.

14 JUDGE CHESTNUT: That's fine. Don't forget that so
15 far your testimony has not been filed, it's only been
16 served. So as long as what's in the file is what you want
17 to be part of the record, that's fine.

18 MR. KNIPE: All right, Your Honor. At a break we can
19 do that, and we will circulate it immediately.

20 JUDGE CHESTNUT: That's fine.

21 MR. MacGREGOR: Your Honor, the second item which I
22 also identified in my e-mail was related to the surrebuttal
23 testimony of Constellation that was filed on Friday and a
24 possible motion to strike that testimony. I had planned to
25 present that up front in order to resolve that issue,

1 because it affects the scope of our rejoinder testimony and
2 cross, however, we have had discussions over the last couple
3 of days with Constellation and I believe it's fair to
4 represent that we are close to resolving the issue either
5 completely or limiting only a couple of issues, and we would
6 like the opportunity to continue those discussions this
7 morning.

8 The only caveat is if we are not able to reach
9 agreement, and if my motion to strike is not granted, I
10 would need the opportunity, in all likelihood, to recall a
11 couple of my witnesses to respond to the testimony.

12 JUDGE CHESTNUT: Do you want to take a break now and
13 see if you can resolve that? Is that what you're
14 suggesting?

15 MR. MacGREGOR: I believe I have communicated our
16 last offer to Constellation and it's being reviewed back at
17 their headquarters.

18 MR. LEWIS: That's correct.

19 MR. MacGREGOR: And we might proceed now and, at a
20 break, see where we stand.

21 JUDGE CHESTNUT: And then you'll get back to us when
22 you've heard?

23 MR. LEWIS: That's correct, Your Honor. The only
24 other point I would make is in view of the prospect of a
25 settlement, we would defer our cross-examination of the

1 witness until such time as we know whether we're going to
2 settle or not.

3 JUDGE CHESTNUT: Well, you'll know this morning, I
4 assume, and the witnesses will still be here; right?

5 MR. MacGREGOR: Yes.

6 JUDGE CHESTNUT: Okay. You know, you could take
7 advantage of this opportunity to see if you could settle the
8 case. Since the company made substantial movement in
9 revising its plan, I certainly see possibilities there.

10 To be honest, obviously, I'm not familiar with the
11 details, as you are, which affect you directly, but I
12 certainly see an outline of a settlement that could be
13 accomplished here.

14 The important factor to keep in mind is the company's
15 recognition that this plan will not be precedential. And
16 what do you have to keep in mind? One year bridge. You're
17 telling me you can't live with something you can work out
18 for one year that's not going to have any precedential
19 value? I'm really surprised that you can't recognize that
20 and come up with something.

21 I think at some point I'd sure like to know who is
22 the problem child here to see if we can work this out. I
23 think it's in everybody's interest, even though we are at
24 the hearing stage. But, believe me, you all are familiar
25 with practice before this Commission, and you know that what

1 comes up may not be what comes back out from them.
2 Sometimes they may not even intend to do what they do.

3 So you're really in a much better position to take
4 control of your own business activities by coming up with a
5 settlement yourselves.

6 So I urge you, even though we're at this point, keep
7 it in mind. Maybe you should start talking. I see that the
8 company has made substantial modification of its plan and
9 that should take care of a lot of people's concerns, but
10 then again, I'm not familiar with it the way you are.

11 If I can help in any way to assist you, please let me
12 know. If you want a break from the hearing or if you want
13 to defer something, that's okay. But I would like you to
14 keep that door open and keep it in mind.

15 Given that, is there any other preliminary matter
16 that anybody wishes to raise?

17 MR. HASSELL: Yes, Your Honor, there is one other
18 matter. Your Honor, after further discussion with counsel
19 for Strategic Energy Fund, we have reached an agreement that
20 both parties are going to waive cross-examination of each
21 other's witnesses.

22 In addition, as part of that, it's agreed that there
23 is an interrogatory response that was provided by Strategic
24 Energy -- or Sustainable, pardon me, I apologize,
25 Sustainable Energy Fund. There was an interrogatory

1 response that was received that we are agreeing to admit by
2 stipulation. I'm going to mark that as PPL Cross-
3 Examination Exhibit No. 1.

4 JUDGE CHESTNUT: And that's a discovery response?

5 MR. HASSELL: It is a discovery response, yes,
6 Your Honor.

7 JUDGE CHESTNUT: Do you have a number?

8 MR. HASSELL: It is Set II, No. 2, from PPL to
9 Sustainable Energy Fund.

10 JUDGE CHESTNUT: That will be so marked.

11 (Whereupon, the document was marked
12 as PPL Cross-Examination Exhibit
13 No. 1 for identification.)

14 JUDGE CHESTNUT: Any objection to its admission?

15 (No response.)

16 JUDGE CHESTNUT: It's admitted.

17 (Whereupon, the document marked as
18 PPL Cross-Examination Exhibit No.
19 1 was received in evidence.)

20 MR. HASSELL: Thank you, Your Honor.

21 JUDGE CHESTNUT: Do you have a copy for me and the
22 court reporter?

23 MR. HASSELL: Yes, Your Honor.

24 JUDGE CHESTNUT: Thank you.

25 Now, normally what I would do at this point -- are

1 there any other preliminary matters?

2 MR. MacGREGOR: I did, I guess -- Mr. Hassell
3 reminded me, I handed the stipulation to the court reporter
4 and Your Honor between Reliant and PPL, but I did not mark
5 it or move it, so if I could mark that as PPL Hearing
6 Exhibit 2 and ask that it be admitted?

7 JUDGE CHESTNUT: I wasn't actually going to call it
8 anything, but it's probably a good idea. Cross Exhibit 2,
9 and that's obviously admitted, to the extent that it needs
10 to be.

11 (Whereupon, the document was marked
12 as PPL Cross-Examination Exhibit
13 No. 2 for identification, and was
14 received in evidence.)

15 JUDGE CHESTNUT: Anything else?

16 (No response.)

17 JUDGE CHESTNUT: I was going to say, at this point
18 what I would normally do would be to go through the
19 witnesses whose testimony can be admitted through
20 stipulation so that perhaps the counsel don't have to hang
21 around if they don't want to.

22 Does anybody want to start with that?

23 Mr. Swindler.

24 MR. SWINDLER: Yes, that would be fine, Your Honor.
25 Thank you.

1 JUDGE CHESTNUT: Are you moving in your witness'
2 testimony or not?

3 MR. SWINDLER: Yes, Your Honor. We have served to
4 all the parties SEF Statement No. 1, the direct testimony of
5 Rex A. D'Agostino, with attached SEF Exhibit 1. We've also
6 served what I've identified as SEF Statement No. 1-SR, the
7 surrebuttal testimony of Dr. D'Agostino. As Mr. Hassell
8 indicated, the company has agreed that that testimony and
9 exhibit can be stipulated into the record.

10 JUDGE CHESTNUT: Any objection?

11 (No response.)

12 JUDGE CHESTNUT: The testimony is admitted.

13 (Whereupon, the documents were
14 marked as SEF Statement No. 1, SEF
15 Exhibit No. 1, and SEF Statement
16 No. 1-SR for identification, and
17 were received in evidence.)

18 MR. SWINDLER: Your Honor, just so the record is
19 clear, copies have been provided to the court reporter.

20 JUDGE CHESTNUT: That's fine.

21 MR. SWINDLER: Thank you, Your Honor.

22 JUDGE CHESTNUT: Anybody else?

23 MR. MICKENS: Yes, Your Honor. Your Honor, OTS
24 Statement No. 1 of David Keim has been distributed to the
25 parties. The matrix indicates that there's no cross-

1 examination for Mr. Keim, the company has not indicated they
2 have any cross, so I would move at this time the admittance
3 of OTS Statement No. 1, the direct testimony of David Keim
4 for the Office of Trial Staff.

5 JUDGE CHESTNUT: Any objection?

6 MR. HASSELL: No, Your Honor.

7 JUDGE CHESTNUT: The statement is admitted. Thank
8 you, Mr. Mickens.

9 MR. MICKENS: Thank you.

10 (Whereupon, the document was marked
11 as OTS Statement No. 1 for
12 identification, and was received in
13 evidence.)

14 JUDGE CHESTNUT: Anybody else?

15 MR. MULLINS: Your Honor, if I may, I don't have
16 Ms. Alexander's copies here this morning, but I can return
17 to the office and procure those for the afternoon session,
18 if Your Honor permits?

19 JUDGE CHESTNUT: That's fine. Do you want to do it
20 now?

21 MR. MULLINS: Your Honor, I can certainly do that.

22 JUDGE CHESTNUT: That would be Statement 2R?

23 MR. MULLINS: Yes, Your Honor, the rebuttal testimony
24 of Barbara R. Alexander.

25 JUDGE CHESTNUT: Any objection?

1 (No response.)

2 JUDGE CHESTNUT: The document is admitted.

3 (Whereupon, the document was marked
4 as OCA Statement No. 2R for
5 identification, and was received in
6 evidence.)

7 MR. MULLINS: Thank you, Your Honor.

8 JUDGE CHESTNUT: Thank you.

9 Anybody else?

10 (No response.)

11 JUDGE CHESTNUT: Oh, come on. Geez, that's the most
12 you could come up with?

13 (No response.)

14 JUDGE CHESTNUT: Okay. Then I guess that takes us to
15 our first witness.

16 MR. MacGREGOR: Yes, Your Honor. We would call as
17 our first witness Mr. Douglas A. Krall, K-r-a-l-l.

18 JUDGE CHESTNUT: Now, as I indicated previously in my
19 e-mail to you, I do not have copies of the testimony, so I
20 plan to either use one of the court reporter's, if you've
21 given it to him, or if you an extra, I would appreciate it.

22 (Document handed to Judge Chestnut.)

23 Thank you.

24 (Pause.)

25 JUDGE CHESTNUT: Mr. Krall, do you want to raise your

1 right hand, please?

2 Whereupon,

3 DOUGLAS A. KRALL

4 having been duly sworn, testified as follows:

5 JUDGE CHESTNUT: You may be seated. Please give and
6 spell your name for the record.

7 THE WITNESS: My name is Douglas, with one "s", A.
8 Krall, K-r-a-l-l.

9 JUDGE CHESTNUT: Okay, Mr. MacGregor, when you're
10 ready.

11 MR. MacGREGOR: Thank you, Your Honor. Just a
12 minute, please.

13 (Pause.)

14 DIRECT EXAMINATION

15 BY MR. MacGREGOR:

16 Q. Good morning, Mr. Krall. Please state by whom
17 you're employed and in what capacity.

18 A. I'm employed by PPL Electric Utilities. My
19 title is Manager - Regulatory Strategy.

20 MR. MacGREGOR: Your Honor, I would like to mark for
21 identification purposes the previously served testimony of
22 Mr. Krall, which consists of his Statement No. 1 and
23 attached Exhibit DAK-1.

24 JUDGE CHESTNUT: Are you going to do DAK-2 separately
25 or as part of this? Wasn't that also with this?

1 MR. MacGREGOR: Yes, it's also DAK-2. And then his
2 rebuttal testimony in redacted form, which was distributed
3 this morning, which I would ask to be marked for
4 identification as PPL Statement No. 1-R, with attached
5 Exhibits DAK-3 and 4.

6 JUDGE CHESTNUT: The documents will be so marked.

7 (Whereupon, the documents were
8 marked as PPL Statement No. 1 with
9 Exhibits DAK-1 and DAK-2, and PPL
10 Statement No. 1-R with Exhibits
11 DAK-3 and DAK-4 for
12 identification.)

13 BY MR. MacGREGOR:

14 Q. Mr. Krall, do you have the documents that have
15 been marked for identification as PPL Electric Utilities
16 Statement 1, Statement 1-R and Exhibits DAK-1 through 4 with
17 you?

18 A. I do, but maybe I should have the redacted
19 version of 1-R just to make sure that my pagination is the
20 same.

21 (Document handed to witness.)

22 A. Thanks.

23 Q. Was the information in these documents prepared
24 by you or under your direct supervision?

25 A. Yes, it was.

1 Q. Do you have any corrections to make to any of
2 those documents at this time?

3 A. Yes. I believe we have one correction. In
4 Statement 1-R there's an incorrect exhibit reference, and I
5 believe Mr. Hassell had that marked in his copy.

6 MR. HASSELL: Your Honor, if I may?

7 Mr. Krall, could you please turn to page 28 of your
8 testimony?

9 THE WITNESS: I have that.

10 MR. HASSELL: Looking at line 4, the reference there
11 that says Exhibit DAK-3, --

12 THE WITNESS: Yes.

13 MR. HASSELL: -- is that an accurate exhibit number?

14 THE WITNESS: No. In fact, that should be DAK-4.

15 MR. HASSELL: Thank you.

16 BY MR. MacGREGOR:

17 Q. Any further additions or corrections to your
18 testimony?

19 A. No, I have none.

20 MR. MacGREGOR: Your Honor, subject to cross-
21 examination and timely motion, we would move the admission
22 of PPL Statement 1, Statement 1-R, and Exhibits DAK-1
23 through 4.

24 JUDGE CHESTNUT: Is there any objection?

25 (No response.)

1 JUDGE CHESTNUT: The documents are admitted.

2 (Whereupon, the documents marked as
3 PPL Statement No. 1 with Exhibits
4 DAK-1 and DAK-2, and PPL Statement
5 No. 1-R with Exhibits DAK-3 and
6 DAK-4 were received in evidence.)

7 MR. MacGREGOR: Your Honor, I also have brief, three
8 or four questions, rejoinder testimony from Mr. Krall and
9 two associated exhibits I'd like to mark for identification.

10 (Pause.)

11 MR. MacGREGOR: Your Honor, if I could ask that those
12 be marked for identification as DAK-5 and DAK-6, as so
13 indicated?

14 JUDGE CHESTNUT: They'll be so marked.

15 (Whereupon, the documents were
16 marked as PPL Exhibits DAK-5 and
17 DAK-6 for identification.)

18 BY MR. MacGREGOR:

19 Q. Mr. Krall, in his surrebuttal testimony, OCA
20 witness Estomin, page 3, line 13, notes that with respect to
21 the company's RS rate design, that large usage customers,
22 indicating those in the 3,000 kilowatt per month range or
23 more, may see higher than average increases in rates under
24 the company's amended proposal and that some continued
25 blocking of the RS rates would be desirable. Have you done

1 any additional analysis of the effect of the company's
2 proposal on high use customers within Rate RS?

3 A. Yes, we have, and that would be captured in
4 Exhibit DAK-6.

5 Q. What do you conclude from that exhibit?

6 A. What DAK-6 does is lay out the effect of the
7 declining block rate on customer bills, the effect of
8 eliminating the declining block rate on customer bills at
9 various usage levels.

10 The way it's constructed is to identify the average
11 customer usage, which is on the order of a thousand
12 kilowatt-hours, calculate the energy and capacity component
13 of the bill associated with that usage level, and then apply
14 that as if that's the standard flat rate for all bill
15 groups.

16 In that way, you're dealing with a constant energy
17 market, a constant point in time, and the only change you'll
18 see by doing the bill calculation relative to other usage
19 levels then would be the effect of the declining block.

20 So in regard to the 3,000 kilowatt-hour level, you
21 look across the bottom of the chart to the 3,000 kilowatt-
22 hour bar that's portrayed there, and reading up to the line
23 graph above, see that the dislocation associated with the
24 elimination of the declining block and institution of a flat
25 rate would be on the order of about five percent, read on

1 the right hand axis of that graph.

2 The bars themselves indicate the numbers of customers
3 who have average -- actually, it's the number of customer
4 bills that fit into those categories, so it would be the
5 number of monthly bills, each customer getting 12 bills a
6 year, and you can see that it's also a relatively small
7 number. Those blocks are declining pretty rapidly.

8 I don't have the data behind the spreadsheet, but
9 just using kind of an eyeball, I would say that they're
10 probably less than 100,000 bills that would be rendered in
11 an entire year, so divide that number by 12 and you've got
12 on the order of maybe 10,000 customers, something like that,
13 as a round estimate of the people that would be affected to
14 that level. And again, the level is only five percent.

15 Q. Mr. Krall, in his surrebuttal testimony at pages
16 two and three, Mr. Lacey compares PPL's rates with LMP
17 prices that were presented in your rebuttal testimony and
18 concludes that in many of the months analyzed, PPL's rates
19 were higher than the monthly LMP price.

20 Have you prepared any further analysis of this
21 comparison?

22 A. Yes, I have, and Exhibit DAK-5 is part of that
23 analysis.

24 Q. Can you comment on the comparison presented by
25 Mr. Lacey?

1 A. Certainly. In his testimony, Mr. Lacey looks
2 back at Exhibit DAK-3 which is a tabulation of historical
3 average monthly LMP prices in the PPL zone and reaches the
4 conclusion that those prices are generally less than the
5 energy and capacity component of PPL's bill, and therefore
6 suggests to him that monthly pricing is actually a good way
7 to address the needs of residential customers, and that in
8 fact in 44 of the 49 months represented in DAK-3,
9 residential customers would have been better off getting
10 their prices in the monthly market than from PPL's tariffed
11 rate for energy and capacity.

12 And the presumption is then that going forward, it
13 would also be appropriate then to use a monthly average
14 price.

15 I take exception with Mr. Lacey's analysis to the
16 extent that he's really comparing an apple and an orange,
17 that LMP, the locational marginal price, reflects energy
18 only and doesn't reflect all of the components that go into
19 getting energy and capacity to the customer.

20 So it's true that DAK-3 represents energy costs only,
21 but he uses an exhibit, I believe it's FPL-2, as a
22 representation of our tariff and compares the two, and
23 that's inaccurate.

24 DAK-5 addresses that issue by sort of correcting
25 FPL-2, and let me walk you through Exhibit DAK-5 so we can

1 see what those components are.

2 Working from Mr. Lacey's Exhibit No. 2, he correctly
3 identifies PPL's average and capacity charge for 2006, and
4 I've carried that over on Exhibit DAK-5. That's 5.03 cents,
5 and that comes from his exhibit and is correct relative to
6 our tariff.

7 That figure includes gross receipts tax, which is not
8 something that's a component of the locational marginal
9 price, so we've removed the gross receipts tax.

10 As the name would suggest, an energy and capacity
11 rate includes capacity. Locational marginal price is energy
12 only, so we must strip out a capacity amount as well.

13 In order to get energy to end use customers, you have
14 to put more energy into the wires than actually comes out at
15 the meters because there are losses along the way, so we
16 need to reflect losses in this calculation.

17 And we also need to reflect the fact that the
18 locational marginal price figures that I've used in DAK-3
19 are actual hourly averages, so they represent 720 numbers,
20 hourly values divided by 720.

21 They don't reflect the fact that customers may use
22 more energy in a particular hour and then their weighted
23 average purchase, if you will, would be skewed by that
24 amount.

25 So the load following factor reflects the fact that

1 most usage occurs during on-peak hours and that there needs
2 to be a higher number than just a 720 hour average.

3 Stripping those things away, the underlying LMP that
4 would produce the 5.03 cent rate is actually 3.39 cents.
5 And if I look back at Exhibit DAK-3, I find that only on 16
6 occasions would that have been a preferred option to PPL's
7 energy and capacity charge, and in fact at no time in the
8 last 25 months of that exhibit would it have been preferred.
9 In all cases, the monthly average LMP would have produced a
10 higher price for customers.

11 Q. Mr. Krall, at page four of his surrebuttal
12 testimony, Mr. Lacey comments on the discussion of monthly
13 billing and some difficulties you discussed in your rebuttal
14 testimony regarding such billing. Do you have a further
15 clarification to make regarding that point?

16 A. Yes, I do. Mr. Lacey raises a couple of issues
17 -- well, let me step back. In rebuttal testimony, we
18 commented on the fact that Mr. Lacey's proposal to purchase
19 energy monthly and then bill it to customers monthly would
20 end up being a significant point of confusion, we believe,
21 for customers and require significant consumer education.

22 In effect, what would happen would be, every monthly
23 bill, except for about 500 customers on PPL's system who get
24 true calendar month bills, would have to be prorated.

25 And further complicating the problem, depending on

1 when the procurement is done, customers may not actually
2 have a price against which they can shop because the
3 Commission has rules for the time required to make a switch
4 to an EGS, and it requires at least 16 days prior to the
5 meter reading on which the switch is going to be effective.

6 So it's conceivable that since the company bills
7 customers, and most companies do it the same way, over 20
8 bill groups spread throughout the month, it's entirely
9 possible that some group of customers will never know the
10 price for the next month and therefore never have a basis
11 for doing a shopping comparison.

12 Mr. Lacey points out in his surrebuttal that the
13 company does prorate bills on an ordinary basis, that in
14 each of the last several years we have had changes
15 occasioned by changes in STAS, changes in the reconciliation
16 of CTC and ITC, a distribution rate case, that have caused
17 us to prorate bills. And indeed, we have done that.

18 But really, he quotes 15 different occasions, and
19 really, it's not 15 different occasions because many of them
20 coincide with the January 1st effective date. So in effect,
21 we've prorated bills in each year, and indeed, our system
22 can do that.

23 I believe our system could probably even do the
24 prorating each month that Mr. Lacey suggests would be
25 required. We feel that that's an unnecessary burden and

1 confusion for customers.

2 In addition, Mr. Lacey makes the point that PPL Gas
3 does at least quarterly changes with changes in the PGC, and
4 therefore PPL Electric ought to also be able to do that.

5 It should be noted for the record, so that things are
6 clear, that PPL Gas has its own billing system and does its
7 own billing separate and apart from PPL Electric.

8 Q. In addition, Mr. Krall, with respect to a
9 comparison to a gas utility, does PPL Gas acquire its
10 supplies on a portfolio basis or in the spot market?

11 A. I believe PPL Gas acquires gas on a portfolio
12 basis.

13 Q. Are its rates subject to reconciliation?

14 A. Yes, they are.

15 Q. Finally, Mr. Krall, referring to FirstEnergy
16 Witness Prezelj, at pages four and five of her surrebuttal
17 testimony she states her opinion that PPL's revised proposal
18 regarding large C&I customers is unacceptable as compared to
19 PPL's original proposal because it creates more work and
20 creates more risk to suppliers of an inaccurate load shape.
21 Can you comment on that, please?

22 A. Yes, I can, and maybe it would be well to start
23 by recalling the original proposal which, in the interest of
24 seeking to provide suppliers more assurance of what
25 customers they were going to serve, would have had customers

1 indicate ahead of time whether they wanted fixed price
2 service or not.

3 We recognize that we would be asking customers to
4 commit to a service whose term they knew but whose price
5 they had no idea of.

6 The objective was to provide information to the
7 suppliers that would reduce their risk and thereby produce a
8 lower price than might otherwise be achieved.

9 In response to testimony of other parties and
10 discussions that were held, we revised that proposal to now
11 simply ask customers of their interest in that type of
12 product, a fixed price product, ahead of time; in that way,
13 create a pool of customers who at least had, there would be
14 some confidence that there would be interest; didn't provide
15 the assurance that our original proposal would to suppliers,
16 but provided still some outward bound of who the customers
17 might be who they would be asked to serve.

18 Upon bidding the service and seeing the price,
19 customers in that pool that had elected had the opportunity
20 in our proposal to opt out of that service.

21 So indeed, Ms. Prezelj is correct, there is less
22 knowledge available to suppliers than there was before. The
23 purpose is still, provide some knowledge, eliminate some of
24 the risk in the bidding, and perhaps produce a more
25 favorable price.

1 Her proposal would have us offer -- solicit, excuse
2 me, fixed price service for all customers and then ask
3 customers whether they wanted the service or not.

4 In that instance, we'd be soliciting for customers
5 who clearly had no desire to take the service and they would
6 skew the population and introduce uncertainty in that way.

7 So I think it needs to be clear that while our
8 modified proposal provides less information to the suppliers
9 than our original proposal, it provides more information
10 than her proposal and tries to balance the needs of
11 customers to have certainty about the price of the service
12 they're going to be buying with certainty to suppliers for
13 the service they're going to be providing to customers.

14 One final element is the issue that the process of
15 soliciting customers' interest and then having them opt in
16 or not opt in is administratively burdensome. It's not.
17 We're talking only about 1,500 customers in this particular
18 group. The company has proposed a consumer ed program that
19 would be built for this group around its needs, in
20 particular to educate it of the elections that it had to
21 make and the steps that would be available to make those
22 choices. So we're fully prepared to do that, and that would
23 be no particular administrative burden.

24 MR. MacGREGOR: Thank you, Mr. Krall.

25 Your Honor, that completes Mr. Krall's rejoinder.

1 I'd like to move the admission of DAK-5 and 6, and Mr. Krall
2 is available for cross-examination.

3 JUDGE CHESTNUT: Any objection to the admission of
4 the exhibits?

5 (No response.)

6 JUDGE CHESTNUT: They're admitted.

7 (Whereupon, the documents marked as
8 PPL Exhibits DAK-5 and DAK-6 were
9 received in evidence.)

10 JUDGE CHESTNUT: Now, in terms of order of cross,
11 what I'm going to do is I'm going to go down my grid and
12 call the party that has indicated they have cross for Mr.
13 Krall, and when it's your turn, come up and sit at the table
14 to do your cross, okay?

15 Now, that would be Constellation, but I don't -- Ms.
16 Corson, are you going to do that, or do you want to wait for
17 Mr. Lewis?

18 MS. CORSON: No, Your Honor. I believe we are going
19 to wait until we can possibly reach --

20 JUDGE CHESTNUT: Are you going to wait on all of it?
21 Okay.

22 MS. CORSON: If that's okay with you.

23 JUDGE CHESTNUT: Certainly. I just don't want to
24 lose you, so speak up if I forget.

25 MS. CORSON: Thank you.

1 JUDGE CHESTNUT: Okay, Direct Energy?

2 (Pause.)

3 JUDGE CHESTNUT: And please identify yourself for the
4 benefit of the court reporter.

5 MR. MOODY: Yes. Good morning. My name is Kevin
6 Moody. I'm with Wolf, Block, Schorr & Solis-Cohen, here on
7 behalf of Direct Energy, also the Retail Energy Supply
8 Association and also Strategic Energy.

9 JUDGE CHESTNUT: Now, are you crossing on behalf of
10 all your clients now, or are you going to do them
11 separately?

12 MR. MOODY: I'd like to cross on behalf of all of
13 them.

14 JUDGE CHESTNUT: So that's RESA, and did you say
15 Strategic, too?

16 MR. MOODY: Strategic, yes.

17 JUDGE CHESTNUT: Okay.

18 **CROSS-EXAMINATION**

19 BY MR. MOODY:

20 Q. Good morning, Mr. Krall.

21 A. Good morning, Mr. Moody.

22 Q. Now, is it correct to say that PPL is offering
23 this bridge plan with the expectation that the Commission
24 will issue final POLR regulations effective for 2011?

25 A. We've submitted the bridge plan for Commission

1 approval, not knowing exactly when the POLR regulations will
2 be effective or knowing when they'll be issued. They could
3 be effective 2010. They could be effective June of 2007.

4 Q. So is PPL absolutely ruling out that PPL would
5 or could propose a similar multiple year procurement
6 methodology if the PUC fails to promulgate regulations that
7 are effective 2011?

8 A. I've indicated in my testimony that that is
9 something that we would consider doing if there are no
10 regulations. I think we may have also testified to that
11 fact in the en banc hearings earlier this year.

12 But it needs to be clearly understood that we're not
13 requesting approval of anything more than a plan for one
14 year procurement for 2010. There's nothing in this filing
15 that requests the Commission approve subsequent years' plans
16 or subsequent year procurements.

17 Q. But did I understand you to say that you're not
18 ruling out proposing a similar or the same type of
19 procurement for years after 2010?

20 A. Depending on how events turn out and whether
21 there are or are not regulations, no, we are not ruling that
22 out.

23 Q. Thank you. On page 12, lines three to eight of
24 your rebuttal testimony, you state that having an hourly
25 price service as the only default service is unprecedented.

1 Are you familiar with Duquesne POLR-3 market design for
2 large C&I customers?

3 A. Generally familiar with it.

4 Q. Are you aware or would you accept subject to
5 check at least that, pursuant to the Commission's order in
6 Duquesne's POLR-3 case, that Duquesne will not offer a fixed
7 price service for the large C&I customers after May of 2007?

8 A. I'd have to check to be sure.

9 Q. But you would accept that that is correct
10 subject to check?

11 A. Subject to check. I know that there were
12 significant discussions around Duquesne's POLR-3 filing and
13 the ultimate resolution of that. I'm not aware of what the
14 final order says specifically, so I'd have to check.

15 Q. And if the order said as I stated, would that
16 constitute precedent for an HPS, hourly price service, as
17 the only default service?

18 A. I don't know that it sets precedent. I'd have
19 to look at the language of the order. I know plenty of the
20 orders that the Commission has issued in these cases, UGI in
21 particular, specifically state they're non-precedential.

22 If it is the fact that there is hourly service, then
23 I would stand corrected, that we would not be the only one,
24 but as far as whether that establishes a precedent or not,
25 I'd have to look at the language of the order.

1 And I know, as I said, in certain circumstances the
2 language is very clear that it does not set precedent.

3 Q. On page 13 of your rebuttal testimony, lines 14
4 through 17, you say that it's very risky to assume that EGSS
5 would come in and offer fixed price alternatives to
6 customers with an hourly price service as the only default.

7 A. That's correct.

8 Q. Are you familiar with the shopping statistics or
9 at least the amount of load served by competitive suppliers
10 in the Duquesne large C&I market?

11 A. I'm generally aware that there is fairly robust
12 shopping in that group, yes.

13 Q. And are you aware when that robust shopping
14 occurred in relation to the POLR-3 rate design?

15 A. I'd have to look at statistics to know exactly
16 when it occurred, but I can also tell you that I don't know
17 whether those customers who shopped are buying the fixed
18 price product or not.

19 Q. On page 20, lines 17 through 19 of your
20 rebuttal, you talk about the subject that you talked about
21 in your oral rejoinder today, and that is the cost to
22 administer a monthly pricing proposal such as Direct has
23 proposed. How much would that cost for PPL to prorate the
24 bills as you said this morning that PPL could do?

25 A. I don't have an estimate for how much it would

1 cost, and I haven't proposed an estimate. My assertion was
2 that it would cost considerably more than what we had
3 proposed in terms of the CBP.

4 Q. And what is the cost associated with the CBP
5 that you would be comparing, the administrative costs --

6 A. The cost of the CBP is basically what we spend
7 now on billing, because the CBP would fit nicely into our
8 existing billing structure and our existing billing system
9 would work well with it.

10 I don't think there would be any incremental costs
11 associated with the CBP, so anything that would cost more
12 would be considerably greater.

13 Q. And what is the administrative cost for the
14 billing under your proposed plan?

15 A. It's whatever is currently reflected in rates,
16 and I don't have the figure for amortizing our billing
17 system over the customers or the CSRs who do the billing or
18 any of those things, I'm sorry.

19 MR. MOODY: I'd like to make a data request for PPL's
20 estimated cost of issuing prorated bills according to Direct
21 Energy's monthly pricing proposal.

22 MR. MacGREGOR: I don't know if we've prepared any
23 such estimate. If we have an estimate, we'll provide it.

24 JUDGE CHESTNUT: If you have it, provide it. If not,
25 I don't think it's necessary to generate one.

1 BY MR. MOODY:

2 Q. Mr. Krall, on your Exhibit DAK-5, could you
3 explain how that capacity charge is calculated?

4 A. The capacity charge figure is the same figure
5 that we've used earlier in this proceeding in response to an
6 interrogatory from the Consumer Advocate, Set I, No. 4. So
7 we chose to use the same methodology. It reflects an
8 estimate of the capacity market in PJM.

9 Q. Thank you. And the losses at 9 percent on that
10 schedule, where does --

11 A. That's a figure that's actually included in our
12 alternate supplier tariff that's approved by the Commission,
13 available on the Web site. It's the figure that's used for
14 settling losses at that level with EGSSs, electric generation
15 suppliers.

16 And it's specific to the lowest voltage level, so we
17 were doing a calculation for residential customers, so it
18 would be the residential customer voltage level.

19 Q. Now, with the filing, PPL estimated about a 20
20 to 30 percent increase in total bill for a residential
21 customer, I believe?

22 A. That's correct.

23 Q. Does the company have an update of that forecast
24 using the same methodology?

25 A. No, we do not.

1 MR. MOODY: May I approach the witness?

2 JUDGE CHESTNUT: Certainly. Are you going to make
3 this an exhibit?

4 MR. MOODY: Yes. I've given you what I would like to
5 have marked as Direct Energy Cross-Examination Exhibit No.
6 1.

7 JUDGE CHESTNUT: It will be so marked.

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

11 BY MR. MOODY:

12 Q. Do you recognize this as your response to an
13 interrogatory of Reliant Energy Set IV, No. 7, at least
14 Section B or Part B?

15 A. Yes, I do.

16 Q. And in that response, do you state that the
17 company estimates a 15 to 25 percent increase?

18 A. Yes. I had forgotten that we had done that, and
19 that uses data as of September 30, 2006. So we haven't done
20 it currently, but that was one data point that was available
21 that we used for this interrogatory response.

22 Q. Are you able to do the same calculations and the
23 same methodology as of today or as of last Friday?

24 A. I cannot do it sitting here because it requires
25 the collection of broker quotes that are current in the

1 market to start the calculation. But if we had current
2 broker quotes, sure.

3 Q. That's fine. I understand.

4 MR. MOODY: I'd like to make an on-the-record data
5 request for an updated estimate using the same methodology
6 as the company has used with the broker quotes as of, say,
7 last Friday, December 15th.

8 THE WITNESS: I'd like to go for a forward period,
9 because I don't have a file of broker quotes. Our people in
10 our services department would have to do the work, and they
11 would have to start from a point that we tell them.

12 BY MR. MOODY:

13 Q. What date would be preferable for you?

14 A. I guess we could get back by -- well, Friday
15 might be a holiday for people. I mean, maybe as of
16 Thursday, something like that.

17 Q. That would be fine.

18 MR. MacGREGOR: I object, Your Honor. We provided an
19 update as of September 30th. We provided an estimate with
20 the filing. These are simply broad-based projections of
21 what the price might be in 2010. They are not what we are
22 proposing for the price in 2010. They are simply broad
23 estimates of what the price might be. We are proposing a
24 laddered procurement which will establish the price. We
25 have provided a reasonably current update as of September

1 30th, and I'm not sure what purpose would be served by a
2 further update.

3 JUDGE CHESTNUT: Mr. Krall, can you provide it
4 without a lot of work?

5 THE WITNESS: It will take some effort to provide;
6 and as Mr. MacGregor points out, the purpose of providing an
7 estimate --

8 JUDGE CHESTNUT: Okay. Don't repeat his argument;
9 okay? Just answer my question, which was how difficult is
10 it for you to provide this?

11 THE WITNESS: I would have to contact others in the
12 company to make phone calls to do this. I presume it's
13 their normal business to do that, but this would be a
14 special request outside of their normal business.

15 JUDGE CHESTNUT: Okay. See if you can provide it.

16 MR. MOODY: Thank you, Your Honor.

17 MR. MacGREGOR: As of next -- are you using Thursday,
18 two days from now, as the date?

19 THE WITNESS: Yes. We'll make a call back and see if
20 we can get it by Thursday; and if not, we'll let you know
21 that some other date would be more appropriate.

22 BY MR. MOODY:

23 Q. Mr. Krall, do you have an opinion of whether
24 market prices for electricity and gas can increase or
25 decrease over the next four years?

1 A. My opinion is that they could both increase and
2 decrease.

3 Q. Now, on page 12, line 21, through page 13, line
4 4 of your rebuttal testimony --

5 A. I'm sorry. Could you give me those references
6 again. Page 12 --

7 Q. Page 12, line 21, through page 13, line 4, you
8 reference the types of customers in the large C&I customer
9 classes, the tariff schedules, LP-4 and so on.

10 A. Yes.

11 MR. MOODY: May I approach the witness?

12 JUDGE CHESTNUT: Certainly.

13 (Pause.)

14 JUDGE CHESTNUT: Don't forget to pre-mark it.

15 (Document handed to witness.)

16 MR. MOODY: I've handed the witness what I would like
17 marked RESA Cross-Examination Exhibit 1.

18 JUDGE CHESTNUT: It will be so marked.

19 (Whereupon, the document was marked
20 as RESA Cross-Examination Exhibit
21 No. 1 for identification.)

22 BY MR. MOODY:

23 Q. Mr. Krall, do you recognize this exhibit as your
24 responses to Reliant Energy Interrogatory Set I, Questions 1
25 through 6, describing in more detail the large C&I

1 customers?

2 A. Yes, I do.

3 MR. MOODY: Your Honor, I have no questions with this
4 exhibit. I would just like this -- I would move the
5 admission of this exhibit at this point.

6 JUDGE CHESTNUT: Any objection?

7 MR. MacGREGOR: No.

8 JUDGE CHESTNUT: Okay. The document is admitted.

9 (Whereupon, the document marked
10 as RESA Cross-Examination Exhibit
11 No. 1 was received in evidence.)

12 JUDGE CHESTNUT: Do you want to move in your other
13 exhibit?

14 MR. MOODY: I would like to move Direct Energy Cross-
15 Examination Exhibit No. 1, as well.

16 JUDGE CHESTNUT: Any objection?

17 (No response.)

18 JUDGE CHESTNUT: The document is admitted.

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

23 MR. MOODY: And I believe that's it.

24 JUDGE CHESTNUT: Okay, good. Thank you very much.
25 Dominion?

CROSS-EXAMINATION

1
2 BY MR. STEWART:

3 Q. Good morning, Mr. Krall. My name is Todd
4 Stewart. I represent Dominion Retail.

5 A. Good morning, Mr. Stewart.

6 Q. I'd like you to turn to page 5 of your direct
7 testimony, please. Beginning on I think it's line 23, you
8 discuss how you believe that the CPB -- or CBP, I'm sorry --
9 will reduce the likelihood of rate shock. Is that correct?

10 A. Yes.

11 Q. Now, could you elaborate and explain to me
12 exactly how you believe that the Competitive Bridge Plan
13 will reduce rate shock in 2010?

14 A. I didn't coin the term "rate shock." The term
15 "rate shock" comes from newspaper headlines, I guess, and
16 has been used in the Commission's proceeding to mitigate
17 potential increases in the prices of electricity, et cetera,
18 et cetera. So, at the outset, let me say I don't know at
19 what level customers are shocked by rates or not shocked by
20 rates.

21 We have some research that suggests that customers
22 don't notice a 5 percent increase, may need a little bit
23 more coaxing about a 10 percent increase, but 72 and 38 and
24 58 and some of the numbers that we've seen this past year
25 certainly could be argued to cause shock.

1 As we come to end of the transition period and we
2 come to the end of capped rates and PPL comes to the end of
3 its supply agreement, we're faced on January 1 with having
4 no rates and no supply, and one alternative is to wait and
5 buy all of our supply at one point in time, and that has
6 proven not to work out too well when that one day in time
7 follows hurricanes or other major disruptions could be upset
8 in the OPEC community. Any of those things can cause
9 ripples in the energy market that ultimately affect the
10 price of electricity.

11 In the context of the en banc hearing, we proposed a
12 number of different ways that the Commission might look to
13 mitigate potential price increases and basically rejected
14 the continuation of rate caps, rejected pre-collections
15 during rate caps, and other similar mechanisms as not really
16 addressing the problem and not really getting us to a market
17 environment.

18 It occurs to us that the one variable that we have
19 available and have on our side is time. It appears from the
20 New Jersey experience this past year that laddered
21 procurements of staggered periods of time actually can work
22 to mitigate price increases. New Jersey buying from the
23 same market saw much less of a price increase because they
24 were only replacing a third of their supply.

25 Our problem is that New Jersey's system is in place

1 and we have no system in place, so we can't really wait till
2 2010 and start laddering in supply because we'll only have,
3 to follow the New Jersey model, a third of the electrons we
4 need in 2010. So our proposal is to start early and
5 effectively flip the ladder to the other side of the
6 calendar and ladder in the supply for that bridge year as a
7 way to go to the market multiple times and avoid going on
8 the worst day in the history of mankind, which seems to have
9 been the case in the past.

10 Q. I think I understand. I have a couple questions
11 about your response. It seems to me that the theme that
12 recurred a couple times was this fear of buying energy on
13 the worst day, and you used that expression, I think almost
14 the same words, twice, "on the worst day."

15 So would it be fair to say that the intent of the CBP
16 was to avoid having to procure energy on a day that was a
17 month after a hurricane in the Gulf? Is that one of the
18 things you're seeking to avoid?

19 A. Yes.

20 Q. I'm curious. Doesn't your explanation also
21 assume that prices will continue to rise through the period
22 of the procurement?

23 A. The Commission's title of its proceeding was
24 measures to mitigate potential price increases. So, taking
25 the cue from them and taking the cue from the newspaper

1 headlines, rate shock seems to have to do with increasing
2 prices, but I will acknowledge that, you know, we could also
3 miss the best day in the history of mankind, and instead of
4 a rate shock, we might have a rate surprise and everybody
5 would be happy that they got lower electricity prices.

6 It seems like an inappropriate risk to take with
7 1.3 million customers and an essential service like
8 electricity.

9 Q. What seems like a risk?

10 A. Ignoring the opportunity that we have now to go
11 for several procurements; instead, roll the dice once.

12 Q. Does PPL currently project prices to increase
13 through 2010?

14 A. The last projection that I saw, they were fairly
15 stable from '06 through '010.

16 Q. Now, on page 11 of your direct testimony, you
17 say that PPL's hope would be that the Commission would
18 establish a statewide descending clock auction for all
19 Pennsylvania EDCs to acquire POLR supply beginning in 2011.

20 Is that a fair statement?

21 A. That is our testimony here. That was our
22 testimony in the en banc hearing. But, again, as I
23 indicated earlier, we're not requesting approval of that
24 here.

25 Q. No; I understand. Have you polled your sister

1 electric utilities to find out if they would go along with
2 such a plan since it would involve them?

3 A. Well, yes, it would. I think in the context of
4 discussions at the Energy Association among member companies
5 through the various POLR proceedings, the idea has come up,
6 and some have been more or less favorable to that idea.

7 Q. Please turn to your rebuttal testimony on page
8 18. Is it your testimony or your belief that Dominion
9 Retail has suggested that PPL perform a single solicitation
10 in a single year for its bridge program?

11 A. Where on page 18 are we looking?

12 Q. In your rebuttal.

13 A. Line number?

14 Q. I'll find it. Hold on.

15 A. I'm usually pretty good about putting in
16 references to other testimony.

17 Q. I'm not sure you refer directly here just to --
18 you say here -- it's on line 6. You say, "I do not believe
19 that a single solicitation for smaller customers is sound
20 public policy at this time for a one-year bridge program for
21 a single utility."

22 I'm asking if you're suggesting that Dominion Retail
23 has testified that that is what you should do.

24 A. To be honest, I'd have to check back at
25 Dominion's submitted testimony to know exactly which,

1 because each of the marketers seems to have kind of a
2 different view of what the right answer should be.

3 Q. No. I understand that. I'm just wondering if
4 you were trying to tar us with that brush. Apparently you
5 don't recall.

6 A. No, I don't. I presume your testimony speaks
7 for itself.

8 Q. Okay, very good. On page 24 of your rebuttal
9 testimony, are you -- I just want you to look there. You
10 discuss -- let me pull it up here so I can characterize it
11 correctly -- you discuss the Pike County procurement and
12 some other procurement methodologies.

13 I just wonder if you're familiar with the other POLR
14 rate filings of other Pennsylvania utilities that have
15 emerged from rate caps filed other than Pike County.

16 A. I'm sorry. Are we in direct or rebuttal?

17 Q. Rebuttal; I'm sorry.

18 A. On page 24?

19 Q. Twenty-four. At the top of the page, you talk
20 about Pike County's solicitation.

21 A. The top of the page doesn't exist anymore in the
22 redacted version.

23 Q. You take out that whole --

24 A. It refers to Mr. Ajello's testimony.

25 Q. Oh, okay. That's fine. It doesn't matter.

1 Are you aware of any other programs filed, post-rate
2 cap rate programs filed by any other electric utilities
3 besides Pike County?

4 A. In a general way, yes.

5 Q. Are you aware of the length of those programs?

6 A. They had varying lengths. Duquesne's have been
7 two, possibly three years. I think others have been two
8 years. Citizens and Wellsboro, I'm not sure I recollect.

9 Q. I understand that you're filing this as a bridge
10 program and characterizing it as a one-year program, but do
11 you have any view on what the appropriate length for a POLR
12 program should be?

13 A. We've suggested and reiterated here that in the
14 absence of coming up with any grand insight, we think the
15 Commonwealth would be well served to adopt the New Jersey
16 approach of laddered three-year terms and then look to see
17 if it needs to evolve from there, much the same way New
18 Jersey continues to assess the possibility of evolution.

19 Q. Now, on line 17 there on page 24, you say that
20 PPL is not seeking to preempt the Commission's ultimate
21 adoption of POLR regulations. Is that fair?

22 A. Absolutely.

23 Q. Are you suggesting that Mr. Butler's three to
24 five-year alternative plan would be contrary to what the
25 likely POLR rates would look like?

1 A. I don't know whether -- I don't know what the
2 POLR rates will look like, so I can't say whether Mr.
3 Butler's plan looks like them or not. I think the assertion
4 here is that if you fix prices for three to five years,
5 you're going further out in time when the Commission's rules
6 might otherwise apply.

7 So, you know, in trying to avoid preempting the
8 Commission and the process of developing rules, we'd like to
9 stick to as short a period of time as we can, which would be
10 the one-year. Three to five years is longer and carries
11 further into that time.

12 Q. One last question. Does PPL plan to publish the
13 results of each of the solicitations, these laddered
14 solicitations as they occur as far as how much energy they
15 acquired and what the prices were?

16 A. We intend to employ a third-party evaluator who
17 will be reporting to the Commission, and to the extent that
18 publication is part of the Commission's desire in that
19 evaluator's work, that would be the source of any
20 publication.

21 Q. So you don't have any plans to independently
22 publish them so that suppliers can see what those prices
23 are?

24 A. We do not. We want this to be run as much as
25 possible by a third party to assure that it is beyond

1 question of fairness or anything like that.

2 MR. STEWART: That's all I have. Thank you.

3 JUDGE CHESTNUT: That takes us to FES.

4 MS. KOLICH: Thank you, Your Honor.

5 **CROSS-EXAMINATION**

6 BY MS. KOLICH:

7 Q. Good morning, Mr. Krall. My name is Kathy
8 Kolich. I represent FirstEnergy Solutions in this matter.

9 A. Good morning.

10 Q. I'm going to be asking you some questions. If
11 at any time you don't understand them, would like me to
12 rephrase, please say so. Otherwise, I'll assume that you do
13 understand the question. Fair enough?

14 A. Fair enough.

15 Q. Now, you're Manager of Regulatory Strategy, and
16 as the Manager of Regulatory Strategy, you need to have a
17 general understanding of quite a few different functions in
18 the electric industry. Is that fair to say?

19 A. Yes.

20 Q. For example, a general understanding of how the
21 wholesale electric markets work?

22 A. Yes.

23 Q. The factors that affect wholesale pricing?

24 A. In a general way, yes.

25 Q. Generally how electricity is procured by

1 suppliers?

2 A. Yes.

3 Q. I'm going to be bouncing around a little.
4 I'll try to give you a little road map as to where I'm
5 going. I just have a few clarification questions.

6 A. Okay.

7 Q. Do you know how many PPL customers are currently
8 shopping for the generation service?

9 A. I believe it's less than a hundred.

10 Q. In all classes?

11 A. That's the total out of 1.3 million. Are you
12 asking me what classes they represent?

13 Q. No. I just wanted to know whether that was --

14 A. No. That is of the total population.

15 Q. The bidding process in the RFP; when the bids
16 are received, how would those prices in the bids be
17 translated into retail rates?

18 A. Our hope is that they'll be directly
19 translatable; that they will be for each customer class that
20 we're soliciting, we would get a single cent per kilowatt-
21 hour figure that we could compare bid to bid to bid, and
22 that figure would be the figure that would go into the
23 energy and capacity charge portion of our tariff.

24 Q. The AMI system; do you believe that the
25 information coming from that system would be useful to

1 suppliers when developing marketing or bidding strategies?

2 A. Yes, I believe it would, and part of our plan is
3 to find ways working with the Commission and the rules on
4 disclosing that information to make it available.

5 Q. And the same would be true for marketers or
6 aggregators; it would be beneficial for them to have that
7 information?

8 A. Yes, but, again, we need to work with the
9 Commission and with customers, because there are rules
10 regarding the disclosure of that information. I know to
11 some customers it's very confidential in nature.

12 Q. Turning to page 6, line 4 of your testimony,
13 please.

14 A. Rebuttal or direct?

15 Q. I'm sorry; rebuttal. All of these questions
16 will relate to rebuttal.

17 A. Page 6 you said?

18 Q. Yes, line 4. You state that the company will
19 start organizing data in 2007. Do you see that?

20 A. Yes.

21 Q. What do you mean organizing data?

22 A. In installing the advanced meter -- the meter
23 data management system that takes our automated meters and
24 takes them to the next level to be an advanced metering
25 infrastructure, one of the big parts of that is a data

1 repository. We're going to be collecting huge amounts of
2 data, and begin collecting and organizing means populating
3 that repository with data.

4 Q. And you also state that you'll provide bidders
5 and suppliers with certain information.

6 A. Yes.

7 Q. Are you only going to supply it to bidders and
8 suppliers?

9 A. No. In the context of the CBP, that's something
10 that enhances the CBP from the perspective of wholesale
11 bidders. That's the context here. But I think as we say
12 elsewhere in testimony where we describe the AMI system, we
13 would intend to provide that information to customers; and
14 to the extent that customers would like it supplied to
15 consultants, to them; to the extent that they'd like to have
16 it supplied to EGSSs, also to them.

17 So, this statement here is in the context really of
18 just the CBP, which is dealing with the bid process.

19 Q. Okay. Just so I'm clear, marketers would have
20 access to this information?

21 A. Within the Commission's rules and assuming that
22 customers elect to make that data available, I would love to
23 have them have that data available. We believe that this
24 system and revealing actual customer use can really aid
25 shopping, aid competition, and allow customers to see real

1 savings by having their load shapes revealed and allowing
2 them to purchase to those actual load shapes.

3 If I'm able to shift all my energy usage to on-peak,
4 then I ought to be able to take advantage of that, and it's
5 our intent with this system as we roll it out over the next
6 several years, that by the time the rate caps end, customers
7 will be able to do that, and we want EGSs to be there to
8 provide those customers products.

9 Q. Good.

10 A. Can I put my soap box away now?

11 (Laughter.)

12 Q. You also say that PPL will provide usage
13 information. What do you mean by usage information?
14 What does that entail?

15 A. At this point, the repository collects hourly
16 data. So, as far as I can tell, that would be hourly data.
17 If it needs to be grouped together on some particular basis,
18 that can be done. Although, if you give the hourly data,
19 say, to an EGS, they can slice it and dice it into, for
20 example, the right on-peak/off-peak periods.

21 So that's what we mean by usage data; hourly values.

22 Q. And I understand that because of the
23 confidentiality issues, there will be some rules surrounding
24 what can and cannot be disseminated. But would PPL have a
25 problem, assuming it was proper by the Commission or

1 properly approved by the Commission, to also offer account
2 numbers?

3 A. I'm trying to remember where we left that in the
4 old eligible customer list that we used to keep; and as I
5 recall, the primary purpose of account numbers was to assure
6 that when a EGS registered an account they had a valid
7 account number and it was a correct number.

8 So, to the extent that something like that would be
9 for the purpose of facilitating shopping and assuring, you
10 know, that you've got an accurate customer record, I think I
11 can say yes.

12 Now, to the extent that it becomes an account number
13 with a name or something that could be used to facilitate,
14 dare we say, slamming, no, we wouldn't support something
15 like that. But to the extent that it facilitates the
16 logistics, yeah.

17 Q. Okay. And, also, would the same be true for
18 customer addresses, contact information?

19 A. Again, that would have to be within Commission
20 rules, and now, you know, you're getting to whether people
21 want to be solicited or want to control the way that they're
22 solicited or things like that.

23 We've generally been pretty careful about customer
24 contact information, names, addresses, things like that, on
25 behalf of the customers and we haven't heard a groundswell

1 from them otherwise, but we're open to whatever the
2 Commission orders us to do.

3 Q. Now, you also stated that this information would
4 be provided starting in 2010. That's line 6. Do you see
5 that?

6 A. Yes.

7 Q. As I understand it, PPL is going to roll out the
8 AMI system in 2007 and 2008. Is that correct?

9 A. Yes, yes.

10 Q. So why is PPL waiting until 2010 to provide the
11 information?

12 A. To the extent that we're able -- and, again,
13 we're talking about a fairly huge undertaking. We're
14 talking about 1.3 million customers and 8,760 hour worth of
15 data, so we're talking billions of pieces of data per year.
16 To the extent that we're able and get the system in place
17 where we can do it, we would like to make that data
18 available for these solicitations.

19 Now, it won't be available for '07. A portion of the
20 data could be available for '08. It might not be a full
21 calendar year; and by the time you get '09, there would be
22 more.

23 The repository itself holds two years of data, and
24 when I used the 2010 date, I was thinking to the point when
25 we would be able to routinely provide two years worth of

1 data. But I think in support of the solicitation process,
2 we would make available our normal load shapes and then make
3 available whatever other data we would have again to try to
4 provide bidders the best information that they could bid on.

5 Q. What is the status of the Commission's position
6 on what type of information PPL could release under this
7 program?

8 A. Well, there are customer information disclosure
9 rules that were put in place back in the phase-in of
10 competition, and I don't know that they've changed or that
11 there's even been a proceeding to address those since, say,
12 1999.

13 Q. So is it PPL's position that they would simply
14 follow the current rules or would they seek guidance from
15 the Commission before releasing this information?

16 A. I think we would plan to work with the
17 Commission since we have a system that is different and kind
18 of leading edge and to educate the Commission as to what
19 it's capable of doing and then maybe solicit, you know,
20 input as to whether that would suggest to them any changes
21 in rules or things like that.

22 We have had a number of educational discussions.
23 Earlier this year, there was one with BCS to kind of show
24 them the customer interface associated with this product and
25 educate them as to kind of a different view of justifying

1 high usage complaints.

2 So our intent is to work with the Commission as we go
3 through this, because it is something very different.

4 Q. Now, you indicated earlier that it would be
5 beneficial to have this information for bidders, suppliers,
6 marketers to develop their marketing plans. Do you recall?

7 A. You say marketing plans. I have to stop and go
8 back and say I think I answered the question you asked
9 before in the context of the CBP, which would be wholesale
10 bidders bidding on wholesale blocks, and I don't necessarily
11 think of that as a marketing exercise.

12 When you say marketing, I think of EGSs selecting
13 groups of customers.

14 Could you clarify or --

15 Q. Let me rephrase.

16 A. Thanks.

17 Q. Absolutely. As you indicated, it would be
18 beneficial for bidders, potential suppliers to have this
19 information from the AMI system prior to bidding.

20 A. My general understanding of the wholesale market
21 and conversations I've had with people who participate in
22 the wholesale market, the more information they can get
23 about the load that they're bidding on, the happier they are
24 and also the less risk -- the happier they are because they
25 face less risk, and that can sometimes be translated into a

1 sharper pencil on the bid and maybe a better price to
2 customers at the end.

3 Q. And I believe I followed up with the question
4 saying it would also be beneficial for marketers, brokers to
5 have the same information.

6 A. And in terms of retail marketers, absolutely.
7 My knowledge in talking to them and talking to customers is
8 they would like to know actual load shapes. They'd like to
9 be able to serve actual load shapes, price accordingly, and,
10 again, it's a way to provide customers more savings,
11 actually.

12 Q. And you'd agree that -- I think you mentioned
13 they would have to slice it and dice the information to get
14 it to what would be beneficial for developing bidding
15 strategies or marketing plans.

16 A. If what we provide them is raw hourly data,
17 then, yes, they would have to analyze it and reshape it to
18 their needs. There's a balance there. I mean, if all EGSS
19 require a certain level of data manipulation, then maybe
20 it's appropriate for a distribution company to do that as a
21 general matter. But there clearly is a point where a
22 marketing entity has its own needs, preferences and desires
23 and wants to take that role on for itself.

24 Q. You also raised some issues regarding the GRA.
25 If you could turn to page 14, line 22 of your rebuttal

1 testimony.

2 A. Okay.

3 Q. You're faster than I am.

4 A. I have a breeze up here that's kind of helping
5 me turn the pages.

6 Q. On line 22, you state that large C&I, large
7 commercial and industrial customers, must comply with the
8 existing GRA. Do you see that?

9 A. Yes.

10 Q. What do you mean by "must comply with the
11 existing GRA"?

12 MR. HASSELL: Your Honor, I might suggest that, as
13 the question indicates, this is really more a subject for
14 Mr. Kleha's testimony.

15 JUDGE CHESTNUT: Well, then Mr. Krall can say that.
16 It is in his testimony, so she has every right to ask that.

17 MR. HASSELL: Thank you, Your Honor.

18 THE WITNESS: Could you repeat the question?

19 BY MS. KOLICH:

20 Q. Sure. What do you mean by the customers having
21 to comply with the existing GRA?

22 A. PPL's tariff includes a generation rate
23 adjustment charge that acts to prevent seasonal gaming, and
24 we would expect customers to continue to comply with that.

25 Now, in our original proposal, we had included kind

1 of a modified GRA to protect winning bidders from the
2 migration of customers who might try to seasonally game
3 them, who might take supply on fixed price service for low
4 price months starting, say, January, February, March, April,
5 or the other way around, actually, take supply and actually
6 game the supplier. We're going to collect the money on
7 behalf of the suppliers and reimburse them on a pro rata
8 basis.

9 What this refers to is the existing GRA.

10 Q. And how does that work?

11 A. That looks to see that -- it sort of works to
12 replace the one-year contract language that was originally
13 in our tariff, and the expectation was that customers would
14 agree to take service under certain rate schedules for a
15 full year again to avoid that gaming situation of taking
16 supply only during the months where it was economically
17 favorable for a supplier and leaving the EDC or POLR
18 supplier to serve the highest cost months.

19 The way it works is to do a calculation. If a
20 customer is going to leave shorter than 12 months prior to
21 their anniversary date, to track the market and require the
22 customer -- and I hesitate to use the word "exit fee," but
23 let's face it; it's a lot like an exit fee -- to pay a fee
24 if there's a differential and the company ended up holding
25 the bag, if you will, during the highest cost months.

1 That's the way the existing GRA works. We had
2 proposed something different in the original CBP, and all
3 we're looking for now in the modified version is the
4 existing GRA.

5 Q. And as I understand, under the current proposal,
6 the revenues from the GRA will simply flow back to the
7 suppliers.

8 A. Yes, on a pro rate basis. We're not looking to
9 -- because it's the suppliers who would have been gamed. So
10 we think that those funds are rightfully theirs and helps
11 reduce some risk for them of customers migrating.

12 Q. So the company wouldn't be left holding the bag
13 in the CBP period?

14 A. No, no, no. We would continue that residual
15 portion of the existing GRA on behalf of suppliers.

16 MS. KOLICH: Could we go off the record a minute?

17 JUDGE CHESTNUT: No. I don't go off the record.

18 MS. KOLICH: Okay. I'll go on the record and -- for
19 the record, it's my first time practicing in Pennsylvania in
20 one of these proceedings.

21 How does it work if I want the GRA into the
22 evidentiary record? Can we just take administrative notice
23 of it, the terms of the GRA?

24 MR. MacGREGOR: It's in our existing tariff, and I
25 think that can be cited.

1 JUDGE CHESTNUT: I was going to say it's in the
2 tariff already, so you can just cite to the tariff.

3 MS. KOLICH: You can cite the tariff?

4 JUDGE CHESTNUT: Right.

5 MS. KOLICH: In Ohio, you can't. Okay. Thank you.

6 BY MS. KOLICH:

7 Q. On page 12, line 20 of your testimony, you talk
8 about the fact that there are various types of customers
9 included in the large commercial and industrial category.
10 Do you see that?

11 A. Yes.

12 Q. What types of customers are in this category?

13 A. We follow onto page 13 with a reasonable
14 description here. It includes, for example, Mr. Wilkie, who
15 testified on behalf of PPLICA, Mount Joy Water Company. It
16 includes some large industrial customers who melt metal and
17 extrude plastic; and as it states down towards line 11 on
18 page 13, it also includes hospitals, schools, government
19 buildings. The Capitol Complex, for example, is an LP-6
20 customer.

21 Q. An LP-6 customer?

22 A. Yes, yes.

23 Q. Okay. I need to back up then. LP-5; what type
24 of customers take service under that?

25 A. Various large industrial concerns, generally not

1 institutional buildings. The Capitol Complex is perhaps
2 somewhat unique because it's a collection of buildings that
3 takes service at a single state-owned substation.

4 Q. Do you know how many customers take service
5 under LP-5?

6 A. We previously looked at that in the exhibit that
7 Mr. Stewart introduced, I believe. No; Mr. Moody
8 introduced.

9 Your question was LP-5?

10 Q. Yes. If it's in the record, all I want to know
11 is how many customers take service under LP-5, 6 and 4. And
12 if it's already in the record, I won't waste your time.

13 A. Okay. It is in these exhibits, but it's easy
14 enough to read. LP-6 is four. LP-5 is 16, plus 39, plus
15 58; and I won't try to do the arithmetic on LP-4. Maybe
16 we're better to go with the record.

17 Q. LP-4 is the rest of them?

18 A. Yeah.

19 Q. I believe you said there were 1,500 total in
20 this class.

21 A. As an estimate. The numbers here for LP-4 are
22 58, 129, 127 and 676. So that gets you to slightly below a
23 thousand.

24 Q. Okay. Also, you state -- you do talk about LP-4
25 and who's in that class on line 12, page 13, but you also

1 mention others.

2 A. I provided hospitals, schools and government
3 buildings as examples of some entities that might have
4 trouble responding to hourly prices, and there could well be
5 others. I mean, it wasn't a complete enumeration.

6 Q. Can you think of any other types of customers.
7 Not necessarily specific customers, but who else falls
8 within the other category?

9 A. I guess schools would include universities,
10 health care facilities separate from hospitals.

11 Q. So when you refer to others, it's just offshoots
12 of the main categories listed for the most part?

13 A. I guess I'd refer back to the exhibit that Mr.
14 Moody introduced into the record and note that part of that
15 exhibit includes all LP-4 customers broken down by SIC
16 codes.

17 Q. Oh, okay.

18 A. So it's possible to do a translation and figure
19 out who's who.

20 JUDGE CHESTNUT: I have to clarify. You're talking
21 about RESA Cross-Examination Exhibit 1? Because Mr. Moody
22 had two exhibits, and RESA is the one I'm looking at.

23 THE WITNESS: I didn't mark the exhibit number, but
24 it's heading is "Reliant Energy, Inc., Set I, October 24th,"
25 and it consists of six interrogatory responses.

1 MR. MacGREGOR: It's RESA-1.

2 MS. KOLICH: RESA-1. I didn't get a copy of that.
3 Could I get a copy? Afterwards is fine.
4
5

6 JUDGE CHESTNUT: Before you do, let me just clarify
7 that if a party has an exhibit admitted, it's their
8 responsibility to make sure that all counsel here get a copy
9 of it, not just the ones sitting up at the tables.

10 MS. KOLICH: It may have gone around and I just
11 didn't get it.

12 JUDGE CHESTNUT: So keep that in mind, okay?

13 BY MS. KOLICH:

14 Q. Mr. Krall, do you think it's critical that a
15 fixed price option be offered to large C and I customers
16 during the CBP period?

17 A. Yes, I do.

18 Q. You had indicated that you're somewhat familiar
19 with procurement of power by suppliers earlier in the
20 testimony.

21 A. Yes.

22 Q. Are you familiar with the concept of being long
23 in the market?

24 A. Generally.

25 Q. What's your understanding of that phrase?

1 A. Having resources available.

2 Q. More --

3 A. In excess of supply commitments.

4 Q. And resources being power, basically?

5 A. Power, either contracts or power plants.

6 Q. Generally, is it better to be long in the market
7 when prices are high?

8 A. I guess if you ascribe to the "buy low, sell
9 high" theory of making money, yes, in general, I would say
10 that you could make money that way.

11 Q. Page 15, line 16 of your testimony where you
12 talk about education?

13 A. Yes.

14 Q. You say you're going to provide education. What
15 type of education? Have these materials been developed yet?

16 A. No, they haven't.

17 Q. So we really can't discuss the content of these
18 educational materials at this time?

19 A. Other than the extent they've been characterized
20 here, to say that we provide education on the options that
21 are available and we've changed those some through the
22 process here. We do have a legacy of marketing programs
23 with large customers that we would re-spin to provide them
24 education.

25 We have an existing ICS group that we plan to -- ICS

1 being industrial and commercial services. It's a phone bank
2 basically for larger customers to respond to their kind of
3 unique service needs and billing needs, which are different
4 than the average residential customer. And we would look to
5 enhance that function.

6 But no, other than -- and we've said that, you know,
7 we're willing to take in other parties in a collaborative
8 format to flesh out the consumer ed program.

9 Q. Do you envision doing this through mailings to
10 large C and I customers?

11 A. Certainly there would be mailings involved, but
12 not necessarily only mailings. I know in the past when
13 we've undertaken programs or significant rate changes have
14 come along, I think on the occasion of restructuring, we've
15 actually had meetings throughout the service territory and
16 invited customers to attend.

17 Q. When you send out mailings, do they just go to
18 the billing account address?

19 A. In the past, we kept a very good file of
20 marketing contacts, and I think we would go back to that
21 file to see to what extent it was still current.

22 But as a normal course of business, our mailings do
23 go to the mailing address unless we have another address
24 indicated.

25 Q. And you also state on line 17 that you'll

1 solicit customer interest in a fixed price service. How do
2 you intend to do that?

3 A. We would do that initially through mailings but
4 we would probably also have informational meetings
5 throughout the service territory to describe what it is we
6 plan to do and how we would plan to do it.

7 Q. So the onus would be on the customer to attend
8 one of these meetings?

9 A. Yes. The mailing would be self-sufficient and
10 we would intend to put information on the Web, since that
11 tends to be a good place for people to get it. As I've
12 said, we would enhance our industrial-commercial services
13 group to be able to respond to more questions, and those
14 would be avenues as well that are available to customers if
15 they choose not to attend the meeting.

16 Q. The customer service group, I wasn't quite sure
17 what you meant. That's a customer -- that's where you phone
18 in and ask questions?

19 A. Yeah, as distinct from our normal phone service
20 for residential customers, what we call our CSRs. The ICS
21 group is staffed by engineers familiar with the needs of
22 large customers and service issues and billing issues.

23 Q. I believe in your testimony you say that the
24 solicitation for bids through the RFP would be in October,
25 2009; is that correct?

1 A. Yes.

2 Q. Is that the early part of October, end of
3 October? Do we know yet?

4 A. I'd have to refer back to the schedule laid out
5 in the filing -- no, we changed that. The schedule that was
6 laid out in the petition was the schedule that sought
7 solicitation I would think the early part of October, but I
8 don't think we've settled that yet.

9 Q. Okay. Why October?

10 A. Because that seems to be a period of time
11 reasonably close to the supply date to provide suppliers
12 comfort that they don't have to keep their supply hedges in
13 place for too long a period of time. That introduces more
14 forecasting risk and then increases their discomfort and
15 risk premium, but a period of time that allows us to
16 complete notifications of customers, adjust the tariff,
17 obtain Commission approval and those kinds of things, so
18 it's a balancing.

19 Q. I believe in the current modified CBP, the
20 customer will have 30 days to decide whether they still want
21 to stay on the fixed price program; is that correct?

22 A. That's correct.

23 Q. When does that 30 day clock start?

24 A. I think it would start from the point of
25 customer notification. Then the question becomes, is it a

1 drop in the mail date or a mail delivery date. In the past,
2 I think we've used a mail delivery date for customer choice
3 communications, but I'd want to look back at the Commission
4 rules and see which is more appropriate and which has been
5 used in the past.

6 Q. But it won't be the date on which the Commission
7 approves the price?

8 A. No. I think it would need, if we said the
9 customer has 30 days, then it has to reasonably assume that
10 the customer has a notice in hand and not just that some
11 action has occurred somewhere else in the Commonwealth.

12 Q. And how long do you expect to have the RFP
13 outstanding before a response is needed?

14 A. I don't know that we've settled the schedule for
15 that, and Mr. Cavicchi might be, as our consultant on how
16 RFPs are done and the mechanics for those, might be better
17 equipped to answer that question.

18 MS. KOLICH: Am I allowed to ask this question of Mr.
19 Cavicchi?

20 JUDGE CHESTNUT: When he's presented, sure.

21 MS. KOLICH: When he's presented, even though I
22 didn't --

23 JUDGE CHESTNUT: Yes, because it was referred to by
24 this witness.

25 MS. KOLICH: Okay.

1 BY MS. KOLICH:

2 Q. You also indicated just a few minutes ago about
3 risk premiums and that's why you selected October. Have you
4 quantified the differential in risk premiums if you would
5 start this process in September, '09 instead of October,
6 '09?

7 A. No, we haven't.

8 Q. So PP&L really doesn't know whether there's a
9 difference in risk premiums for that period if it would
10 start in September versus October?

11 A. Based on general knowledge of the wholesale
12 market, I think there would be additional risk for suppliers
13 having to guess prices an additional month into the future.
14 How much that risk would be and whether it would even be
15 measurable, I don't know.

16 Q. In your rejoinder testimony, I believe you
17 indicated there is approximately 1,500 customers in the
18 large C and I class, correct?

19 A. Yes.

20 Q. And because of that number, it would not be
21 administratively burdensome to do a two-step opt-out plan?

22 A. Right. And to the 1,500, that was an estimate,
23 and now we have some documents that point to a more correct
24 number.

25 Q. Understood. Administratively, what exactly has

1 to be done in your two-step opt-out plan?

2 A. Customers would have to be noticed of the
3 opportunities available to them and the process by which
4 they would make an election. Customers would need to
5 respond of their election. We've done that in the past with
6 scannable cards. We had to solicit at some point all 1.3
7 million customers as to their willingness to release usage
8 information or not, so it's something that we have
9 experience with and it's not that big a deal.

10 It might be appropriate to include a confirmation
11 step to confirm that, yes, we got your card, it wasn't lost
12 in the mail, this is what you have elected, you want to be
13 represented in this solicitation and have the opportunity at
14 a later date once the price is known to elect or not elect.

15 And then once the price is known, there would be that
16 process by which the customer would make a final election.

17 Q. Okay. I want to talk about the large C and I
18 process. Under the modified CBP, it is a two-step opt-out
19 plan where the customer must affirmatively opt into a fixed
20 price program or he defaults to hourly, correct?

21 A. That's correct.

22 Q. And the first step will occur prior to the RFP
23 being issued?

24 A. Yes.

25 Q. And if any customer doesn't opt in at this

1 point, they automatically get hourly service?

2 A. That's true.

3 Q. After the RFP responses are in, customers will
4 have 30 days in which to again affirmatively opt in as a
5 fixed price customer, correct?

6 A. Now that they know what the price is, that's
7 right. During that 30 days, they might also be entertaining
8 offers from electric generation suppliers as well.

9 Q. And if these customers in the pool fail to
10 affirmatively opt in for a second time, they automatically
11 go to hourly service?

12 A. That's correct.

13 Q. Then wouldn't it be wise for an industrial
14 customer, in order to keep his options open, to simply, for
15 all of the industrial customers to opt in in the first step
16 in order to keep their options open until they know the
17 price?

18 A. We might think so, but I understand some
19 customers are prepared to go to something else and wouldn't
20 do that. Some have been talking to EGSs even in advance of
21 -- even now, to begin to get their ideas together for what
22 they would do in 2010.

23 There are people with some unique load shapes, you
24 know, and sophisticated energy buying and for whom energy is
25 a significant part of their budget, that I believe they've

1 all but decided they're going to sign up with a supplier.

2 So would they or wouldn't they? I don't know. My
3 belief is that some won't bother, and that way suppliers
4 will have a little bit more information.

5 Q. And when you say "some," how many are we talking
6 about?

7 A. I have no way of knowing.

8 Q. So it could be one?

9 A. It could be one, it could be 20, it could be
10 400. I really don't know.

11 Q. The other issue that I'm struggling with on your
12 process is this concept of providing suppliers with a more
13 certain load shape. Is that a fair characterization of one
14 of the reasons to seek the two-step process?

15 A. As a modification to our original proposal which
16 would have provided more assurance because the pool would
17 have been fixed. Given the comments that we've heard
18 otherwise, yes, this is a modification but still an attempt
19 to balance the information needs of customers who would want
20 to know the price ahead of time and suppliers who would want
21 to serve a fixed load shape.

22 Q. Are there any other reasons to have a two-step
23 opt-in program?

24 A. As we discussed before, the 30 day period does
25 provide customers an opportunity to shop, provides EGSSs an

1 opportunity to market aggressively to those customers. It
2 focuses all customers on shopping opportunities and might
3 actually spur the competitive market in some way. I think
4 if customers just migrate through inaction to a rate, they
5 will tend to become inertial and won't shop. This does kind
6 of cause them to focus on the decisions and make them in a
7 visible way.

8 Q. Now, because customers can opt out after they
9 know the price, would these customers have to pay the GRA?

10 A. No. They'd be going to fixed hourly service and
11 the way the GRA works is it tracks LMP, so it would be the
12 same basic thing. As long as they retain -- I mean, if they
13 don't opt out like December 1st, they've got to fulfill
14 their obligation under the existing tariff, but as of
15 January 1, 2010, if they go to hourly service, it's the same
16 thing as the GRA calculation.

17 Q. I think I misspoke. I want to talk about
18 customers who opt into the fixed price plan and then opt in
19 again, so they're on the fixed price plan.

20 A. Okay.

21 Q. I'm sorry, no. They opt into the fixed price
22 plan and then they move off.

23 A. And then they move off to hourly pricing?

24 Q. To hourly after they know the price.

25 A. Okay.

1 Q. And your answer would be, under that scenario,
2 the same?

3 A. Right.

4 Q. Okay. So I'm struggling to find the shopping
5 risk for suppliers under this plan. Is there any shopping
6 risk? And when I talk about shopping risk, it's the risk of
7 customers coming off of the POLR product for either hourly
8 prices or an alternative supplier.

9 A. And when you say "for suppliers," you mean the
10 wholesale supplier?

11 Q. Yes, for the supplier of the POLR service.

12 A. Who is providing the fixed price option?

13 Q. Yes, the winning bidder who provides the fixed
14 -- the bidders --

15 A. As I described and used the term, the shopping
16 risk that I see is that a customer who elects the fixed
17 price service, leaves fixed price service for an EGS, or
18 during 2010, and that supplier had planned on serving that
19 customer the whole period, had tailored its bid around that,
20 and now it doesn't have that customer.

21 And the way I could imagine that working is the
22 customer would remain on fixed price service through the hot
23 summer months. The wholesale bidder would have anticipated
24 serving the customer during the less costly months, in say
25 September, October, November, December, but not have the

1 customer to serve, and consequently on an average basis have
2 served very expensive loads and have no revenue through the
3 rest of the year.

4 Q. But that supplier will receive the GRA revenues,
5 won't it?

6 A. Yes. That's why we introduced the GRA or
7 retained the GRA, to try to address that. So --

8 Q. So does the -- I'm sorry, go ahead.

9 A. You asked me what shopping risk we saw. That's
10 the shopping risk we saw. That's the action we took. And I
11 think that probably addresses the issue.

12 Q. That was my fault. I meant to ask, assuming
13 your plan is approved as proposed, does the winning
14 suppliers have any shopping risk or has it all been shifted
15 to the customer?

16 A. For the large C and I group, other than the risk
17 of not knowing the exact pool at the front end, but that's
18 not really a shopping risk as we've defined it. That's,
19 I've chosen to go with the fixed price risk. Yes, we have
20 addressed the shopping risk that the supplier would face
21 from customers making an election to leave fixed price
22 service during the year 2010.

23 Q. I understand you've addressed it. My question
24 was whether or not the shopping risk has been shifted to the
25 customer as opposed to the supplier based on the way the CBP

1 would operate if approved as proposed.

2 A. The premium associated with that risk has been
3 shifted. Now, to the extent that the customer -- the
4 customer knows what he's elected. The customer knows what
5 options he may have available to him. He may choose to pay
6 the GRA.

7 I don't know that that's -- I'm not an expert on
8 risk. I don't know how that translates to the word "risk,"
9 but the fixed price service is known to the customer and he
10 can elect to leave that during the year. But I don't think
11 he has risk associated with them. He makes an informed
12 decision and has an offer from an EGS and knows what his
13 alternative is. When we talk about risk shifting, it may be
14 a little bit more complicated than that.

15 Q. Let me ask it a different way, then. Would the
16 supplier have any shopping risk, the winning suppliers into
17 the RFP, have any shopping risk under the CBP as proposed?

18 A. Under the CBP as proposed, there shouldn't be a
19 lot of premium if any in his bid to reflect migration of
20 customers.

21 Q. So the answer is --

22 A. To shopping.

23 Q. So the answer is no, the supplier would not have
24 any shopping -- would have nominal shopping risk at best?

25 A. As we've defined shopping risk here and exclude

1 the opt-in process at the front end, yes.

2 Q. Okay. You also talked about Irene Prezelj's, in
3 your rejoinder, her position. And I'm not sure if I heard
4 you correctly or not, but is it your position that FES is
5 proposing that PPL solicit customers and ask them if they
6 want to be on a fixed price option?

7 A. No. My understanding of her testimony is that
8 we simply include them all in a fixed price option, that we
9 take the entire list of customers and that is, they and
10 their load shapes are the basis for the bid. That's my
11 understanding of her testimony.

12 Q. Okay. Now, you testified earlier that the vast
13 majority of your 1,500 or so customers in the large C and I
14 class are on LP-4; is that correct?

15 A. That's correct.

16 Q. You also testified that the vast majority, or
17 those types of customers on LP-4 can't shift load, it's
18 difficult for them to respond to hourly price signals; is
19 that correct?

20 A. Yes.

21 Q. So I guess my question is, why would PPL put the
22 vast majority of its customers -- well, default the vast
23 majority of its customers to a service that they really
24 can't take?

25 A. We don't think we'd be defaulting them to

1 service that they can't take. We think that the process
2 would result in informed and educated customers, and that is
3 one of the challenges of moving to a competitive
4 marketplace, is to educate customers as to the choices they
5 have available to them.

6 Q. You believe that's the job of the -- what do you
7 call them in PA -- the distribution companies?

8 A. That's part of the duties that we carry as a
9 result of Commission orders and regulations regarding
10 choice, yes.

11 MS. KOLICH: That's all I have, Your Honor.

12 JUDGE CHESTNUT: Thank you, Ms. Kolich. I have to
13 tell you, that was the most -- I won't say abusive, but I
14 hope in the future you can be more realistic about
15 estimating how much cross that you have for a witness.

16 MS. KOLICH: I understand.

17 JUDGE CHESTNUT: Even if Mr. Krall had given one word
18 answers, I think that would have been more than 15 minutes.

19 MS. KOLICH: My apologies, Your Honor.

20 JUDGE CHESTNUT: Sure.

21 That takes us to PennFuture, if you're still awake.

22 MR. JUGOVIC: Good morning, Your Honor.

23 JUDGE CHESTNUT: Good morning.

24 **CROSS-EXAMINATION**

25 BY MR. JUGOVIC:

1 Q. Good morning, Mr. Krall.

2 A. Good morning, Mr. Jugovic.

3 Q. My name is George Jugovic and I represent
4 PennFuture, and my questions will be directed towards the
5 alternative energy purchase portion of your testimony. I
6 just have a couple clarifying questions.

7 Is it correct that PPL's CBP proposed to, in each of
8 its six solicitations, to require its bidders to meet its
9 Alternative Energy Portfolio Standards Act portion equally
10 for each separate bid?

11 A. I would say on a pro rata basis, consistent --
12 if you're providing a million megawatt-hours under a
13 particular tranche, then it should reflect the AEPS
14 requirement associated with that million megawatt-hours.

15 Q. And how will that portion of AEPS be determined
16 in the bidding process, in the RFP?

17 A. It's already spelled out in Commission rules in
18 the implementation order which interprets the language of
19 the Act, specifies the percentages for the different
20 reporting periods, reporting periods being different than
21 calendar years.

22 And then of course the supplier is going to have to
23 understand that the usage patterns may be different in
24 different months and respond. So if hypothetically the
25 requirement is one and a half percent through May 31st and

1 two percent through the end of the year, he needs to plan to
2 know what that load shape is and know that 1.5 percent of
3 that load shape may be different in different months.

4 Q. Could you explain why PPL decided to seek
5 compliance with its 2010 AEPS requirement by soliciting the
6 credits, renewable energy credits proportionally across the
7 six solicitations?

8 A. Sure. The basic mechanism is really patterned
9 after New Jersey which we understand solicits their
10 renewable requirement as a portion of their energy bid
11 through their auction process. So that basic mechanic comes
12 from there.

13 The decision to include a portion in each of the
14 solicitations was an effort to get a market price for AEPS
15 resources the same way we're soliciting the market multiple
16 times for energy resources, and dip into the market to try
17 to get a representative market price.

18 Q. Do you think it's fair to characterize the
19 renewable energy credit market as an emerging energy market
20 in Pennsylvania?

21 A. Certainly renewable technologies are an emerging
22 area. As far as being emerging market, yeah, I guess so.
23 Other states have more fully developed and more mature
24 markets. For example, I think we can get broker quotes for
25 New Jersey markets or Connecticut markets, and at this point

1 Pennsylvania markets don't have similar vehicles, so in that
2 context I would agree with you.

3 Q. Does PPL have any concerns that bidders will not
4 be able to successfully fulfill that portion of any of the
5 solicitations?

6 A. I think any time you go out with a contract, you
7 have some concern about the other party performing. That's
8 why we have clauses in there to address such circumstances.
9 But in general, no. New Jersey seems to have done quite
10 well. Yes, it's true that the Pennsylvania market may
11 strain a developing marketplace and the addition of other
12 states may cause additional strain, but I think we need to
13 let that market develop, and to do otherwise would be to
14 deny it economic signals that would cause it to develop.

15 Q. Did PPL consider weighting in any respect the
16 solicitations to insure compliance with your AEPS 2010 POLR
17 requirements?

18 A. In our original proposal, we did not. In our
19 modified proposal, we've agreed to front-end load the solar
20 requirement.

21 The Act treats solar differently in a lot of
22 respects, and we felt it might not be inappropriate to also
23 treat solar differently in this case, although we
24 acknowledge that that puts a burden on solar resources in
25 the '07 time frame and precludes getting maybe more cost

1 effective resources in the '08-'09 time frame.

2 Q. Does PPL, considering the merging nature of the
3 renewable energy market in Pennsylvania, does PPL consider
4 it necessarily unreasonable, an unreasonable proposal to
5 front-end not 100 percent but to weight in the earlier
6 solicitations the real energy purchase, real -- alternative
7 energy purchase?

8 A. Are you suggesting that we should front-end load
9 more than just the solar?

10 Q. I'm asking, if that was a proposal, would PPL
11 necessarily consider it to be unreasonable?

12 A. We're not real fond of that proposal because it
13 sort of -- it doesn't allow the alternative energy market to
14 develop in the way that maybe it should and it puts an
15 artificial loading in the front end when in fact projects in
16 the pipeline might not be available until later.

17 MR. JUGOVIC: Thank you, Your Honor. I have no
18 further questions. Thank you, Mr. Krall.

19 JUDGE CHESTNUT: Thank you, Mr. Jugovic.

20 Mr. MacGregor, I had assumed that you would do
21 redirect after all the parties did their cross.

22 MR. MacGREGOR: Yes, Your Honor.

23 JUDGE CHESTNUT: Okay. You didn't want to do it
24 after each one?

25 MR. MacGREGOR: No. I hope I haven't been passing an

1 opportunity.

2 JUDGE CHESTNUT: No, that just occurred to me.

3 MR. MacGREGOR: I was hoping to wait until the end.

4 JUDGE CHESTNUT: Okay. That takes us to PPLICA.

5 MS. POLACEK: Your Honor, Pamela Polacek on behalf of
6 PPLICA. Due to my late arrival at the hearing this morning,
7 I was hoping --

8 JUDGE CHESTNUT: You can fill in --

9 MS. POLACEK: If you would accept an oral statement.

10 JUDGE CHESTNUT: Certainly.

11 MS. POLACEK: I do apologize.

12 JUDGE CHESTNUT: I won't accept it orally but you can
13 fill it in later.

14 MS. POLACEK: Can I fill it in later?

15 JUDGE CHESTNUT: Sure.

16 MS. POLACEK: Thank you. And I apologize for
17 obviously overlooking the communication that moved this up.

18 JUDGE CHESTNUT: No problem.

19 **CROSS-EXAMINATION**

20 BY MS. POLACEK:

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

22 A. Good morning.

23 Q. I have just hopefully a few questions for you.

24 First I'd like to ask you a few questions about the, I think
25 what you term in your testimony the legacy rates, and

1 specifically Rate Schedules IS-T and IS-P.

2 A. Correct.

3 Q. And am I correct that PPL intends to conduct the
4 large C and I request for proposals to obtain the wholesale
5 POLR supply that will be available to all of the customers
6 on Rate Schedules LP-4, LP-5, LP-6, IS-T and IS-P?

7 A. Yes, that's correct. We'd include them all in
8 one solicitation grouping.

9 Q. Okay. And the POLR supply service for all of
10 those customers under the Competitive Bridge Plan will be
11 firm supply service, correct?

12 A. Unless the customers opt out of that firm supply
13 service and elect an hourly service, real-time hourly
14 service.

15 Q. But if they take the fixed rate, it's a firm
16 supply service, correct?

17 A. Yes.

18 Q. Okay. And on Rate Schedules IS-T and IS-P,
19 those customers also purchase distribution service from PPL,
20 correct?

21 A. That's correct.

22 Q. Okay. And as the current proceeding is a POLR
23 supply filing, am I correct that PPL's proposals here are
24 limited to generation supply service issues?

25 A. That's correct.

1 Q. Okay. And Rate Schedules IS-T and IS-P will
2 remain for the customer's distribution charges in 2010?

3 A. As -- nothing in this proceeding would change
4 that. That's right.

5 Q. And if you could turn to page 16 of your
6 rebuttal testimony --

7 JUDGE CHESTNUT: Do you have Mr. Krall's redacted
8 statement? If not, could you give her one, Mr. MacGregor?

9 MS. POLACEK: I don't believe so.

10 (Document handed to Ms. Polacek.)

11 JUDGE CHESTNUT: The page number and lines are the
12 same.

13 MS. POLACEK: The page number and lines are the same?
14 That's going to make this easier.

15 BY MS. POLACEK:

16 Q. And at the top of that page, you have a question
17 and answer about whether a formula is necessary for the
18 hourly price option that would be provided to the large C
19 and I customers in 2010.

20 A. Correct.

21 Q. And you discuss PP&L's intention to bid out the
22 hourly price service for large C and I customers. Can you
23 explain for me how PP&L will evaluate the bids that it
24 receives for this service?

25 A. Basically the evaluation tool would be an adder

1 on LMP so that we'd be asking the bidders to bid to serve
2 customers at LMP plus an hourly adder. The hourly adder
3 would reflect their administrative charges, capacity, their
4 estimate of losses or using our -- you know, they can use
5 our figure as well.

6 And that would be the basis for calculating rates, so
7 then it would be the LMP in that hour plus the adder times
8 the customer's usage.

9 So to the extent that that is a formula, we would not
10 dispute that some formula needs to be in the tariff to
11 explain that transaction.

12 Q. And you do agree with me that in terms of an
13 hourly price, there are costs in addition to the PJM
14 locational marginal price or LMP that would need to be
15 reflected?

16 A. Yes, I do, and that's the figure that we would
17 be looking to do the evaluation on.

18 Q. And so you would take the bid, just to explain
19 this a little bit for myself, you would have them bid on
20 everything including their adder, their administrative
21 costs, the capacity costs and all the ancillary service
22 costs?

23 A. Yes.

24 Q. And would an alternative way to do that be to
25 include a formula that includes a specific PJM mechanism for

1 the capacity costs and for the ancillary service costs?

2 A. I presume that the bidding supplier would have
3 his own formulas. To prescribe a formula for him would be
4 maybe to limit his flexibility in pricing.

5 Q. But the customer would be able to go back and
6 verify that it was the LMP plus whatever the adder that
7 supplier bid that included all of those other elements
8 except for the LMP?

9 A. I'm sorry, could you repeat that again?

10 Q. Under the way you would envision this bid-out
11 occurring, the customer who's paying the hourly price in any
12 hour, they would be able to look at that price and verify
13 that it is based on the locational marginal price for the
14 hour plus the adder from the supplier that included all of
15 the elements that we've discussed, from administrative costs
16 to ancillary services to capacity?

17 A. That's how we envision it, yes.

18 Q. And does PP&L have any indication from wholesale
19 suppliers that they are actually interested in providing
20 this hourly LMP service for the POLR load?

21 A. I think I'd defer that question to Mr. Cavicchi
22 who's our consultant as far as products available in the
23 market and the interest for those products.

24 Q. And finally, PP&L had asked PPLICA to explain in
25 a letter in lieu of surrebuttal testimony our position

1 regarding including a formula in the tariff for the hourly
2 price service, where we offered to work with you during this
3 process to try and come up with a way to meet both of our
4 needs. Is the company agreeable to doing that?

5 A. Yes.

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

7 JUDGE CHESTNUT: Thank you, Ms. Polacek. That takes
8 us to Reliant.

9 MR. KNIPE: Your Honor, having entered into a
10 stipulation with PPL, Reliant will not be cross-examining
11 any of the PPL witnesses.

12 JUDGE CHESTNUT: Okay. That brings us back to
13 Constellation.

14 MR. LEWIS: Yes. Your Honor, during Mr. Krall's
15 testimony, we took the liberty of trying to memorialize the
16 agreement in principle we have reached with the company.
17 That was done. Mr. Thomas back at my office has e-mailed to
18 Mr. MacGregor and others a draft --

19 MR. MacGREGOR: But I forgot my Blackberry, so I
20 don't have it.

21 MR. LEWIS: And with Your Honor's permission and if
22 it's convenient to Your Honor, if we could take a 15 minute
23 recess, we might be able to confirm that there is a
24 settlement on those points.

25 JUDGE CHESTNUT: Well, I'm not going to take a break.

1 I'd rather just that you report back later this morning when
2 we do take a break, okay? Is that possible?

3 MR. LEWIS: That's fine, Your Honor, but I would
4 therefore, until we have confirmation, I would reserve the
5 right to cross-examine Mr. Krall.

6 JUDGE CHESTNUT: Right. Mr. Krall, you don't mind
7 sticking around until that, do you?

8 THE WITNESS: Not at all. I'm here for the duration.

9 JUDGE CHESTNUT: Okay. Then we'll just proceed and
10 you can get back to us with that, okay?

11 MR. LEWIS: Thank you, Your Honor.

12 JUDGE CHESTNUT: Did you want to do redirect?

13 MR. HASSELL: We'd like to talk maybe five minutes,
14 Your Honor.

15 JUDGE CHESTNUT: All right, a five minute break.

16 (Recess.)

17 JUDGE CHESTNUT: Mr. MacGregor, do you have any
18 redirect examination?

19 MR. MacGREGOR: Yes, I have one question, Your Honor,
20 which is by way of a correction.

21 **REDIRECT EXAMINATION**

22 BY MR. MacGREGOR:

23 Q. Mr. Krall, during FirstEnergy's cross-
24 examination, you had a discussion of the company's existing
25 generation rate adjustment, GRA, and how it might apply in

1 2010. Do you have a correction to make to your testimony at
2 this time?

3 A. Yes, I do. And I apologize. The GRA is fairly
4 simple in a stable environment, but as we move to different
5 products, sometimes I lose track of how it would apply.

6 The GRA requires customers who return from shopping
7 to remain with the company for 12 months. And I had
8 indicated in response to FirstEnergy's questions that the
9 application of GRA would virtually eliminate shopping risk
10 from the perspective of suppliers.

11 And I got confused with customers going from fixed
12 cap tariff rates to a choice of fixed price in a market
13 environment to hourly service and opting in and opting out.

14 And during the break, we realized that we need to
15 clarify that the way the tariff language works, it requires
16 a 12 month stay, and it requires a 12 month stay on POLR
17 supply.

18 In the circumstance where a customer comes back to
19 POLR service in, say, October of '09 and then leaves again
20 for shopping sometime during 2010 but before the 12 months
21 stay, the GRA would apply in that circumstance. There is --
22 wait a minute, I'm confused again.

23 MR. MacGREGOR: That's right.

24 THE WITNESS: The GRA would apply in that
25 circumstance, that's right. In the circumstance where a

1 customer has been with us for more than 12 months -- and
2 that first hypothetical is the one that I addressed in
3 response to the FirstEnergy question.

4 If the customer has been with us for more than 12
5 months and chooses to shop during that GRA period -- during
6 the 2010 period, the GRA wouldn't apply because the customer
7 would have satisfied their 12 month obligation.

8 There would be no funds collected to compensate the
9 supplier, hence there would still be residual risk to the
10 supplier.

11 BY MR. MacGREGOR:

12 Q. So, for example, if a customer had been shopping
13 and returned to PPL in April of 2009 --

14 A. Yes.

15 Q. -- and is taking fixed-price POLR service --

16 A. Yes.

17 Q. -- from the company for the remainder of 2009
18 and then selects to receive fixed service in 2010 under the
19 Competitive Bridge Plan, the customer could shop any time
20 after April, 2010 because the customer would have been back
21 for 12 months and, at any time after April, 2010 and for the
22 remainder of 2010, could shop without paying the GRA?

23 A. That's correct, because the customer would have
24 satisfied their 12 month obligation under the tariff terms.

25 MR. MacGREGOR: Thank you, Your Honor. That's all we

1 have.

2 JUDGE CHESTNUT: Does anybody have any recross based
3 on the redirect? Ms. Kolich?

4 MS. KOLICH: Thank you, Your Honor.

5 **RE CROSS - EXAMINATION**

6 BY MS. KOLICH:

7 Q. I just need a clarification. Customers who
8 select POLR at any time for the 2010 period, they can get
9 off of POLR at any time? There's no minimum stay
10 requirement; is that correct?

11 A. Customers who elect -- when you say POLR, you
12 mean fixed price option?

13 Q. I'm sorry, fixed price option. Those customers
14 can select another supplier at any time during 2010,
15 correct?

16 A. Subject to the hypothetical that we just
17 described, the GRA could apply, or not, yes, depending --

18 Q. Right. The GRA will apply, they have to pay
19 that, but they can --

20 A. Oh, yes, absolutely, absolutely.

21 Q. Okay. And the same is true, they can switch
22 from a fixed price to an hourly price at any time during
23 2010?

24 A. Yes.

25 MS. KOLICH: Thank you, Your Honor.

1 JUDGE CHESTNUT: Thank you very much, Mr. Krall.
2 You're excused for now, based on Constellation's ultimate
3 determination.

4 THE WITNESS: Thank you, Your Honor.

5 (Witness excused.)

6 JUDGE CHESTNUT: That takes us to our next witness.

7 MR. MacGREGOR: Yes, Your Honor. Our next witness is
8 Mr. Joseph Cavicchi, C-A-V-I-C-C-H-I.

9 JUDGE CHESTNUT: Mr. Cavicchi, could you stand,
10 please? Raise your right hand.

11 Whereupon,

12 JOSEPH CAVICCHI

13 having been duly sworn, testified as follows:

14 JUDGE CHESTNUT: Please sit down.

15 MR. MacGREGOR: Your Honor, I would like to mark for
16 identification the direct testimony of Mr. Cavicchi as PPL
17 Statement No. 2.

18 JUDGE CHESTNUT: It will be so marked.

19 (Whereupon, the document was marked
20 as PPL Statement No. 2 for
21 identification.)

22 MR. MacGREGOR: And his attached exhibit as Exhibit
23 JC-1.

24 JUDGE CHESTNUT: Okay, also.

25 (Whereupon, the document was marked

1 as PPL Exhibit No. JC-1 for
2 identification.)

3 JUDGE CHESTNUT: Mr. Cavicchi, what's the actual name
4 of your company?

5 THE WITNESS: It's Lexecon, an FTI Company.

6 JUDGE CHESTNUT: Okay.

7 MR. MacGREGOR: And also we'd like to mark for
8 identification Mr. Cavicchi's rebuttal statement as PPL
9 Statement No. 2-R.

10 JUDGE CHESTNUT: It will be so marked.

11 (Whereupon, the document was marked
12 as PPL Statement No. 2-R for
13 identification.)

14 MR. MacGREGOR: That statement has also been redacted
15 to reflect the stipulation with Reliant.

16 JUDGE CHESTNUT: I think I have it.

17 MR. MacGREGOR: And there are copies available for
18 the parties who may need it.

19 **DIRECT EXAMINATION**

20 BY MR. MacGREGOR:

21 Q. Mr. Cavicchi, do you have before you copies of
22 the documents that have been marked for identification as
23 PPL Statement No. 2, Statement No. 2-R and Exhibit JC-1?

24 A. I do.

25 Q. And were those documents prepared either by you

1 or under your direct supervision?

2 A. Yes, they were.

3 Q. Do you have any changes or corrections to make
4 to those documents at this time?

5 A. No, I do not.

6 Q. And is the information contained in those
7 documents true and correct to the best of your knowledge?

8 A. It is.

9 MR. MacGREGOR: Your Honor, subject to cross-
10 examination and timely motion, we would move the admission
11 of PPL Statement 2, Statement 2-R and Exhibit JC-1.

12 JUDGE CHESTNUT: Any objection?

13 (No response.)

14 JUDGE CHESTNUT: The documents are admitted.

15 (Whereupon, the documents marked
16 as PPL Statements Nos. 2 and 2-R
17 and PPL Exhibit JC-1 were received
18 in evidence.)

19 MR. MacGREGOR: And we have no rejoinder testimony
20 for Mr. Cavicchi. He is available for cross-examination.

21 JUDGE CHESTNUT: I'm going to use the same procedure
22 I used before, which is I'm going to go down the witness
23 grid in order to see who indicated they do have cross-
24 examination for this witness. Mr. Lewis?

25 MR. LEWIS: Your Honor, we have reserved slight

1 cross-examination for Mr. Cavicchi, but again, in light of
2 the settlement discussions, we would ask that that be
3 reserved.

4 JUDGE CHESTNUT: Okay.

5 Direct Energy?

6 **CROSS-EXAMINATION**

7 BY MR. MOODY:

8 Q. Good morning, Mr. Cavicchi.

9 A. Good morning.

10 Q. Would you turn to page seven of your rebuttal
11 testimony, lines 14 through 16? Could you tell me, how do
12 you define actual market prices?

13 A. I define --

14 Q. In that passage.

15 A. This is the passage, just so I'm clear.

16 "However, there is no basis to conclude" --

17 A. Yes.

18 Q. -- "that a one-year forward price established in
19 2009 for 2010 will be more reflective of actual market
20 prices in 2010 than a three-year laddered acquisition."

21 In that statement, the -- and I assume you're looking
22 at "more reflective of actual market prices."

23 Q. Yeah, the term "actual market prices" in that
24 sentence. How do you define that?

25 A. The meaning of actual market prices in that

1 sentence is, if one measured, after the year 2010 has
2 elapsed, all of the hourly prices, the reference I was
3 making was to look back at those spot market prices -- maybe
4 that would be the actual better description.

5 They're meant to be the very short-run prices that
6 prevail throughout the year 2010 if you were to make no
7 purchases in advance.

8 Q. And when you say "spot prices," are you talking
9 about hourly prices?

10 A. I am talking about hourly prices.

11 Q. Further down that same page, lines 16 through
12 18?

13 A. Yeah.

14 Q. Is Direct Energy proposing that all customers
15 should receive hourly pricing for default service?

16 A. It is my understanding that they are not.

17 Q. Is any EGS that's in this proceeding proposing
18 that all customers receive hourly pricing for default
19 service?

20 A. No, they are not.

21 Q. And further down on that same page, lines 18
22 through 22, is Direct Energy in this proceeding proposing
23 POLR pricing without the future price being known, or not
24 specified?

25 A. I'm not positive I can answer that because

1 there's some issue of a potential delay in establishing the
2 POLR price. Technically, no. They're proposing that a
3 solicitation be run in advance of the delivery.

4 Q. And is any EGS in this case proposing that the
5 POLR prices be established in advance with a price not
6 specified until delivery occurs?

7 A. No. That's no one's intention. My
8 understanding is, that's no one's intention.

9 Q. Thank you. Turning to page four of your
10 rebuttal, lines 15 and 16?

11 A. Yes.

12 Q. Where you say that retail suppliers generally
13 prefer volatile prices, now, you've reviewed the EGS
14 proposals in this case, correct?

15 A. Yes, I have.

16 Q. And is it fair to say that the retail suppliers
17 generally prefer POLR prices that adjust to current
18 wholesale market prices? Is that a fair characterization of
19 their plans?

20 A. I guess it depends on how you define "current."
21 Current, there can be a price that's current today for
22 delivery a year from now. There can be a price today that
23 applies today.

24 Q. Is it fair then to say that the suppliers in
25 this case, the retail suppliers are proposing -- I'm sorry,

1 that they generally prefer prices that adjust to your
2 definition of actual market prices?

3 A. I would, perhaps to characterize what I think
4 you're asking, I believe they prefer prices that adjust more
5 frequently. And the frequency of the adjustment I think is
6 the subject of debate.

7 Q. And what would be the basis for that frequent
8 adjustment, in your view?

9 A. I think the basis -- and I don't want to
10 prejudice their exact opinions, but I believe the basis for
11 the frequent adjustment is that they believe that's a better
12 means of providing prevailing prices.

13 Q. Is it fair to say that the retail suppliers want
14 the more frequent price adjustments to reflect what
15 eventually turn out to be the actual market prices as you've
16 defined that term, looking, you know, with hindsight?

17 A. That may be part of what they're hoping to
18 achieve.

19 Q. And stated another way, is it fair to say that
20 the retail suppliers in this case prefer default prices that
21 do not fall below actual market prices?

22 A. I'm not sure. I'm actually not sure. There's
23 quite a variety of different opinions on the appropriate
24 frequency of the pricing. And given there are different
25 approaches that are put forth by different EGSs or wholesale

1 suppliers, I think it's inevitable that prices will be above
2 and below any price that's charged to a consumer under any
3 type of plan.

4 Q. And which prices are you referring to?

5 A. A price that's fixed prior to delivery. It's
6 almost a foregone conclusion that there will be some times
7 when actual prices, hourly prices for example are higher,
8 and actual hourly prices are lower than what's been charged.

9 Q. Is that more likely to occur the further in
10 advance that the fixed price is determined?

11 A. I'm not sure that it is more like to occur, the
12 further in advance.

13 MR. MOODY: I have no further questions.

14 JUDGE CHESTNUT: Thank you, Mr. Moody.

15 Dominion?

16 **CROSS-EXAMINATION**

17 BY MR. STEWART:

18 Q. Good morning, Mr. Cavicchi. My name is Todd
19 Stewart. I represent Dominion Retail.

20 A. Good morning, Mr. Stewart.

21 Q. On page four of your direct testimony, you state
22 that the company intends to carry out six solicitations over
23 a three year period for supply to residential and small
24 commercial customers; is that correct?

25 A. That's correct.

1 Q. Have the dates for those six solicitations been
2 finalized as of this point?

3 A. I wouldn't say that they've been finalized, but
4 all of the exact dates have been provided by a schedule
5 that's shown in Exhibit JC-1 as part of the RFP, the draft
6 RFP.

7 Q. Thank you. And for example, just a question
8 about this and I just want to make sure I understand this
9 process. If a week before one of these solicitations were
10 intended to be made, there was a catastrophic event, maybe a
11 hurricane or something in the Gulf of Mexico and natural gas
12 prices go extremely high, electric prices follow and go
13 high, would you still engage in that solicitation?

14 A. Yes. My belief is that --

15 Q. And would that be true for any or all of the
16 solicitations, so if there were -- and I understand the
17 probability is small -- if there were a catastrophic event,
18 anything that would drive electric prices up right before
19 each of these solicitations, you would still engage in the
20 solicitation?

21 A. The intention of the design is not to presuppose
22 that the company knows at any time whether prices will be
23 higher or lower in 2010 than they might be. So really, the
24 underlying objective is, we go out, buy power at prevailing
25 prices six times over a three year period, and we get what

1 we get. The hope is that will be a decent way to move from
2 a 14 year administrative rate to something that's a bridge
3 getting to whatever the state's --

4 Q. So you would agree --

5 A. -- ultimate --

6 Q. Oh, I'm sorry.

7 A. I'm sorry -- whatever the state's ultimate plan
8 is for procurement.

9 Q. I'm sorry. I have to wait until you're done.
10 Would you agree with me, then, that the outcome of those six
11 solicitations is largely dependent upon external factors,
12 that you're really a price taker in each of those six
13 solicitations?

14 A. Yes.

15 MR. STEWART: That's all I have, Your Honor.

16 JUDGE CHESTNUT: Thank you very much. Now, Ms.
17 Kolich, did you want to follow up on the question that was
18 deferred from Mr. Krall?

19 MS. KOLICH: Yes, Your Honor.

20 **CROSS-EXAMINATION**

21 BY MS. KOLICH:

22 Q. Good morning, Mr. Cavicchi. My name is Kathy
23 Kolich. I represent FirstEnergy Solutions in this matter.

24 A. Good morning, Ms. Kolich.

25 Q. During Mr. Krall's testimony, he deferred

1 several questions to you regarding the solicitation of
2 customer interest in the fixed price program. I would just
3 like to know if it's been determined how that would take
4 place.

5 A. I'm just thinking back. I had thought the
6 question was about hourly service, but no, I have not had
7 involvement in or necessarily worked with them on how --
8 you're saying how the actual -- you're saying the
9 solicitation? I'm sorry, I misheard you. I'm sorry.

10 There is in the RFP currently a suggested date for
11 the solicitation for the large commercial and industrial
12 customers, and when you asked those questions, I'm sorry, I
13 misunderstood you.

14 I would expect there might be an effort to just
15 follow the dates that are currently in the RFP which call
16 for the first week of October.

17 Q. Okay. I want to make sure we're on the same
18 page. The solicitation I'm talking about is the reference
19 that Mr. Krall made to soliciting interest from the C and I
20 customers, not from --

21 A. I'm talking about when they actually go out to
22 bid. You're talking about before that?

23 Q. Right.

24 A. No, I haven't thought about how -- or I don't
25 have an opinion on how they would actually, or when they

1 would solicit that interest.

2 MS. KOLICH: Thank you, Your Honor.

3 JUDGE CHESTNUT: Thank you, Ms. Kolich.

4 Mr. Mickens?

5 MR. MICKENS: No questions, Your Honor.

6 JUDGE CHESTNUT: Mr. Jugovic?

7 (No response.)

8 JUDGE CHESTNUT: Is he even here?

9 (No response.)

10 JUDGE CHESTNUT: Mr. Jugovic?

11 MR. MacGREGOR: I'll see if he's outside, Your Honor.

12 JUDGE CHESTNUT: Sure.

13 (Pause.)

14 MR. JUGOVIC: I apologize, Your Honor. I was
15 following up with settlement discussions.

16 JUDGE CHESTNUT: I wouldn't stand in the way of that.

17 MR. JUGOVIC: I am going to pass. We have no cross
18 for this witness. Thank you.

19 JUDGE CHESTNUT: Okay, thank you.

20 Ms. Polacek, a question was deferred from Mr. Krall.
21 Did you want to follow up on that?

22 MS. POLACEK: Yes, please, Your Honor.

23 **CROSS-EXAMINATION**

24 BY MS. POLACEK:

25 Q. Mr. Cavicchi, this may be the hourly price

1 question you were thinking that you were going to get asked.
2 In my discussion with Mr. Krall before, I had asked him
3 whether the company had any indication that wholesale
4 suppliers were interested in bidding on the hourly price
5 service that would be provided to the large C and I
6 customers. He deferred that question to you, so, do you
7 have any indication of that?

8 A. There is indication that wholesale suppliers
9 will offer that service. It's currently part of the New
10 Jersey commercial, industrial and energy customer products
11 offering.

12 Q. It's a bid-out product in New Jersey?

13 A. It's a bid-out product.

14 Q. Do you know approximately how many suppliers bid
15 in that process the last time it was solicited?

16 A. The last time, I believe they had -- there may
17 have been only one or two. There was an issue I believe
18 where they changed the product definition last year, and I
19 believe as a result of the solicitation, they weren't
20 satisfied with it. They've changed the product definition
21 back to something more like Mr. Krall defined.

22 Q. The type of formula that he was thinking of?

23 A. Exactly.

24 Q. And do you know of any other jurisdictions that
25 do that?

1 A. I do not.

2 MS. POLACEK: Thank you, Your Honor. That's all I
3 have.

4 JUDGE CHESTNUT: Thank you, Ms. Polacek. Mr. Moody,
5 I should have clarified that -- are you here, Mr. Moody?

6 MR. MOODY: Yes.

7 JUDGE CHESTNUT: -- that your questions were on
8 behalf of all your clients, not just Direct?

9 MR. MOODY: Yes.

10 JUDGE CHESTNUT: Okay. Well, that's the end of my
11 list of questioners for you, Mr. Cavicchi, except for
12 Constellation.

13 Where are you with respect to this, Mr. Lewis? I
14 really would like to know at this point.

15 MR. LEWIS: I believe we have a settlement in
16 principle on all material terms. It is being revised in
17 accordance with a brief discussion that Mr. MacGregor and I
18 had during the very quick break.

19 My understanding is we will have a document for Mr.
20 MacGregor's review at lunch, and assuming that he agrees,
21 then we would submit it to Your Honor.

22 JUDGE CHESTNUT: Okay, because I'm wondering in terms
23 of potential cross-examination of the PPL witnesses. Are
24 you going to be needing Mr. Cavicchi to stick around or not?

25 MR. LEWIS: I am hopeful not, I am hopeful not, but

1 his testimony, his cross would have only been slight in any
2 event, Your Honor, so our principal cross would be of Mr.
3 Krall and Mr. Kleha, but I understand from Mr. MacGregor
4 that Mr. Krall might defer some questions actually to Mr.
5 Cavicchi.

6 THE WITNESS: I'm not planning to leave, if that
7 helps.

8 JUDGE CHESTNUT: Okay. I know Mr. Krall is staying
9 here.

10 MR. MacGREGOR: Mr. Krall and Kleha are around both
11 days as well. There's no question of availability.

12 JUDGE CHESTNUT: Okay. That's fine, then. Did you
13 want to do redirect for this witness?

14 MR. MacGREGOR: I don't believe I have any. Can I
15 just have one minute to ask co-counsel?

16 (Pause.)

17 MR. MacGREGOR: No redirect, Your Honor.

18 JUDGE CHESTNUT: Thank you very much, Mr. Cavicchi.
19 You're excused.

20 THE WITNESS: Thank you, Your Honor.

21 (Witness excused.)

22 MR. HASSELL: Your Honor, if I may, during the break
23 I did speak with counsel for Office of Trial Staff who was
24 the only counsel remaining with questions for our witness,
25 Mr. Dahl. And Mr. Mickens has indicated they do not have

1 cross, so we will not have any parties having cross for Mr.
2 Dahl, so that will be testimony we can submit by
3 stipulation, I believe.

4 JUDGE CHESTNUT: Let's do that now so I don't forget,
5 then. That would be Statement 4?

6 MR. HASSELL: Statement 4.

7 JUDGE CHESTNUT: Exhibit TRD-1.

8 MR. HASSELL: TRD-1.

9 JUDGE CHESTNUT: 4-R?

10 MR. HASSELL: And 4-R. There were no redactions to
11 that testimony, Your Honor, and no other exhibits.

12 JUDGE CHESTNUT: Is there any objection to admission
13 of those documents?

14 (No response.)

15 JUDGE CHESTNUT: They're admitted.

16 (Whereupon, the documents were
17 marked as PPL Statements Nos. 4 and
18 4-R and PPL Exhibit No. TRD-1 for
19 identification and received in
20 evidence.)

21 JUDGE CHESTNUT: That takes us to Mr. Kleha.

22 MR. MacGREGOR: Yes, Your Honor, or we could take a
23 lunch break now and I could look at the document.

24 MR. HASSELL: The document should be coming over here
25 very momentarily, Your Honor.

1 JUDGE CHESTNUT: I'm really reluctant to let anyone
2 have lunch or a break in terms of forcing --

3 MR. MacGREGOR: I should have eaten a bigger
4 breakfast, Your Honor.

5 (Laughter.)

6 JUDGE CHESTNUT: But if taking a lunch break now will
7 facilitate the process, I guess I'm in favor of that. I'm
8 not even sure where we are in terms of how much time to
9 expect to have for the rest of the day, but --

10 MR. MacGREGOR: My sense is we're doing very well.

11 JUDGE CHESTNUT: I think we're in pretty good shape
12 here. So I was going to say half an hour for lunch. Is
13 that okay with everybody?

14 (No response.)

15 JUDGE CHESTNUT: Okay. We'll resume back here then,
16 12:30. Thank you.

17 (Whereupon, at 12:02 p.m., the hearing was adjourned,
18 to be reconvened at 12:30 p.m., this same day.)
19
20
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25

AFTERNOON SESSION

(12:46 p.m.)

JUDGE CHESTNUT: Are we ready to resume? Mr. Kleha, would you raise your right hand, please?

Whereupon,

JOSEPH M. KLEHA

having been duly sworn, testified as follows:

JUDGE CHESTNUT: Please sit down, give and spell your name for the record.

THE WITNESS: My name is Joseph M. Kleha, K-L-E-H-A.

JUDGE CHESTNUT: Mr. Hassell?

MR. HASSELL: Yes. Thank you, Your Honor.

DIRECT EXAMINATION

BY MR. HASSELL:

Q. Mr. Kleha, would you please state your occupation and business address for the record?

A. Yes. I'm Manager of Regulatory Projects for PPL Services Corporation, and in that role I fill the same position for all of the other members of the PPL family of companies.

MR. HASSELL: Your Honor, at this time, I'd ask to have marked for identification PPL Statement No. 3, the direct testimony of Mr. Joseph Kleha, along with the Appendix A which was inadvertently excluded from the original filing but is being circulated to all parties and

1 has been provided to Your Honor and the court reporter.

2 JUDGE CHESTNUT: It will be so marked.

3 (Whereupon, the document was marked
4 as PPL Statement No. 3 for
5 identification.)

6 MR. HASSELL: Also, Your Honor, I would ask to have
7 marked as PPL Statement No. 3-R the rebuttal testimony of
8 Mr. Kleha.

9 JUDGE CHESTNUT: It will be so marked.

10 (Whereupon, the document was marked
11 as PPL Statement No. 3-R for
12 identification.)

13 BY MR. HASSELL:

14 Q. Mr. Kleha, do you have the Statements Nos. 3 and
15 3-R before you?

16 A. I do.

17 Q. Do you have any corrections to make to those
18 pieces of testimony?

19 A. Yes. On Statement No. 3, page six, line 12, it
20 states, "Exhibit JMK-1." That should be "Exhibit DAK-1."

21 Q. Do you have any other corrections?

22 A. No, I do not.

23 Q. With that, Mr. Kleha, if I were to ask you the
24 questions contained in these statements, would your answers
25 be as stated therein?

1 A. They would.

2 Q. And are those answers true and correct to the
3 best of your knowledge, information and belief?

4 A. They are.

5 Q. Mr. Kleha, I'd like to do just a short amount of
6 responsive testimony to surrebuttal testimony submitted by
7 Mr. Kalcic on behalf of the Office of Small Business
8 Advocate.

9 If you have that testimony before you, turning to Mr.
10 Kalcic's surrebuttal, page four?

11 A. I have that.

12 Q. Mr. Kleha, in that surrebuttal testimony is an
13 indication by Mr. Kalcic of concern with respect to PPL's
14 revised proposal with respect to transmission costs, that
15 there would be a problem related to congestion costs being
16 shifted to -- that it's a responsibility of suppliers. Do
17 you have a response to that, please?

18 A. Yes. It is PPL Electric's intention under its
19 CBP to require the supplier or the seller in this case to be
20 responsible for congestion costs. That's included in
21 Article 4.1 of the master agreement, supply master
22 agreement.

23 Q. Therefore, the concern expressed by Mr. Kalcic
24 would not in fact arise?

25 A. That's correct.

1 Q. I'd like you also to turn then to page five of
2 his testimony, and on that page there's a reference to an
3 alternative, recommending that the Commission direct PPL to
4 award its POLR supplier requirements to suppliers based upon
5 the bid cost of generation delivered to PPL's service
6 territory. In reviewing that testimony, do you have an
7 additional clarification?

8 A. Article 1 of the RFP, under the definition
9 section, indicates that the location or the delivery point
10 to PPL will be the PPL zone, so for all intents and purposes
11 the RFP defines the service territory of PPL Electric as
12 being the point of delivery for the supplier.

13 Q. Therefore, in fact, PPL's proposal as revised
14 will be consistent with this alternative referenced at that
15 page?

16 A. That's correct.

17 MR. HASSELL: Your Honor, with that, we have no
18 further redirect for the witness. I would ask to have the
19 testimony and appendix admitted to the record subject to
20 timely motions.

21 JUDGE CHESTNUT: Any objection?

22 (No response.)

23 JUDGE CHESTNUT: The documents are admitted.

24 (Whereupon, the documents marked as

25 PPL Statements Nos. 3 and 3-R were

1 received in evidence.)

2 MR. HASSELL: Mr. Kleha is available for cross, Your
3 Honor.

4 JUDGE CHESTNUT: Okay. We're going to pass on
5 Constellation or what, Ms. Corson?

6 MS. CORSON: Yes, Your Honor. We'll wait and see
7 what happens.

8 JUDGE CHESTNUT: Mr. Stewart?

9 MR. STEWART: Thank you, Your Honor.

10 CROSS-EXAMINATION

11 BY MR. STEWART:

12 Q. Good morning, Mr. Kleha. My name is Todd
13 Stewart. I represent Dominion Retail.

14 A. Good afternoon, Mr. Stewart.

15 Q. Yeah, I forgot. Sorry. I knew you were going
16 to correct me.

17 (Laughter.)

18 Q. Could you describe for me the particular cost
19 elements that PP&L intends to reconcile through its
20 generation service charge?

21 A. Yes. As indicated in the tariff page for the
22 proposed -- you said the transmission service charge?

23 Q. No, for the generation service charge.

24 A. As indicated in the proposed tariff page for the
25 GSC, PPL would include in the GSC, in the calculation, the

1 annual calculation of the GSC would include the costs that
2 it incurs to acquire generation supply on behalf of its POLR
3 customers. That would be the aggregation of all the bid
4 prices and all of the costs associated with those bid
5 prices.

6 In addition to that, the company would expect to
7 include those costs that it incurs to manage, if you will,
8 and administer the solicitations associated with acquiring
9 that generation supply.

10 For example, there will be a cost for a third party
11 evaluator, an administrator of the bidding process. There
12 will be costs associated with putting together the documents
13 in the first instance. So it would be incremental expenses
14 to PPL that are incurred simply to put together the RFP,
15 send out the solicitations, aggregate all the costs and then
16 include all those costs within the context of the GSC.

17 Q. Okay. The costs that you've just mentioned, if
18 I'm not mistaken, they're PPL costs? They're not costs for
19 the wholesale supplier's energy -- I mean, you mentioned the
20 energy costs, then you mentioned two other categories,
21 management costs and sort of document prep, that kind of
22 stuff. Those latter two categories would be PPL costs, and
23 the first category would be essentially the bid prices
24 themselves?

25 A. That's correct.

1 Q. Got it.

2 A. We're not talking about costs that are already
3 incurred by PPL.

4 Q. You're talking about incremental costs?

5 A. We're talking about incremental costs.

6 Q. I understand. And as I understand the process
7 that you're going to use for developing this reconciliation
8 mechanism, PPL initially will estimate these costs and then
9 true up in 2011; is that sort of a real high level --

10 A. Yes, that's correct. The company is obviously
11 going to do the solicitations from 2007 through 2009. The
12 costs will then be aggregated and billed to customers in
13 2010. Obviously, in 2010, there's no over- or under-
14 recovery because nothing has happened at that point.

15 The company will bill the charges to the customers.
16 The customers will pay the charges, but to the extent that
17 the revenues that are received by the company back from the
18 customers are less than the costs that are incurred, there
19 would be a reconciliation of that.

20 Q. Okay. And obviously you can't estimate the bid
21 prices at this point, but for the non-bid prices, the
22 management costs and the document costs, does PPL have a
23 current estimate of what those costs might be?

24 A. I don't at this point in time. I would guess
25 that given the fact that we are going to do six

1 solicitations for residential and six solicitations for
2 small commercial and industrial customers and at least one
3 solicitation for the large commercial and industrial
4 customers, I would guess we're talking several million
5 dollars of cost that would be involved there, but I don't
6 have even a ballpark estimate at this point in time.

7 Q. And since PPL intends to collect these costs in
8 2011, what would happen if the costs in 2010, the estimate
9 of those costs in 2010 were significantly off, either
10 positively or negatively? Would that translate into a GSC
11 increase or decrease in the following year, 2011? Is that
12 how it works?

13 A. That's correct. That's exactly how a 1307 cost
14 recovery mechanism works. You apply the charges in the
15 period, you true up to the actual cost that you incur, the
16 revenues derived from it, and at the end of the period you
17 then have an E-factor or error factor.

18 And that error factor can be either positive or
19 negative, whether it's an over-collection or under-
20 collection. And that is simply applied as an incremental
21 portion of the subsequent period's GSC.

22 Q. And beginning on page nine of your rebuttal
23 testimony, you say that if PPL is not allowed to reconcile
24 its costs in this case, that the costs of Alternative Energy
25 Portfolio Standards Act compliance would have to be

1 separately identified and recovered through another rate
2 mechanism. Is that what you say in your testimony there?

3 A. That's what I do say.

4 Q. Okay. Now, am I correct that PPL in its current
5 proposal does not include AEPS compliance costs are part of
6 -- those costs are intended to be borne by the wholesale
7 suppliers?

8 A. That's correct.

9 Q. So the wholesale supplier is responsible for
10 bidding whatever costs in they think it's going to take for
11 them to cover?

12 A. That's correct.

13 Q. You're suggesting that if you're not allowed to
14 reconcile these other costs, that you're going to hold those
15 out of the wholesale bids and bid that separately and
16 reconcile those costs?

17 A. No, that's not what I meant.

18 Q. Okay.

19 A. What I was suggesting there was that the AEPS
20 Act provides for reconciliation of the costs that the
21 utility would incur for alternative energy credits.

22 Q. Right.

23 A. If the company has to go out and acquire
24 alternative energy supply credits on its own, absent a bid,
25 because a supplier defaults, for example, then the company

1 would have to go out and acquire them and reconcile its
2 actual costs back to customers.

3 Q. As the statute allows.

4 A. Right.

5 Q. Okay, understood.

6 A. So it seemed to me that logically speaking, that
7 if we have to do that and the process provides for that
8 reconciliation, then there's a disconnect between the GSC
9 and the reconciliation of the alternative energy supply
10 portfolio credits --

11 Q. I understand.

12 A. -- if you don't keep them on the same track.

13 Q. I understand. Beginning on page 13 of your
14 rebuttal testimony, there at the top of the page, you say
15 that in the absence of a reconciliation mechanism, that
16 presumably suppliers would reflect exposure to various risks
17 in the form of higher prices. Can you explain to me what
18 the risks to wholesale suppliers would be if you didn't have
19 a reconciliation mechanism?

20 A. Do you mind if I go back and --

21 Q. Sure.

22 (Witness perusing document.)

23 A. I think if you go back to page 12 and look at
24 the question that begins on line 15 and the answer that
25 begins on line 17, and in particular starting on line 20,

1 "That is, PPL Electric would indicate to potential suppliers
2 that they would be paid what the company bills to the
3 customers for POLR service, thereby placing the risk of
4 mismatches on the supplier, excluding any amounts associated
5 with uncollectible accounts."

6 What I was trying to say at that point in time is
7 that that is one way to put the risk back on the supplier,
8 and that is to pay the supplier what the company actually
9 bills. To the extent that there isn't full recovery, the
10 supplier --

11 Q. So essentially, you would ask, if you don't get
12 reconciliation, you're going to want to put the billing
13 risk, as I think it's referred to commonly, on the wholesale
14 supplier, and that's the risk you're talking about?

15 A. Exactly.

16 Q. Okay. That's what I wanted to make sure. And
17 is it your understanding that wholesale suppliers include a
18 rather large premium or small premium for billing risk? Do
19 you have any experience in what those --

20 A. I don't know what their mark-up would be. I do
21 recognize that they are for-profit entities and they would
22 not be involved in the wholesale market or, for that matter,
23 in the retail market if they were not going to make a
24 profit.

25 And so any risk or any additional cost increment that

1 is applied to them, they will simply mark that up for some
2 contingency factor, whatever it might be. You want to call
3 it a profit margin, I'll call it contingency factor.
4 Whatever it is, they'll mark it up, which will lead to
5 higher cost to customers.

6 Q. Have you done any kind of study or looked at
7 other wholesale bids to see what that risk factor would be?

8 A. I have not.

9 Q. Okay. So you're suspecting that there will be
10 some mark-up; you have no idea what it might be?

11 A. I believe there will be a mark-up. I just don't
12 know how large it will be.

13 Q. Okay. Would you agree with me that by proposing
14 to eliminate block rates, that PPL has already eliminated
15 probably the most significant risk factor for wholesale
16 suppliers?

17 A. I would say most of the risk is gone with regard
18 to that aspect, yes.

19 MR. STEWART: Thank you. That's all I have.

20 JUDGE CHESTNUT: Thank you, Mr. Stewart. Mr. Gray?

21 MR. GRAY: Thank you, Your Honor.

22 **CROSS-EXAMINATION**

23 BY MR. GRAY:

24 Q. Good afternoon, Mr. Kleha.

25 A. Good afternoon, Mr. Gray.

1 Q. Let me make certain that I understand your oral
2 rejoinder. Can you grab Mr. Kalcic's surrebuttal and turn
3 back to page four? And while I'm sure you're quite familiar
4 with it, would you grab your own rebuttal testimony at page
5 three, line three?

6 A. Mr. Kalcic's at page four --

7 Q. Page four, line 14, and you're at page three,
8 line three.

9 A. Yes, I have it.

10 Q. Very good, thank you. Mr. Kalcic discussed,
11 like Mr. Hassell pointed out, concerns about different
12 transmission constraints, was the phrase that he used, and
13 he had as an example congestion costs.

14 Now, you certainly addressed that and we appreciate
15 that clarification. Let me ask a little broader question.
16 In your proposal in your rebuttal, you're talking about --
17 let me make sure I get the language correct -- the company
18 will obtain directly from PJM the transmission services
19 required to move POLR supply within PJM.

20 Right this minute, how big is the footprint of PJM?

21 A. PJM covers Pennsylvania, New Jersey, Maryland,
22 D.C.; I'm not sure if Virginia got completely included yet,
23 all the way out through the MISO territory.

24 Q. How far west is that?

25 A. All the way to Illinois, almost.

1 Q. Okay. So if you are conducting your bid and you
2 get a bid from a generator in Illinois versus a bid from a
3 generator say in Shippensburg, Pennsylvania, those are
4 obviously physically different distances to the PPL service
5 territory.

6 A. That's correct.

7 Q. Is there going to be a difference in
8 transmission costs just from the fact that one is delivering
9 that energy from Illinois versus locally?

10 A. There may be a difference in transmission costs,
11 but it's PPL Electric's expectation that that will be
12 provided by the supplier. When I was talking within PJM
13 here, I meant within the PPL area.

14 Q. Okay. So in your rebuttal that says, "within
15 PJM," you were thinking that actually means within the PPL
16 service territory?

17 A. Yes.

18 Q. Okay. That's why I'm hesitating, make sure I
19 understand this, because going back to what Mr. Kalcic
20 proposed on page five, what your oral rejoinder was, what he
21 suggests here on lines 11 through 13 is consistent with what
22 you said Article 1 of your RFP requires?

23 A. That's right.

24 Q. Okay. So we are on the same page?

25 A. We are.

1 Q. But as a broad proposition, to make sure my
2 office understands this, the hypothetical generator in
3 Illinois versus the hypothetical generator here in central
4 Pennsylvania, by mere fact of distance, forgetting
5 congestion, by mere fact of distance, that distance could
6 create an additional transmission cost?

7 A. It could under today's environment. It's not
8 likely to be that case in two thousand and nine, ten,
9 twelve.

10 Q. Because?

11 A. Because PJM is exploring the possibility of
12 having what they call a postage stamp rate, so the rate
13 would apply wherever it is within the context of PJM,
14 whether it happens to be the PPL zone or it happens to be
15 out in MISO territory. It would be the same transmission
16 rate.

17 MR. GRAY: Thank you, Mr. Kleha.

18 That's all I have, Your Honor. Thank you.

19 JUDGE CHESTNUT: Thank you, Mr. Gray.

20 Mr. Mickens, did you have any cross for Mr. Kleha?

21 MR. MICKENS: Yes, just briefly, Your Honor.

22 **CROSS-EXAMINATION**

23 BY MR. MICKENS:

24 Q. Good afternoon, Mr. Kleha.

25 A. Good afternoon, Mr. Mickens.

1 Q. Mr. Kleha, you're familiar with the old ECR
2 process, are you not?

3 A. I'm sorry, ECR process?

4 Q. ECR process.

5 A. I am familiar with every automatic adjustment
6 clause this Commission has had in the last 30 years.

7 Q. I figured you would be. Now, would you agree
8 with me that under the ECR process, electric companies
9 recovered their energy costs?

10 A. Fully recovered their energy costs, yes.

11 Q. Right. So under the ECR process, electric
12 distribution companies fully recovered or fully reconciled
13 their energy costs, correct?

14 A. They fully reconciled and ultimately fully
15 recovered.

16 Q. Okay. That ECR process, does that continue
17 today?

18 A. No. The ECR was rolled into the base rates back
19 effective January 1, 1997 when the Competition Act took
20 effect.

21 Q. Okay. And when you say "rolled into," was
22 rolled into rates?

23 A. Rolled into rates, and then eventually the rates
24 were unbundled in restructuring proceedings and the
25 generation component became separate from the transmission

1 component, which became separate from the distribution
2 component.

3 Q. As a result of restructuring?

4 A. That's correct.

5 Q. And when you say "rolled in," you mean the
6 actual amount of the ECR that was outstanding at the time of
7 the restructuring? You're not talking about, the process
8 was rolled in for a future period?

9 A. No. The process was not rolled in. The
10 mechanism was dissolved, if you will, or done away with, and
11 all of the energy related costs that a utility at that time
12 had were placed into the generation component under
13 restructuring.

14 MR. MICKENS: Thank you.

15 That's all I have, Your Honor.

16 JUDGE CHESTNUT: Thank you, Mr. Mickens.

17 Ms. Polacek, did you have questions for Mr. Kleha?

18 Are you even here?

19 (No response.)

20 JUDGE CHESTNUT: I don't see Ms. Polacek here and she
21 is the last person to indicate. Could someone go see if
22 she's there? Thank you.

23 (Pause.)

24 MS. POLACEK: Your Honor, I apologize. We were
25 working on some settlement discussions, and I have no

1 questions at this point for Mr. Kleha.

2 JUDGE CHESTNUT: Wow, that's great. Okay. Redirect
3 for Mr. Kleha?

4 MR. HASSELL: Your Honor, could we have maybe about
5 two minutes?

6 JUDGE CHESTNUT: Sure.

7 (Discussion off the record.)

8 JUDGE CHESTNUT: We'll go back on the record.
9 Mr. Hassell?

10 MR. HASSELL: Yes, Your Honor. We just have two
11 clarifying questions.

12 **REDIRECT EXAMINATION**

13 BY MR. HASSELL:

14 Q. Mr. Kleha, during cross-examination from the
15 Office of Small Business Advocate, there was some discussion
16 about delivery of power within PJM but in different areas in
17 PJM. Do you have a further discussion, clarification on how
18 the costs would be charged and allocated?

19 A. Yes. What PPL Electric said in my rebuttal
20 testimony, my revised position is that PPL Electric would go
21 out and acquire the network integration transmission service
22 for its POLR customers.

23 Now, that network integration transmission service
24 charge cost relates to the PPL zone only, and from that
25 standpoint the supplier is responsible for supplying energy

1 for delivery to the PPL zone, at any point in the PPL zone
2 but to the PPL zone. So from that standpoint, the supplier
3 is responsible for the costs of transmission from wherever
4 to the PPL zone.

5 Q. Mr. Kleha, also during cross-examination, you
6 were asked some questions about the various types of costs
7 that would be recovered through the generation charge. And
8 during your response, you indicated that there could be
9 potentially several million dollars, an amount you really
10 don't know for sure, of cost to operate the program.

11 From your understanding and the operation of the
12 program, by the time the rate is to be set under PPL's
13 bridge plan proposal, should the magnitude and amount of
14 those costs to operate the solicitation be known?

15 A. Yes, yes. They will be known at that point in
16 time. If I left some confusion there, I apologize. My
17 intent in answering the question for Mr. Stewart was to
18 indicate what types of costs were going to be included in
19 there.

20 But the fact that the solicitations will be made in
21 '07, '08 and '09, we will know what the costs of
22 administering the program is, and so the GSC rate for 2010
23 will reflect those costs. That's why from my perspective,
24 that I said over and over and over again within my direct as
25 well as my rebuttal testimony is that I don't believe that

1 any reconciliation amount is going to be very large, and
2 therefore it should not have any adverse effect on
3 competitive rates.

4 MR. HASSELL: That's all we have, Your Honor.

5 JUDGE CHESTNUT: Any recross based on the redirect?

6 MR. GRAY: No, Your Honor.

7 JUDGE CHESTNUT: Thank you very much, Mr. Kleha.
8 You're excused.

9 THE WITNESS: Thank you, Your Honor.

10 (Witness excused.)

11 JUDGE CHESTNUT: Okay. We had a little discussion
12 about whether we should proceed at this point, since we've
13 really come to the end of the witnesses scheduled for today,
14 and I think I would certainly prefer to go ahead with
15 another witness or two, and I know Mr. Kalcic has
16 volunteered to do that. Is everybody prepared to go ahead
17 with the cross of him?

18 (No response.)

19 JUDGE CHESTNUT: Okay. Sounds good to me, then.

20 MR. JUGOVIC: Your Honor?

21 JUDGE CHESTNUT: Yes?

22 MR. JUGOVIC: I think we can eliminate another party,
23 namely me, if we could approach the bench?

24 JUDGE CHESTNUT: Certainly.

25 (Discussion off the record.)

1 JUDGE CHESTNUT: We'll go back on the record.

2 Mr. Gray, do you have something to say?

3 MR. GRAY: Yes. Your Honor, I have been informed by
4 Mr. Moody, Strategic's counsel, and Mr. Hassell, PPL's
5 counsel, that they no longer have cross-examination for the
6 OSBA witness, Mr. Kalcic. So I would ask that we identify
7 the three pieces of written testimony for Mr. Kalcic, if you
8 would.

9 We have the direct testimony of Brian Kalcic, which
10 we have marked as OSBA Statement No. 1; rebuttal testimony,
11 we've marked as OSBA Statement No. 2; and surrebuttal
12 testimony of Mr. Kalcic, we've marked as OSBA Statement No.
13 3. We ask that they be so identified.

14 JUDGE CHESTNUT: They'll be so marked.

15 (Whereupon, the documents were
16 marked as OSBA Statements Nos.
17 1, 2 3 and for identification.)

18 MR. GRAY: Thank you, Your Honor. And we would move
19 this testimony into the record by stipulation.

20 JUDGE CHESTNUT: Anybody object?

21 (No response.)

22 JUDGE CHESTNUT: The documents are admitted.

23 (Whereupon, the documents marked as
24 OSBA Statements Nos. 1, 2 and 3
25 were received in evidence.)

1 JUDGE CHESTNUT: Thank you very much. Goodbye, Mr.
2 Kalcic.

3 MR. KALCIC: Thank you, Your Honor.

4 JUDGE CHESTNUT: Okay. Then does somebody else want
5 to go next? Is there some out-of-towner who would like to
6 go as opposed to Mr. Gruber, or what?

7 MR. HASSELL: Your Honor, Mr. Gruber appears to be
8 the next person we can do.

9 JUDGE CHESTNUT: Okay.

10 MR. HASSELL: It won't take long.

11 **Whereupon,**

12 **MICHAEL J. GRUBER**

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

14 JUDGE CHESTNUT: Please sit down and give and spell
15 your name for the record.

16 THE WITNESS: My name is Michael Gruber, G-R-U-B-E-R.

17 MR. MICKENS: Your Honor, I've given two copies of
18 two documents to the court reporter. The first document is
19 styled OTS Statement No. 2, a multi-page document, and
20 attached to the rear of that document is OTS Exhibit No. 2.
21 This document was prepared by Michael J. Gruber. May it be
22 so identified?

23 JUDGE CHESTNUT: It will be so marked.

24 (Whereupon, the documents were

25 marked as OTS Statement No. 2 and

1 OTS Exhibit No. 2 for
2 identification.)

3 MR. MICKENS: The second document that I have given
4 to the court reporter, Your Honor, is styled OTS Statement
5 No. 2-SR, a multi-page document prepared by Mr. Gruber. May
6 it be so identified?

7 JUDGE CHESTNUT: It will be so marked.

8 (Whereupon, the document was marked
9 as OTS Statement No. 2-SR for
10 identification.)

11 DIRECT EXAMINATION

12 BY MR. MICKENS:

13 Q. Mr. Gruber, would you please state your title
14 and business address for the record?

15 A. I'm a fixed utility valuation engineer in the
16 Office of Trial Staff and my business address is P.O. Box
17 3265, Harrisburg, Pennsylvania, 17105-3265.

18 Q. Thank you. Now, Mr. Gruber, I have two
19 documents before me, OTS Statement No. 2 and OTS Statement
20 No. 2-SR. Were these documents prepared by you or under
21 your direct supervision and control?

22 A. They were.

23 Q. Are there any additions or corrections that you
24 would like to make to these documents at this time?

25 A. No.

1 MR. MICKENS: Your Honor, I have given two copies of
2 OTS Statement No. 2 and OTS Statement No. 2-SR to the court
3 reporter and I would ask that they be admitted at this time
4 subject to cross-examination.

5 JUDGE CHESTNUT: Any objection?

6 (No response.)

7 JUDGE CHESTNUT: The documents are admitted.

8 (Whereupon, the documents marked as
9 OTS Statements Nos. 2 and 2-SR and
10 OTS Exhibit No. 2 were received in
11 evidence.)

12 MR. MICKENS: The witness is available for cross-
13 examination.

14 JUDGE CHESTNUT: Mr. Hassell?

15 MR. HASSELL: Yes, thank you, Your Honor.

16 **CROSS-EXAMINATION**

17 BY MR. HASSELL:

18 Q. Good afternoon, Mr. Gruber.

19 A. Good afternoon.

20 Q. Mr. Gruber, just a very few questions. First of
21 all, concerning the matter of the load cap, would you agree
22 with me that if the Commission were to remove any bidding
23 load cap and only one single large bidder participated, in
24 the end we would not know if that bidder would have made the
25 same bids if there had in fact been a bid limitation?

1 A. That's probably true, yes.

2 Q. Turning now to the matter of reconciliation,
3 first of all, am I correct that the PPL Electric
4 transmission service charge, the TSC, is reconciled?

5 A. Yes, it is.

6 Q. Turning to page 12, lines one through seven of
7 your direct testimony -- as soon as you're there, let me
8 know.

9 A. Page 12, one through seven?

10 Q. That's correct.

11 A. Okay.

12 Q. In your answer here, you state that PPL
13 surrendered the option to reconcile its generation rates.
14 First of all, when you make that statement, are you
15 referring to anything that was contained in the PPL Electric
16 restructuring settlement?

17 A. No, not specifically. At the time of the
18 restructuring, it was discussed that the electric
19 distribution companies would be giving up their right to
20 reconcile the generation rates.

21 Q. You're referring to some discussion, not
22 anything in a document?

23 A. No, nothing in a document. It was generally
24 accepted, is my understanding, that that's the way it was
25 going to be.

1 MR. HASSELL: Your Honor, I'd move to strike that
2 answer. It violates the parol evidence rule.

3 JUDGE CHESTNUT: I have to say I'll let it in for
4 what it's worth.

5 MR. HASSELL: All right.

6 MR. MICKENS: Your Honor --

7 JUDGE CHESTNUT: Let's leave it at that.

8 MR. HASSELL: Thank you, Your Honor.

9 BY MR. HASSELL:

10 Q. And so I'm clear, you use the word "option." Am
11 I correct that the company had no option whether to accept
12 or reject the mandates of the Customer Choice and
13 Competition Act?

14 A. Yes, they had to accept the mandates of the Act.

15 Q. Again, referring to surrendering the option,
16 again, are you referring to any specific provision in the
17 electric competition act when you make this statement?

18 A. Not particularly, no.

19 Q. Thank you. Would you agree with me, Mr. Gruber,
20 that without reconciliation, there is a risk that the
21 company could either under-recover or over-recover its POLR
22 costs?

23 A. Which company, the distribution company?

24 Q. PPL.

25 A. The POLR costs are supposed to be going back to

1 the generation supplier and not to the distribution company,
2 so no, the distribution company would not.

3 Q. Let me rephrase the question for clarification.
4 PPL is bidding to have suppliers provide the energy and
5 capacity to serve customers, and under the bids as provided
6 for by the company, the company will pay the suppliers
7 pursuant to the resulting bid amounts.

8 My question to you is, under the PPL proposal,
9 without reconciliation, is it possible that PPL will collect
10 an amount from customers that differs from the amount that
11 it would pay its suppliers?

12 A. I suppose it's possible, but I'm really not
13 sure. That could depend on the situation.

14 Q. Well, would you agree with me that if PPL
15 designs its rates based upon a certain level of sales
16 volume, sales amount, and included in that calculation of
17 that rate is the cost to operate the program -- and let's
18 just for hypothetical purposes assume there's \$2 million of
19 costs that were built into the POLR rate, charged to
20 customers to recover the costs to operate the program, and
21 that \$2 million is spread over the rates pursuant to a
22 calculation and it turns into a fraction of a cent per kWh
23 based upon some calculated, assumed volume, assumed sales.

24 If sales differ from that assumed amount, and without
25 reconciliation, am I correct that PPL will either over- or

1 under-recover the costs to undertake the solicitations?

2 MR. MICKENS: Your Honor, just for point of
3 clarification, the witness did indicate before that the
4 proceeds would go to the supplier, not to PPL. So there
5 needs to be a clarification of the hypothetical, I believe,
6 as a result of that.

7 MR. HASSELL: Well, Your Honor, respectfully, as
8 proposed, there are the costs of doing the solicitation
9 which in fact do not go to the supplier. They must be
10 retained by PPL because PPL is the one who runs the
11 solicitation.

12 JUDGE CHESTNUT: Can you answer the question?

13 THE WITNESS: To the extent that there are fixed
14 costs being spread over a variable amount of generation,
15 there is a possibility of over- or under-collection of those
16 fixed costs.

17 BY MR. HASSELL:

18 Q. Very good, thank you. Let's take it a step
19 further. As I believe you are aware, the Office of Consumer
20 Advocate has proposed that certain rates for the Rate RS
21 class continue to be block rates. First of all, would you
22 agree with me if that if you had a block rate structure, the
23 result will be that certain portions, the initial blocks,
24 will be at a generation rate that is above the average GSC
25 charge and the tail blocks would be amounts that are below

1 the GSC charge?

2 MR. MICKENS: Objection, Your Honor. Mr. Gruber has
3 not testified, said anything with regard to block rates. It
4 appears that Mr. Hassell is trying to use my witness to
5 respond to a position taken by the Office of Consumer
6 Advocate. That's inappropriate.

7 MR. HASSELL: Quite --

8 JUDGE CHESTNUT: Do you have a reference in his
9 testimony, Mr. Hassell?

10 MR. HASSELL: Pardon me, Your Honor?

11 JUDGE CHESTNUT: Do you have a reference in Mr.
12 Gruber's testimony?

13 MR. HASSELL: The reference, Your Honor, is to
14 discuss the matter of reconciliation.

15 JUDGE CHESTNUT: Oh, okay. Well, in that context, I
16 think he can talk about the factors that go into it.

17 MR. HASSELL: Yes, Your Honor. I am only focusing
18 here on reconciliation. I'm not challenging whether that is
19 a good or bad proposal by the Office of Consumer Advocate,
20 by no means.

21 JUDGE CHESTNUT: Okay.

22 BY MR. HASSELL:

23 Q. Mr. Gruber, do you understand my question, or
24 maybe I should restart. Let me restart. You are aware that
25 the Office of Consumer Advocate has proposed a block rate

1 structure for the RS class with respect to generation
2 charges?

3 A. Superficially aware, yes.

4 Q. And would it be fair to say it's your
5 understanding that that proposal, if adopted, would mean
6 that there would be some block rates, the initial block
7 rates would be higher than the average generation charge and
8 tail block numbers would be lower, producing the net average
9 based on some volume?

10 A. I'm not quite sure I follow that. The initial
11 block rates would be higher because they would be recovering
12 the bulk of the fixed charges, and the tail block rates
13 would be lower because they would have less of the fixed
14 charges in. Is that what you're referring to?

15 Q. No. Actually, I'm referring to the notion that
16 the Consumer Advocate's office has a proposal that would
17 have the average rate recovered through a block structure in
18 which the first blocks would be higher than the GSC average
19 and the tail blocks would be lower than the GSC average.

20 A. As I said, I am superficially aware of what the
21 OCA has put in but I don't know all the specifics of it, no.

22 Q. I understand. Let me just follow up and see if
23 we can conclude this quickly. If the tail block of the RS
24 structure as proposed by OCA is less than the average GSC
25 charge, would you agree with me that, depending on sales

1 volumes, there could also be an under-collection or over-
2 collection created?

3 A. In your supposition here, you're saying the
4 early block rates are paying a higher rate than the actual
5 energy charge should be, and the later blocks are paying
6 less?

7 Q. Yes, I am.

8 A. Any time you change, make a change like that
9 where some are paying higher and some are paying lower, you
10 automatically introduce some sort of over- or under-
11 collection possibility.

12 Q. Thank you, Mr. Gruber. I appreciate that. With
13 respect to your proposal in this testimony, have you
14 included any compensation of any sort for the risk that PPL
15 could over- or under-collect through rates the POLR costs
16 that it pays to customers -- pardon me, let me restate that.
17 Have you included any compensation for the risk that PPL's
18 collections from customers could be less than it is required
19 to pay to POLR suppliers and recover its administrative
20 costs?

21 A. The risk of over- or under-collection should lie
22 with the POLR supplier. If you remove the risk of over- or
23 under-collection from the POLR supplier, you change the --
24 the POLR supplier is not facing the same business risk as
25 any other electric generation supplier. That was the basis

1 for why I testified against reconciliation.

2 Each of the suppliers, whether it be the POLR
3 supplier or some competitive supplier, should be facing the
4 same risks.

5 Q. Let me ask you this, Mr. Gruber. In your
6 testimony, did you propose any change to PPL's POLR plan so
7 that the risks as you've just described them would now be
8 shifted to suppliers as opposed to being borne by PPL
9 Electric?

10 A. I have not proposed any changes, no.

11 Q. Finally, Mr. Gruber, I believe you reference in
12 your testimony the Penn Power decision related to
13 reconciliation. If you know, did the Commission not
14 indicate in that decision that the decision is not binding
15 precedent?

16 A. I believe it did specify that, yes.

17 MR. HASSELL: Your Honor, that's all the questions I
18 have.

19 JUDGE CHESTNUT: Do you have any redirect, Mr.
20 Mickens?

21 MR. MICKENS: No redirect, Your Honor.

22 JUDGE CHESTNUT: Okay. Thank you very much, Mr.
23 Gruber. You're excused.

24 THE WITNESS: Thank you.

25 (Witness excused.)

1 JUDGE CHESTNUT: Is there anything else we can do
2 today to productively use our time? Ms. Polacek?

3 MS. POLACEK: Maybe this would be an appropriate time
4 to stipulate Mr. Wilkie's testimony in.

5 JUDGE CHESTNUT: Okay. Is there any objection to
6 admitting the -- I guess I should have you mark and identify
7 it first.

8 MS. POLACEK: Your Honor, I would mark for the record
9 PPLICA Statement No. 1. It is the direct testimony of Kevin
10 S. Wilkie.

11 JUDGE CHESTNUT: It will be so marked.

12 (Whereupon, the document was marked
13 as PPLICA Statement No. 1 for
14 identification.)

15 MS. POLACEK: And, Your Honor, because the parties
16 have agreed to waive any cross of Mr. Wilkie, I would ask
17 that the testimony be submitted into the record by
18 stipulation without having Mr. Wilkie appear today.

19 JUDGE CHESTNUT: Any objection?

20 MR. HASSELL: No, Your Honor.

21 JUDGE CHESTNUT: The document is admitted.

22 (Whereupon, the document marked as
23 PPLICA Statement No. 1 was
24 received in evidence.)

25 MS. POLACEK: Thank you, Your Honor.

1 JUDGE CHESTNUT: Thank you. Anything else?

2 (No response.)

3 JUDGE CHESTNUT: If not, we can adjourn and get an
4 early start and be out of here at a reasonable time.

5 MR. KNIPE: Your Honor?

6 JUDGE CHESTNUT: Yes, Mr. Knipe?

7 MR. KNIPE: If I could try to add my two cents in --

8 JUDGE CHESTNUT: -- Yes.

9 MR. KNIPE: -- using our time to the best of our
10 abilities today, I have the redacted testimony now.

11 JUDGE CHESTNUT: Okay, let's take care of that then.
12 That's Statement 1 that's redacted, or is it all of his?
13 Are you just redacting Statement 1?

14 MR. KNIPE: Yes. We will not be submitting Statement
15 1-R or Statement 1-S.

16 JUDGE CHESTNUT: Oh, okay.

17 MR. KNIPE: Your Honor, I have marked for
18 identification Reliant Statement No. 1, a redacted version
19 pursuant to the stipulation between PPL and Reliant that was
20 entered into evidence earlier today. It also includes the
21 associated Exhibit JAA-1.

22 (Whereupon, the document was marked
23 as Reliant Statement No. 1 with
24 Exhibit JAA-1 for identification.)

25 MR. KNIPE: Based on my understanding that all

1 parties have agreed to waive cross of Mr. Ajello, I'd like
2 to move the admission of the redacted Reliant Statement No.
3 1 and Exhibit JAA-1 into evidence.

4 JUDGE CHESTNUT: That means you're not putting in
5 JAA-2 and 3?

6 MR. KNIPE: Two through four, which was attached to
7 the surrebuttal testimony.

8 JUDGE CHESTNUT: Right, I knew the surrebuttal, but
9 two and three were attached to the original one?

10 MR. KNIPE: Yes, correct. Yes, Your Honor.

11 JUDGE CHESTNUT: Okay. Any objection?

12 MR. HASSELL: No objection, Your Honor.

13 JUDGE CHESTNUT: The document's admitted then.

14 (Whereupon, the document marked as
15 Reliant Statement No. 1 with
16 Reliant Exhibit JAA-1 was received
17 in evidence.)

18 MR. KNIPE: Thank you.

19 JUDGE CHESTNUT: Thank you.

20 MR. HASSELL: Your Honor, it would appear we have
21 four witnesses at this time for tomorrow, and we will keep
22 working to see if we can whittle that down yet some more.

23 JUDGE CHESTNUT: That would be great. Thank you very
24 much. I very much appreciate everybody's high level of
25 professionalism and cooperation here. I urge you to see if

1 you can resolve outstanding issues, not just procedural ones
2 for the hearing but the substantive ones in the case as
3 well.

4 If there's nothing else, then why don't we
5 adjourn. Thank you very much. We'll resume here at 9:00
6 here tomorrow.

7 (Whereupon, at 1:42 p.m., the hearing was adjourned,
8 to be reconvened at 9:00 a.m., in Hearing Room 2,
9 Harrisburg, Pennsylvania.)

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C E R T I F I C A T E

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

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John A. Kelly,
Certified Verbatim Reporter

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